



PROJECT FUNDING REQUEST

BOARD DATE: December 16, 2025

Team Manager: Nancy Richards

ACTION REQUESTED

Consider approving by resolution a request from the City of Cleveland (Liberty County) for \$16,080,000 in financial assistance consisting of \$6,080,000 in financing and \$10,000,000 in principal forgiveness funding from the Clean Water State Revolving Fund for planning, design, and construction of wastewater system improvements project.

STAFF RECOMMENDATION

Approve No Action

BACKGROUND

The City of Cleveland (City) is located 40 miles northeast of Houston. The City provides water and wastewater services to a population of approximately 7,756 residents and approximately 3,158 water and 3,004 wastewater connections.

PROJECT NEED AND DESCRIPTION

The City's 0.75 million gallons per day (MGD) West and 0.95 MGD East Wastewater Treatment Plants (WWTP) were constructed in 1985, with rehabilitation and improvements in 2013. The West WWTP, located to the west of US Highway 59, is difficult to operate and maintain in part due to its proximity to the highway and railroad, which makes access more difficult. The City needs to consolidate its operations to improve efficiency and focus additional capital investments, including the immediate need for an additional lift station and to upgrade an existing station. In addition, the City's collection system is aging and its wastewater lines are made of clay and concrete pipe. The wastewater lines have reached their useful service life, causing overflows, inflow, and infiltration.

For wastewater treatment plant improvements, the City proposes decommissioning of the West WWTP and improvements to the East WWTP. Improvements at the East WWTP include construction of a lift station, 20,000 feet of force main line, upgrading an existing lift station, and a new junction box at the head of the plant. The project does not include expansion of the East WWTP. For collection system improvements, the City proposes replacement of 67,000 feet of sewer lines, which is approximately 17 percent of the entire system. The City also plans to develop an asset management plan.

PROJECT SCHEDULE

Task	Schedule Date
Closing	May 15, 2026
Engineering Feasibility Report Completion (End of Planning Phase)	September 2, 2026
Design Phase Completion	November 2, 2026
Start of Construction	May 30, 2028
Construction Completion	April 30, 2029

COMMITMENT PERIOD: SIX (6) MONTHS TO EXPIRE JUNE 30, 2026

KEY ISSUES

The City qualifies for \$10,000,000 in principal forgiveness as a disadvantaged and disadvantaged, small/rural community through the Clean Water State Revolving Fund. The City also qualifies for \$3,155,000 in financing at zero-percent interest as a disadvantaged, small/rural community and for the development of an asset management plan.

LEGAL/SPECIAL CONDITIONS

- Executed principal forgiveness agreement
- Return of surplus funds
- Certification on weighted average of maturities vs. life of project

Attachments:

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

Financial Review City of Cleveland

Attachment 1

Risk Score: 2A

Audit Reviewed: FY 2024

Key Indicators

Indicator	Result	Benchmark
Population Growth, Average Annual 2010-2020	City: -0.27%	State: 1.49%
Top 10 Customers % of Total Revenue	20%	10-15%
Median Household Income as % of State	64%	100%
Household Cost Factor	1.79	1.51-2.00%
Days of Cash on Hand (3-year Average)	363 days	30-149 days
Net Fixed Assets/ Annual Depreciation	32 years	12-24 years
Debt Service Coverage Ratio	1.43x	1.1x
Debt-to-Operating Revenues	2.63	4.00-5.99x
Unemployment Rate (August 2025)	County: 6.10%	State: 4.70%
Working Capital Ratio	5.51	> 1.0

Key Risk Score Strengths

- The City's current interest and sinking fund taxes and utility system charges provide sufficient revenues to pay both existing and proposed debt service.
- The City maintains over 363 days of cash on hand, which is well above the state's benchmark, indicating the ability to pay its short-term expenses should revenues fluctuate.
- The City's tax assessed valuation has increased from approximately \$415 million to \$923 million in the past five years. This allows the City to generate additional revenues to meet its financial obligations without increasing the taxes levied.

Key Risk Score Concerns

- While the City has a low median household income, it maintains a strong financial performance through prudent budget management, diverse revenue sources, and stable reserves, ensuring its ability to meet obligations and sustain operations effectively.
- The City's top 10 water customers account for a total of 20 percent of water revenues, with a medical provider accounting for 6.81 percent and a state agency accounting for 5.71 percent. A stress test was conducted that removed the revenues of these two customers and showed that the City would not need a rate increase with these revenues removed to meet its obligations.

