Minutes

Texas Bond Review Board

Planning Session

Monday, January 11, 2021, 10:00 a.m.

Videoconference Meeting

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Monday, January 11, 2021 via videoconference as authorized under Texas Government Code section 551.127. Present were Brady Franks, Chair and Alternate for Governor Greg Abbott; Bryan Mathew, Alternate for Lieutenant Governor Dan Patrick; and Melissa Popkoff, Alternate for Comptroller Glenn Hegar. Also, in attendance were Leslie Brock and Dennis McKinney 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 10:00 a.m. A quorum was present. He announced that due to Governor Greg Abbott’s March 13, 2020 proclamation of a state of disaster affecting all counties in Texas due to the Coronavirus (COVID-19) and the Governor’s March 16, 2020 suspension of certain provisions of the Texas Open Meetings Act, this meeting will be held by video webinar, as authorized under Texas Government Code section 551.127. No votes would be taken.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (The Montage Apartments) Series 2021**

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

The Department has submitted an application to issue its Multifamily Housing Revenue Bonds (The Montage Apartments) Series 2021 with a maximum par and a maximum total proceeds amount not to exceed $34,000,000 including premiums, if any. The total cost for the Montage project is estimated to be $42,054,932 to be funded from a combination of sources including proceeds of tax-exempt bonds, tax credit equity, interim income earned prior to stabilization, income generated by the investment of bond proceeds, and a deferred developer fee.

Because the Borrower will be seeking a 100% property tax exemption upon completion of the project, this transaction does not qualify for exempt approval under the BRB rules.

The proceeds of the bonds will be used to construct the Montage Apartments, a new 216-unit affordable multifamily residential rental development in San Antonio, Texas.

The bonds will be issued pursuant to Chapter 2306 of the Texas Government Code.

The Private Activity Bond (PAB) certificate of reservation was issued to TDHCA on September 16, 2020 and expires on March 15, 2021.

The TDHCA Board expects to approve the final resolution for the bond issuance at its January 14, 2021 Board meeting.

The tax-exempt Series 2021 bonds will be unrated, privately placed, fixed-rate, self-supporting revenue debt, with a final maturity of January 1, 2061.

The interest rate on the tax-exempt bonds will be based on the 3-Month LIBOR rate and fixed prior to closing at a rate of approximately 3.93%. Per TDHCA staff, a LIBOR replacement has not yet been confirmed, but will either be SOFR or another rate based on the International Swaps and Derivatives Association (ISDA) Fallbacks Protocol.

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 sale date is expected to be January 27, 2021. The total cost of issuance is expected to be $931,970 or $27.41 per $1,000.

In accordance with recent published guidance by the IRS, a telephonic TEFRA hearing was held on December 8, 2020.

The Department has received thirteen letters of opposition for the proposed development, including two from Bexar County Commissioner for Precinct 4, Tommy Calvert. In addition, the Department has received two separate petitions containing a total of 351 signatures from members of the surrounding neighborhoods expressing opposition to the development.

Teresa Morales answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Oso Bay Apartments) Series 2021**

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

The Department submitted an application to issue its Multifamily Housing Revenue Bonds (Oso Bay Apartments) Series 2021 in a maximum par amount and a maximum total proceeds amount not to exceed $14,000,000 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, a taxable Federal Housing Administration (FHA) mortgage loan, net operating income and a deferred developer fee.

The proceeds of the bonds will be used for the acquisition and rehabilitation of an existing 104-unit multifamily residential rental development.

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 September 16, 2020 and expires on March 15, 2021.

The TDHCA Board is expected to approve the final resolution for the bond issuance at its January 14, 2021 meeting.

Per TDHCA staff, the US Department of Housing and Urban Development (HUD) has indicated that it expects to issue a commitment for the permanent loan by February 18, 2021, if not a week sooner. As with Fannie and Freddie transactions, the Department bases its underwriting and Board approval off the lender term sheet included as part of the TDHCA application.

The bonds will be sold through a negotiated sale and structured as short-term, tax-exempt, fixed-rate debt. The Series 2021 bonds will have an initial mandatory tender date of September 1, 2022, at which time they must be redeemed or remarketed. The final outside maturity date is expected to be September 1, 2024.

The bonds will be redeemed at completion of the project and there will be an FHA long-term permanent loan in place at the time of the redemption. The FHA-insured 221(d)(4), permanent mortgage loan will be originated by Regions Bank with a 40-year maturity and a taxable rate of 3.10% (2.85% interest rate plus a 0.25% mortgage insurance premium). With each draw of bond proceeds to pay rehabilitation costs, a corresponding draw in a like amount from the FHA loan, and/or other sources will be deposited with the trustee to replace the drawn and spent bond proceeds. As a result, the bonds will be fully 100% cash collateralized with the funds on deposit with the trustee.

Regions Bank will also provide a construction bridge loan in the amount of $4,500,000 that will carry an interest rate equal to the 30-day London Interbank Offered Rate (LIBOR) plus 300 bps. The bridge loan will be interest only, have a maximum term of 24 months and be completely paid down upon construction completion.

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 sale date is expected to be February 19, 2021. The total cost of issuance is expected to be $856,180 or $61.16 per $1,000.

