Minutes

Texas Bond Review Board

Planning Session

Tuesday, May 14, 2019, 10:00 a.m.

Capitol Extension, Room E1.026

1100 N. Congress Ave.

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, May 14, 2019 in the in the Capitol Extension, Room E1.026 in Austin, Texas. Present were Bobby Wilkinson, Chair and Alternate for Governor Greg Abbott; Bryan Mathew; Alternate for Lieutenant Governor Dan Patrick; Amanda Lopez, Alternate for Speaker Dennis Bonnen; 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 10:00 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 Public Finance Authority Lease Revenue and Refunding Bonds (Texas Facilities Commission) Series 2019**

Representatives present were Lee Deviney, Executive Director, TPFA; John Hernandez, Deputy Director, TPFA; and John Barton, Senior Financial Analyst, TPFA.

The Texas Public Finance Authority (TPFA) requests approval to issue its Lease Revenue and Refunding Bonds (Texas Facilities Commission), Series 2019 in a maximum par and total proceeds amount of $300,000,000 including premiums, if any. The new money total proceeds amount is estimated to be approximately $125,000,000, and the refunding money total proceeds amount is estimated to be approximately $175,000,000.

The Series 2019 Bonds will be used to refund all or a portion of the TPFA Revenue Commercial Paper Notes (Texas Facilities Commission) Series 2016A (Taxable), finance certain costs of the Capitol Complex and North Austin Complex projects and pay the costs of issuance.

TPFA will issue the bonds pursuant to the authority granted by Chapters 1207, 1232 1371, and 2166 Texas Government Code, as amended and pursuant to H.B. 1, 84th Legislature, Regular Session, Article I, pg. I-45, Rider 19 (2015).

The TPFA Board approved the bond resolution on Thursday, May 2, 2019.

The bonds will be issued in a negotiated sale as tax-exempt, revenue, not self-supporting, fixed-rate securities with an expected 20-year term. The bonds are expected to pay interest on February 1 and August 1 beginning on August 1, 2019. TPFA anticipates structuring the bonds with a level debt service amortization beginning on February 1, 2020 with a final maturity of February 1, 2039.

The bonds are expected to have an average life of 11.625 years and an All-In True Interest Cost (TIC) of 3.74%.

The bonds are supported by lease appropriations made to agencies for lease payments. As such, the bonds are payable only from certain pledged security, which consists primarily of rent payments made pursuant to a lease agreement between the Authority and the Lessee Agency. Neither the full faith and credit nor the taxing power of the State of Texas will be pledged to the payment of principal, premiums, if any, or interest on the bonds.

TPFA received ratings of Aa1 and AA+ from Moody’s and S&P, respectively. The total cost of issuance including underwriters’ spread is expected to be approximately $1,870,038 or $6.60 per bond.

This is not a traditional refunding for net present value (NPV) savings but instead the refunding bonds will be issued to pay off all outstanding Series 2016A Taxable CP and thereby ensure sufficient liquidity under the terms of the agency’s liquidity agreement with the Comptroller’s office for new issuances, and to provide long-term fixed-rate financing for the authorized projects.

Lee Deviney and John Hernandez answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Lago de Plata Apartments) Series 2019**

Representatives present were Teresa Morales, Manager of Multifamily Bonds, TDHCA; Elizabeth Bowes, Partner, Bracewell; and Barton Withrow, Senior Vice President, George K Baum.

The Department has submitted an application to issue its Multifamily Housing Revenue Bonds (Lago de Plata Apartments) Series 2019 with a maximum par and total proceeds amount not to exceed $14,000,000 including premiums, if any. The total cost for the Lago de Plata project is estimated to be $21,098,065 to be funded from a combination of sources including proceeds of tax-exempt bonds, tax credit equity, net operating income during construction and a deferred developer fee.

The proceeds of the bonds will be used to acquire and rehabilitate the Lago de Plata Apartments, an existing 150-unit affordable multifamily residential rental development in Corsicana, 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 March 7, 2019 and expires on August 4, 2019.

The TDHCA Board approved the final resolution for the bond issuance at its April 25, 2019 Board meeting.

The tax-exempt Series 2019 bonds will be unrated, privately placed, fixed-rate, self-supporting revenue debt, with a final maturity of April 1, 2059, an average life of 26.23 years, a 17-year term and 40-year amortization.

The interest rate on the tax-exempt bonds will be locked prior to closing and is currently estimated to be 5.20%.

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 total cost of issuance for this transaction is expected to be approximately $587,750 or $41.98 per bond.

