Minutes

Texas Bond Review Board

Planning Session

Tuesday, September 14, 2021, 10:00 a.m.

Room 402 Clements Building

And Videoconference Meeting

300 W. 15th Street

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, September 14, 2021, in Room 402 of the Clements Building and via videoconference as authorized under Texas Government Code section 551.127. Present were Brady Franks, Chair and Alternate for Governor Greg Abbott; Bryan Mathew, Alternate for Lieutenant Governor Dan Patrick; and Melissa Popkoff, 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 10:05 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 Public Finance Authority Revenue Commercial Paper Program (Texas Facilities Commission Projects), Series 2016A (Taxable) and Series 2016B (Tax-Exempt) for the issuance of commercial paper during fiscal year 2022**

Representatives present were Lee Deviney, Executive Director, TPFA; Thomas Brown, Budget Director, TFC; and Prince Chavis, Project Manager, TFC.

TPFA is requesting approval for the issuance of CP notes during fiscal year 2022 for its State of Texas Revenue Commercial Paper Program (Texas Facilities Commission Projects), Series 2016A (Taxable) and Series 2016B (Tax-Exempt).

Proceeds of the FY 2022 CP notes (the Notes) will be used to fund previously approved Phase I project costs and previously approved Phase II project costs for buildings and parking garages in the North Austin Complex as well as utility infrastructure, office buildings, and parking garages in the Capitol Complex. CP proceeds will also pay costs of issuance and any administrative costs. TPFA will refund outstanding CP into fixed rate bonds (lease revenue obligations) when the issuance of additional CP would result in exceeding the $200,000,000 liquidity cap.

TPFA will issue the Notes pursuant to House Bill 1, 84th Legislature, Regular Session, Article I page I-45, Rider 19; Senate Bill 1, 85th Legislature, Regular Session, Article I page I-47, Rider 16; House Bill 1, 86th Legislature, Regular Session, Article I page I-43; Senate Bill 1, 87th Legislature, Regular Session, Article I page I-47, Rider 16; Chapters 1232, 1371, and 2166 Texas Government Code, as amended, and Part X, Title 34, Texas Administrative Code.

On January 9, 2020, the TPFA Board approved a resolution amending its Series 2016AB CP Program resolution and increasing the total authorized amount to include both Phase I and Phase II of the Project, and TPFA ratified its approval of the existing Series 2016AB CP Program on August 5, 2021.

The 2022-23 General Appropriations Act does not require Legislative Budget Board approval for this financing.

Under the Program, the Notes will be sold periodically as variable rate, revenue, not self-supporting debt as TFC requires funds. The Comptroller of Public Accounts (Comptroller) provides liquidity for the CP Program, up to a commitment of $200 million, plus 270 days interest.

The Notes are supported by lease appropriations made to agencies for lease payments. As such, the Notes 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 Notes.

Anticipated FY 2022 expenditure of proceeds is expected in December 2021 and the anticipated project completion date is expected in June 2025.

Lee Deviney addressed the Board.

1. **Texas Public Finance Authority Health and Human Services Deferred Maintenance Project financed by the Texas Public Finance Authority Commercial Paper Revenue Notes, Series 2019A and Series 2019B (Taxable) for the issuance of commercial paper during fiscal year 2022**

Representatives present were Lee Deviney, Executive Director, TPFA; and Rebecca Salisbury, HHSC.

TPFA is requesting approval for the issuance of CP notes during fiscal year 2022 for its State of Texas Commercial Paper Revenue Notes, Series 2019A and 2019B (Taxable) for the HHSC deferred maintenance projects authorized by the 86th Legislature in the amount of $208,816,277.

The proceeds from the CP notes will be used by HHSC for repair and renovation at state hospitals and state supported living centers. The deferred maintenance projects consist of HHSC repair and rehabilitation at state hospitals and state supported living center buildings, facilities, and infrastructure throughout the state of Texas. The work includes electrical, general building, general site, life safety, anti-ligature, mechanical, and roofing and is necessary to meet programmatic needs and provide comfort and safety for the residents and staff.

The financing agreement between HHSC and TPFA was executed on July 31, 2020.

TPFA will issue the revenue CP notes pursuant to House Bill 1, 86th Legislature, 2019, Regular Session, Article II, HHSC Rider 2a (2); Chapters 1232 and 1371, Texas Government Code as amended and Part X, Title 34, Texas Administrative Code.

HHSC adopted a resolution approving the Request for Financing on October 30, 2019.

The TPFA Board approved the HHSC request for financing and adopted a resolution authorizing the new Series 2019A and Series 2019B Taxable CP Program on November 8, 2019. On August 5, 2021, TPFA ratified its approval of the HHSC project, as well as the board resolutions previously adopted and authorized the continued use of the CP Programs in fiscal year 2022.

Legislative Budget Board approval is not required for the issuance of CP notes for this project.

The HHSC deferred maintenance projects, approved by the 86th Legislature, will be financed through TPFA’s CP Program as revenue, not-self-supporting debt using a variable-rate lease purchase agreement through the TPFA MLPP.

