Minutes

Texas Bond Review Board

Planning Session

Tuesday, May 10, 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, May 10, 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; Bryan Matthew, 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 10:01 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 Mortgage Revenue Bonds (Torrington Arcadia Trails Project) Series 2022**

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

The Department has submitted an application to issue its Multifamily Housing Mortgage Revenue Bonds (Torrington Arcadia Trails Project), Series 2022 (the Bonds) in a maximum par amount and a maximum total proceeds amount not to exceed $31,000,000 including premiums, if any.

The proceeds of the Bonds will be used for site acquisition, construction, and equipping of Torrington Arcadia Trails, a new 250-unit affordable multifamily residential rental development to be located at 3811 South Beltline Road in Balch Springs.

The city code parking requirement for this development is 367 spaces (1.5/unit). However, the project is expected to have a total of 430 spaces (1.7/unit), which includes 40 carport spaces. All parking will be provided at no charge to the residents.

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 January 20, 2022 and expires July 19, 2022.

The final Bond Resolution is expected to be approved by the TDHCA Board on May 12, 2022.

The Bonds will be privately placed as unrated, self-supporting, tax-exempt, fixed rate, revenue bonds in the amount of $31,000,000 that will be purchased by CommunityBank of Texas, who will serve as the construction and permanent lender.

In addition to the $31,000,000 tax-exempt bond loan, CommunityBank of Texas will provide a taxable tail during the construction phase of the loan in the amount of $17,000,000, bringing the total loan amount to $48,000,000. The construction phase of the loan will have a 36-month term, with one 6-month extension option. The bonds and taxable loan will pay interest only during the construction phase.

Upon conversion to the permanent phase, the total loan will be paid down to approximately $30,594,394, using tax credit equity, and will be subject to a 15-year term, 35-year amortization, final maturity date of June 1, 2040 and an average life of 16.135. The interest rate for the tax exempt portion of the loan will be fixed prior to closing at a rate of 3.75%, while the interest rate for the taxable tail will be fixed at a rate of 4.75%. Per TDHCA staff, the loan will be paid down using equity upon conversion to the permanent phase.

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 a special limited obligation payable from revenues on the mortgage loan, and earnings derived from amounts on deposit in an investment agreement.

The anticipated sale and closing dates are June 9, 2022. The total cost of issuance is estimated to be $1,133,886 or $36.57 per $1,000 bond.

The Department has underwritten the project with a pro forma average rent of $1,013/mo. and occupancy of 92.5%. The breakeven rent and breakeven occupancy needed to meet debt-service requirements for the Property are expected to be $928/mo., and 84.9%, respectively. The average market rent for the area is $1,480/mo. And the overall occupancy in the market is 99.5%.

The lowest DCR occurs in year one of the project with 1.15.

In accordance with recent published guidance by the IRS, a telephonic public TEFRA hearing was conducted by the Department for the Property on March 24, 2022. Per TDHCA, given that the hearing was via telephone, it was difficult to discern exactly how many individuals participated. Representatives from the Department and the Developer were present, and no public comment was made. Additionally, the Department has received no letters of support nor opposition for this development.

Teresa Morales answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Mortgage Revenue Bonds (Union Acres Project) Series 2022**

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

The Department has submitted an application to issue its Multifamily Housing Mortgage Revenue Bonds (Union Acres Project), Series 2022 (The Bonds) in a maximum par amount and a maximum total proceeds amount not to exceed $10,100,000 including premiums, if any. The total cost for the project is estimated to be $16,731,994, to be funded from a combination of sources including proceeds from the Bonds, a Seller Note, income during construction, existing reserves, housing tax credits, and a deferred developer fee. The Department anticipates issuing the Bonds in the amount of $10,100,000 which satisfies Section 42(h)(4)(B) of the US Tax Code requiring tax-exempt bonds to finance at least 50% of the cost of the land and buildings in order to access the housing tax credits. See Appendix A for an estimated sources and uses of funds.

The proceeds of the Bonds will be used for the acquisition, rehabilitation, and equipping of Union Acres, an existing 100-unit affordable multifamily residential rental development located at 818 Cotton Ford. Road, Center, Texas, Shelby County.