PLEDGE

Legal Pledge Name	Ad Valorem Tax and Utility System Revenues
Type of Pledge	<input type="checkbox"/> Tax <input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Tax & Revenue <input type="checkbox"/> Contract <input type="checkbox"/> Other
Revenue Pledge Level	<input type="checkbox"/> First <input type="checkbox"/> Second <input checked="" type="checkbox"/> Third <input type="checkbox"/> N/A

RATES AND CHARGES

Average Residential Use	Gallons/Month	Current Rates	Projected Rates	Current Household Cost Factor	Projected Household Cost Factor
Water	5,000	\$34.22	\$34.22	1.79	1.79
Wastewater	5,000	\$35.86	\$35.86		

TAXES

	2025 Tax Year Rate	Max Projected Tax Rate (2024)	Maximum Allowable Rate	3-Year Avg Current Tax Collections	Assessed Valuation
Maintenance & Operation	\$0.4109	\$0.4109	\$2.50	95%	\$923,330,708
Interest & Sinking	\$0.2191	\$0.2191			
Total Tax Rate	\$0.6300	\$0.6300			

Cost Savings

Based on a 20-year maturity schedule and current interest rates, the City could save approximately \$2,089,732 over the life of the financing. The City is also receiving \$10 million in principal forgiveness.

Project Data Summary

Responsible Authority	City of Cleveland
Program	CWSRF
Commitment Number	L1002152, L1002153, LF1002154
Project Number	73989
List Year	2025
Type of Pledge	Combo Tax and Revenue
Pledge Level (if applicable)	Third Lien
Legal Description	\$3,155,000 Cleveland Combination Tax and Surplus Revenues Certificates of Obligation, Proposed Taxable Series 2026A, \$2,925,000 Cleveland Combination Tax and Surplus Revenues Certificates of Obligation, Proposed Series 2026B, \$10,000,000 Principal Forgiveness Agreement
Tax-exempt or Taxable	Tax-Exempt,
Refinance	No
Outlay Requirement	Yes
Disbursement Method	Escrow
Outlay Type	Outlay = Escrow Release
Qualifies as Disadvantaged	Yes
State Revolving Fund Type	Equivalency
Financial Managerial & Technical Complete	N/A
Phases Funded	Planning, Design, and Construction
Pre-Design	Yes
Project Consistent with State Water Plan	N/A
Water Conservation Plan	Adopted
Overall Risk Score	2A

PROJECT TEAM

Team Manager	Financial Analyst	Engineering Reviewer	Environmental Reviewer	Attorney
Nancy Richards	Sarah Smaardyk	Grace Davila	Britt Wilson	Breann Hunter

ISSUE BEING EVALUATED
FOR ILLUSTRATION PURPOSES ONLY
City of Cleveland

\$3,155,000 Cleveland, Texas Combination Tax and Surplus Revenues Certificates of Obligation, Proposed Series 2026A

Dated Date: 5/15/2026 Source: CWSRF-EQUIVALENCY
 Delivery Date: 5/15/2026 Rate: 0.00%
 First Interest: 6/1/2026 IUP Year: 2025
 First Principal: 6/1/2026 Case: Tax and Revenue
 Last Principal: 6/1/2046 Admin.Fee: \$54,262.90
 Fiscal Year End: 09/30 Admin. Fee Payment Date: 5/15/2026
 Required Coverage: 1.1 Total Assessed Valuation: \$923,330,708.00

\$2,925,000 Cleveland, Texas Combination Tax and Surplus Revenues Certificates of Obligation, Proposed Series 2026B

Dated Date: 5/15/2026 Source: CWSRF-EQUIVALENCY
 Delivery Date: 5/15/2026 Rate: 2.57%
 First Interest: 6/1/2026 IUP Year: 2025
 First Principal: 6/1/2026 Case: Tax and Revenue
 Last Principal: 6/1/2046 Admin.Fee: \$ 50,307
 Fiscal Year End: 9/30 Admin. Fee Payment Date: 5/15/2026
 Required Coverage: 1.1

