Minutes

Texas Bond Review Board

Planning Session

Tuesday, July 10, 2018, 10:00 a.m.

Capitol Extension, Room E2.026

1400 N. Congress Ave.

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, July 10, 2018 in the Capitol Extension, Room E2.026 in Austin, Texas. Present were Sarah Hicks, Chair and Alternate for Governor Greg Abbott; Joaquin Guadarrama, Alternate for Lieutenant Governor Dan Patrick; and Melissa Popkoff, 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 Department of Housing and Community Affairs** **Multifamily Housing Revenue Bonds (Pass-Through - Riverside Townhomes) Series 2018**

Representatives present were: Teresa Morales, Program Administrator, TDHCA; Brent Stewart, Director of Real Estate Analysis, TDHCA; and Elizabeth Bowes, Partner, Bracewell.

The Department submitted an application to issue its Multifamily Housing Revenue Bonds (Pass-Through - Riverside Townhomes) Series 2018 in a maximum par and total proceeds amount not to exceed $20,000,000 including premiums if any.

The proceeds of the bonds will be used for the acquisition and rehabilitation of Riverside Townhomes, an existing 128-unit multifamily residential rental development in Austin, Travis County, 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 April 6, 2018 and expires on September 3, 2018. The terms between Wells Multifamily Capital (Wells) and the Borrower for a Fannie Mae Delegated Underwriting Services (DUS) loan for mortgage-backed securities were agreed to and executed on March 8, 2018. The final commitment will occur prior to closing after the loan package is reviewed and certified by Fannie Mae. The TDHCA Board approved the final resolution for the bond issuance at its June 28, 2018 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 3.60% (not including servicing or guarantee fees), 16-year term, amortization of 35 years with a balloon payment, and average life of 14.55 years.

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 scheduled to close on August 2, 2018. The total cost of issuance is $788,760 or $39.44 per bond. The loan financing structure is similar to that used for the TDHCA Casa Brendan transaction approved by the BRB in September 2017 and Vista on Gessner transaction approved by the BRB in January 2018.

The acquisition cost is expected to be $14,300,000 or $111,719 per unit, and the rehab costs are expected to be $5,742,980 or $44,867 per unit. All rentable units of the property are subject to a Section 8 Housing Assistance Payments (HAP) contract expiring in September 2018 with the U.S. Department of Housing and Urban Development (HUD) that provides a federal subsidy to the Borrower.

The projected Debt Coverage Ratios (DCR) start at 1.24 on year one and up to 1.31 by year five.

Teresa Morales answered questions from the Board.

1. **Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Pass-Through - Oaks on Lamar) Series 2018**

Representatives present were: Teresa Morales, Program Administrator, TDHCA; Brent Stewart, Director of Real Estate Analysis, TDHCA; and Elizabeth Bowes, Partner, Bracewell.

The Department has submitted an application to issue its Multifamily Housing Mortgage Revenue Bonds (Fannie Mae MBS Collateralized Pass-Through – Oaks on Lamar) Series 2018 in a maximum par and total proceeds amount not to exceed $20,000,000 including premiums if any.

The proceeds of the bonds will be used for the acquisition and rehabilitation of Oaks on Lamar, an existing 176-unit multifamily residential rental development in Austin, Travis County. The rehabilitation will consist of exterior and interior repairs and replacements

The total cost for the project is estimated to be $27,829,803 to be funded from a combination of sources including proceeds of tax-exempt bonds, tax credit equity, deferred developer fees, and a Federal National Mortgage Association (Fannie Mae) Delegated Underwriting and Servicing loan for mortgage-backed securities.

The property has 74 rentable units that are subject to a Section 8 Housing Assistance Payments (HAP) contract with the U.S. Department of Housing and Urban Development (HUD) that provides a federal subsidy to the Borrower, and will expire in September of 2034. The Borrower is attempting to receive an additional 22 project based vouchers for a total of 96 units to be covered by the HAP contract.

