Minutes

Texas Bond Review Board

Planning Session

Tuesday, November 7, 2017, 10:00 a.m.

Capitol Extension, Room E2.026

1400 N. Congress Ave.

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, November 7, 2017 in the Capitol Extension, Room E2.026 in Austin, Texas. Present were Steven Albright, 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, Interim 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. **Texas State Technical College Abilene Industrial Technology Center Equipment Financing through the Texas Public Finance Authority Master Lease Purchase Program**

This application was withdrawn by the issuer and is expected to be resubmitted in January 2018.

1. **Exempt - Texas Higher Education Coordinating Board State of Texas (General Obligation Bonds) College Student Loan Bonds, in one or more series**

This transaction was approved on the Exempt track on November 6, 2017.

1. **Exempt - Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Emli at Liberty Crossing) Series 2017**

Representatives present were: Teresa Morales, Manager of Multifamily Finance, TDHCA; Elizabeth Bowes, Bond Counsel, Bracewell LLP; Richard Asher, Borrower.

This transaction qualifies for exempt approval under the BRB rules because the Borrower is not seeking a property tax exemption; however, the Department has chosen to submit this transaction to the BRB for formal review.

The Department submitted a Notice of Intent (NOI) to issue its Multifamily Housing Revenue Bonds (Emli at Liberty Crossing) Series 2017 in a maximum par and total proceeds amount not to exceed $17,600,000 including premiums, if any.

The project will be funded from a combination of sources including proceeds of tax-exempt bonds, the sale of housing tax credits, and a taxable Federal Housing Administration (FHA) mortgage loan.

The proceeds of the bonds will be used for a 240-unit new construction development of ten three-story garden style residential buildings in Wilmer, Texas as part of a master planned community.

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 August 23, 2017 and expires on January 20, 2018.

The TDHCA Board approved the final resolution for the bond issuance at its October 12, 2017 meeting.

The firm commitment for the FHA 221(d)(4) loan is expected to be issued by The US Department of Housing and Urban Development (HUD) for Emli on November 13, 2017.

TDHCA expects to receive an AA+ rating from S&P on November 10, 2017. The bonds will be sold through a negotiated sale and structured as short-term, tax-exempt, fixed-rate debt with an interest rate estimated not to exceed 2.5%.

The Series 2017 bonds will only be outstanding during the construction period which is expected to last approximately 24 months. The Series 2017 Bonds will be refunded by an FHA-insured 221(d)(4) taxable permanent mortgage loan.

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 estimated closing date is December 14, 2017 and the average life is 1.96 years.

The estimated direct bond related cost of issuance is $783,700 ($44.53/bond), the underwriters spread is $141,715 ($8.05) for a total cost of issuance of $925,415 ($52.58).

The FHA loan financing structure is similar to that used for the Texas State Affordable Housing Corporation Palladium Glenn Heights Apartments approved by the BRB in September 2017 and the Department’s Fifty Oaks and Edinburg Village Apartments approved by the BRB in July 2016.

The property has a total budget of approximately $34,384,330 or $143,268 per unit.

The Department has underwritten the Emli project with an occupancy of 95.0% and pro forma average rent of $889. The occupancy rate reported for the market area is 98.2%, and the average market rent in the area is $948.

If at the end of the construction period the DCR drops below 1.15, the Department would then have to re-underwrite the transaction with adjusted costs to obtain a minimum DCR of 1.15 which may include re-sizing the debt, looking at other potential sources of financing, adjusting expenses, and adjusting the developer fee.

The one weakness was the location of a new 336-unit development within 6 miles, but this weakness was mitigated by the fact that this development was 100% preleased.

Teresa Morales answered questions from the Board.

1. **Exempt - Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Springs Apartments) Series 2017**

Representatives present were: Teresa Morales, Manager of Multifamily Finance, TDHCA; Elizabeth Bowes, Bond Counsel, Bracewell LLP.

This transaction qualifies for exempt approval under the BRB rules because the Borrower is not seeking a property tax exemption; however, the Department has chosen to submit this transaction to the BRB for formal review.

The Department submitted a Notice of Intent (NOI) to issue its Multifamily Housing Revenue Bonds (Springs Apartments) Series 2017 in a maximum par and total proceeds amount not to exceed $20,000,000 including premiums, if any. The project will be funded from a combination of sources including proceeds of tax-exempt bonds, the sale of housing tax credits, and a taxable Federal Housing Administration (FHA) mortgage loan.

The proceeds of the bonds will be used for a 221 family unit new construction development in one four-story residential building on approximately 9.71 acres of land southeast of Dallas in Balch Springs.

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 July 27, 2017 and expires on December 24, 2017.

The TDHCA Board approved the final resolution for the bond issuance at its October 12, 2017 meeting.

The firm commitment for the FHA 221(d)(4) loan is expected to be issued by The US Department of Housing and Urban Development (HUD) for Springs Apartments on November 20, 2017.

TDHCA expects to receive a AA+ rating from S&P on November 20, 2017. The bonds will be sold through a negotiated sale and structured as short-term, tax-exempt, fixed-rate debt with an estimated interest rate not to exceed 2.5%.

The bonds will be refunded by an FHA-insured, permanent mortgage loan originated by Mason Joseph Company, Inc. and subsequently assigned to Red Mortgage Capital as the lender with a 40-year maturity and a taxable rate of 4.05%.

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 estimated direct bond related cost of issuance is $608,159 ($30.41/bond), the underwriters spread is $110,000 ($5.50) for a total cost of issuance of $718,159 ($35.91).

The property has a total budget of approximately $37,455,465 or $169,482 per unit.

The Department has underwritten the Springs project with a pro forma occupancy of 92.5% and average rent of $934. The occupancy rate reported for the market area is 98.6%, and the average market rent in the area is $1,353.

If at the end of the construction period the DCR drops below 1.15, the Department would then have to re-underwrite the transaction with adjusted costs to obtain a minimum DCR of 1.15 which may include re-sizing the debt, looking at other potential sources of financing, adjusting expenses, and adjusting the developer fee.

Teresa Morales answered questions from the Board.

1. **Public Comment**

There was no public comment.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for 10:00 a.m. on Wednesday, November 15, 2017 in the Capitol Extension, Room E2.026.

1. **Items for Future Agendas**

A list of future agenda items was distributed to each member of the Board.

1. **Report from the Executive Director**
* BRB data is currently available on the Texas Open Data portal website.
* The agency held the PAB lottery on November 2, 2017.
* Staff is currently working on the Annual State Debt report and expects to have a draft to the Board by Tuesday, November 21st.
* The next Texas Public Finance Seminar is scheduled for Tuesday, December 5th in the Legislative Conference Center and will discuss the 3 BRB strategies and the availability of BRB data on the Texas Open Data Portal. Staff still needs the legislative sponsorship form signed for the two additional seminars scheduled for February 20th and April 17th, 2018.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:26 a.m.