Minutes

Texas Bond Review Board

Planning Session

Tuesday, November 6, 2018, 10:00 a.m.

Capitol Extension, Room E2.026

1100 N. Congress Ave.

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, November 6, 2018 in the Capitol Extension, Room E2.026 in Austin, Texas. Present were Bobby Wilkinson, Chair and Alternate for Governor Greg Abbott; Joaquin Guadarrama, Alternate for Lieutenant Governor Dan Patrick; and Piper Montemayor, Alternate for Comptroller Glenn Hegar. Also in attendance were Leslie Brock and David Gordon 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 10:00 a.m. He announced that this was a planning meeting of Board staff to receive and discuss information relative to the applications before the Board. No votes would be taken. A quorum was present.

1. **Public hearing to consider Texas Water Development Board Request for Waiver of Texas Water Code 17.0112(a) related to the Economically Distressed Areas Program pursuant to Texas Water Code 17.0112(b)**

Representatives present were Alexis Lorick, Assistant General Counsel, TWDB; Georgia Sanchez, Development Fund Manager, TWDB; Rebecca Trevino, Chief Financial Officer, TWDB; Todd Chenoweth, General Counsel, TWDB; and Mireya Loewe, South Region Manager, TWDB.

The Texas Water Development Board (TWDB or Board) Economically Distressed Areas Program (EDAP) was established in 1989 by the 71st Texas Legislature to provide financial assistance for economically disadvantaged areas’ infrastructure projects addressing inadequate residential water or wastewater service.

EDAP is funded primarily through the issuance of State of Texas general obligation bonds.

Texas Water Code (TWC) Section 17.0112(a) limits the amount of bonds that may be issued for EDAP to $50 million during a fiscal year. Pursuant to TWC Section 17.0112(b) the TWDB is requesting the BRB waive the requirements in TWC Section 17.0112(a) claiming the TWDB does not have a sufficient amount of bonds to meet the needs of EDAP in state fiscal year 2019, and that the public health and safety in the area to be served require immediate authorization of additional bonds in an amount not to exceed $53,492,380.

A resolution requesting the BRB waive the requirements in TWC Section 17.0112(a) pursuant to TWC Section 17.0112(b) was approved by the TWDB at its Board meeting on October 16, 2018.

The EDAP 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.

TWDB staff expects to submit a BRB application for the remaining EDAP bond authority in January 2019, assuming this waiver is approved.

Alexis Lorick answered questions from the Board.

There was no public comment.

1. **Texas Water Development Board Debt Reclassification from Not-Self Supporting Debt to Self-Supporting Debt for the Water Infrastructure Fund State of Texas Water Financial Assistance Bonds, Series 2009B**

Representatives present were: Georgia Sanchez, Development Fund Manager, TWDB; Rebecca Trevino, Chief Financial Officer, TWDB; Todd Chenoweth, General Counsel, TWDB; and Alexis Lorick, Assistant General Counsel, TWDB.

The TWDB seeks to certify that its State of Texas General Obligation Water Financial Assistance Refunding Bonds Series 2018B (Water Infrastructure Fund), issued in the amount of $238,895,000 are considered self-supporting. The Series 2018B bonds refunded the Series 2008A, 2009A and 2009B in the amounts of $62,800,000, $98,450,000 and $103,965,000, respectively. At the time of the refunding the Series 2008A and Series 2009A bonds were already certified by the TWDB as self-supporting. Before the refunding, the 2009B bonds were classified as not self-supporting, and by virtue of the refunding, became self-supporting.

The 2018B refunding bonds were issued pursuant to Article III, Section 49-d-8, 49-d-9, and 49-d-11, Texas Constitution; Subchapter L of Chapter 17 of the Texas Water Code; and Chapters 1207 and 1371, Texas Government Code.

The subject reclassification is permitted pursuant to Texas Constitution, Article III, Section 49-j which allows for debt included in the CDL calculation to be removed if: (1) the bonds or agreements are backed by insurance or another form of guarantee that ensures payment from a source other than general revenue; or (2) the issuer demonstrates to the satisfaction of the BRB or its successor designated by law that the bonds no longer require payment from general revenue and the BRB so certifies to the Legislative Budget Board or its successor designated by law.

On October 26, 2018, Jeff Walker, Executive Administrator of the TWDB certified that the WIF Series 2018B refunding bonds issued on August 2, 2018 are self-supporting.

The bonds are general obligations of the State of Texas. 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.

A draft version of the 2018 CDL has been calculated by BRB staff as of August 31, 2018. Converting the $103,965,000 of existing WIF Program 2009B bonds from not self-supporting to self-supporting reduced the debt outstanding portion of the CDL by 3 basis points.

