Minutes

Texas Bond Review Board

Planning Session

Tuesday, September 12, 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, September 12, 2017 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, 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 Multifamily Housing Revenue Bonds (Pass-Through - Casa Inc. Apartments) Series 2017**

Representatives present were: Teresa Morales, Manager of Multifamily Finance, TDHCA; Brent Stewart, Director of Real Estate Analysis, TDHCA; Barton Withrow, Financial Advisor, George K. Baum; Elizabeth Bowes, Bond Counsel, Bracewell LLP; Mark Mayfield, Developer, Related Affordable Housing.

The Department has submitted an application for issue its Multifamily Housing Mortgage Revenue Bonds (Fannie Mae MBS Collateralized Pass-Through – Casa Inc. Apartments) Series 2017 in a maximum par and total proceeds amount not to exceed $25,000,000 including premiums if any.

The proceeds of the bonds will be used for the acquisition and rehabilitation of Casa Inc. Apartments, a 200-unit senior multifamily development in Fort Worth. The property is being acquired by the developer as part of a three-property portfolio acquisition along with Casa Brendan Apartments and Nuestro Hogar Apartments.

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 August 18, 2017 and expires on January 15, 2018.

The terms between Wells Multifamily Capital (Wells) and the Borrower for a Fannie Mae Delegated Underwriting Services (DUS) loan for mortgage-backed securities were agreed to and executed on June 15, 2017. Wells issued their lender commitment to the Borrower on June 15, 2017. Wells’ acceptance commits Fannie Mae to a DUS loan.

The TDHCA Board approved the final resolution for the bond issuance at its September 7, 2017 Board meeting.

The bonds will be sold through a negotiated sale as tax-exempt, fixed-rate debt with an estimated interest rate of 3.00%, 16-year term, amortization of 35 years with a balloon payment, and average life of 14.29 years.

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 anticipated sales and closing dates are October 11, 2017 and the bonds are expected to be rated AAA due to the Fannie Mae guarantee.

The total direct bond cost is estimated to be $709,250 ($28.37 per bond), the total underwriters’ spread is estimated to be $181,000 ($7.24 per bond) for a total cost of issuance of $890,250 ($35.61 per bond).

The financing structure for this transaction mirrors the financing structure used for the Skyline Place Apartments approved by the BRB in September 2016.

All rentable units of the property are subject to a Section 8 Housing Assistance Payments (HAP) contract with the U.S. Department of Housing and Urban Development (HUD).

The TDHCA underwritten proforma assumes HUD will approve an increase of 56% ($467) and 54% ($508) in the contract rents under the new 20-year HAP contract at the closing of the 2017 bonds.

The Department conducted the TEFRA hearing for the property on August 30, 2017. The Department has not received any letters of support or opposition.

Teresa Morales answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Pass-Through - Nuestro Hogar Apartments) Series 2017**

Representatives present were: Teresa Morales, Manager of Multifamily Finance, TDHCA; Brent Stewart, Director of Real Estate Analysis, TDHCA; Barton Withrow, Financial Advisor, George K. Baum; Elizabeth Bowes, Bond Counsel, Bracewell LLP; Mark Mayfield, Developer, Related Affordable Housing.

The Department has submitted an application to issue its Multifamily Housing Mortgage Revenue Bonds (Fannie Mae MBS Collateralized Pass-Through – Nuestro Hogar Apartments) Series 2017 in a maximum par and total proceeds amount not to exceed $6,000,000 including premiums if any.

The proceeds of the bonds will be used for the acquisition and rehabilitation of Nuestro Hogar Apartments, a 65-unit senior multifamily development in Arlington, Texas.

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 August 18, 2017 and expires on January 15, 2018.

The terms between Wells Multifamily Capital (Wells) and the Borrower for a Fannie Mae Delegated Underwriting Services (DUS) loan for mortgage-backed securities were agreed to and executed on July 31, 2017. Wells issued their lender commitment to the Borrower on July 31, 2017. Wells’ acceptance commits Fannie Mae to a DUS loan.

The TDHCA Board approved the final resolution for the bond issuance at its September 7, 2017 Board meeting.

The bonds will be sold through a negotiated sale as tax-exempt, fixed-rate debt with an estimated interest rate of 3.00%, 16-year term, amortization of 35 years with a balloon payment, and average life of 14.29 years.

