Texas Bond Review Board

Planning Session

Tuesday, June 28, 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, June 28, 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 10:02 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 Governmental Lender Notes (380 Villas) Series 2022A and Series 2022B**

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

The Department has submitted an application to issue its Governmental Lender Note (380 Villas), Series 2022A and Series 2022B (The Notes) in a maximum par amount and a maximum total proceeds amount not to exceed $29,000,000 including premiums, if any. The total cost for the 380 Villas project is estimated to be $54,524,271, to be funded from a combination of sources including proceeds from the Notes, a TDHCA Multifamily Direct Loan, housing tax credits, and a deferred developer fee.

The proceeds of the Notes will be used for site acquisition, construction, and equipping of 380 Villas, a new 220-unit affordable multifamily residential rental development to be located at 1003 Throckmorton Street, in McKinney, Texas.

The Notes 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 25, 2022 and expires July 24, 2022.

The final Bond Resolution is expected to be approved by the TDHCA Board on July 7, 2022.

The Department’s Executive Award and Review Advisory Committee met on June 27, 2022 to determine if the organizational structure satisfies the agency’s previous participation rules.

The Notes will be privately placed as unrated, self-supporting, tax-exempt, fixed rate revenue bonds (termed the governmental lender notes) in the amount of $29,000,000 and will be purchased by Citi Community Capital, who will serve as the construction and permanent lender.

Citi Community Capital will acquire the loan and the Department’s related multifamily notes at closing which will be used to fund a tax-exempt “back-to-back” construction/permanent loan. The Series 2022A tranche will be the construction to perm loan, and the Series 2022B tranche will be the construction loan. The permanent loan will have an 18.5-year term, a 40-year amortization period and a final maturity date of February 1, 2056. The interest rate during the construction phase of the loan will be fixed at a rate of 5.04%, while the interest rate during the permanent phase will be fixed at a rate of 4.89%.

TDHCA is acting as a conduit issuer for this transaction and as such the Notes 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 Notes 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 date are July 21, 2022.

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

In accordance with recent published guidance by the IRS, a telephonic hearing was held on March 24, 2022 and no public comment was made. The Department has received no letters of support or opposition for this development.

Teresa Morales answered questions from the Board.

1. **EXEMPT – Texas Department of Housing and Community Affairs Multifamily Housing Governmental Note (Champions Crossing) Series 2022**

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

The Department has submitted an application to issue its Multifamily Housing Governmental Note (Champions Crossing) Series 2022 (the Note) in a maximum par amount and a maximum total proceeds amount not to exceed $15,500,000 including premiums, if any.

The proceeds of the Note will be used for the acquisition and rehabilitation of Champions Crossing, a 156-unit, affordable multifamily residential rental property located in San Marcos, Texas.

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

The TDHCA Board approved the final resolution for the issuance of the Note at its June 16, 2022, Board meeting.

The Private Activity Bond (PAB) certificate of reservation was issued to TDHCA on January 12, 2022, in the amount of $20,000,000 and expires on July 11, 2022.

The multifamily governmental note will be issued in the amount of $15,500,000 and will be unrated, tax-exempt, fixed-rate, self-supporting, private placement, revenue debt with an average life of 13.761 years, a 15-year term, and 40-year amortization with a final maturity and balloon payment due on August 1, 2037. The interest rate will be fixed prior to closing and will be equal to 150 basis point (1.50%) over the 10-year U.S. Treasury Index at the time of rate lock (with a floor of 1.70%). For purposes of underwriting, the Department used a rate of 3.30%, which does not include the 0.10% ongoing issuer administration fee.

The Note will initially be purchased by Bellwether Enterprise, and shortly after closing, the loan will be purchased by Freddie Mac under their Targeting Affordable Housing Program.

TDHCA is acting as a conduit issuer for this transaction, 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 Note is a special limited obligation payable from revenues earned from the mortgage loan and earnings derived from amounts on deposit in an investment agreement.

The anticipated closing and sale date is expected to be July 7, 2022.

The total cost of issuance was $543,395 or $35.06 per bond.

The lowest DCR was 1.21 in year one.