This is the fourth reclassification request submitted by TWDB staff to the BRB.

Georgia Sanchez answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Request for Annual Waiver of the Section 2306.142(l) Requirements pursuant to Texas Government Code 2306.142(m) for calendar year 2019**

Representatives present were: Monica Galuski, Director of Bond Finance and Chief Investment Officer, TDHCA; Elizabeth Bowes, Partner, Bracewell; and Barton Withrow, Senior Vice President, George K. Baum.

Pursuant to Texas Government Code (TGC) Section 2306.142(m) the Department is requesting the BRB approve an annual waiver of TGC Section 2306.142(l) through calendar year 2019.

At its October 11, 2018 meeting, the TDHCA Board was presented with a report dated, October 11, 2018, from its financial advisor, George K. Baum & Co., that addresses the feasibility and potential economic impact to the Department of fulfilling the TGC Section 2306.142(l) requirements which report has been submitted to the BRB.

A resolution requesting the BRB waive TGC Section 2306.142(l) requirements for all single-family revenue bonds issued by TDHCA in calendar year 2019 was approved by the TDHCA Board at its meeting on October 11, 2018.

TDHCA Single-Family Bonds are special, limited obligations of TDHCA, payable solely out of the revenues, receipts, and security pledged under the Single-Family Indenture. The Bonds do not constitute a general obligation of the state of Texas.

If the BRB waives the requirements of TGC Section 2306.142(l), this would allow TDHCA to submit any single-family application for BRB review on the exempt track.

The Department last conducted a market study pursuant to TGC Section 2306.142(l) to assess home mortgage credit needs in underserved economic and geographic submarkets in August 2002.

Monica Galuski answered questions from the Board.

1. **Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Ventura at Fairgrounds Apartments) Series 2018**

Representatives present were: David Danenfelzer, Senior Director, TSAHC; Tim Nelson, Financial Advisor, Hilltop Securities; and Neal Route, Senior Development Associate, Dominium.

TSAHC is seeking approval for the issuance of its Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Ventura at Fairgrounds Apartments) Series 2018 (the Note) in a maximum par amount and total proceeds amount of $40,000,000, including premiums, if any.

The total cost for the project is estimated to be $65,519,614. The project is expected to be funded from a combination of sources including proceeds from a tax-exempt Freddie Mac Targeted Affordable Housing loan, housing tax credits/owner equity, and a deferred developer fee.

Ventura at Fairgrounds Apartments (the Property), is a new construction of a 300-unit affordable multifamily housing development serving the general population to be located in Midland, Texas.

TSAHC will issue the Note pursuant to Texas Government Code Subchapter Y, Sections 2306.553, 2306.555 and 2306.565, as amended.

The TSAHC Board is expected to approve the final resolution for the Note at its November 15, 2018 Board meeting. This is the same day as the BRB November Board meeting.

The Private Activity Bond reservation was issued to TSAHC on August 15, 2018 and expires on January 12, 2019.

TDHCA has not received an application for housing tax credits from the Borrower. The Borrower’s application for tax credits is being submitted to TDHCA sometime in the future. According to TSAHC staff, Dominium is initially buying the equity internally and will enter into a forward purchase agreement to resell the tax credits after the buildings are placed in service.

The Note will be privately placed as unrated, tax-exempt, fixed-rate debt with an estimated interest rate of 5.25%, 15-year term, average life of 16.457 years, amortization of 35 years with a balloon payment and a final maturity date of December 1, 2036.

TSAHC will issue the Note in the amount of $40,000,000 that will be initially purchased by Key Bank Real Estate Capital (Key Bank) under Freddie Mac’s Direct Purchase of a Tax-Exempt Loan for Targeted Affordable Housing Program. Freddie Mac will acquire the Note within approximately 30 days of closing. Key Bank will remain as the servicer of the loan for Freddie Mac. The interest rate on the Note is expected to be 5.25%.

TSAHC is acting as a conduit issuer and as such the Note does 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.

A sale date has been set for December 14, 2018; and the closing date December 21, 2018. The final maturity date will be December 1, 2036. The total costs of issuance is expected to be $699,009 or $17.48 per $1,000.

The financing structure for this transaction mirrors the financing structure used for the TSAHC Walnut Creek Apartments approved by the BRB in September. The lowest debt coverage ratio (DCR) happens in year 1 at 1.28.

The Corporation conducted the TEFRA hearing for the Property at its offices in Austin, Texas on October 31, 2018, and no one from the public was in attendance.

TSAHC did not receive any letters of support or opposition for the Property. A Resolution of No Objection was received from the City of Midland.

