Minutes

Texas Bond Review Board

Planning Session

Monday, January 7, 2019, 10:00 a.m.

Capitol Extension, Room E2.026

1100 N. Congress Ave.

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:45 a.m., Monday, January 7, 2019 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, Executive Director, called the meeting to order at 10:46 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 Water Development Board State of Texas Water Financial Assistance Bonds Series 2019A and Taxable Series 2019B (Economically Distressed Areas Program)**

Representatives present were Georgia Sanchez, Development Fund Manager, TWDB; Rebecca Trevino, Chief Financial Officer, TWDB; and Alexis Lorick, Assistant General Counsel, TWDB.

The Texas Water Development Board (TWDB) seeks approval to issue its State of Texas General Obligation Bonds Water Financial Assistance Bonds, Series 2019A and Taxable Series 2019B (Economically Distressed Areas Program) in a maximum par amount of $53,490,000 and maximum total proceeds amount of $54,255,883 including premiums, if any.

The Series 2019A and taxable Series 2019B bonds will be issued to fund certain projects within the EDAP program and to pay costs of issuance. The taxable bonds are being sold specifically to fund a grant in the amount of $8,821,350 for the North Alamo Water Supply Corporation.

The Series 2019A and taxable Series 2019B bonds will be issued pursuant to Article III, Sections 49-d-8 and 49-d-10, Texas Constitution, Subchapter L of Chapter 17, Texas Water Code and Chapter 1371 of the Texas Government Code.

The TWDB adopted the resolutions for both Series 2019A and taxable Series 2019B on December 13, 2018.

The TWDB expects to receive Legislative Budget Board (LBB) approval on January 7, 2019.

Both the 2019A bonds and 2019B bonds will be publicly-offered as fixed-rate, not self-supporting, general obligation debts through a competitive sale. While the 2019A bonds will be tax-exempt, the 2019B bonds will be taxable. The TWDB staff structured the bond issuance so that the combined serial maturities for both the Series 2019A and taxable Series 2019B will create a level-principal repayment structure. The tax-exempt bonds are expected to have a final maturity of August 1, 2038, and the taxable bonds are expected to have a final maturity of August 1, 2023. The combined all-in true interest cost (TIC) for both series of bonds is expected to be 3.78% and the average life is expected to be 9.96 years.

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.

The EDAP bonds are anticipated to be AAA rated. The total cost of issuance is $761,410 or $14.23 per bond. The TWDB intends to sell these bonds via a competitive sale rather than a negotiated sale. TWDB staff chose a competitive sale for the first time in many years due to 1) the credit strength of the State of Texas general obligation bonds, 2) a limited need for resizing or restructuring of maturities with known level principal amounts, 3) the size of the issuance, 4) a “known credit” due to frequent prior issuances, and 5) adequate lead time to advertise the sale to potential bidders.

Georgia Sanchez answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds Series 2019A**

Representatives present were: Monica Galuski, Director of Bond Finance and Chief Investment Officer, TDHCA; John Tomme, Senior Financial Analyst, TDHCA; Barton Withrow, Financial Advisor, George K. Baum & Company; and Elizabeth Bowes, Bond Counsel, Bracewell.

The Texas Department of Housing and Community Affairs (TDHCA or the Department) is seeking approval to issue its Residential Mortgage Revenue Bonds Series 2019A in a maximum par amount and maximum total proceeds amount of $175,000,000. Based on current market conditions, the Department expects to issue the bonds with a par amount of $166,570,000 and total proceeds amount of $175,000,000 including premiums.

The Series 2019A bonds will be used to finance the purchase of tax-exempt eligible mortgage loans (including down payment assistance second loans) made to first time home buyers (with certain limited exceptions) of low, very low and moderate income, who are acquiring moderately priced residences, and to pay a portion of the costs of issuance. The mortgage loans will be pooled into MBS certificates guaranteed by Ginnie Mae or Fannie Mae.

The Bonds will be issued under Chapter 2306 and Chapter 1371, Texas Government Code, as amended.

The final bond resolution is expected to be approved by the TDHCA Board at its meeting scheduled for 8:00 a.m. on January 17, 2019. The BRB Board Meeting is scheduled for the same day at 10 a.m.

