PROJECT FUNDING REQUEST

BOARD DATE: September 18, 2025 **Team Manager:** Joe Koen

ACTION REQUESTED

Consider approving by resolution a request from the City of Mount Vernon (Franklin County) for $10,703,090 in financial assistance consisting of $1,075,000 in financing and $9,628,090 in grant funding from the Rural Water Assistance Fund for construction of water system improvements.

STAFF RECOMMENDATION

☒ Approve ☐ No Action

BACKGROUND

The City of Mount Vernon (City) is located 100 miles east of Dallas. The City provides water and wastewater services to a population of approximately 2,662 residents and approximately 1,249 water and wastewater connections.

PROJECT NEED AND DESCRIPTION

The City's 12-inch raw water line is composed of asbestos cement, 60-years-old, and in need of replacement due to its age. The water line provides the City's only source of water from Lake Cypress Springs to the City's water treatment plant. In addition, the City needs to replace aging water lines, including some that are cast iron and over 100 years old. The City estimates an average of nine water breaks per year and that it loses approximately 513,000 gallons of water per year, which amounts to 9 percent of water treated in the system. In 2024, the City received Texas Water Development Fund funding for the planning and design phases of a project for water line replacements. The attached budget includes those project costs.

The City proposes to replace 39,500 feet of the 12-inch raw water line and 10,800 feet of 2-inch to 6-inch distribution lines, which is approximately 8 percent of the total system. The City will add 2,000 feet of new 2-inch to 6-inch distribution lines and 11 fire hydrants.

PROJECT SCHEDULE

Task	Schedule Date
Closing	December 1, 2025
Engineering Feasibility Report Completion (End of Planning Phase)	April 30, 2026
Design Phase Completion	July 15, 2026
Start of Construction	December 1, 2026
Construction Completion	May 1, 2028

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE MARCH 31, 2026

KEY ISSUES
The City qualifies for $9,628,090 in grant funding as an applicant with a population between 1,001 and 10,000 for a water loss mitigation project.

The proposed project includes replacing over 50,000 feet of raw water and distribution lines that are aging, and some are composed of asbestos concrete or cast iron. The proposed project will help the City mitigate its real water loss.

The credit analysis includes $225,000 in proposed additional financing from the Clean Water State Revolving Fund that is anticipated to be presented for Board consideration at a subsequent meeting.

LEGAL/SPECIAL CONDITIONS
- Executed grant agreement

Attachments:
1. Financial Review
2. Project Budget
3. Resolution (25-)
4. Water Conservation Review
5. Location Map

Attachment 1

Financial Review
City of Mount Vernon

Risk Score: 2B Audit Reviewed: FY 2024

Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2020	City: -0.66%	State: 1.49%
Top 10 Customers % of Total Revenue	15%	10-15%
Median Household Income as % of State	87%	100%
Household Cost Factor	1.64%	1.51-2.00%
Days of Cash on Hand (3-year Average)	367 days	30-149 days
Net Fixed Assets/ Annual Depreciation	18 years	12-24 years
Debt Service Coverage Ratio	-1.04x	1.1x
Debt-to-Operating Revenues	1.83	4.00-5.99x
Unemployment Rate (June 2025)	County: 3.40%	State: 4.10%
Working Capital Ratio	1.80	> 1.0
Cash Balance Ratio	-7.07%	0 – 9.99%

Key Risk Score Strengths

- The City's days of cash on hand is above the benchmark, indicating sufficient reserves for operating expenses.
- The total assessed valuation per capita is above the benchmark, indicating a strong tax base to provide revenue for the existing and proposed debt. Additionally, the assessed value has grown by 77 percent over the previous five years.
- The City's debt to operating revenue is above the benchmark, indicating the City has the capacity to take on additional debt obligations.

Key Risk Score Concerns

- The City experienced a slight population decline of 0.66 percent over the past 10 years; however, the water and wastewater connections have remained steady over the past 5 years.
- While the City's cash balance has decreased by 7.07 percent from 2019 to 2024, the overall cash level has remained stable over the six-year period. The notable increase in 2023 was due to elevated grant and intergovernmental revenues that were not repeated in 2024. Despite the decrease from that high point, the 2024 balance is within the historical range seen between 2019 and 2022, and no concerns are noted with the current cash position.
- The City's debt service coverage ratio is below the required benchmark. This negative coverage primarily stems from one-time operational expenses related to emergency repairs and long overdue infrastructure upgrades after the wastewater treatment plant failure in 2023. After these events, the City took several steps to improve system operations and reduce costs. With the full implementation of automated meter readings, billing accuracy is expected to improve providing the City with operational savings. These improvements are expected to positively impact the debt service coverage ratio in subsequent fiscal years.

