Minutes

Texas Bond Review Board

Planning Session

Tuesday, October 12, 2021, 10:00 a.m.

Room 402 Clements Building

And Videoconference Meeting

300 W. 15th Street

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, October 12, 2021, in Room 402 of the Clements Building and via videoconference as authorized under Texas Government Code section 551.127. Present were Brady Franks, Chair and Alternate for Governor Greg Abbott; Bryan Mathew, Alternate for Lieutenant Governor Dan Patrick; and Piper Montemayor, Alternate for Comptroller Glenn Hegar. Also, in attendance were Leslie Brock and Veena Mohan with the Office of the Attorney General, Bond Finance Office staff members, and others.

1. **Call to Order**

Rob Latsha, Executive Director, called the meeting to order at 10:02 a.m. A quorum was present. He announced that this meeting will be held by videoconference call pursuant to Texas Government Code section 551.127. This meeting will include participation from one or more Bond Review Board members by remote videoconference. In accordance with the Texas Open Meetings Act, Bond Review Board members participating by videoconference shall be considered as being present for all purposes in the meeting. No votes would be taken.

1. **Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Taxable Series 2021A and Taxable Series 2021B (and such other series or subseries as may be designated)**

Representatives present were Lee Deviney, Executive Director, TPFA; and Matthew Berry, Financial Analyst, TPFA.

TPFA seeks approval to issue its State of Texas General Obligation and Refunding Bonds, Taxable Series 2021A and Taxable Series 2021B, in a maximum par amount of $856,805,000 and a maximum total proceeds amount of $888,342,071.30 including premiums, if any.

Each series of bonds are anticipated to include a bond refunding, a CP refunding, and a new money component. The new money par amount is estimated to be $151,710,000 ($6,910,000 for the Section 50-g New Money Project Fund and $144,800,000 for the CPRIT New Money Project Fund.) The refunding money par amount is estimated to be $705,095,000 with $406,675,000 expected to refund outstanding CP notes ($347,300,000 of CPRIT CP and $59,375,000 of Section 50-g CP), and $298,420,000 is expected to refund outstanding bonds Series 2011, and 2014A, and taxable bonds Series 2014B.

The proceeds of the bonds will be used to: (1) currently refund all or a portion of the Series 2011 bonds for savings; (2) advance refund all or a portion of the Series 2014A and Taxable Series 2014B bonds for savings; (3) fund certain projects authorized under the Texas Constitution, Article III, Section 50-g, specifically the DPS Project and the Parks and Wildlife Project; (4) refund all or a portion of the outstanding CPRIT Series A Taxable GO commercial paper; (5) make grants for cancer research and prevention and pay for the administrative operations of CPRIT, as authorized by the Constitutional Provision; (6) refund certain outstanding GO commercial paper notes of the state issued by the Authority under the 2008 GO CP program (Section 50-g); and (7) to pay the costs of issuing the bonds.

The total cost of issuance is expected to be $4,815,175 or $5.80 cost per $1,000 bond.

As not self-supporting GO debt, CPRIT debt, Section 50-g debt, and the Series 2011, 2014A, and 2014B bonds are included in the state’s Constitutional Debt Limit (CDL). As of August 31, 2020, the CDL was calculated at 2.67 percent including both outstanding and authorized but unissued debt.

TPFA will issue the bonds pursuant to Article III, Sections 49-h, 49-l, 50-f, 50-g and 67 of the Texas Constitution; Chapters 1207, 1232, 1371, 1401, and 1403 of the Texas Government Code, as amended, and Chapter 102 of the Texas Health and Safety Code, as amended.

The TPFA Board approved the bond resolution at its Board Meeting on Thursday, October 7, 2021.

The bonds will be issued in a negotiated sale as taxable, not self-supporting, fixed-rate securities with a premium. The bonds are expected to pay interest on April 1, 2022, and every October 1 and April 1 thereafter. TPFA staff anticipates including a 10-year par call option on the Series 2021A and Series 2021B bonds.

TPFA anticipates structuring the amortization of the bonds with front-loaded principal payments.

The bonds are general obligations of the state. As such, the state’s full faith and credit are pledged to repayment of the bonds. The first monies coming into the State Treasury, not otherwise appropriated by the Constitution, are dedicated to pay debt service.

Lee Deviney addressed the Board and answered questions.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (The Park at Kirkstall), Series 2021**

Representative present was Teresa Morales, Director of Multifamily Bonds, TDHCA.