The Private Activity Bond (PAB) application is expected to be filed on or before January 16, 2019. Per Texas Government Code Section 1372.023(a), at the beginning of every PAB program year, TDHCA has an exclusive set-aside amount of approximately 33.34% of the total state ceiling for single family bonds which for the 2019 PAB program year is $281,334,337.

The Series 2019A bonds will be sold as tax-exempt, self-supporting, fixed-rate debt in a negotiated sale. The overall true interest cost (TIC) is expected to be 3.57% and the average life is expected to be 11.160 years. Interest on the bonds will be payable semiannually starting on July 1, 2019.

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

The estimated cost per issuance is $2,340,531 or $14.05 per bond.

TDHCA staff did not submit this application on the exempt track because the Series 2019A bonds will be presented to the TDHCA Board for final approval at 8 a.m. on Thursday, January 17, 2019, the same day as the next BRB voting meeting currently scheduled for 10 a.m.

Monica Galuski answered questions from the Board.

1. **EXEMPT – Texas Transportation Commission SH 249 System First Tier Toll Revenue Bonds Series 2019A and Taxable Series 2019B (in one or more series)**

Representative present was Benjamin Asher, Director, Project Finance, TXDOT.

This transaction was submitted on the BRB EXEMPT track and was called in for formal review.

The Texas Transportation Commission (the Commission) is seeking approval to issue its SH 249 System First Tier Toll Revenue Bonds Series 2019A and Taxable Series 2019B, in one or more series, in a total maximum par amount and total proceeds amount of $300,000,000 including premiums, if any.

The total cost of the SH 249 Segment 1 project is projected to be $567,818,329 of which the bond financing is a part. Based on current market conditions, the Commission plans to issue both current interest bonds (CIBs) and capital appreciation bonds (CABs) with a combined total par amount of $260,295,608 and total proceeds of $264,286,329 including premiums. A cash contribution from Montgomery County in the amount of $11,917,000 and a state cash contribution from the State Highway Fund of $291,615,000 will be used as an additional source of funds.

Proceeds of the bonds, together with other funding sources, will be used to finance a portion of the cost of the design and construction of Segment 1 of the SH 249.

The Bonds will be issued under Subchapter C, Chapter 228, Texas Transportation Code, as amended and Chapter 1371, Texas Government Code, as amended.

On October 3, 2017, TxDOT executed a Design-Build Agreement (DBA) with Williams Brothers Construction Company in connection with the construction of Segment 1 and Segment 2 of the SH 249 Extension.

In Minute Order 115393, dated December 13, 2018, the Commission adopted a resolution authorizing the Department to finance a portion of the cost for design and construction of Segment 1 of the SH 249 Extension.

None of the state of Texas, the Commission, the Department, or any other agency or political subdivision of the state of Texas is obligated to pay the principal of, premium, if any, or interest on the bonds except the Commission solely from the trust estate and certain funds created under the trust agreement. Neither the faith and credit nor the taxing power of the state of Texas or any agency or political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the bonds.

Total cost of issuance is expected to be approximately $2,862,922 or 11.00 per bond.

Benjamin Asher 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 17, 2019 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**
* Staff continues to process local government debt transactions for fiscal year 2019. So far, the BRB received 540 local government debt transactions for processing. This is a decrease of 16% from the 648 issues received at this time last year.
* The 2018 Private Activity Bond (PAB) is reconciled and closed. A total amount of $2.64 billion will be carried forward from 2018. Of that total, over $1.7 billion is for single-family mortgage revenue bonds. For calendar year 2019, the state has just over $3.01 billion to allocate.
* Staff plans to post the final version of the fiscal year 2018 Texas Local Government Annual Report to the BRB website by Wednesday, January 9, 2019.
* Staff has begun working on the February 2019 Debt Affordability Study. Staff plans to send a draft copy of the report to the Board for review by Monday, February 4th. The final version of the report will be posted to the agency website by Friday, February 15th.
* The Bonds 101 presentation is scheduled for Wednesday, January 30, 2019 from 10 a.m. to 11:30 a.m. in the Senate Auditorium. Rob Latsha, Justin Groll and Braxton Parsons from BRB as well as Lee Deviney, John Hernandez, 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 11:08 a.m.