FISCAL YEAR	REQUIRED TAX RATE	REQUIRED TAX REVENUES WITH COLL. @ 95%	PROJECTED NET SYSTEM REVENUES	PROJECTED TOTAL REVENUES	CURRENT DEBT SERVICE	\$3,155,000 ISSUE				\$2,925,000 ISSUE				DEBT SERVICE	ACTUAL COVERAGE
						PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL PAYMENT	INTEREST RATE	INTEREST PAYMENT	TOTAL PAYMENT		
2026	0.2191	1,921,867	\$1,595,999	3,517,866	\$2,183,503	\$160,000	-	\$0	\$160,000	120,000	1.45%	\$2,955	\$122,955	\$2,466,459	1.43
2027	0.2191	1,921,867	\$1,595,999	3,517,866	1,645,549	160,000	-	-	160,000	120,000	1.47%	64,756	184,756	1,990,305	1.77
2028	0.2191	1,921,867	\$1,595,999	3,517,866	1,455,451	160,000	-	-	160,000	125,000	1.48%	62,992	187,992	1,803,443	1.95
2029	0.2191	1,921,867	\$1,595,999	3,517,866	1,443,662	160,000	-	-	160,000	125,000	1.50%	61,142	186,142	1,789,803	1.97
2030	0.2191	1,921,867	\$1,595,999	3,517,866	1,435,258	160,000	-	-	160,000	130,000	1.60%	59,267	189,267	1,784,524	1.97
2031	0.2191	1,921,867	\$1,595,999	3,517,866	1,434,874	160,000	-	-	160,000	130,000	1.72%	57,187	187,187	1,782,060	1.97
2032	0.2191	1,921,867	\$1,595,999	3,517,866	1,008,871	160,000	-	-	160,000	135,000	1.83%	54,951	189,951	1,358,821	2.59
2033	0.2191	1,921,867	\$1,595,999	3,517,866	813,235	160,000	-	-	160,000	135,000	1.92%	52,480	187,480	1,160,715	3.03
2034	0.2191	1,921,867	\$1,595,999	3,517,866	656,083	160,000	-	-	160,000	140,000	2.04%	49,888	189,888	1,005,971	3.50
2035	0.2191	1,921,867	\$1,595,999	3,517,866	655,286	160,000	-	-	160,000	140,000	2.16%	47,032	187,032	1,002,318	3.51
2036	0.2191	1,921,867	\$1,595,999	3,517,866	654,129	160,000	-	-	160,000	145,000	2.33%	44,008	189,008	1,003,137	3.51
2037	0.2191	1,921,867	\$1,595,999	3,517,866	642,630	160,000	-	-	160,000	150,000	2.45%	40,630	190,630	993,259	3.54
2038	0.2191	1,921,867	\$1,595,999	3,517,866	527,682	160,000	-	-	160,000	150,000	2.56%	36,955	186,955	874,637	4.02
2039	0.2191	1,921,867	\$1,595,999	3,517,866	534,237	160,000	-	-	160,000	155,000	2.63%	33,115	188,115	882,352	3.99
2040	0.2191	1,921,867	\$1,595,999	3,517,866	535,067	160,000	-	-	160,000	160,000	2.70%	29,038	189,038	884,105	3.98
2041	0.2191	1,921,867	\$1,595,999	3,517,866	535,238	160,000	-	-	160,000	165,000	2.76%	24,718	189,718	884,956	3.98
2042	0.2191	1,921,867	\$1,595,999	3,517,866	465,709	160,000	-	-	160,000	170,000	2.82%	20,164	190,164	815,873	4.31
2043	0.2191	1,921,867	\$1,595,999	3,517,866	466,488	160,000	-	-	160,000	175,000	2.87%	15,370	190,370	816,858	4.31
2044	0.2191	1,921,867	\$1,595,999	3,517,866	466,790	160,000	-	-	160,000	180,000	2.90%	10,348	190,348	817,137	4.31
2045	0.2191	1,921,867	\$1,595,999	3,517,866	456,640	115,000	-	-	115,000	175,000	2.93%	5,128	180,128	751,768	4.68
2046	0.2191	1,921,867	\$1,595,999	3,517,866	281,413	-	-	-	-	-	-	-	-	281,413	12.50
				\$73,875,180	\$18,297,794	\$3,155,000		\$0	\$3,155,000	\$2,925,000		\$772,119	\$3,697,119	\$25,149,913	

\$3,155,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	9.41 YEARS
NET INTEREST RATE	0.000%
COST SAVINGS	\$1,509,243
AVERAGE ANNUAL REQUIREMENT	\$150,238

\$2,925,000 ISSUANCE	
AVERAGE (MATURITY) LIFE	10.28 YEARS
NET INTEREST RATE	2.568%
COST SAVINGS	\$580,489
AVERAGE ANNUAL REQUIREMENT	\$176,053

TOTAL AVERAGE ANNUAL REQUIREMENTS
\$1,197,615

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.