There will be a complete renovation of all interiors including asbestos removal and interior demolition, trim carpentry, interior doors, hardware, glazing and mirrors, painting, appliances, casework, electrical, and lighting fixtures. Accessibility compliance is planned; because the property features project-based assistance, it is required to have 5% or three (3) of the units handicapped accessible and 2% or one (1) of the units equipped with audio/visual smoke alarms. Energy efficiency work is planned as well, including energy efficient fixtures, low-flow toilets and water saving fixtures for all units, which should reduce utility expenses.

Efforts will be made to carry out the rehabilitation work in phases that will limit the amount of disruption to the residents. The developer will provide moving services to move each household as necessary to temporary units as well as to newly rehabilitated permanent units upon completion of each construction phase. Utility reconnection fees and other reasonable out-of-pocket expenses will be paid for by the developer in connection with either the permanent or temporary moves. Anticipated relocation costs are budgeted at $629,800, or $6,298 per unit, and the total anticipated timeline for project completion is estimated to be no more than 12 months.

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 January 7, 2022 and expires July 6, 2022.

The final Bond Resolution is expected to be approved by the TDHCA Board on May 12, 2022.

The Bonds will be privately placed as unrated, self-supporting, tax-exempt, fixed rate revenue bonds in the amount of $10,100,000 that will be purchased by CommunityBank of Texas, who will serve as the construction and permanent lender.

CommunityBank will acquire the Bonds at closing. The construction phase of the loan will have a term of 24 months, plus one 6-month extension option. Payments during the construction phase will be interest only. For both the construction and permanent phases of the loan the interest rate is expected to be locked prior to closing at 4.25%. Upon conversion to the permanent phase, $3,600,000 of the loan will be paid down with tax credit equity, leaving a permanent loan amount outstanding of approximately $6,500,000, which will then have a 15-year term, 35-year amortization period, average life of 10.728 years, and a final maturity date of June 1, 2039.

Additionally, Union Acres Trust will provide a seller loan in the amount of approximately $2,970,000, that will have a term of fifty years. The interest rate on the seller loan will be the applicable Federal Rate at the time of closing and was estimated at the time of the TDHCA underwriting to be 1.9%. Since the final rate calculation will not be known until closing, TDHCA staff is unable to speculate what an increase would do to the deal. The seller note will not be interest only during the construction phase; payments on the note will be subject to cash flow throughout its 50-year term.

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 a special limited obligation payable from revenues on the mortgage loan and earnings derived from amounts on deposit in an investment agreement.

The Department has underwritten the project with a pro forma average rent of $952/mo. and occupancy of 94.5%. The breakeven rent and breakeven occupancy needed to meet debt-service requirements for the Property are expected to be $899/mo., and 89.4%, respectively. The average market rent for the area is $1,102/mo., and the overall occupancy in the market is 93.7%.

In year 35, the DCR falls to 0.97.

The development will have a 50% property tax exemption. Without the tax exemption, the DCR would fall to 0.98 and the development would be considered infeasible.

TDHCA underwrote the project using the current rental rates, which were approved on June 1, 2021. The Borrower has received approval from HUD for the assignment of the HAP contract, but new rental rates were not contemplated, and, therefore, rent increases were not factored into TDHCA’s underwriting. The Department does not know the anticipated HAP rents. As a result, TDHCA could not calculate the amount of rent increase or percent of variance. The current HAP rents are shown below and are expected to increase in 2022. Per TDHCA staff, the project is feasible and meets all of TDHCA’s underwriting requirements using the current rates.

Per the TDHCA underwriting analysis, notable strengths/mitigating factors related to the Property include: its 100% Project-Based Vouchers, the fact that the existing occupied property poses no lease-up risk, and the experienced Developer.

In accordance with recent published guidance by the IRS, a telephonic public TEFRA hearing was conducted by the Department for the Property on March 24, 2022. Per TDHCA, given that the hearing was via telephone, it was difficult to discern exactly how many individuals participated. Representatives from the Department and the Developer were present, and Kenny Baugh made a comment on behalf of the Developer. No public comment was made.

Teresa Morales answered questions from the Board.