In accordance with recent published guidance by the IRS, a telephonic TEFRA hearing was held on December 3, 2020. Per TDHCA staff, 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 nor opposition for the Property.

Teresa Morales answered questions from the Board.

1. **EXEMPT - Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Fawn Ridge Apartments) Series 2021**

This transaction was submitted on the BRB EXEMPT track. The 6-day review period began on Friday, January 8, 2021 and ends at the close of business on Friday, January 15, 2021.

Representative present was David Danenfelzer, Senior Director, Development Finance, TSAHC.

TSAHC is seeking approval for the issuance of its Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Fawn Ridge Apartments) Series 2021 (the Note) in a maximum par amount and a total maximum proceeds amount of $16,500,000 including premiums, if any.

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

The TSAHC Board approved the final resolution for the Note at its meeting on December 16, 2020.

The Private Activity Bond reservation was issued to TSAHC on August 17, 2020 and expires on February 13, 2020.

The TDHCA Board approved the housing tax credits at its Board meeting held on December 10, 2020.

The Note will be privately placed as unrated, tax-exempt, fixed-rate debt with an estimated interest rate of 3.42%, 17-year term, average life of 14.986 years, amortization of 40 years with a balloon payment and a final maturity date of February 1, 2038.

TSAHC is acting as a conduit issuer and as such the Note 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 sale date is expected to be January 20, 2021. The total cost of issuance is expected to be $701,125 or $42.49 per $1,000.

The Corporation conducted the TEFRA hearing for the proposed development via telephone on September 10, 2020.

The Corporation received letters of support from the Montgomery County Housing Authority and the Superintendent of Conroe ISD which encompass the area that the development is to be located, and no letters of opposition were received by the Corporation.

David Danenfelzer answered questions from the Board.

1. **EXEMPT - Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Marshall Apartments) Series 2021**

This transaction was submitted on the BRB EXEMPT track. The 6-day review period began on Monday, January 11, 2021 and ends at the close of business on Tuesday, January 19, 2021.

Representative present was David Danenfelzer, Senior Director, Development Finance, TSAHC.

TSAHC is seeking approval for the issuance of its Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Marshall Apartments) Series 2021 (the Note) in a maximum par amount and a maximum total proceeds amount of $16,500,000 including premiums, if any.

The proposed acquisition and rehabilitation of Marshall Apartments has a total budget of approximately $21,019,666. The financing includes short-term tax-exempt bonds, 4% housing tax credits, and deferred developer fees.

The bonds will be issued through the Freddie Mac Tax Exempt Loan (TEL) program.

The proceeds of the Note will be used for the acquisition, rehabilitation, and equipping of a qualified residential rental project known as Marshall Apartments. The proposed project fulfills the Corporation’s Targeted Housing Need for At-Risk Preservation projects.

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

The TSAHC Board approved the final resolution for the Note at its meeting on December 16, 2020.

The Private Activity Bond reservation was issued to TSAHC on August 17, 2020 and expires on February 13, 2021.

The TDHCA Board approved the housing tax credits at its Board meeting held on December 10, 2020.

The Note will be privately placed as self-supporting, unrated, tax-exempt, fixed-rate debt with an estimated interest rate of 3.13%, 17-year term, average life of 14.8528 years, amortization of 40 years with a balloon payment and a final maturity date of February 1, 2038.

TSAHC is acting as a conduit issuer and as such the Note 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 sale date is expected to be January 20, 2021. The total cost of issuance is expected to be $677,340 or $41.05 per $1,000.

In accordance with Revenue Procedure 2020-21, issued by the Internal Revenue Service specifically in light of the coronavirus disease pandemic, the Corporation conducted the TEFRA hearing for the Property via RingCentral on September 10, 2020.

TSAHC received two letters of support for the Property, from the Austin Chamber of Commerce and the Housing Authority of the City of Austin. No letters of opposition were received.

David Danenfelzer answered questions from the Board.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for Thursday, January 21, 2021 at 10am. It is anticipated that TDHCA will request a Called Board Meeting in February for the consideration of two upcoming multifamily bond transactions to meet closing deadlines.

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**

* Staff completed fiscal year 2020 local government processing in December 2020 and received a total of 1,897 local debt issuances, which is the highest amount every received in one fiscal year. Staff expects to send a draft copy of the 2020 Local Government Annual Report to the Board no later than Friday, January 15, 2021. A final version of the report is expected to be posted on the agency website by Monday, January 25, 2021.
* During the week of January 4, 2021 staff began issuing reservations for the calendar year 2021 Private Activity Bond Program. Total volume cap available for reservation during 2021 is $3.23 billion. Application requests so far total $3.42 billion.
* Staff will be keeping track of bills introduced during the 87th Legislature related to state and local debt and will circulate the list weekly to Board members once the list is compiled.
* Staff has begun working on the February 2021 Debt Affordability Study. Staff plans to send a draft copy of the report to the Board for review by Friday, February 5, 2021. The final version of the report will be posted to the agency website by Monday, February 15, 2021.
* The Bonds 101 presentation is scheduled for Wednesday, January 27th from 10AM to 11:30AM via Zoom webinar. Rob Latsha and Justin Groll from BRB as well as Lee Deviney and John Barton from TPFA are expected to present basic information on debt financing in Texas.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:27 a.m.