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 April 6, 2018 and expires on September 3, 2018. The terms between Wells Multifamily Capital (Wells) and the Borrower for a Fannie Mae Delegated Underwriting Services (DUS) loan for mortgage-backed securities were agreed to and executed on March 8, 2018. The final commitment will occur prior to closing after the loan package is reviewed and certified by Fannie Mae. The TDHCA Board approved the final resolution for the bond issuance at its June 28, 2018 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 3.60% (not including servicing or guarantee fees), 16-year term, amortization of 35 years with a balloon payment, and average life of 14.55 years. The bond resolution reflects a maximum maturity date of December 1, 2036; however, the transaction has been structured assuming a maturity date of September 1, 2034.

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 scheduled to close on August 2, 2018. The total cost of issuance is $351,420 or $17.57 per bond. In the application as submitted, the total cost for the project is estimated to be $27,829,803. TDHCA notified BRB staff on June 28, 2018 that the expected amount of long-term bonds that will be cash collateralized with a Pass-Through MBS issued by Fannie Mae will more likely be approximately $16,810,000 but will not exceed $17,000,000.

Teresa Morales answered questions from the Board.

1. **Texas Public Finance Authority State of Texas General Obligation Commercial Paper Notes (Cancer Prevention and Research Institute of Texas Project) Series A (Taxable) and B (TE)**

Representatives present were: Wayne Roberts, Chief Executive Officer, CPRIT; Heidi McConnell, Chief Operating Officer, CPRIT; John Hernandez, Deputy Director, TPFA; and Kevin Van Oort, General Counsel, TPFA.

TPFA is seeking authorization to issue Commercial Paper (CP) notes under its State of Texas General Obligation Commercial Paper Program (Cancer Prevention and Research Institute of Texas), Series A (Taxable) and Series B (Tax-Exempt) (collectively, the CPRIT CP Program) in a maximum amount of $300,000,000 during fiscal year 2019 including the costs of issuance and related administrative costs, if any.

The proceeds will be used to fund cancer prevention and research grants, pay operating costs as dictated by the 85th Legislature and pay costs of issuance.

TPFA will issue the notes pursuant to Article III, Section 67 of the Texas Constitution; Chapter 102.202 of the Texas Health and Safety Code; Chapters 1232 and 1371 of the Texas Government Code; and the General Appropriations Act, 85th Legislative, R.S.

The CPRIT Oversight Committee approved the Request for Financing on May 16, 2018.

The TPFA Board is expected to approve the financing at its Board Meeting scheduled for Thursday, July 19, 2018 before the Bond Review Board meets on the same day.

The CPRIT CP Program will issue taxable and tax-exempt notes to mature on dates chosen by TPFA at the time of each sale; however, no maturity shall exceed 270 days. If at any time TPFA is unable to sell the notes necessary to refund existing notes, the liquidity provider will pay the maturing notes. The Comptroller is the current liquidity provider for the CP Program.

The notes are general obligations of the state. As such, the state’s full faith and credit are pledged to repayment of the notes. The first monies coming into the State Treasury, not otherwise appropriated by the Constitution, are dedicated to pay debt service.

As of July 1, 2017, at the request of TPFA, the Comptroller decreased its liquidity agreement from $300 million to $285 million for the CPRIT CP program. This agreement is in effect until August 31, 2019 with the option to renew for additional terms. The fee for liquidity is 12 basis points on the amount of notes outstanding and 8 basis points on the remaining amount of the liquidity commitment.

CPRIT is currently authorized to obligate approximately $280.0 million for cancer prevention and research grant awards in fiscal year 2019. While CPRIT is requesting a CP authorization amount of $300.0 million, CPRIT staff estimates that a total of $207.7 million of CP will be issued for fiscal 2019 to fund research grants. The majority of the $207.7 million draw schedule for fiscal year 2019 covers payments to multi-year grants awarded in prior years including fiscal years 2011, 2012, 2013, 2014, 2015, 2016, 2017, and 2018.

To date CPRIT has issued $1.46 billion in debt under its $3.0 billion in GO authority and has $1.54 billion remaining in unissued authority. CPRIT currently has $1.08 billion in bonds outstanding and $167.2 million outstanding CP. Of the total $3.0 billion in GO authority, $150 million remains to be appropriated by the Legislature.

