Minutes

Texas Bond Review Board

Planning Session

Monday, January 9, 2023, 2:00 p.m.

Capitol Extension, Room E2.028

And Videoconference Meeting

1100 Congress Ave.

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 2:00 p.m., Monday, January 9, 2023, in Room E2.028 of the Capitol Extension and via videoconference as authorized under Texas Government Code section 551.127. Present were Sarah Hicks, 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 Glen Imes 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 2:05 p.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 may 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. **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)**

Representative present was Georgia Sanchez, Director, Debt and Portfolio Management, TWDB.

Texas Water Code (TWC) Section 17.0112(a) limits the amount of bonds that may be issued for EDAP to $50 million during a single state 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 debt authority to meet the needs of EDAP in state fiscal year 2023.

At its Board meeting on October 5, 2022, the TWDB approved a resolution requesting the BRB waive the requirements in TWC Section 17.0112(a) pursuant to TWC Section 17.0112(b).

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.

Per TWDB staff, to receive a waiver pursuant to TWC Section 17.0112, the TWDB must demonstrative that there are not sufficient funds available to fund EDAP and that the public health and safety in the areas to be served by the projects require an issuance of EDAP bonds that exceed the statutory limitations. All $200 million of the new constitutional authority approved by voters in November 2019 remains authorized but unissued, and there are currently no EDAP proceeds available.

If the waiver is granted by the BRB, TWDB will plan to present an EDAP application during the May planning session and board meeting to request approval to issue EDAP bonds for state fiscal year 2023 in an amount not to exceed $100 million.

Georgia Sanchez addressed the Board and answered questions.

1. **Texas Public Finance Authority State of Texas General Obligation Commercial Paper Notes (Texas Agricultural Finance Authority Rural Economic Development Finance Program) Taxable Series 2023**

Representatives present were Lee Deviney, Executive Director, TPFA; Matt Berry, Financial Analyst, TPFA; and Bon Weir, Program Specialist, TAFA.

TPFA is seeking authorization to issue Commercial Paper (CP) Notes under its State of Texas General Obligation Commercial Paper Program (Texas Agriculture Finance Authority Rural Economic Development Finance Program), Taxable Series 2023 in a maximum amount of $200,000,000 outstanding at any time.

At no time will the amount of CP outstanding exceed the liquidity commitment, currently $40,000,000 (see Structure section).

Historically, the BRB has limited the issuance of CP Notes under the TPFA CP programs to one fiscal year with an aggregate amount outstanding at any one time not to exceed the amount stated in the liquidity commitment.

The proceeds will be used to provide financing assistance for the Rural Economic Development Finance Program, paying costs of issuance and administration of the program, and paying and refinancing outstanding Notes.

According to a letter from TAFA dated April 6, 2022, regarding its request for financing, although TAFA has already identified certain projects eligible for financial assistance through the program, the exact amounts and timing are not yet certain.

TPFA will issue the Notes pursuant to Article III, Section 49-f of the Texas Constitution; Chapters 58 and 59 of the Texas Agriculture Code; and Chapters 1232 and 1371 of the Texas Government Code.

The TAFA Board authorized a resolution for its Request for Financing on February 23, 2022.

The TAFA Board authorized a resolution certifying the determination that revenue bonds are not an economically advisable alternative on February 23, 2022.

The TAFA Request for Financing was approved by the TPFA Board at its May 12, 2022, board meeting

The TPFA Board is expected to adopt a resolution authorizing the Taxable Series 2023 CP Program on January 12, 2023.

Legislative Budget Board approval is not required for the issuance of CP Notes for this project.

The TAFA CP program will issue taxable Notes to mature on dates chosen by TPFA at the time of each sale; however, no maturity shall exceed 270 days. The CP Notes will be designated as self-supporting.

A request has been submitted to the Comptroller of Public Accounts to provide liquidity for the CP program, up to a commitment of $40 million. The anticipated fee for liquidity will be 12 basis points on the amount of Notes outstanding and 8 basis points of the remaining amount of the liquidity commitment.

Should the outstanding Notes reach the liquidity capacity, the Authority may request an increase in liquidity capacity or may request, through BRB approval, to refund the outstanding Notes into long-term fixed-rate bonds.