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 anticipated sales and closing dates are October 11, 2017 and the bonds are expected to be rated Aaa due to the Fannie Mae guarantee.

The total direct bond cost is estimated to be $201,025 ($33.50 per bond), the total underwriters’ spread is estimated to be $40,000 ($6.67 per bond) for a total cost of issuance of $241,025 ($40.17 per bond).

The financing structure for this transaction mirrors the financing structure used for the Skyline Place Apartments approved by the BRB in September 2016.

All rentable units of the property are subject to a Section 8 Housing Assistance Payments (HAP) contract with the U.S. Department of Housing and Urban Development (HUD).

The TDHCA underwritten proforma assumes HUD will approve an increase of 25% ($206) for the efficiency units and 11% ($112) increase on the one bedroom units.

The Department conducted the TEFRA hearing for the property on August 30, 2017. The Department has not received any letters of support or opposition.

Teresa Morales answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Pass-Through - Casa Brendan Apartments) Series 2017**

Representatives present were: Teresa Morales, Manager of Multifamily Finance, TDHCA; Brent Stewart, Director of Real Estate Analysis, TDHCA; Barton Withrow, Financial Advisor, George K. Baum; Elizabeth Bowes, Bond Counsel, Bracewell LLP; Mark Mayfield, Developer, Related Affordable Housing.

The Department has submitted an application to issue its Multifamily Housing Mortgage Revenue Bonds (Fannie Mae MBS Collateralized Pass-Through – Casa Brendan Apartments) Series 2017 in a maximum par and total proceeds amount not to exceed $6,000,000 including premiums if any.

The proceeds of the bonds will be used for the acquisition and rehabilitation of Casa Brendan Apartments, an 86-unit multifamily senior residential rental development in Stephenville, Texas.

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 August 18, 2017 and expires on January 15, 2018.

The terms between Wells Multifamily Capital (Wells) and the Borrower for a Fannie Mae Delegated Underwriting Services (DUS) loan for mortgage-backed securities were agreed to and executed on July 31, 2017. Wells issued their lender commitment to the Borrower on July 31, 2017. Wells’ acceptance commits Fannie Mae to a DUS loan.

The TDHCA Board approved the final resolution for the bond issuance at its September 7, 2017 Board meeting.

The bonds will be sold through a negotiated sale as tax-exempt, fixed-rate debt with an estimated interest rate of 3.00%, 16-year term, amortization of 35 years with a balloon payment, and average life of 14.29 years.

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 anticipated sales and closing dates are October 11, 2017 and the bonds are expected to be rated Aaa due to the Fannie Mae guarantee.

The total direct bond cost is estimated to be $192,975 ($32.16 per bond), the total underwriters’ spread is estimated to be $37,650 ($6.28 per bond) for a total cost of issuance of $230,625 ($38.44 per bond).

The financing structure for this transaction mirrors the financing structure used for the Skyline Place Apartments approved by the BRB in September 2016.

All rentable units of the property are subject to a Section 8 Housing Assistance Payments (HAP) contract with the U.S. Department of Housing and Urban Development (HUD).

The TDHCA underwritten proforma assumes HUD will approve an increase of 31% ($265) for the efficiency units and 30% ($280) increase on the one-bedroom units.

The Department conducted the TEFRA hearing for the property on August 30, 2017. The Department has not received any letters of support or opposition.

Teresa Morales answered questions from the Board.

1. **Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Palladium Glenn Heights Apartments) Series 2017**

Representatives present were: David Long, President; TSAHC; Liz Bayless, Executive Vice President, TSAHC; David Danenfelzer, Senior Director, TSAHC; Robert Dransfield, Bond Counsel, Norton Rose Fulbright; Tim Nelson, Financial Advisor, Hilltop Securities; Claire Merritt, Financial Advisor, Hilltop Securities; Thomas Huth, Developer, Palladium USA; Peg Jones, Developer, Palladium USA; Ryan Combs, Developer, Palladium USA; John Shackleford, Counsel, Shackleford, Bowen, McKinley & Norton LLP; Michelle Snedden, Counsel, Shackleford, Bowen, McKinley & Norton LLP.

TSAHC is seeking approval for the issuance of Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds, (Palladium Glenn Heights Apartments) Series 2017 in a maximum par amount and maximum total proceeds amount of $18,500,000, including premiums, if any.

