Minutes

Texas Bond Review Board

Planning Session

Tuesday, March 8, 2022, 10:00 a.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 10:00 a.m., Tuesday, March 8, 2022, in Room E2.028 of the Capitol Extension and via videoconference as authorized under Texas Government Code section 551.127. Present were Brady Franks, 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 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 Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Socorro Village) Series 2022**

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

The Department submitted an application to issue its Multifamily Housing Revenue Bonds (Socorro Village) Series 2022 in a maximum par amount and a maximum total proceeds amount not to exceed $6,500,000 including premiums, if any.

The proceeds of the bonds will be used for the acquisition and rehabilitation of an existing 52-unit multifamily residential rental development.

The rehabilitation will include all new unit interiors with new cabinets, flooring, countertops, sinks, windows, doors, bathtubs, surrounds, and carpeting. Exterior improvements will include refinished building exteriors, carports, playground, and landscape improvements. The total rehabilitation budget is $4.3 million.

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 January 19, 2022 and expires on July 18, 2022.

The TDHCA Board is expected to approve the final resolution for the bond issuance at its March 10, 2022 meeting.

The terms between Lument Capital and the Borrower for an FHA 221(d)(4) loan were outlined in a term sheet dated December 3, 2021.

This transaction involves an FHA 221(d)(4) loan originated and underwritten by Lument Capital. The bonds will be sold through a negotiated, public offering and structured as short-term, tax-exempt, fixed-rate debt. As bond proceeds are drawn down, the proceeds from the FHA loan will simultaneously be drawn and placed in the collateral fund such that the bonds will be fully cash-collateralized throughout the construction period.

The bond mortgage will be subordinate in lien position to the FHA mortgage, but the bond proceeds will also be cash collateralized as long as the bonds are outstanding. The bonds will remain outstanding through the rehabilitation period, estimated to be between 12-14 months, and upon completion, the bonds will then be redeemed in full using the funds on deposit in the collateral fund. The Series 2022 bonds will have an initial mandatory tender date of August 1, 2024, at which time they must be redeemed or remarketed. The bonds will carry an interest rate not to exceed 5% and a final maturity date of August 1, 2026. Upon redemption of the bonds, the FHA mortgage loan will remain and carry a taxable interest rate of approximately 3.10%, plus a 0.25% mortgage insurance premium, with a 40-year term and amortization.

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 and earnings derived from amounts on deposit in an investment agreement.

The anticipated sale and closing date is June 30, 2022. The total cost of issuance is estimated to be $489,615 or $75.33 per $1,000 bond.

The FHA loan financing structure is similar to that used for the Texas Department of Housing and Community Affairs Corona Del Valle Apartments Series 2021 approved by the BRB on April 15, 2021.

All 50 existing units will be affected by the rehabilitation activities and all of the tenants will be required to relocate to temporary housing until rehabilitation is completed. Upon completion, they will be allowed to reoccupy their original units.

Fifty units (out of 52 total) are supported by a Section 8 HAP contract. The existing Section 8 contract was recently renewed on December 1, 2021 for an additional 20-year term. Proposed HAP contract rents are determined by a rental comparability study completed by the project appraiser. Proposed rents represent increases of 26%-32% over currently approved rents. This rent determination will be set by HUD in a new 20-year HAP contract effective on the day of closing. The Property is expected to maintain the Section 8 contract, but if for any reason the contract payments are discontinued, the general partner is required to fund operating deficits. The long-term feasibility of the financing is supported by the HAP contract. Once completed, the two additional ADA units will not be included in the Section 8 HAP contract and are underwritten at the maximum 60% AMFI rents.

The Department has underwritten the Socorro Village project with a pro forma occupancy of 92.5% and average rent of $1,219. The occupancy rate for affordable properties in the primary market area is 98.5%, and the average market rent in the area is $1,380. The breakeven occupancy and the breakeven rent needed to meet debt-service requirements for the Property are expected to be 85.7%, and $1,127/month, respectively. The Property is 96% occupied.

The Debt Coverage Ratio (DCR) ranges from 1.15 during the first year to 1.76 during year 40. If at the end of the rehabilitation 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, adding additional tax credits, and adjusting the developer fee.

Applicant anticipates a 50% property tax exemption based on the CHDO status of the Center for Latino Jewish Relations, the managing member of the LLC borrower. Without the exemption, debt coverage would fall to 0.94 and the development would be considered infeasible.

As of August 31, 2021, TDHCA had $1,275,235,614 of multifamily bonds outstanding, including $341,380,564 of variable rate bonds.

In accordance with recent published guidance by the IRS, a telephonic Tax Equity and Fiscal Responsibility Act (TEFRA) hearing was held on February 11, 2022. 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 answered questions from the Board.

1. **Title 34 Texas Administrative Code, Part 9, Chapter 181 Bond Review Board Rules, §181.9 regarding State Exemptions**

As it relates to the state debt oversight process, the BRB proposes updates and clarifications to its administrative code rules in Texas Administrative Code Chapter 181 to allow all existing and future non-profit corporations created by TPFA to participate in the BRB exempt approval process as long as the state securities are determined to be revenue obligations that are self-supporting.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for Thursday, March 17, 2022, at 10am in Room E2.028 of the Capitol Extension.

1. **Items for Future Agendas**

Each Board member received an updated list of future agenda items. The month of May looks to be a full month of potential agenda items. The Texas Public Finance Authority may be requesting a special called board meeting to consider the Texas Bullion Depository bond financing.

1. **Report from the Executive Director**
   * So far for fiscal year 2022, the BRB has received approximately 1,034 local debt issuances for processing. This is a 6% decrease (60 transactions) from the amount of local debt issuances received during this time last year. Fiscal year 2021 was a record year for the total number of transactions received for processing.
   * For the sixth consecutive year, the Private Activity Bond (PAB) program collected fees of more than $1.1 million for the state of Texas. So far for fiscal year 2022, the PAB fee collections totaled approximately $1.4 million. Last fiscal year was the greatest amount remitted to the state at just under $2.0 million in fee collections.
   * Leadership at the Texas Affiliation of Affordable Housing Providers (TAAHP) has reached out to BRB staff about potential legislative changes to the PAB program.
   * A final version of the February 2022 Debt Affordability Study was published to the agency’s website on Tuesday, February 15, 2022.
   * Staff will soon begin working on the agency’s strategic plan for fiscal years 2023-2027.
   * During March and April, staff will coordinate with the Texas Higher Education Coordinating Board to notify state agencies and institutions of higher education about collecting data for the 2024-25 fiscal biennium Capital Expenditure Plan.
   * Staff started receiving Semi-Annual State Debt Issuer Reports for fiscal year 2022 as of February 28, 2022. These reports are due by Tuesday, March 15, 2022. Staff will begin reconciling the state debt information for the period ending February 28, 2022. Staff will provide the debt totals to the Comptroller’s office in April for the state’s bond appendix.
2. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:22 a.m.