To meet future debt service obligations, projections show the City will need to implement a rate increase starting with $26.74 in 2026, gradually rising to about $28.29 by 2041. The City is already taking action through a planned two-step rate adjustment that will include both I&S and system rate increases. The first increase totaling $13.50, is scheduled for a council vote in September 2025, with implementation beginning in October. A second increase of $14.00 is targeted for October 2026.

Alternatively, if the new automated meters installed in 2024 show that system revenues are sufficient, the City may not need the second increase.

PLEDGE

Legal Pledge Name	Combination Tax and Surplus Revenue
Type of Pledge	☐ Tax ☐ Revenue ☒ Tax & Revenue ☐ Contract ☐ Other
Revenue Pledge Level	☐ First ☐ Second ☒ Third ☐ N/A

RATES AND CHARGES

Average Residential Use	Gallons/Month	Current Rates	Projected Rates (2041)	Current Household Cost Factor	Projected Household Cost Factor
Water	7,069	$28.75	$57.04	1.11	1.64
Wastewater	7,069	$30.00	$30.00		

TAXES

	2024 Tax Year Rate	Max Projected Tax Rate	Maximum Allowable Rate	3-Year Avg Current Tax Collections	Assessed Valuation
Maintenance & Operation	$0.4445	$0.4445	$1.50	99%	$239,492,041
Interest & Sinking	$0.0974	$0.0974			
Total Tax Rate	$0.5419	$0.5419			

<u>Cost Savings</u>
Based on a 30-year maturity schedule and current interest rates, the City could save approximately $350,983 over the life of the financing. The City is also saving $9,628,090 in grant funding.

Project Data Summary

Responsible Authority	City of Mount Vernon
Program	RWAF
Commitment Number	G1002120, L1002119
Project Number	21878
List Year	2024
Type of Pledge	Combo Tax and Revenue
Pledge Level (if applicable)	Third Lien
Legal Description	$9,628,090 City of Mount Vernon, Texas, Grant Agreement, $1,075,000 City of Mount Vernon, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Series 2025
Tax-exempt or Taxable	Tax-Exempt
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow Release
Qualifies as Disadvantaged	Yes
Financial Managerial & Technical Complete	N/A
Phases Funded	Construction
Pre-Design	No
Project Consistent with State Water Plan	Yes
Water Conservation Plan	Adopted
Overall Risk Score	2B

PROJECT TEAM

Team Manager	Financial Analyst	Engineering Reviewer	Environmental Reviewer	Attorney
Joe Koen	Raul Flores	Sophia Fousie	Gayla Duaine	Marshall Walters

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Mount Vernon

$1,075,000, City of Mount Vernon, Texas, Combination Tax and Surplus Revenue Certificate of Obligation Series 2025

Dated Date:	**12/1/2025**	**Source:**	**RWAF**
Delivery Date:	**12/1/2025**	**Rate:**	**3.61%**
First Interest:	**3/15/2026**	**IUP Year:**	**2025**
First Principal:	**3/15/2026**	**Case:**	**Tax and Revenue**
Last Principal:	**3/15/2055**	**Admin.Fee:**	**$0**
Fiscal Year End:	**09/30**	**Admin. Fee Payment Date:**	**N/A**
Required Coverage:	**1.1**	**Total Assessed Valuation:**	**$2,39,492,041**