The proceeds of the bonds will be used for the new construction of a qualified residential rental project to be known as the Palladium Glenn Heights Apartments, a multifamily community of 270 units to be located in Glenn Heights, Texas.

TSAHC will issue the bonds pursuant to Subchapter Y of Chapter 2306, Sections 2306.553, 2306.555 and 2306.565 of the Texas Government Code, as amended.

The TSAHC board approved the original inducement resolution for the bonds at its meeting on July 14, 2016, an amended inducement on April 11, 2017 and expects to adopt the final bond resolution at its meeting on September 14, 2017.

The Private Activity Bond reservation was issued to TSAHC on July 19, 2017 and expires on December 16, 2017.

The TDHCA Board approved the housing tax credits at its Board meeting held on September 7, 2017.

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) on September 20, 2017.

The Borrower will use the proceeds from the Series 2017 bonds for site purchase, construction and lease-up which is expected to last approximately 18 months. The bonds are expected to be rated AA+ and 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 1.25% and an initial mandatory tender date of November 1, 2019.

The bonds will be refunded by an FHA-insured, permanent mortgage loan originated by PNC Bank with a 35-year maturity and a taxable rate of 4.15%.

TSAHC is acting as a conduit issuer and as such the issuance 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 direct bond cost is estimated to be $255,417 ($13.81 per bond), the total underwriters’ spread is estimated to be $143,790 ($7.77 per bond) for a total cost of issuance of $399,207 ($21.58 per bond).

The financing structure for this transaction mirrors the financing structure used for the TDHCA Chisolm Trace and Cheyenne Village Apartments approved by the BRB on March 10, 2016.

This transaction does not qualify for exempt approval under the BRB rules because the Borrower will be seeking a 100% property tax abatement upon completion of the project. If the exemption is not realized, the first year DCR would fall to 0.90 and the project would not be feasible.

A letter of opposition was received by TDHCA from Red Oak ISD noting that the area was rapidly growing and that a school bond election was defeated in May 2017. Students from the City of Glenn Heights feed into the Red Oak ISD.

TSAHC expects to receive a preliminary rating letter on September 20, 2017 and a final rating of AA+ from S&P after the pricing of the bonds on October 21, 2017.

David Danenfelzer answered questions from the Board.

1. **Exempt – Grand Parkway Transportation Corporation Grand Parkway System Revenue Obligations Series 2017 (in one or more series of Bonds, Notes or other Obligations)**

Representatives present were: Ben Asher, Debt & Strategic Contracts Division Director, TTC; Sara Ulbrich, Project Manager, TTC; Jim Bateman, General Counsel, TTC; Jessica Kohlrenken, General Counsel, TTC; Heather Rosas, Financial Analyst, TTC; Paul Jack, Financial Advisor, Estrada Hinojosa; Carol Polumbo, Bond Counsel, McCall, Parkhurst & Horton.

This transaction was submitted on the Exempt track and staff is waiting for a complete application.

Ben Asher gave a brief overview of the transaction and answered questions from the Board.

1. **Public Comment**

There was no public comment.

1. **Date for November Board Meeting**

The November Board Meeting is currently scheduled for Thanksgiving, November 23, 2017. Staff recommends calling a Board Meeting for one week later on Thursday, November 30, 2017.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for 10:00 a.m. on Thursday, September 21, 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**
* Our database administrator is now on “maintenance mode” and only scheduled to come into the office once a month, but we may call on him if an emergency arises.
* Staff is preparing some standard visualizations for the data portal project and Socrata is working on the disclaimer pop-up, which will be similar to the pop-up we currently have on our website.
* Staff hit its local annual performance measure benchmark for local processing for FY 2017. Estimated local debt issuances processed for the fiscal year are expected to total 1,658.
* For the first time since November 2008, we are likely to have a PAB Lottery on November 2, 2017 in Capital Extension Room E2.026.
* Annual Issuer Report letters have been sent to the issuers and already the UH System and Governor’s Office have responded. The data from those summaries will be aggregated and reconciled to form the basis of our State Debt Annual Report.
* Elizabeth Bowes from Bracewell will headline the three speakers from Bracewell that plan to give us an update on the 85th Leg Session on Oct 17th and staff still needs a Legislative endorsement to reserve the room.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:36 a.m.