Project Budget Summary
City of Cleveland
73989 – Wastewater Plant Decommissioning
and Collection System Improvements Project

Budget Items	TWDB Funds	Total
Construction		
Construction	\$12,187,830.00	\$12,187,830.00
Subtotal for Construction	\$12,187,830.00	\$12,187,830.00
Basic Engineering Services		
Design	\$1,900,000.00	\$1,900,000.00
Subtotal for Basic Engineering Services	\$1,900,000.00	\$1,900,000.00
Special Services		
Application	\$70,000.00	\$70,000.00
Environmental	\$45,000.00	\$45,000.00
Geotechnical	\$30,000.00	\$30,000.00
I/I Studies/Sewer Evaluation	\$60,000.00	\$60,000.00
Special Service Other (Asset Management Plan)	\$150,000.00	\$150,000.00
Surveying	\$300,000.00	\$300,000.00
Subtotal for Special Services	\$655,000.00	\$655,000.00
Fiscal Services		
Bond Counsel	\$60,000.00	\$60,000.00
Financial Advisor	\$54,194.00	\$54,194.00
Fiscal/Legal	\$12,500.00	\$12,500.00
Issuance Costs	\$5,906.00	\$5,906.00
Loan Origination Fee	\$104,570.00	\$104,570.00
Subtotal for Fiscal Services	\$237,170.00	\$237,170.00
Contingency		
Contingency	\$1,100,000.00	\$1,100,000.00
Subtotal for Contingency	\$1,100,000.00	\$1,100,000.00
Total	\$16,080,000.00	\$16,080,000.00

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING AN APPLICATION FOR FINANCIAL ASSISTANCE IN THE AMOUNT OF
\$16,080,000 TO THE CITY OF CLEVELAND FROM THE CLEAN WATER STATE
REVOLVING FUND THROUGH THE PROPOSED PURCHASE OF
\$3,155,000 CLEVELAND COMBINATION TAX AND SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, PROPOSED TAXABLE SERIES 2026A, \$2,925,000
CLEVELAND COMBINATION TAX AND SURPLUS REVENUE CERTIFICATES OF
OBLIGATION, PROPOSED SERIES 2026B
AND
\$10,000,000 IN PRINCIPAL FORGIVENESS
CITY OF CLEVELAND

(25 -)

Recitals:

The City of Cleveland (City), located in Liberty County filed an application for financial assistance in the amount of \$16,080,000 from the Clean Water State Revolving Fund (CWSRF) to finance the planning, design, and construction of wastewater system improvements identified as Project No. 73989.

The City seeks financial assistance from the Texas Water Development Board (TWDB) through the TWDB's proposed purchase of \$3,155,000 Cleveland Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Taxable Series 2026A, \$2,925,000 Cleveland Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2026B (Obligations) (together with all authorizing documents), and the execution of a Principal Forgiveness Agreement in an amount of \$10,000,000, 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 taxes and surplus revenue as sufficient security for the repayment of the Obligations.

The commitment is approved for funding under the TWDB's pre-design funding option, and initial and future releases of funds are subject to 31 TAC § 375.14.

Findings:

1. The revenue or taxes pledged by the City will be sufficient to meet all the Obligations assumed by the City, in accordance with Texas Water Code § 15.607.
2. The application and assistance applied for meet the requirements of the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251--1389, as well as state law, in accordance with Texas Water Code § 15.607.
3. The term of the Obligations does not exceed the expected useful life of the project proposed by the City.