						$1,075,000 ISSUE						
FISCAL YEAR	CURRENT TAX RATE	TAX REVENUES WITH COLL. @ 99%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	*CURRENT DEBT SERVICE	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	225,000* 0% CWSRF	TOTAL DEBT SERVICE	COVERAGE
2026	$0.09740	$230,933	($24,693)	$206,239	$133,958	$20,000	2.27%	$28,532	$48,532	$5,000	$187,490	1.10
2027	$0.09740	230,933	(18,463)	212,470	132,379	20,000	2.26%	35,776	55,776	5,000	$193,155	1.10
2028	$0.09740	230,933	(18,463)	212,470	130,853	20,000	2.26%	35,324	55,324	5,000	$191,176	1.11
2029	$0.09740	230,933	(17,289)	213,644	134,354	20,000	2.30%	34,868	54,868	5,000	$194,222	1.10
2030	$0.09740	230,933	(17,289)	213,644	132,699	20,000	2.39%	34,399	54,399	5,000	$192,098	1.11
2031	$0.09740	230,933	(16,558)	214,375	131,037	25,000	2.48%	33,850	58,850	5,000	$194,886	1.10
2032	$0.09740	230,933	(13,586)	217,347	134,375	25,000	2.61%	33,213	58,213	5,000	$197,588	1.10
2033	$0.09740	230,933	(10,799)	220,134	137,569	25,000	2.67%	32,553	57,553	5,000	$200,122	1.10
2034	$0.09740	230,933	(13,739)	217,194	135,580	25,000	2.80%	31,870	56,870	5,000	$197,449	1.10
2035	$0.09740	230,933	(13,739)	217,194	133,569	25,000	2.93%	31,153	56,153	5,000	$194,722	1.12
2036	$0.09740	230,933	(13,739)	217,194	136,446	25,000	3.05%	30,406	55,406	5,000	$196,851	1.10
2037	$0.09740	230,933	(13,739)	217,194	134,047	25,000	3.14%	29,632	54,632	5,000	$193,679	1.12
2038	$0.09740	230,933	(13,739)	217,194	131,537	25,000	3.23%	28,836	53,836	5,000	$190,372	1.14
2039	$0.09740	230,933	(8,934)	221,998	133,961	35,000	3.29%	27,856	62,856	5,000	$201,817	1.10
2040	$0.09740	230,933	(8,934)	221,998	131,104	35,000	3.36%	26,693	61,693	5,000	$197,797	1.12
2041	$0.09740	230,933	(1,395)	229,538	138,165	35,000	3.42%	25,506	60,506	10,000	$208,671	1.10
2042	$0.09740	230,933	(1,395)	229,538	134,813	35,000	3.48%	24,299	59,299	10,000	$204,111	1.12
2043	$0.09740	230,933	(1,395)	229,538	116,416	40,000	3.56%	22,978	62,978	10,000	$189,394	1.21
2044	$0.09740	230,933	(1,395)	229,538	108,311	40,000	3.59%	21,548	61,548	10,000	$179,859	1.28
2045	$0.09740	230,933	(1,395)	229,538	110,302	40,000	3.64%	20,102	60,102	10,000	$180,403	1.27
2046	$0.09740	230,933	(1,395)	229,538	107,110	40,000	3.67%	18,640	58,640	10,000	$175,749	1.31
2047	$0.09740	230,933	(1,395)	229,538	108,904	45,000	3.70%	17,073	62,073	10,000	$180,977	1.27
2048	$0.09740	230,933	(1,395)	229,538	110,446	45,000	3.72%	15,404	60,404	10,000	$180,850	1.27
2049	$0.09740	230,933	(1,395)	229,538	111,718	45,000	3.75%	13,723	58,723	10,000	$180,441	1.27
2050	$0.09740	230,933	(1,395)	229,538	107,723	50,000	3.76%	11,939	61,939	10,000	$179,662	1.28
2051	$0.09740	230,933	(1,395)	229,538	108,686	55,000	3.77%	9,962	64,962	10,000	$183,648	1.25
2052	$0.09740	230,933	(1,395)	229,538	109,402	55,000	3.79%	7,883	62,883	10,000	$182,285	1.26
2053	$0.09740	230,933	(1,395)	229,538	109,851	55,000	3.79%	5,799	60,799	10,000	$180,650	1.27
2054	$0.09740	230,933	(1,395)	229,538	110,061	60,000	3.80%	3,617	63,617	10,000	$183,678	1.25
2055	$0.09740	230,933	(1,395)	229,538	-	65,000	3.81%	1,238	66,238	10,000	$76,238	3.01
					$3,595,368	$1,075,000		$694,666	$1,769,666	$225,000	$5,590,034	

** Anticipated issuance in December for CWSRF in the amount of $225,000 at 0% interest.*

AVERAGE (MATURITY) LIFE	**17.88 YEARS**
NET INTEREST RATE	**3.613%**
COST SAVINGS	**$ 350,983**
AVERAGE ANNUAL REQUIREMENT	**$58,989**

Disclaimer: This is a working document and is provided as a courtesy. All information contained herein, including the proposed interest rate, is subject to change upon further review of the TWDB in accordance with 31 Texas Administrative Code Chapters 363, 371, 375, or 384, as applicable. The TWDB does not function as a financial advisor to anyone in connection with this financing. The information contained in this document is used by TWDB staff to analyze the application for financing is illustrative only and does not constitute any guaranty of future rates. The TWDB makes no claim regarding the applicability of the information at closing, at which time actual rates will be set.

