Minutes

Texas Bond Review Board

Planning Session

Tuesday, January 9, 2018, 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, January 9, 2018 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 10:01 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 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)**

Representatives present were: Monica Galuski, Chief Investment Officer, TDHCA; Ed Morris, Senior Financial Analyst, TDHCA; John Tomme, Senior Financial Analyst, TDHCA; Barton Withrow, Senior Vice President, George K. Baum & Co.; and Elizabeth Bowes, Partner, Bracewell.

Pursuant to Texas Government Code (TGC) Section 2306.142(m) TDHCA is requesting the BRB approve an annual waiver of TGC Section 2306.142(l) through calendar year 2018.

At its December 14, 2017 meeting, the TDHCA Board was presented with a report from its financial advisor, George K. Baum & Co., that addresses the feasibility and potential economic impact to TDHCA of fulfilling the TGC Section 2306.142(l) requirements which report has been submitted to the BRB.

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.

Monica Galuski answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Pass-Through - Vista on Gessner) Series 2018**

Representatives present were: Brent Stewart – Director of Real Estate Analysis, TDHCA; Elizabeth Bowes, Partner, Bracewell LLP; and Barton Withrow, Senior Vice President, George K. Baum & Co.

TDHCA has submitted an application to issue its Multifamily Housing Mortgage Revenue Bonds (Pass-Through – Vista on Gessner) Series 2018 in a maximum par and total proceeds amount not to exceed $50,000,000 including premiums if any. The total cost for the Vista on Gessner Apartments project is estimated to be $101,738,184 to be funded from a combination of sources including proceeds of tax-exempt bonds issued by TDHCA, a separate taxable mortgage loan originated by Red Mortgage Capital, LLC., housing tax credits, certain eligible reserves, a deferred developer fee, and a Federal National Mortgage Association (Fannie Mae) Delegated Underwriting and Servicing loan for mortgage-backed securities.

The proceeds of the bonds will be used for the acquisition and rehabilitation of Vista on Gessner, an 805-unit multifamily development in Houston, Harris County built in 1977. The rehabilitation will consist of exterior and interior repairs and replacements.

The bonds will be issued pursuant to Chapter 1371 and Chapter 2306 of the Texas Government Code. The Private Activity Bond reservation was issued to TDHCA on September 25, 2017 and expires on February 22, 2018.

The terms between Red Mortgage Capital, LLC (Red) and the Borrower for a Fannie Mae Delegated Underwriting Services (DUS) loan for mortgage-backed securities were agreed to and executed on October 5, 2017. Red issued their lender commitment to the Borrower on September 25, 2017. Red’s acceptance commits Fannie Mae to a DUS loan.

The TDHCA Board approved the final resolution for the bond issuance at its December 14, 2017 Board meeting.

The bonds will be sold through a negotiated sale as tax-exempt, fixed-rate debt with an estimated interest rate of 3.11% (not including servicing or guarantee fees), 16-year term, amortization of 35 years with a balloon payment, and average life of 14.621 years. The bond resolution reflects an outside maturity date of February 1, 2036; however, the transaction has been structured assuming a maturity date of March 1, 2034.

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 underwriter’s spread is expected to be $1,181,635 or $23.63 a bond.

TDHCA conducted a public hearing for the property on November 14, 2017. There were approximately 30 people in attendance, including State Representative Gene Wu. TDHCA received a letter of opposition from the Sharpstown Civic Association.

Brent Stewart answered questions from the Board.

1. **Texas State Technical College Abilene Industrial Technology Center Equipment Financing through the Texas Public Finance Authority Master Lease Purchase Program**

Representatives present were: Jonathan Hoekstra, Vice Chancellor and Chief Financial Officer, TSTC; Mike Reeser, Chancellor and Chief Executive Officer, TSTC; Roger Miller, Senior Vice Chancellor & Chief Government Affairs Officer, TSTC.

Texas State Technical College (TSTC) is seeking approval to finance $3,850,000 of the costs for instructional furnishings and equipment at the Industrial Technology Center in Abilene through Texas Public Finance Authority’s (TPFA) Master Lease Purchase Program (MLPP).

Proceeds will be used to purchase initial furnishings and equipment for the Industrial Maintenance, Welding, and Electric Power and Controls programs at the Abilene Industrial Technology Center.

Texas Government Code, Section 1232 authorizes TPFA to finance the purchase of equipment for state agencies and institutions of higher education, and the TSTC Board of Regents (TSTC Board) has a standing resolution adopted and effective as of April 18, 2013 authorizing the Chancellor or his designee to use the MLPP from time to time. This resolution is effective until repealed.

The TSTC Board approved the financing on November 17, 2016 and TSTC staff has indicated this resolution has not expired.

TPFA Board approval is not required for MLPP financings.

The purchase amount of $3,850,000 for the furnishings and equipment will be financed through the TPFA’s MLPP with a 5-year term. Assuming an interest rate of 5% and an administrative fee of 1.0%, the total payment including principal, interest and administrative expenses is estimated to be $4,490,085.

Lease purchases under the MLPP are financed with proceeds of commercial paper notes issued by TPFA ("Notes"). The Notes are a special and limited obligation of the State of Texas, repaid from lease payments to TPFA from the lessee state agency or institution of higher education in an amount sufficient to pay the principal and interest on the Notes that mature or become due during the fiscal year.

Jonathan Hoekstra 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 Thursday, January 18, 2018 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**

* So far for fiscal year 2018 the BRB received 648 local government debt transaction for processing compared to the 670 received during this time last year.
* Regarding the Private Activity Bond (PAB) program, staff has completed the reconciliation for calendar year 2017. Staff allocated $3.81 billion of PAB authority. As a result, total carry-forward was reduced to $3.31 billion which is the lowest amount since 2014.
* The Texas’ Qualified Energy Conservation Bond program was eliminated due to passage of the recent federal tax bill. As a result, a total of $175.1 million of authority granted under the program went unutilized across the state.
* Staff is finalizing the draft of the Local Government Annual Debt report and expects to have a draft copy to the Board by Wednesday, January 17th. Staff plans to post the final version of the report to the agency’s website by Friday, January 26, 2018.
* Staff has begun the February 2018 Debt Affordability Study and expects to have a draft to the Board by Friday, February 2, 2018. The DAS report is due on the Agency’s website by Thursday, February 15, 2018.
* The next Texas Public Finance Seminar hosted by the Controller’s office and BRB is scheduled for Tuesday, February 20th in the Legislative Conference Center and will discuss the “Ins and Outs of Municipal Bond Underwriting”. Paul Jack, Financial Advisor from Estrada Hinojosa is confirmed to present on this topic.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:18 a.m.