In accordance with recent published guidance by the IRS, the Department conducted the TEFRA hearing for the proposed project via telephone on March 11, 2022 and no public comment was made. The Department has received no letters of support or opposition.

Bond Review Board staff recommends approval of the Texas Department of Housing and Community Affairs Multifamily Housing Governmental Note (Champions Crossing) Series 2022 in a maximum par amount and a maximum total proceeds amount not to exceed $15,500,000 including premiums, if any.

Teresa Morales answered questions from the Board.

1. **EXEMPT – Texas Department of Housing and Community Affairs Multifamily Housing Governmental Note (Marine Park) Series 2022**

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

The Department has submitted an application to issue its Multifamily Note (Marine Park) Series 2022 (the Note) in a maximum par amount and a maximum total proceeds amount not to exceed $15,800,000 including premiums, if any.

The proceeds of the Note will be used for the acquisition and rehabilitation of Marine Park, an existing 124-unit residential rental property in Fort Worth, Texas.

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

The TDHCA Board approved the final resolution for the issuance of the Note at its June 16, 2022, Board meeting.

The Private Activity Bond (PAB) certificate of reservation was issued to TDHCA on January 14, 2022 in the amount of $15,800,000 and expires on July 13, 2022.

The tax-exempt Series 2022 Note is anticipated to be initially privately placed with ORIX Real Estate Capital, LLC (dba Lument Capital). The Note will be unrated, fixed-rate, self-supporting, revenue debt with an average life of 15.732 years, a 17-year term, and 40-year amortization with a final maturity and balloon payment due on August 1, 2039. The multifamily Note will have an interest rate equal to the sum of the 10-yr Treasury (with a floor of 1.64%) and 1.60%, which will be fixed prior to closing and does not include the 0.10% ongoing issuer fee. According to TDHCA, the most recent estimation of the interest rate was 4.59%.

TDHCA is acting as a conduit issuer for this transaction, 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 Note is a special limited obligation payable from revenues earned from the mortgage loan and earnings derived from amounts on deposit in an investment agreement.

The anticipated sale and closing date is expected to be July 7, 2022.

The total cost of issuance is estimated to be $565,930 or $35.82 per bond.

The lowest DCR will be 1.15 and 1.16 in the first two years, respectively.

The Department conducted the TEFRA hearing for the proposed development via telephone on February 11, 2022. Given that it was via telephone and would ordinarily be difficult to discern exactly how many individuals participated in the hearing, there is an option on the call line to obtain a participant count. However, representatives from the Department and the Developer were present, and no public comment was made. The Department has received no letters of support or opposition for this development.

In their environmental report dated November 22, 2021, Phase Engineering highlighted potential environmental concerns. Per the report, a visual asbestos inspection was conducted by Phase Engineering, Inc. Potential asbestos containing building materials (ACBMs) in the form of wall material, ceiling material and miscellaneous building materials in good nonfriable condition were observed at the Property. No potential suspect damaged friable ACBMs were observed at the Property. No asbestos sampling was performed as part of this ESA. An existing ACBM Operations and Maintenance (O&M) Plan dated July 1, 2020 was provided to Phase Engineering, Inc. for review. Procedures noted in the O&M Plan shall continue to be followed by property management. In the event of renovation and / or demolition, sampling may be required of suspect asbestos containing materials prior to these activities to satisfy the Environmental Protection Agency (EPA), Occupational Safety and Health Administration (OSHA) and the Texas Department of State Health Services (TDSHS) rules.

This transaction qualifies for exempt approval under the BRB rule 181.9(a)(1) as the Borrower will not be seeking a property tax exemption upon completion of the project.

Bond Review Board staff recommends approval of the Texas Department of Housing and Community Affairs Multifamily Note (Marine Parks) Series 2022 in a maximum par amount and a maximum total proceeds amount not to exceed $15,800,000 including premiums, if any.

Teresa Morales answered questions from the Board

1. **EXEMPT – Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Palladium East Berry Street) Series 2022**

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

The Department has submitted an application to issue its tax-exempt Multifamily Housing Revenue Bonds (Palladium East Berry Street) Series 2022 with a maximum par amount and a maximum total proceeds amount not to exceed $26,092,000 including premiums, if any.