Attachment 2

Project Budget Summary
City of Mount Vernon
21878 - City Wide Water Distribution System Improvements and Raw Water Supply Improvements

Budget Items	Previous Commitment (Dfund 21832)	This Commitment (RWAF 21878)	Total
Construction			
Construction	$0.00	$8,627,454.00	$8,627,454.00
Subtotal for Construction	**$0.00**	**$8,627,454.00**	**$8,627,454.00**
Basic Engineering Services			
Construction Engineering	$0.00	$210,000.00	$210,000.00
Planning	$60,000.00	$0.00	$60,000.00
Design	$655,000.00	$0.00	$655,000.00
Subtotal for Basic Engineering Services	**$725,000.00**	**$210,000.00**	**$935,000.00**
Special Services			
Application	$10,000.00	$10,000.00	$20,000.00
Environmental	$11,500.00	$0.00	$11,500.00
Inspection	$0.00	$375,400.00	$375,400.00
Geotechnical	$51,750.00	$0.00	$51,750.00
Permits	$0.00	$50,000.00	$50,000.00
Project Management (by engineer)	$0.00	$15,000.00	$15,000.00
Surveying	$115,000.00	$6,900.00	$121,900.00
Testing	$0.00	$23,000.00	$23,000.00
Subtotal for Special Services	**$188,250.00**	**$480,300.00**	**$668,550.00**
Other			
Administration	$15,000.00	$0.00	$15,000.00
Subtotal for Other Services	**$15,000.00**	**$0.00**	**$15,000.00**
Fiscal Services			
Bond Counsel	$8,250.00	$12,105.00	$20,355.00
Financial Advisor	$11,825.00	$15,525.00	$27,350.00
Issuance Costs	$5,500.00	$0.00	$5,500.00
Fiscal/Legal	$4,125.00	$5,400.00	$9,525.00
Subtotal for Fiscal Services	**$29,700.00**	**$33,030.00**	**$62,730.00**
Contingency			
Contingency	$0.00	$1,352,306.00	$1,352,306.00
Subtotal for Contingency	**$0.00**	**$1,352,306.00**	**$1,352,306.00**
Total	$957,950.00	$10,703,090.00	$11,661,040.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE TO
CITY OF MOUNT VERNON
FROM THE RURAL WATER ASSISTANCE FUND
IN THE AMOUNT OF $10,703,090
THROUGH THE PROPOSED PURCHASE OF
$1,075,000 CITY OF MOUNT VERNON, TEXAS, COMBINATION TAX AND SURPLUS
REVENUE CERTIFICATES OF OBLIGATION, PROPOSED SERIES 2025
AND
EXECUTION OF A GRANT AGREEMENT IN THE AMOUNT OF $9,628,090

(25 - __)

Recitals:

The City of Mount Vernon (City), located in Franklin County, filed an application for financial assistance in the amount of $10,703,090, to finance certain water system improvements, identified as Project No. 21878.

The City seeks financial assistance from the Texas Water Development Board (TWDB) in the amount of $10,703,090 through the TWDB's purchase of $1,075,000 City of Mount Vernon, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025 (Obligations) and execution of a Grant Agreement in the amount of $9,628,090, all as is more specifically set forth in the application and in recommendations of the TWDB's staff.

The City has offered a pledge of ad valorem taxes and the surplus revenues of the City's system as sufficient security for the repayment of the Obligations.

The Board hereby authorizes the transfer of $10,703,090 from the Texas Water Fund to the Rural Water Assistance Fund, as authorized by Texas Water Code § 15.504(a), to finance the Project.

In accordance with Texas Water Code § 15.995, the TWDB has considered all matters required by law and in particular the following:

1. The needs of the area to be served by the project, the benefit of the project to the area, the relationship of the project to the overall statewide water needs, and the relationship of the project to the approved regional and state water plans.

2. The availability of revenue to the City from all sources for the ultimate repayment of the cost of the project, including all interest.

Findings:

1. The public interest is served by state assistance for the project, in accordance with Texas Water Code § 15.995(d).

2. The revenue or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City during the succeeding period of not more than 50 years in accordance with Texas Water Code § 15.995(d).

3. The City has adopted and implemented a water conservation program for the more efficient use of water that will meet reasonably anticipated local needs and conditions and that incorporates practices, techniques or technology prescribed by the Texas Water Code and TWDB's rules.

4. The TWDB has approved a regional water plan for the region of the state that includes the area benefiting from the project and the needs to be addressed by the project will be addressed in a manner that is consistent with the approved regional and state water plans, as required by Texas Water Code § 16.053(j).

5. A current water audit required by Texas Water Code § 16.0121 and 31 TAC § 358.6 has been completed by the City and filed with the TWDB in accordance with Texas Water Code § 16.053(j).