4. 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.
5. The City has considered cost-effective, innovative, and nonconventional methods of treatment, in accordance with Texas Water Code § 15.007.
6. The City meets the definition of a "Disadvantaged Community" in 31 TAC § 375.1(23) and is therefore eligible for principal forgiveness in the amount of \$8,500,000.
7. The City qualifies as a Disadvantaged Community and a "small" or "rural" system as determined by the applicable Intended Use Plan, and the project is therefore eligible for principal forgiveness in the amount of \$1,500,000 and a reduced interest rate of zero percent.
8. The City qualifies for financial assistance with a reduced interest rate of zero percent in order to prepare an Asset Management Plan as described in the applicable Intended Use Plan.
9. The City is therefore eligible for principal forgiveness through the CWSRF in a total amount not to exceed \$10,000,000 and financial assistance in the amount of \$3,155,000 with a reduced interest rate of zero percent.

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

1. A commitment is made by the TWDB to the City of Cleveland for financial assistance in the amount of \$16,080,000 from the Clean Water State Revolving Fund through the TWDB's proposed purchase of \$3,155,000 Cleveland Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Taxable Series 2026A, \$2,925,000 Cleveland Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2026B and the execution of a Principal Forgiveness Agreement in the amount of \$10,000,000. This commitment will expire on June 30, 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 as determined by the TWDB. If the financial assistance is funded with available cash-on-hand, the TWDB reserves the right to change the designated source of funds to bond proceeds issued for the purpose of reimbursing funds used to provide the financial assistance approved in this Resolution.
2. The commitment is contingent upon the issuance of a written approving opinion of the Attorney General of the State of Texas stating that all the requirements of the laws under which the Obligations are issued have been complied with; that the

Obligations were issued in conformity with the Constitution and laws of the State of Texas; and that the Obligations are valid and binding obligations of the City.

3. The commitment is contingent upon the City's compliance with all applicable requirements contained in 31 TAC Chapter 375.
4. The Obligations must provide that the City agrees to comply with all the conditions set forth in the TWDB Resolution.
5. The Obligations must provide that the Series 2026B Obligations can be called for early redemption 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.
6. The Obligations must provide that the Series 2026A Obligations can be called for early redemption on any date beginning on or after ten years from the dated date of the Obligations, at a redemption price of par.
7. 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, at a minimum and regardless of the amount of the Obligations, must agree to comply with requirements for continuing disclosure on an ongoing basis substantially in the manner required by the 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 the rule, the 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 the Obligations, and the beneficial owners of the TWDB's bonds if the City is an obligated person with respect to the bonds under SEC Rule 15c2-12.
8. The Obligations must require the City to levy a tax or maintain and collect sufficient rates and charges, as applicable, to produce system funds 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.
9. The Obligations must require the City to use any proceeds from the Obligations that are determined to be remaining unused funds for enhancements to the original project that are explicitly approved by the Executive Administrator or, if no enhancements are authorized by the Executive Administrator, requiring the City to submit a final accounting and disposition of any unused funds. Remaining unused funds are those funds unspent after the original approved project is completed.
10. The Obligations must require the City to use any proceeds from the Obligations that are determined to be surplus funds in a manner approved by the Executive Administrator. Surplus funds are funds remaining after completion of the project and completion of a final accounting.

11. The Obligations must provide that the TWDB may exercise all remedies available to it in law or equity and any provision of the Obligations that restricts or limits the TWDB's full exercise of these remedies shall be of no force and effect.
12. Proceeds of this commitment are public funds. Therefore, the Obligations must require 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.
13. Proceeds of this commitment must not be used by the City when sampling, testing, removing, or disposing of contaminated soils or media at the project site except for an EC project to address PFAs or any contaminant listed on EPA's Contaminant Candidate Lists. The Obligations must provide that the City is solely responsible for liability resulting from acts or omissions of the City, its employees, contractors, or agents arising from the sampling, analysis, transport, storage, treatment, recycling, and disposition of any contaminated sewage sludge, contaminated sediments 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.
14. Before closing, the City must submit documentation evidencing the adoption and implementation of sufficient system rates and charges or the levy of an interest and sinking tax rate sufficient for the repayment of all system debt service requirements.
15. Before closing, and if not previously provided with the application, the City must 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, reflected in the contract, and acceptable to the Executive Administrator.
16. Before closing, when any portion of the financial assistance is to be held in escrow or in trust, the City must execute an escrow or trust agreement, approved as to form and substance by the Executive Administrator and shall submit that executed agreement to the TWDB.
17. The Executive Administrator may require the City to execute a separate financing agreement in form and substance acceptable to the Executive Administrator.
18. The Obligations must provide that the City must comply with all applicable federal laws and TWDB laws and rules related to the use of the financial assistance.
19. 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.
20. The Obligations must require the City to maintain insurance coverage sufficient to protect the TWDB's interest in the project.