The Property is expected to maintain the Section 8 HAP contract, but if for any reason the contract payments are discontinued, the general partner is required to fund operating deficits. The lowest Debt Coverage Ratio (DCR) is year one at 1.17.

Teresa Morales answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Pass-Through- Northgate Village) Series 2019**

Representatives present were Teresa Morales, Manager of Multifamily Bonds, TDHCA; Elizabeth Bowes, Partner, Bracewell; and Barton Withrow, Senior Vice President, George K Baum.

The Department has submitted an application to issue its Multifamily Housing Mortgage Revenue Bonds (Pass-Through – Northgate Village) Series 2019 in a maximum par and total proceeds amount not to exceed $20,000,000 including premiums, if any. The total cost for the Northgate Village project is estimated to be $32,346,223 to be funded from a combination of sources including proceeds of tax-exempt bonds, tax credit equity, a seller note, operating reserves and a Federal National Mortgage Association (Fannie Mae) Delegated Underwriting and Servicing loan for mortgage-backed securities.

The proceeds of the bonds will be used for the acquisition and rehabilitation of Northgate Village, an existing 168-unit multifamily residential rental development in Dallas, Texas.

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 March 11, 2019 and expires on August 8, 2019.

The terms between Regions Bank and the Borrower for a Fannie Mae Delegated Underwriting Services (DUS) loan for mortgage-backed securities were agreed to and executed on February 4, 2019.

The TDHCA Board is expected to approve the final resolution for the bond issuance at its May 23, 2019 Board meeting.

The bonds will be sold through a negotiated sale as tax-exempt, self-supporting, fixed-rate debt with an estimated interest rate of 3.55% (not including servicing fee of 0.345% or guarantee fee of 0.615%). The all-in rate is expected to be approximately 4.51%. The loan is expected to have a 17-year term, amortization of 35 years with a balloon payment, and average life of 15.174 years.

The exact interest rate, servicing fee and loan guarantee fee will be determined closer to pricing. An interest rate of approximately 4.48% plus an ongoing issuer fee of 0.10% was used by the Department for its Debt Coverage Ratio (DCR) analysis.

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 bonds are expected to receive a Aaa rating from Moody’s due to the Fannie Mae guarantee.

The financing structure for this transaction mirrors the financing structure used for the Riverside Townhomes and Oaks on Lamar Apartments both approved by the BRB in July 2018.

The Property is expected to maintain the Section 8 HAP contract, but if for any reason the contract payments are discontinued, the general partner is required to fund operating deficits.

The lowest Debt Coverage Ratio (DCR) is year one at 1.33.

Teresa Morales answered questions from the Board.

1. **EXEMPT – Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (McMullen Square) Series 2019**

This transaction was re-submitted on the BRB EXEMPT track. Staff is waiting to receive a complete application.

Representatives present were Teresa Morales, Manager of Multifamily Bonds, TDHCA; Elizabeth Bowes, Partner, Bracewell; and Barton Withrow, Senior Vice President, George K Baum.

Teresa Morales provided a brief overview of the project.

1. **EXEMPT – Texas Higher Education Coordinating Board State of Texas (General Obligation Bonds) College Student Loan Refunding Bonds Series 2019**

This transaction was submitted on the BRB EXEMPT track. The 6-day review period for this transaction expired and the bonds were approved on Thursday, May 9, 2019.

1. **EXEMPT – Texas Water Development Board State of Texas General Obligation Bonds Water Financial Assistance Refunding Bonds Series 2019C, Series 2019D (State Participation), Series 2019E (Water Infrastructure Fund) and Series 2019F (Economically Distressed Areas Program)**

This transaction was submitted on the BRB EXEMPT track. The 6-day review period for this transaction expired and the bonds were approved on Wednesday, May 1, 2019.

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, May 23, 2019 in the Capitol Extension, Room E1.026.

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 received from the AG’s office on schedule. So far this year we have received approximately 968 issues which is a decrease of 7.2% in total issues received from this time last year.
* Senate Bill 1474 is in the house committee. Currently, $1.9 B is available for the private activity bond program within the individual sub-ceilings.
* The Comptroller made the quarterly filing with the MSRB Electronic Municipal Market Access (EMMA). The BRB contributes to the Appendix A for all Texas general obligations.
* All fiscal note requests have been returned to the Legislative Budget Board. House Joint Resolution 12 proposing a constitutional amendment authorizing the legislature to increase the maximum bond amount authorized for the Cancer Prevention and Research Institute of Texas to $6 billion has been passed by both the House and Senate Chambers. Using FY 2018 assumptions, this authorization, if approved by the voters, would increase the state’s Constitutional Debt Limit by approximately 0.49%.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:21 a.m.