NOW, THEREFORE, based on these findings, the TWDB resolves as follows:

A commitment is made by the TWDB to the City of Mount Vernon for financial assistance in the amount of $10,703,090 from the Rural Water Assistance Fund through a transfer from the Texas Water Fund to be evidenced by the TWDB's purchase of $1,075,000 City of Mount Vernon, Texas, Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2025 and the execution of a Grant Agreement in the amount of $9,628,090. This commitment will expire March 31, 2026.

The commitment is conditioned as follows:

Standard Conditions:

1. The commitment is contingent on a future sale of bonds by the TWDB or on the availability of funds on hand.

2. The commitment is contingent upon the City's continued compliance with all applicable laws, rules, policies, and guidance (as these may be amended from time to time to adapt to a change in law, in circumstances, or any other legal requirement), including but not limited to 31 TAC Chapters 363 and 365.

3. The Obligations and Grant Agreement must contain a provision that the TWDB may exercise all remedies available to it in law or equity, and any provision of the Obligations and Grant Agreement that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect.

4. Loan proceeds and Grant funds are public funds and, as such, the Grant Agreement and Obligations must include a provision requiring that these proceeds shall be held at a designated state depository institution or other properly chartered and

authorized institution in accordance with the Public Funds Investment Act, Government Code, Chapter 2256, and the Public Funds Collateral Act, Government Code, Chapter 2257.

5. Loan proceeds and Grant funds shall not be used by the City when sampling, testing, removing or disposing of contaminated soils and/or media at the project site. The Obligations and Grant Agreement shall include an environmental indemnification provision wherein the City agrees to indemnify, hold harmless and protect the TWDB from any and all claims, causes of action or damages to the person or property of third parties arising from the sampling, analysis, transport, storage, treatment and disposition of any contaminated sewage sludge, contaminated sediments and/or contaminated media that may be generated by the City, its contractors, consultants, agents, officials and employees as a result of activities relating to the project to the extent permitted by law.

6. Before closing, and if not previously provided with the application, the City shall submit executed contracts for engineering, and, if applicable, financial advisor, and bond counsel contracts for the project that are satisfactory to the Executive Administrator. Fees to be reimbursed under the contracts must be reasonable in relation to the services performed under the contract and acceptable to the Executive Administrator.

7. Before closing, when any portion of the financial assistance is to be held in escrow or in trust, the City shall execute an escrow agreement or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB.

8. The Executive Administrator may require that the City execute a separate financing agreement in form and substance acceptable to the Executive Administrator.

9. This commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that all of the requirements of the laws under which said Obligations were issued have been complied with; that said Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that said Obligations are valid and binding obligations of the City.

10. The Obligations must provide that the Obligations can be called for early redemption only in inverse order of maturity, and on any date beginning on or after the first interest payment date which is 10 years from the dated date of the Obligations, at a redemption price of par, together with accrued interest to the date fixed for redemption.

11. The City, or an obligated person for whom financial or operating data is presented to the TWDB in the application for financial assistance either individually or in combination with other issuers of the City's Obligations or obligated persons, will, at a minimum, regardless of the amount of the Obligations, covenant to comply with requirements for continuing disclosure on an ongoing basis substantially in the manner required by Securities and Exchange Commission (SEC) in 17 CFR § 240.15c2-12 (Rule 15c2-12) and determined as if the TWDB were a Participating

Underwriter within the meaning of such rule, such continuing disclosure undertaking being for the benefit of the TWDB and the beneficial owners of the City's Obligations, if the TWDB sells or otherwise transfers such Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to such bonds under SEC Rule 15c2-12.

12. The Obligations must contain a provision requiring the City to levy a tax or maintain and collect sufficient rates and charges to produce system revenues in an amount necessary to meet the debt service requirements of all outstanding obligations and to maintain the funds established and required by the Obligations.

13. The Obligations must include a provision requiring the City to use any loan proceeds from the Obligations that are determined to be surplus proceeds remaining after completion of the project and after completion of a final accounting in a manner approved by the Executive Administrator.

14. Before closing, the City shall submit documentation evidencing the adoption and implementation of sufficient system rates and charges or, if applicable, the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements.

15. The City must immediately notify TWDB, in writing, of any suit against it by the Attorney General of Texas under Texas Penal Code § 1.10(f) (related to federal laws regulating firearms, firearm accessories, and firearm ammunition).

16. The Obligations must provide that the City will comply with all applicable TWDB laws and rules related to the use of the financial assistance.

17. The Obligations must provide that the City must comply with all conditions as specified in the final environmental finding of the Executive Administrator when issued, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.