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

Per TPFA staff, the Comptroller’s office has indicated their preliminary approval of a $40 million liquidity facility for this CP program. Comptroller staff and TPFA staff are currently reviewing the draft liquidity agreement. It is anticipated that the liquidity agreement will be dated as of the date of closing.

Standard & Poor’s (S&P) anticipates a rating of A-1+ on the GO CP Notes. The rating fee for S&P is expected to be $18,000 due at closing and $21,000 for annual surveillance. All fees are based on the initial program size and are subject to change. TPFA anticipates receiving the rating on January 10, 2023.

The GO CP Notes are expected to be self-supporting and will not be included in the state’s Constitutional Debt Limit (CDL).

Lee Deviney and Bon Weir addressed the Board and answered questions.

1. **EXEMPT – Texas State Affordable Housing Corporation Single Family Mortgage Revenue Bonds Series 2023A (Non-AMT)**

Representatives present were Sarah Ellinor, Senior Manager, Homeownership Program, TSAHC; and Chris Spelbring, Underwriter, Raymond James.

This item was submitted on the BRB Exempt track and the 6-day review period will expire on Friday, January 13, 2023.

TSAHC is seeking approval to issue its Single Family Mortgage Revenue Bonds Series 2023A (Non-AMT) in a maximum par amount of $60,000,000 and maximum total proceeds amount of $63,000,000 including premiums, if any.

Additionally, TSAHC expects to make an issuer contribution of approximately $2.23 million, which will be used to fund capitalized interest, cost of issuance, and down payment assistance. Per TSAHC staff, the issuer contribution will be taken from unencumbered balance sheet assets.

Proceeds of the Series 2023A bonds will be used to purchase Ginnie Mae mortgage-backed securities (MBS) backed by tax-exempt eligible mortgage loans, including down payment assistance made to first-time homebuyers (with certain limited exceptions), of low, very low, and moderate income, who are acquiring moderately priced residences. Additionally, proceeds will be used to pay all or a portion of the costs of issuance related to the bonds and to finance a portion of the down payment assistance and lender compensation.

Mortgage loans will be 30-year, fixed rate loans guaranteed by the Federal Housing Administration (FHA), U.S Department of Veterans Affairs (VA), or United States Department of Agriculture (USDA) and pooled into Ginnie Mae MBS.

The Bonds will be issued under Subchapter Y of Chapter 2306, Texas Government Code, as amended, including Section 2306.5621.

The TSAHC Board approved the bond resolution at its meeting on December 6, 2022.

Per Texas Government Code Section 1372.0223, at the beginning of every PAB program year, TSAHC has an exclusive set-aside amount of approximately 10% of the sub-ceiling for single-family bonds which for the 2023 PAB program year is $116,214,444.

TSAHC staff plans to submit a Private Activity Bond reservation this month for the Series 2023A bonds.

Series 2023A bonds will be sold as tax-exempt, revenue, self-supporting, fixed-rate debt in a negotiated sale.

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

Total cost of issuance is estimated to be $676,150 or $11.27 per $1,000 bond.

A TEFRA hearing for the Series 2023A bonds was held via RingCentral and telephone on Wednesday, November 30, 2022. There were no public comments at the hearing.

1. **Texas Natural Gas Securitization Finance Corporation Customer Rate Relief Bonds (Winter Storm Uri) Taxable Series 2023**

Representatives present were Lee Deviney, Treasurer, TNGSFC; Kevin Van Oort, General Counsel, TPFA; and Paul Jack, Financial Advisor, Estrada Hinojosa.

This transaction was previously submitted for BRB review on the Exempt track. The transaction was called in for a formal review by the Board on November 18, 2022.

Since the original Exempt application submission, TPFA staff has provided two new supplemental DBC Finance number runs/amortization schedules. One amortization assumes a non-callable April 1, 2023, $3.48 billion bond sale, and the other assumes an April 3, 2023, $3.55 billion limited make-whole call bond sale.

The CRR bonds will be limited obligations of the Corporation payable solely from CRR property and any other money pledged by the Issuer to the payment of the CRR bonds.

The Texas Natural Gas Securitization Finance Corporation seeks approval to issue its Customer Rate Relief Bonds (Winter Storm Uri) Taxable Series 2023.