21. The City must immediately notify TWDB in writing of any suit against it by the Attorney General of Texas under Texas Government Code § 2.103 and Texas Penal Code § 1.10(f), related to federal laws regulating firearms, firearm accessories, and firearm ammunition.
22. The Obligations must provide that the City must submit annually an audit prepared by a certified public accountant in accordance with generally accepted auditing standards.
23. Before closing, the City shall submit to the escrow agent a closing memo signed by the Executive Administrator.

Tax-Exempt Conditions for the \$2,925,000 Cleveland Combination Tax and Surplus Revenue Certificates of Obligation, Proposed Series 2026B:

24. 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.
25. The City's bond counsel opinion must state that the Obligations are not "private activity bonds." Bond counsel may rely on covenants and representations of the City when rendering this opinion.
26. The Obligations must prohibit the City from using the financial assistance in a manner that would cause the Obligations to become "private activity bonds" within the meaning of section 141 of the Internal Revenue Code of 1986, as amended (Code) and the Treasury Regulations promulgated under section 141 (Regulations).
27. The Obligations must provide that no portion of the proceeds of this financial assistance will be used, directly or indirectly, in a manner that would cause the Obligations to be "arbitrage bonds" within the meaning of section 148(a) of the Code and Regulations, including to acquire or to replace funds that were used, directly or indirectly, to acquire Nonpurpose Investments (as defined in the Code and Regulations) that produce a yield materially higher than the yield on the TWDB's bonds that are issued to provide the financial assistance (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 the proceeds are needed for the facilities to be financed;
 - b. amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Regulations; and
 - c. amounts deposited in any reasonably required reserve or replacement fund to the extent the deposited 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.

28. The Obligations must require the City to 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 to satisfy the requirements of section 148 of the Code. The Obligations must provide that the City must:
 - a. account for all Gross Proceeds, as defined in the Code and Regulations, (including all receipts, expenditures, and investments) on its books of account separately and apart from all other funds, including receipts, expenditures, and investments, and retain all records of the 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 this financial assistance with other money of the City, provided that the City separately accounts for each receipt and expenditure of the Gross Proceeds and the obligations acquired those proceeds;
 - b. calculate the Rebate Amount, as defined in the Code and Regulations, with respect to this financial assistance, not less frequently than each Computation Date, in accordance with rules set forth in section 148(f) of the Code, section 1.148-3 of the Regulations, and related rulings. The City must maintain a copy of the calculations for at least six years after the final Computation Date;
 - c. as additional consideration for the making of this commitment, and to induce the financial assistance by measures designed to ensure the excludability of the interest on the TWDB's Source Series Bonds from the gross income of the owners 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 an error is made, to discover and promptly to correct the error within a reasonable amount of time after including payment to the United States of any interest and any penalty required by the Regulations.
29. The Obligations must prohibit 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.
30. 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 section 149(b) of the Code.
31. 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.

32. The Obligations must provide that the City will refrain from using the proceeds provided by this TWDB commitment or the proceeds of any prior bonds to pay debt service on another issue more than 90 days after the date of issue of the Obligations in contravention of the requirements of section 149(d) of the Code, relating to advance refundings.
33. The transcript must include evidence that the information reporting requirements of section 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 section 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.
34. The Obligations must provide that neither the City nor a related party 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.
35. Before closing, the City must 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.

State Revolving Fund Conditions:

36. The City must submit outlay reports on a quarterly or monthly basis with sufficient documentation on costs in accordance with TWDB outlay report guidelines.
37. The Obligations must provide that all laborers and mechanics employed by contractors and subcontractors for projects be paid wages at rates not less than those prevailing on projects of a similar character in the locality in accordance with the Davis-Bacon Act, and the U.S. Department of Labor's implementing regulations. The City, all contractors, and all sub-contractors must ensure that all project contracts mandate compliance with Davis-Bacon. All contracts and subcontracts for the construction of the project carried out in whole or in part with financial assistance made available as provided must insert in full in any contract in excess of \$2,000 the contract clauses as provided by the TWDB.
38. The Obligations must provide that the City shall provide the TWDB with all information required to be reported in accordance with the Federal Funding Accountability and Transparency Act of 2006, Pub. L. 109-282, as amended by Pub. L. 110-252. The City shall obtain a Unique Entity Identification Number and shall register with System for Award Management (SAM) and maintain current registration at all times during which the Obligations are outstanding.
39. The Obligations must provide that all proceeds of this financial assistance will be timely and expeditiously used, as required by 40 CFR § 35.3135(d), and must provide that the City will adhere to the approved project schedule.