18. The Obligations must contain a provision requiring the City to maintain insurance coverage sufficient to protect the TWDB's interest in the project.

19. The Obligations must provide that the City will submit annually an audit prepared by a certified public accountant in accordance with generally accepted auditing standards.

20. The Obligations must contain a covenant that the City will abide by all applicable construction contract requirements related to the use of iron and steel products and manufactured goods produced in the United States, as required by Texas Water Code § 17.183.

21. Before closing, the City shall submit to the escrow agent a closing memo signed by the Executive Administrator.

Conditions Related To Tax-Exempt Status:

22. The City's bond counsel must prepare a written opinion that states that the interest on the Obligations is excludable from gross income or is exempt from federal income taxation. Bond counsel may rely on covenants and representations of the City when rendering this opinion.

23. The City's bond counsel opinion must also state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion.

24. The Obligations must include a provision prohibiting the City from using the proceeds of this loan in a manner that would cause the Obligations to become "private activity bonds" within the meaning of § 141 of the Internal Revenue Code of 1986, as amended (Code), and the Treasury Regulations promulgated thereunder (Regulations).

25. The Obligations must provide that no portion of the proceeds of the loan will be used, directly or indirectly, in a manner that would cause the Obligations to be "arbitrage bonds" within the meaning of § 148(a) of the Code and Regulations, including to acquire or to replace funds which were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) which produce a yield materially higher than the yield on the TWDB's bonds that are issued to provide financing for the loan (Source Series Bonds), other than Nonpurpose Investments acquired with:

    a. proceeds of the TWDB's Source Series Bonds invested for a reasonable temporary period of up to three (3) years after the issue date of the Source Series Bonds until such proceeds are needed for the facilities to be financed;

    b. amounts invested in a bona fide debt service fund, within the meaning of § 1.148-1(b) of the Regulations; and

    c. amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed the least of maximum annual debt service on the Obligations, 125% of average annual debt service on the Obligations, or 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Obligations.

26. The Obligations must include a provision requiring the City take all necessary steps to comply with the requirement that certain amounts earned on the investment of gross proceeds of the Obligations be rebated to the federal government in order to satisfy the requirements of § 148 of the Code. The Obligations must provide that the City will:

    a. account for all Gross Proceeds as defined in the Code and Regulations, (including all receipts, expenditures, and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures, and investments thereof) and retain all records of such accounting for at least six years after the final Computation Date. The City may, however, to the extent permitted by law, commingle Gross Proceeds of its loan with other money of the City, provided that the City separately accounts for each receipt and expenditure of such Gross Proceeds and the obligations acquired therewith;

b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to its loan, not less frequently than each Computation Date, in accordance with rules set forth in § 148(f) of the Code, § 1.148-3 of the Regulations, and the rulings thereunder. The City shall maintain a copy of such calculations for at least six years after the final Computation Date;

c. as additional consideration for the making of the loan, and in order to induce the making of the loan by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners thereof for federal income tax purposes, pay to the United States the amount described in paragraph (b) above within 30 days after each Computation Date; and

d. exercise reasonable diligence to assure that no errors are made in the calculations required by paragraph (b) and, if such error is made, to discover and promptly to correct such error within a reasonable amount of time, thereafter, including payment to the United States of any interest and any penalty required by the Regulations.

27. The Obligations must include a provision prohibiting the City from taking any action that would cause the interest on the Obligations to be includable in gross income for federal income tax purposes.

28. The Obligations must provide that the City will not cause or permit the Obligations to be treated as "federally guaranteed" obligations within the meaning of § 149(b) of the Code.

29. The transcript must include a No Arbitrage Certificate or similar Federal Tax Certificate setting forth the City's reasonable expectations regarding the use, expenditure and investment of the proceeds of the Obligations.

30. The transcript must include evidence that the information reporting requirements of § 149(e) of the Code will be satisfied. This requirement may be satisfied by filing an IRS Form 8038 with the Internal Revenue Service. In addition, the applicable completed IRS Form 8038 or other evidence that the information reporting requirements of § 149(e) have been satisfied must be provided to the Executive Administrator within fourteen (14) days of closing. The Executive Administrator may withhold the release of funds for failure to comply.

31. The Obligations must provide that neither the City nor a related party thereto will acquire any of the TWDB's Source Series Bonds in an amount related to the amount of the Obligations to be acquired from the City by the TWDB.

32. Before closing, the City shall provide certification that the average weighted maturity of the Obligations purchased by the TWDB does not exceed 120% of the average reasonably expected economic life of the Project.