David Danenfelzer answered questions from the Board.

1. **Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Ventura at Tradewinds Apartments) Series 2018**

Representatives present were: David Danenfelzer, Senior Director, TSAHC; Tim Nelson, Financial Advisor, Hilltop Securities; and Neal Route, Senior Development Associate, Dominium.

TSAHC is seeking approval for the issuance of its Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Ventura at Tradewinds Apartments) Series 2018 (the Note) in a maximum par amount and total proceeds amount of $30,000,000, including premiums, if any.

The total cost for the project is estimated to be $47,341,582. The project is expected to be funded from a combination of sources including proceeds from a Freddie Mac Tax Exempt Loan, housing tax credits, the return of the Freddie Mac good faith deposit, and a deferred developer fee.

The proceeds of the Note will be used for the new construction of a qualified residential rental project to be known as the Ventura at Tradewinds Apartments (Tradewinds or the Property), a multifamily community of 204 units to be located in Midland, Texas.

The unit amenities include fire sprinklers, 9-foot ceilings, and carpet/vinyl/resilient flooring. Additionally, the Property will include a clubhouse, swimming pool, tot lot, fitness center, children’s activity center, playground, and dog park.

TSAHC will issue the Note pursuant to Texas Government Code Subchapter Y, Sections 2306.553, 2306.555 and 2306.565, as amended.

The TSAHC Board plans to approve the final resolution for the Note at its meeting on November 15, 2018.

The Private Activity Bond reservation was issued to TSAHC on August 15, 2018 and expires on January 12, 2019.

The TDHCA Board plans to approve the housing tax credits at its Board meeting scheduled on November 8, 2018.

The Note will be issued initially in the amount of $30,000,000. The Note will be privately placed as unrated, tax-exempt, fixed-rate debt with an estimated interest rate of 4.92%, 15-year term, average life of 16.482 years, amortization of 35 years with a balloon payment and a final maturity date of December 1, 2036.

TSAHC will issue the Note and it will be purchased by JLL Capital Markets (JLL) under Freddie Mac’s Unfunded Forward Tax Exempt Loan Program. The Borrower is expected to make level debt service payments in the amount of $135,445 on a monthly basis in order to pay down the Note. An estimated amount of $20,100,384 will be outstanding until the final maturity date of December 1, 2036.

TSAHC is acting as a conduit issuer and as such the Note does 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 total cost of issuance is estimated to be $492,000; including underwriting spread the total cost is estimated to be $625,207 or $20.84 per $1,000. The lowest DCR is calculated to be 1.28 in Year 1.

The TDHCA underwriting analysis states the Property is comprised of 3 tracts. Tract 1 is 5.788 acres and is zoned Planned District for Housing Development. Tracts 2 and 3, are 3.281 acres and are zoned Office. Development of the site will include a re-plat to combine the tracts into one lot, a zoning change to allow multi-family, and drainage improvements to the existing drainage ditch located along the southern line of Tract 1.

The Property does not hold any Section 8 rental contracts, however Tradewinds is required to accept Section 8 Vouchers held by persons that have been qualified by the Midland Public Housing Authority. THF has been known to work closely with local housing authorities to maximize participation by voucher holders in all their projects.

The Corporation conducted the TEFRA hearing for the Property at its offices in Austin, Texas on October 31, 2018 and no one from the public was in attendance.

TSAHC did not receive any letters of support or opposition for the Property.

David Danenfelzer answered questions from the Board.

1. **EXEMPT – Texas Higher Education Coordinating Board State of Texas (General Obligation Bonds) College Student Loan Refunding Bonds, Series 2018**

The representative present was Ken Martin, Assistant Commissioner Financial Services/CFO, THECB.

This application was submitted on the BRB EXEMPT track with the 6-day review period expiring at 5pm on Wednesday, November 7, 2018.

Ken Martin answered questions from the Board.

1. **EXEMPT – Texas Higher Education Coordinating Board State of Texas (General Obligation Bonds) College Student Loan Bonds, Series 2019**

The representative present was Ken Martin, Assistant Commissioner Financial Services/CFO, THECB.

This application was submitted on the BRB EXEMPT track with the 6-day review period expiring at 5pm on Wednesday, November 7, 2018.

Ken Martin answered questions from the Board.

1. **Discussion of adopted amendments to Rule 15c2-12 of the Securities Exchange Act**

An example of a letter drafted by BRB staff that was sent to all state debt issuers regarding recent amendments to SEC Rule 15c2-12 was shared with the Board.

1. **Public Comment**

There was no public comment.

1. **Adjourn**

There being no further business, the planning session was adjourned at 10:52 a.m.