1. **Title 34 Texas Administrative Code, Part 9, Chapter 190 Allocation of State’s Limit on Certain Private Activity Bonds, §§ 190.1, 190.2, 190.4, and 190.8**

The BRB staff proposes updates and clarifications to its administrative code rules in Texas Administrative Code Chapter 190 relating to the BRB’s administration of the state’s Private Activity Bond (PAB) program to provide applicants with further clarification on the appropriate dataset that shall be used to determine residential rental priority, include guidance on the additional application requirements for an application for carryforward designation, provide official guidance on the timeframe in which a fee must be received relative to the corresponding filing submission and deadline, and correct or eliminate any outdated language.

Jamie Backiel from the BRB was present and answered questions from the Board.

1. **Exempt - Texas Higher Education Coordinating Board State of Texas (General Obligation Bonds) College Student Loan Bonds Series 2022**

This transaction was approved on the BRB exempt track on Thursday, May 5, 2022.

1. **EXEMPT – Texas Water Development Board State Revolving Fund Revenue Bonds Series 2022**

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

The TWDB seeks approval to issue its State Revolving Fund Revenue Bonds Series 2022 with a maximum par amount of $296,880,000 and a maximum total proceeds amount not to exceed $296,880,113, including premiums, if any.

TWDB staff expects to issue bonds with a total par amount of $264,595,000 and a total proceeds amount of $296,880,112.90, including premiums. Per TWDB staff, while the par and premium amounts will be adjusted at the time of pricing due to final projected needs and market considerations, the total principal not-to-exceed amount requested on the application is $296,880,000.

The Series 2022 Bonds are being issued to provide funds to the CWSRF and the DWSRF to finance the acquisition of political subdivision bonds, including state match requirements, and to pay costs of issuance.

TWDB staff reports there is currently $429.0 million and $153.8 million of demand in the CWSRF and DWSRF programs, respectively. As a revolving fund program, the SRF portfolios have a variety of funding sources that will be utilized to fund the candidate commitments, including the proposed Series 2022 bond proceeds, prior year bond proceeds, capitalization grant reimbursements, prepayments received, and participant repayments.

The Series 2022 Bonds are being issued pursuant to the laws of the State of Texas, including specifically Subchapter J, Chapter 15, and Subchapter I, Chapter 17 of the Texas Water Code, as amended, and Chapter 1371, Texas Government Code, as amended.

On April 11, 2022, the TWDB adopted the resolution for the issuance of the Series 2022 Bonds.

Legislative Budget Board approval is not required for this transaction.

The bonds do not constitute indebtedness of the state and the state's credit is not pledged. The bonds will be special obligations of the TWDB, and the security pledged includes all political subdivision bonds purchased and to be purchased by the TWDB, loan repayments, certain other revenues, receipts, and funds held within the State Revolving Fund.

The estimated cost of issuance for the bonds is expected to be $1,839,529 or $5.97 per $1,000 bond.

Ratings from S&P and Fitch are expected to be received on Friday, May 13, 2022.

BRB staff expects to recommend exemption from full review.

Georgia Sanchez 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, May 19, 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.

1. **Report from the Executive Director**
   * The BRB has received approximately 1,215 local debt issuances for processing. This is a 14% reduction from the record amount of issuances received in 2021.
   * PAB fees collected in 2022 have totaled over $1.5 million.
   * BRB staff presented at a Coats Rose Affordable Housing seminar in Houston on April 19, 2022.
   * BRB staff is currently working on the Agency’s Strategic Plan for fiscal year 2023-2027. The plan is due to the LBB and the Governor’s office on June 1, 2022.
   * BRB staff is working with state agencies and institutions of higher education on the 2024-2025 Capital Expenditure Plan. This is due on July 1, 2022 and will be available on the BRB website by September 1, 2022.
   * The BRB is currently working on modernizing and reorganizing the Agency’s website. The site is expected to be live in June 2022.
   * BRB staff presented a webinar on April 21, 2022 for Texas Women in Public Finance.
   * Staff has been asked to present a Bonds 101 seminar for the Tax Policy section at the CPA’s office.
2. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:39 a.m.