The Following Conditions Must Be Included in the Grant Agreement:

33. The Grant Agreement must provide that the City must comply with all conditions as specified in the final environmental finding of the Executive Administrator when issued, including the standard emergency discovery conditions for threatened and endangered species and cultural resources.

34. The Grant Agreement must provide that the City will not begin construction for a portion of the Project until the environmental finding has been issued for that portion of the Project.

35. The Grant Agreement must contain a provision requiring the City to maintain insurance coverage sufficient to protect the TWDB's interest in the project.

36. The Grant Agreement must a include a provision requiring a final accounting to be made of the total sources and authorized use of Project funds within 60 days of the completion of the Project.

37. The Grant Agreement must include a provision stating that the City shall return any grant funds that are determined to be surplus funds remaining after completion of the Project and completion of a final accounting, including any interest earned on the grant funds in a manner approved by the executive administrator.

38. The Grant Agreement must contain a provision stating that the City shall abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by Texas Government Code, Chapter 2252, Subchapter G.

39. Before release of funds for the relevant services, and if required under the TWDB's financial assistance program and if not previously provided with the application, the City shall submit executed contracts for engineering and, if applicable, financial advisor and legal services, for the Project that are satisfactory to the Executive Administrator. Fees to be reimbursed under the contracts must be reasonable in relation to the services performed, reflected in the contract, and acceptable to the Executive Administrator.

40. Before closing, when any portion of financial assistance is to be held in escrow or in trust, the City shall execute an escrow agreement or trust agreement, approved as to form and substance by the Executive Administrator, and shall submit that executed agreement to the TWDB.

41. Before release of funds for construction, the City must provide the TWDB with evidence that the necessary acquisitions of land, leases, easements and rights-of-way have been completed or, with prior approval by the executive administrator if all

acquisitions have not been completed, evidence that the applicant has the legal City necessary to complete the acquisitions.

Pledge Conditions for the Loan:

42. The Obligations must contain a provision that provides as follows:

   a. if system revenues are actually on deposit in the Interest and Sinking Fund in advance of the time when ad valorem taxes are scheduled to be levied for any year, then the amount of taxes which otherwise would have been required to be levied and collected may be reduced to the extent and by the amount of revenues then on deposit in the Interest and Sinking Fund; or

   b. if surplus revenues are based upon budgeted amounts:

      i. The Obligations must include a requirement that the City transfer and deposit in the Interest and Sinking Fund each month an amount of not less than 1/12th of the annual debt service on the Obligations until the amount on deposit in the Interest and Sinking Fund equals the amount required for annual debt service on the Obligations; further, that the ordinance authorizing the issuance of the Obligations must include a requirement that the City shall not transfer any funds from the City's pledged system revenues to any fund other than the Interest and Sinking Fund until such time as an amount equal to the annual debt service on the Obligations for the then-current fiscal year has been deposited in the Interest and Sinking Fund;

      ii. The Obligations must include a requirement that for each year the Obligations are outstanding, and Before the time taxes are to be levied for such year, the City shall establish, adopt, and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues and/or tax revenues, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination thereof, into the Interest and Sinking Fund for the repayment of the Obligations. and

      iii. The Obligations must include a requirement that the City shall at all times maintain and collect sufficient rates and charges in conjunction with any other legally available funds so that after payment of the costs of operating and maintaining the system, it produces revenues in an amount not less than 1.10 times debt service requirements of all outstanding Obligations of the City and other obligations of the City which are secured in whole or in part by the pledged revenues, for which the City is budgeting the repayment of such Obligations, or the City shall provide documentation which evidences the levy and collection of an ad valorem tax rate dedicated to the Interest and Sinking Fund, in conjunction with any other legally available funds, sufficient for the repayment of debt service requirements.

Special Conditions:

43. Before closing, the City shall execute a Grant Agreement in a form and substance acceptable to the Executive Administrator.

APPROVED and ordered of record this, the18th day of September, 2025.

TEXAS WATER DEVELOPMENT BOARD

____
L'Oreal Stepney, P.E., Chairwoman

DATE SIGNED: ______________________

ATTEST:

____
Bryan McMath, Executive Administrator

Attachment 4

- [x] Water
- [ ] Wastewater
- [ ] Other ______________

WATER CONSERVATION REVIEW

Review Date: 08/11/2025

Project ID: 21878

Entity: City of Mount Vernon

Other entity:

WATER CONSERVATION PLAN DATE: 2024 ☐ **Approvable** ☑ **Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD
Baseline	139	60	15
5-year Goal	135	55	12
10-year Goal	130	50	9