John Hernandez answered questions from the Board.

1. **Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Taxable Series 2018**

Representatives present were: Wayne Roberts, Chief Executive Officer, CPRIT; Heidi McConnell, Chief Operating Officer, CPRIT; John Hernandez, Deputy Director, TPFA; and Kevin Van Oort, General Counsel, TPFA.

The Texas Public Finance Authority (TPFA) seeks approval to issue its State of Texas General Obligation and Refunding Bonds, Taxable Series 2018 in a maximum par amount of $321,900,000 and total proceeds amount of $324,581,338.01 including premiums, if any. The new money par amount is estimated to be $99,700,000, and the refunding money par amount is estimated to be $222,200,000.

The bonds are expected to be issued at par in one or more series as taxable. The maximum proceeds amount includes an issuer cash contribution of $2,681,338 which TPFA expect to use to pay interest due on the outstanding commercial paper notes as part of the refunding and to pay cost of issuance of the bonds.

The proceeds will be used to fund cancer research and prevention grants, pay operating costs for CPRIT, and refund all or a portion of the outstanding General Obligation Commercial Paper CPRIT Series A (Taxable) Notes.

TPFA will issue the bonds pursuant to Article III, Section 67 of the Texas Constitution; Chapters 1207, 1232 and 1371 of the Texas Government Code; Chapter 102 of the Texas Health and Safety Code.

The CPRIT Oversight Committee approved the Request for Financing on May 16, 2018.

The TPFA Board is expected to approve the financing at its Board Meeting scheduled for Thursday, July 19, 2018 before the Bond Review Board meets on the same day.

The bonds will be issued in a negotiated sale as taxable, not self-supporting, fixed-rate securities with a maximum maturity not to exceed 25 years.

The 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 total cost of issuance is $1,996,475 or $6.20 per bond. The closing date for the bonds is scheduled for September 11, 2018 and their final maturity date is expected to be October 1, 2038.

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 CPRIT CP and thereby ensure sufficient liquidity under the terms of the agency’s liquidity agreement with the Comptroller’s (CPA) office for new issuances, and to provide long-term fixed-rate financing for the authorized projects.

John Hernandez answered questions from the Board.

1. **EXEMPT - Texas Department of Housing and Community Affairs Series 2018 Issuer Note**

This application was submitted on the BRB EXEMPT track with the 6-day review period expiring on Friday, July 13, 2018 at 5pm.

Representatives present were: Heather Hodnett, Manager of Single Family Finance, TDHCA; Cathy Gutierrez, Director of Texas Homeownership, TDHCA; and Elizabeth Bowes, Partner, Bracewell.

Heather Hodnett was available to answer questions from the Board.

1. **EXEMPT - Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Bonds 2018 Series A**

This application was submitted on the BRB EXEMPT track with the 6-day review period expiring on Friday, July 13, 2018 at 5pm.

Representatives present were: Heather Hodnett, Manager of Single Family Finance, TDHCA; Cathy Gutierrez, Director of Texas Homeownership, TDHCA; and Elizabeth Bowes, Partner, Bracewell.

Heather Hodnett was available to answer 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 11:00 a.m. on Thursday, July 19, 2018 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**
* Local debt transactions received from the Attorney General’s office has decreased by 15% from this time last year. Staff believes this is due to the federal government’s elimination of advance refunding bond transactions.
* Braxton Parsons and Rob Latsha will be presenting at the TAAHP Conference in Austin in two weeks. Braxton will be speaking on tax-exempt bonds.
* Staff is working on the Capital Expenditure Plan and should have the report completed by September 1, 2018. Additionally, staff is working on the agency’s Legislative Appropriations Request for the 2020-21 biennium.
* The next Texas Public Finance Seminar is tentatively scheduled for Tuesday, October 16, 2018 in the Legislative Conference Center. Barton Withrow from George K. Baum & Co. has agreed to give a presentation on Advance Refunding Substitutes and Related Issues.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:29 a.m.