The Department submitted an application to issue its Multifamily Housing Revenue Bonds (The Park at Kirkstall) Series 2021 in a maximum par amount and a maximum total proceeds amount not to exceed $28,000,000 including premiums, if any.

Total cost of the project is expected to be $50,216,229 and will be funded from a combination of sources including proceeds of tax-exempt bonds, tax credit equity, deferred developer fees, a taxable loan, and a Federal National Mortgage Association (Fannie Mae) conventional mortgage loan. Per TDHCA staff, this is the first instance of using a Fannie Mae loan to pay off a short-term construction loan approximately 12-18 months after the issuance of the Series 2021 bonds.

The proceeds of the bonds will be used for the acquisition and rehabilitation of an existing 240-unit multifamily residential rental development known as the Park at Kirkstall Apartments in Houston.

For marketability purposes, safety, and habitability of the project, there will be a complete renovation of all interiors, including but not limited to: painting, new tubs, vanities, mirrors, tile, carpet, lighting, ceiling fans, counter tops, cabinets, and appliances. The Property will also receive new hot water heaters, roofs, and any necessary siding/trim replacement.

The land use restriction agreement (LURA) will reflect that two of the two-bedroom mobility accessible units must be offered for lease at the one-bedroom rent. As a result, two 2-bedroom units are underwritten at 1-bedroom rents in order to meet accessibility requirements.

The bonds will be issued pursuant to Chapter 1371 and Chapter 2306 of the Texas Government Code.

The Private Activity Bond (PAB) certificate of reservation was issued to TDHCA on June 14, 2021 and expires on December 11, 2021.

The TDHCA Board is expected to approve the final resolution for the bond issuance at its October 14, 2021 meeting.

The terms between Lument Capital and the Borrower for a Fannie Mae conventional mortgage loan were outlined in a Term Sheet dated September 27, 2021. The final commitment will occur prior to closing after the loan package is reviewed and certified by Fannie Mae.

This transaction involves a Fannie Mae Tax Exempt mortgage loan originated by Lument Capital and underwritten by Wells Fargo Corporate Bank. The Borrower will use the proceeds from the Series 2021 bonds for site purchase and rehabilitation.

TDHCA is acting as a conduit issuer for this transaction and as such the bonds do not constitute an obligation, debt, or liability of the state of Texas, or a pledge or loan of faith, credit, or taxing power of the state of Texas. The bonds are special limited obligations payable from revenues earned from the mortgage loan, earnings derived from amounts on deposit in an investment agreement, and payments from the credit provider.

The total cost of issuance is estimated at $985,150 or $35.18 cost per $1,000 bond.

The Department has underwritten The Park at Kirkstall project with a pro forma occupancy of 92.5% and average rent of $999. The occupancy rate for affordable properties in the primary market area is 98.4%, and the average market rent in the area is $1,284. The breakeven occupancy and the breakeven rent needed to meet debt-service requirements for the Property are expected to be 85.0%, and $918/month, respectively. The Property is currently 99.2% occupied.

In accordance with recent published guidance by the IRS, a telephonic hearing was held on September 9, 2021. Given that it was via telephone, it was difficult to discern exactly how many individuals participated in the hearing. However, representatives from the Department and the developer were present, and no public comment was made. The Department has received no letters of support or opposition for this development.

Teresa Morales addressed the Board and answered questions.

1. **Texas State Affordable Housing Corporation Multifamily Mortgage Revenue Notes (W. Leo Daniels Towers), Series 2021A-1 and Series 2021A-2**

This transaction was approved by the BRB during the October 7, 2021, Called Board Meeting.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for Thursday, October 21, 2021, at 10am in Room 402 of the Clements Building.

1. **Items for Future Agendas**

Each Board member received an updated list of future agenda items.

1. **Report from the Executive Director**
   * During fiscal year 2021, BRB received the most transactions every received during one fiscal year for processing. Staff is working on the fiscal year 2021 local debt closeout process and expects to have draft local debt totals available by late October.
   * BRB staff will receive PAB applications for the 2022 PAB program year lottery between October 5th and October 20th. Staff has received over 45 applications. Staff expects to receive a record number of applications for the 2022 PAB Lottery scheduled for 10am on Thursday, November 4th in Room 402 of the Clements Building and via videoconference.
   * Staff is in the middle of reconciling all state debt based on the State Debt Issuer Reports received for the period ending August 31, 2021. Staff expects a draft of the state debt numbers to be available around mid-October. Final numbers will be published in the agency’s 2021 Annual Debt Report on December 1, 2021.
2. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:27 a.m.