WATER LOSS AUDIT YEAR: 2024 Validation Required: Yes Validation Performed: Yes

Service connections: 1,272
Retail population: 2,662

Length of main lines (miles): 31
Connections per mile: 41

Water Loss GCD: 43
Water Loss GPCD: 21
ILI: NA
Real Loss GMD: NA

WATER LOSS THRESHOLDS Water Loss Project: ☑ Waiver Requested: ☐

Wholesale Adjusted: ☐

Threshold Type:

Connection Density >= 32 per mile

Apparent Loss GCD		Real Loss GCD	
Reported	Threshold	Reported	Threshold
3	13	40	30

Does the applicant meet Water Loss Threshold Requirements? **Yes** ☐ **No** ☑ **NA** ☐

ADDITIONAL INFORMATION

The city's water conservation plan provides a plan of action for water use shortages by implementing the following goals and strategies:

• 2024 through 2029 - Identification of water system improvements to reduce water loss. Continue public education and periodic visual inspection. Meter the remaining unaccounted water usages in public facilities. Continue to replace a percentage of water meters annually.

• 2024 through 2029 - Water system improvements to alleviate inflow and infiltration as identified through visual inspections.

• 2025 - Evaluate past system performance for 5-year target. Continue public education and periodic visual inspections. Replace a percentage of water meters annually.

• 2025-2030 - Continue water system improvements to reduce water loss via line replacement and line looping.

• 2029 - Evaluate system performance for 10-year target and continue public education program.

STAFF NOTES AND RECOMMENDATIONS

Water Loss Audit Validation requirement satisfied.

The city is above their real loss threshold. To mitigate their real loss, this project includes replacing 10,800 feet of 2 inch and 6 inch PVC water lines (1%) of existing potable water cast iron distribution lines that experience frequent break.

DEFINITIONS

Adopted refers to a water conservation plan that meets the minimum requirements of the water conservation plan rules and has been formally approved and adopted by the applicant's governing body.

Apparent losses are paper losses that occur when the water reaches a customer, but the volume is not accurately measured and/or recorded due to unauthorized consumption, customer meter inaccuracy, or billing system and collection data errors.

Approvable refers to a water conservation plan that substantially meets the minimum requirements of the water conservation plan rules but has not yet been adopted by the applicant's governing body.

Best Management Practices are voluntary efficiency measures that save a quantifiable amount of water, either directly or indirectly, and that can be implemented within a specific time frame.

GPCD means gallons per capita per day.

GCD means gallons per connection per day.

GMD means gallons per mile per day.

Infrastructure Leakage Index (ILI) is the current annual real loss divided by the unavoidable annual real loss (theoretical minimum real loss) and only applies to utilities with more than 3,000 connections and a connection density of more than 16 connections per mile. The **ILI** is recommended to be less than 3 if water resources are greatly limited and difficult to develop, between 3 and 5 if water resources are adequate to meet long-term needs but water conservation is included in long-term water planning, and between 5 and 8 if water resources are plentiful, reliable, and easily extracted. The **ILI** is recommended as a bench marking tool, but until there is increased data validity of the variables used in the calculation, the **ILI** should be viewed with care.

NA means not applicable.

Real losses are the physical losses, largely leakage, from the infrastructure: mains, valves, and storage tank overflows. Real loss constitutes background leakage (unreported and difficult to detect), unreported leakage (leaks that do not surface but could be detected), and reported leakage (leaks that often surface and those that are detected by the utility through leak detection).

Residential GPCD is the amount of residential water use (single and multi-family customer use) divided by the residential population divided by 365.

Total GPCD is the amount of total system input volume divided by the retail population divided by 365.

Total water loss is the sum of the apparent and real water losses.

Water loss is the difference between the input volume and the authorized consumption within a water system. Water Loss consists of real losses and apparent losses.

Water Loss GPCD is the amount of water loss divided by the retail population divided by 365.

Water Loss per Connection per Day Calculated as the water loss volume divided by the number service connections divided by 365. This indicator allows for reliable performance tracking in the water utility's efforts to reduce water losses. It replaces water loss percentage.

Water Loss Thresholds are levels of real and apparent water loss determined by the connection density of a retail public utility, at or above which a utility receiving financial assistance from the Texas Water Development Board must use a portion of that financial assistance to mitigate the utility's system water loss.

Wholesale Adjusted represents that some utilities provide large volumes of wholesale water to other providers that travel through the general distribution system, so a calculation has been established to adjust for that volume of wholesale water. These adjustments are only applicable for use in determining whether a utility meets or exceeds water loss thresholds in review of their application for financial assistance. These adjustments should not be used for performance tracking or benchmarking.

Mount Vernon
Franklin County