The proceeds of the bonds will be used to construct a new 240-unit affordable multifamily residential rental development in Fort Wort, 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 January 27, 2022 and expires on July 26, 2022.

The TDHCA Board approved the final resolution for the bond issuance at its June 16, 2022, Board meeting.

The bonds will be sold through a private placement sale as unrated, tax-exempt, revenue, self-supporting, fixed-rate debt, 18-year term, amortization of 40 years with a balloon payment, average life of 17.110 years, and a final maturity date of July 20, 2040.

The bonds will be purchased by Cedar Rapids Bank and Trust (through its Specialty Finance Group, division) who will serve as the construction and permanent lender. The interest rate will be fixed prior to closing by a Swap Agreement and will be equal to the sum of the SOFR Rate (as defined in the Trust Indenture) plus 1.70%. For purposes of underwriting, the Department used a rate of 4.96%. The Department is not a party to the Swap Agreement. For the first three years of the term, payments on the loan will be interest only.

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 anticipated sale and closing date is expected to be July 14, 2022.

The total cost of issuance is expected to be $453,469 or $17.37.

The lowest DCR will be 1.15 in year one.

In accordance with recent published guidance by the IRS, the Department conducted the TEFRA hearing for the proposed project via telephone on February 14, 2022. 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 letters of support for the proposed development from the following officials and organizations: State Representative for District 90, Ramon Romero, Jr., Mayor of the City of Fort Worth, Mattie Parker, Fort Worth City Councilmember for District 8, Chris Nettles, Tarrant County Commissioner for Precinct 1, Roy Charles Brooks, Tarrant County Judge, Glen Whitley, Superintendent of the Fort Worth Independent School District, Kent P. Scribner, President of the Fort Worth ISD Board of Trustees, Tobi Jackson, and Stacy E. Marshall, President of Southeast Fort Worth, Inc. The Department has received no letters of opposition for the development.

This transaction qualifies for exempt approval under the BRB rule 181.9(a)(1) as the Borrower will not be seeking a property tax exemption upon completion of the project.

Bond Review Board staff in its review recommends exemption from formal review for the Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Palladium East Berry Street) Series 2022 with a maximum par amount and a maximum total proceeds amount not to exceed $26,092,000 including premiums, if any.

Teresa Morales answered questions from the Board.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next planning session is scheduled for Tuesday, July 12, 2022 and the next Board Meeting is scheduled for Thursday, July 21, 2022, in Room E2.028 of the Capitol Extension.

1. **Report from the Executive Director**

* So far for fiscal year 2022, the BRB has received approximately 1,463 local debt issuances for processing.
* So far, PAB fees collected for the 2022 program year total more than $1.6 million. Last year was the greatest amount remitted to the state at just under $2.0 million.
* Staff is invited to speak about the Private Activity Bond Program at the 2022 Texas Housing Conference hosted by the Texas Affiliation of Affordable Housing Providers July 25th – 27th in Austin, Texas.
* On June 1st, staff posted the agency’s strategic plan for fiscal years 2023-27 to the BRB website and submitted it to the LBB and Governor’s office.
* Staff is sending weekly reminder emails to state agencies and institutions of higher education about collecting data for the 2024-25 fiscal biennium Capital Expenditure Plan. All data is due by July 1st, via the Texas Higher Education Coordinating Board MP1 system. The CEP will be posted to the BRB website by September 1, 2022.
* Staff is working to modernize and reorganize the agency’s website. We are working with a web developer from Dynamic Computing Services Corp. (DCS) to manage this project. The new website should be live sometime within the next couple of weeks.
* Staff was asked to do a Bonds 101 style presentation for the Tax Policy Section at the CPA’s office sometime within the next month.
* TDHCA staff is requesting the BRB act on the 380 Villas application during the next planning session scheduled for Tuesday, July 12, 2022. This will help accommodate the timeline for closing.
* At the Executive Director’s request, the BRB’s new CFO, Michael Felan, introduced himself to the Board.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:49 a.m.