40. The Obligations and Principal Forgiveness Agreement must provide that the City will abide by all applicable construction contract requirements related to the use of iron and steel products produced in the United States, as required by 31 TAC § 375.3, 33 U.S.C. § 1388, and related State Revolving Fund Policy Guidelines.
41. The Obligations and Principal Forgiveness Agreement must provide that the City will abide by all applicable requirements related to the Build America, Buy America Act, Public Law 117-58.
42. The Obligations must provide that the City must comply with the requirements set forth in 33 U.S.C. § 1382 *et seq.* related to maintaining project accounts containing financial assistance for planning, design, acquisition, or construction in accordance with generally accepted accounting principles (GAAP). These standards and principles also apply to the reporting of underlying infrastructure assets.
43. The Obligations and Principal Forgiveness Agreement must provide that the City shall abide by the prohibition on certain telecommunications and video surveillance services or equipment as required by 2 CFR § 200.216.

Clean Water State Revolving Fund Conditions:

44. Before release of funds for professional consultants including, but not limited to, the engineer, financial advisor, and bond counsel, as appropriate, the City must provide documentation that it has met all applicable state procurement requirements as well as all federal procurement requirements under the Disadvantaged Business Enterprises program.
45. Before release of funds for professional services related to architecture or engineering, including but not limited to contracts for program management, construction management, feasibility studies, preliminary engineering, design, engineering, surveying, mapping, or other architectural and engineering services as defined in 40 U.S.C. § 1102(2)(A)–(C), the City must provide documentation that it has met all applicable federal procurement requirements as more specifically set forth in 40 U.S.C. § 1101 *et seq* and 33 U.S.C. § 1382(b)(14).

Pledge Conditions:

46. the Obligations must provide 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 require that the City transfer and deposit into 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 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 require that for each year the Obligations are outstanding, and before the time taxes are to be levied for that year, the City shall establish, adopt, and maintain an annual budget that provides for either the monthly deposit of sufficient surplus pledged revenues or tax revenues or both, the monthly deposit of any other legally available funds on hand at the time of the adoption of the annual budget, or a combination of these, into the Interest and Sinking Fund for the repayment of the Obligations; and
- iii. the Obligations must require 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 the 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:

- 47. Before closing, the City must execute a Principal Forgiveness Agreement in a form and substance acceptable to the Executive Administrator.
- 48. The Principal Forgiveness Agreement must state that the City shall return any principal forgiveness funds that are determined to be surplus funds in a manner determined by the Executive Administrator.
- 49. Before closing, the City must provide certification that the weighted average maturity of the Obligations does not exceed 120% of the average reasonably expected economic life of the Project.

APPROVED and ordered of record this 16th day of December 2025.

TEXAS WATER DEVELOPMENT BOARD

L'Oreal Stepney, P.E., Chairwoman

DATE SIGNED: _____

ATTEST:

Bryan McMath, Executive Administrator

Review Date:

Project ID:

Water

Wastewater

Other

WATER CONSERVATION REVIEW

Entity:

Other entity:

WATER CONSERVATION PLAN DATE:**Approvable****Adopted**

	Total GPCD	Residential GPCD	Water Loss GPCD
Baseline			
5-year Goal			
10-year Goal			

WATER LOSS AUDIT YEAR:

Validation Required:

Validation Performed:

Service connections:

Length of main lines (miles):

Water Loss GCD:

Retail population:

Connections per mile:

Water Loss GPCD:

ILI:

Real Loss GMD:

WATER LOSS THRESHOLDS

Water Loss Project:

Waiver Requested:

Wholesale Adjusted:

Apparent Loss GCD

Real Loss GCD

Threshold Type:

Reported

Threshold

Reported

Threshold

Does the applicant meet Water Loss Threshold Requirements?

Yes**No****NA****ADDITIONAL INFORMATION****STAFF NOTES AND RECOMMENDATIONS**

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 benchmarking 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.



City of Cleveland Liberty County