TPFA staff provided one non-callable structure, with interest rate assumptions as of December 19, 2022, and one limited make whole call option structure cost estimate, with interest rate assumptions as of January 2, 2023, including estimated principal and interest, for the Taxable Series 2023 bonds.

Including the limited make whole call option, and based on current market conditions, the Corporation expects to issue taxable bonds with an anticipated yield premium in a total amount of approximately $3,545,165,000. The callable option will be structured so the bonds may be redeemed in part or in whole prior to October 1, 2023, should funds be made available for such purpose. Bond proceeds of approximately $114 million will be used to fund capitalized interest to avoid charging the gas customers a customer rate relief charge prior to October 1, 2023.

The issuance of the bonds by the Corporation will enable eight Participating Gas Utilities (PGUs) to recover their respective extraordinary costs approved by the Railroad Commission which were incurred to secure natural gas supplies and to provide service during Winter Storm Uri as well as financing costs incurred in connection with the issuance of the bonds.

The bonds will be issued in accordance with H.B. 1520, 87th Regular Session of the Texas Legislature.

In response to an October 3, 2022, request submitted by TPFA and the Corporation, the Designated Representative of the Commission increased the maximum allowable weighted average interest rate for the bonds to 6.5%.

The TPFA board and the Corporation’s board both met on November 4, 2022, and adopted the final amended and restated resolutions for the issuance of the bonds.

The Series 2023 bonds will be publicly offered as fixed-rate, taxable, self-supporting, revenue debt through a negotiated sale. The bonds will be structured into three tranches which will be paid according to an expected sinking fund schedule.

Per the Financing Order, a 30-year final expected maturity date is permitted – however, the numbers analysis and call option structure presented in the supplemental application materials assume an expected maturity date of April 1, 2039, resulting in an expected 16-year term of the Series 2023 bonds. The original application submitted on the BRB Exempt track assumed a 15-year term with an expected maturity date of December 1, 2037.

The Series 2023 bonds are limited and special revenue obligations of the Issuer and are not a debt of the Participating Gas Utilities (PGUs). The bonds are not a debt, general obligation, or pledge of the faith and credit of the state or of any county, municipality, or any other political subdivision, agency, or instrumentality of the state other than the Issuer. The Series 2023 bonds are payable solely from the Customer Rate Relief Bond Collateral, including revenues derived from the Customer Rate Relief Charges. The issuance of the bonds does not obligate the state or any county, municipality, or other political subdivision, agency, or instrumentality of the state to levy any tax or make any appropriation for the payment of the bonds. The Issuer has no taxing power.

The total cost of issuance is estimated to be $26,193,948 or $7.39 per $1,000 bond.

Lee Deviney and Paul Jack addressed the Board and answered questions.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for Thursday, January 19, 2023, in Room E2.028 of the Capitol Extension.

1. **Items for Future Agendas**

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

1. **Report from the Executive Director**

* So far for fiscal year 2023, the BRB has received approximately 631 local debt issuances for processing. This is a decrease from this time last year.
* Staff has begun issuing reservations for the calendar year 2023 Private Activity Bond Program. Total volume cap available for reservations during 2023 is approximately $3.60 billion. This is an 11% increase ($355.5 million) from the 2022 program year amount. During the PAB lottery, BRB staff received a total of 127 applications for the 2023 program year. To date there are over $4.67 billion in requests.
* Staff is keeping track of bills introduced during the 88th Legislature related to BRB strategies and will circulate the list weekly to Board members.
* BRB and TPFA staff will host a Bonds 101 presentation in Capitol Extension, Room E2.028 and via Zoom webinar on Thursday, January 26, 2023. This is for the benefit of state agency staff and legislative staff. An invitation will be sent out this week.
* The Fiscal Year 2022 Local Debt Annual Report was posted to the BRB website on Friday, January 6, 2023.
* BRB staff is beginning to work on the state’s Debt Affordability Study. A draft of the report will be sent to the Board by Monday, February 6, 2023. The final version of the report will be posted to the agency’s website by Wednesday, February 15, 2023.

1. **Adjourn**

There being no further business, the planning session was adjourned at 3:12 p.m.