Minutes

Texas Bond Review Board

Planning Session

Tuesday, September 11, 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, September 11, 2018 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 10:00 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 State of Texas General Obligation Refunding Bonds, Series 2018A (refunding the series 2009B Build America Bonds)**

Representatives present were: Lee Deviney, Executive Director, TPFA; John Barton, Senior Financial Analyst, TPFA; and Victoria Ozimek, Partner, Bracewell.

TPFA seeks approval to issue its State of Texas General Obligation Refunding Bonds, Series 2018A in a maximum par amount of $181,780,000 and a maximum proceeds amount including premiums, if any, not to exceed $188,288,094. The maximum proceeds amount includes an issuer cash contribution of approximately $1,300,857.50 which TPFA expects to use to pay cost of issuance of the bonds.

The proceeds of the Series 2018A bonds will be used to advance refund all maturities of TPFA’s outstanding taxable GO Bonds, Series 2009B (Direct-Payment BABs) in the amount of $181,780,000.

To calculate the Net Present Value (NPV) savings for this refunding transaction, TPFA staff made the assumption that the federal subsidy payment for the 2009B bonds will be received at the FY 2019 sequestration rate of 6.2%. Along with this assumption, TPFA staff also used a conservative interest rate in its refunding analysis, which has provided an estimated net cash savings of roughly over $3.6 million and a NPV savings of 2.0%.

The 2018A bonds will be issued pursuant to Article III, Sections 50-f, 50-g of the Texas Constitution, Chapter 1232, Texas Government Code, as amended, and Chapters 1201, 1207, and 1371 of the Texas Government Code, as amended.

The TPFA Board adopted the final bond resolution at its meeting on August 23, 2018.

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 direct bond related costs are estimated to be $376,000 or $2.07 per bond. Including the underwriter’s spread, the total cost is expected to be $1.3 million or $7.16 per bond.

The Tax Cuts and Jobs Act of 2017 eliminated the option of issuing a tax-exempt advanced refunding of a tax-exempt municipal debt. This transaction qualifies for advanced refunding because the Series 2018A tax-exempt refunding bonds will advance refund taxable debt into tax-exempt debt.

Lee Deviney and Victoria Ozimek answered questions from the Board.

1. **Texas State Technical College Data Center Equipment Financing through Dell Financial Services lease purchase arrangement**

Representative present was: Jonathan Hoekstra, Vice Chancellor & Chief Financial Officer, TSTC.

TSTC is seeking approval to finance $1,260,000 to acquire data center equipment for both TSTC in Waco and TSTC in Harlingen, through a lease purchase agreement with DFS.

TSTC uses data centers for mission-critical applications and resources to allow for password replication and information storage across the state. There are two systems: one at TSTC in Waco for daily use and one at TSTC in Harlingen for data recovery.

Texas Government Code, Chapter 2054 Information Resources, Subtitle B, authorizes TSTC to enter a third-party financing for lease purchases.

Texas Higher Education Board approval is not required for purchases of computer equipment.

Legislative Budget Board approval is not required for this transaction.

The TSTC Board of Regents approved the financing on August 9, 2018.

The purchase of $1,260,000 for the equipment will be financed through DFS with a 5-year term. Assuming a fixed interest rate of 3.5%, the total payment cost will be roughly $1,348,147.49. The term will be 5 years.

The lease purchase payments are payable from and secured solely by the Pledged Revenues of the System. Annual payments will be made from designated tuition funds available as budgeted for statewide networking equipment costs. HEF funds will not be used. These lease purchases are not general obligations of the Board, the System, the state or any political subdivision of the state. The Board of Regents of the System has no taxing power and neither the credit nor the taxing power of the state or any political subdivision of the state is pledged as security for the lease purchase.

TSTC chose third-party financing because the DFS lease-purchase is available as a part of statewide DIR contracts and is available at a lower interest rate than TPFA’s Master Lease Purchase Program.

Jonathan Hoekstra answered questions from the Board.

1. **Texas State Technical College Lease Purchase of Industrial Technology Center – TSTC Fort Bend County**

Representative present was: Jonathan Hoekstra, Vice Chancellor & Chief Financial Officer, TSTC.

TSTC is seeking approval to enter into a lease purchase agreement with the TSTC Foundation in an amount not to exceed $6,405,470 to finance the purchase of a 119,000 sq. ft. IT Center at the TSTC campus in Fort Bend County to be paid over an eight-year period. The lease purchase agreement was signed by TSTC on August 13, 2018. If TSTC does not receive Bond Review Board approval, then TSTC would revert to its existing 2015 Operating Lease, and the revised lease payment of just over $900,000 would not be paid. The first payment on the lease is payable September 1st, with an estimated payment date of September 30th, after the Bond Review Board’s scheduled meeting.

Proceeds will be used to execute a lease purchase agreement with the TSTC Foundation as the current lease does not provide for conveyance of the IT Center. The land is already owned by TSTC. It was acquired just before construction of the IT Center began in 2015.

Chapter 135.02(c) of the Texas Education Code, allows TSTC to accept or acquire, by purchase, land and facilities.

Texas Higher Education Coordinating Board (THECB) approval is not required for this lease purchase amendment as the IT Center was added to the coordinating board facility inventory when the 2015 Operating Lease commenced. THECB will not review the transaction again until a title transfer occurs at the end of the lease purchase term.

The TSTC Board approved the financing on August 9, 2018.

The lease purchase amendment was signed by TSTC on August 13, 2018.

TPFA’s Master Lease Purchase Program (MLPP) cannot be used for purchases of real property.

The purchase amount of $6,405,470 will be used to purchase the IT Center. The total cost including interest will be $7.3 million. The term will be 8 years.

The lease purchase is payable from and secured solely by the Pledged Revenues of the System. The lease purchase is not a general obligation of the Board, the System, the state or any political subdivision of the state. The Board of Regents has no taxing power and neither the credit nor the taxing power of the state or any political subdivision of the state is pledged as security for the lease purchase.

Jonathan Hoekstra answered questions from the Board.

1. **EXEMPT – Texas State Affordable Housing Corporation Multifamily Housing Revenue Note (Walnut Creek Apartments) Series 2018**

This application was submitted on the BRB EXEMPT track. Once the application is complete, Staff will forward the summary and application materials to the Board for 6-day review.

Representative present was: David Danenfelzer, Senior Director, Development Finance, TSAHC.

David Danenfelzer 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, September 20, 2018 in the Capitol Extension, Room E2.036.

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 is on schedule to complete processing for local government debt by mid to late September, then staff will begin the closeout reconciliation process.
* For federal bond programs, staff received in cash receipts the most received since 2007 for the Private Activity Bond Program.
* Braxton Parsons and Rob Latsha are attending the Texas Association of Local Housing Finance Agencies (TALHFA) Conference September 10th – 12th 2018.
* The statewide Capital Expenditure Plan was posted to the agency website on August 31, 2018.
* Annual Debt Issuer Reports are due from state agencies on Friday, September 14, 2018. Staff will review the reports and do a database reconciliation and commence work on our Annual Debt Report.
* The next Texas Public Finance Seminar is scheduled for Tuesday, October 16, 2018 in the Legislative Conference Center. Barton Withrow, Gary Machak and Liz Barber from George K. Baum & Co. as well as Paul Braden and Stephanie Leibe from Norton Rose Fulbright have 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.