Lease purchases under the MLPP are financed with proceeds of CP notes issued by TPFA. The CP notes are a special and limited obligation of the State of Texas, repaid solely from lease payments to TPFA from the lessee state agency in an amount sufficient to pay the principal and interest on the CP notes that mature or become due during the fiscal year.

TPFA received ratings for the Series 2019A and Series 2019B Taxable CP Program as follows: Standard & Poor’s (A-1+) on November 18, 2019; and Moody’s (P-1) on November 21, 2019.

On June 4, 2020, the TPFA Board approved raising the liquidity capacity to $300 million so that TPFA would have the ability to increase the liquidity, if needed, to support the issuance of debt under the CP program. There has not yet been the need to raise the liquidity limit.

Lee Deviney addressed the Board and answered questions.

1. **Texas Public Finance Authority Commercial Paper Revenue Notes, Series 2019A and Series 2019B (Taxable) for purchasing an existing building and real estate to be used to operate the Texas Bullion Depository**

Representatives present were Lee Deviney, Executive Director, TPFA; and David L. Cruz, Senior Counsel For Fiscal and Agency Affairs, CPA.

TPFA is requesting approval for the issuance of CP notes during fiscal year 2022 for its State of Texas Commercial Paper Revenue Notes, Series 2019A and 2019B (Taxable) in an amount not to exceed $20,000,000 plus the cost of issuance and related administrative costs, if any, for the Comptroller’s purchase of a building currently housing and to be operated by the Texas Bullion Depository.

The proceeds from the CP notes will be used by the Comptroller to purchase an existing building and real estate located at 214 Heritage Grove Road, Leander, Texas, 78641 which currently houses the Texas Bullion Depository.

Project costs, in the estimated amount of $20,000,000, were appropriated to the Comptroller by the 87th Legislature in SB 1, RS under Article IX, Contingency and Other Operations, Rider 18.70.

The Comptroller was appropriated receipts from lease payments made from building tenants estimated to be $1,680,000 in fiscal year 2022 and $1,680,000 in fiscal year 2023 to make lease payments to TPFA, and those amounts are sufficient to pay projected debt service.

TPFA will issue the revenue CP notes pursuant to Senate Bill 2230, 87th Legislature, Regular Session, and Senate Bill 1, 87th Legislature, Regular Session; Article IX, Contingency and Other Provisions, Rider 18.70 (See Application, pages 19-20); Article I, Fiscal Programs – Comptroller of Public Accounts, Rider 16 (See Application, pages 17-18); Chapters 1232 and 1371, Texas Government Code, as amended, and Part X, Title 34, Texas Administrative Code.

The Comptroller adopted a resolution approving the Request for Financing on July 22, 2021.

On August 5, 2021, the TPFA Board approved the Comptroller’s request for financing and authorized the use of the existing TPFA Commercial Paper Revenue Notes Series 2019A and Taxable Series 2019B Program as the method of finance.

TPFA staff confirmed that Legislative Budget Board approval is not required for the issuance of CP notes for this project.

The amount of $20,000,000 to purchase the Texas Bullion Depository Project will be financed through TPFA’s CP Program using a variable-rate lease purchase agreement and is expected to be revenue self-supporting debt.

The purchase is expected to close in November 2021 and the Comptroller expects a one-time expenditure at closing.

Goldman Sachs & Co. and Loop Capital Markets LLC are expected to be the CP dealers for the CP Program. TPFA may request, through BRB approval, to refinance (refund) the outstanding notes into long-term fixed-rate bonds which would free up existing liquidity capacity under the CP Program.

Lease purchases under the MLPP are financed with proceeds of CP notes issued by TPFA. The CP notes are a special and limited obligation of the State of Texas, repaid solely from lease payments to TPFA from the lessee state agency in an amount sufficient to pay the principal and interest on the CP notes that mature or become due during the fiscal year.

Historically, all outstanding as well as authorized but unissued CP notes for the TPFA MLPP program have been included in the state’s Constitutional Debt Limit (CDL). As of August 31, 2020, the CDL was calculated at 2.67 percent including both outstanding and authorized but unissued debt. The Texas Bullion Depository project is not expected to significantly affect the CDL, as TPFA presumes that the project will be self-supporting.

It is anticipated that only taxable debt will be issued for this Comptroller building purchase as this project is not expected to be eligible for tax-exempt financing due to private use. TPFA plans to issue $20 million of CP on November 1, 2021.

Lee Deviney addressed the Board and answered questions.

1. **Title 34 Texas Administrative Code, Part 9, Chapter 181 Bond Review Board Rules, §§ 181.1, 181.2, 181.3, 181.5, and 181.10**

As it relates to the state debt oversight process, BRB staff proposes updates and clarifications to its administrative code rules specifically allowing for the electronic submission of non-exempt state debt application materials, state debt final reports, and state debt issuer semi-annual reports. The proposed rule changes were published in the August 6, 2021, publication of the Texas Register, and the public comment period extended through midnight on Sunday, September 5, 2021.

BRB staff did not receive any comments during the public comment period.

1. **Title 34 Texas Administrative Code, Part 9, Chapter 190 Allocation of State’s Limit on Certain Private Activity Bonds, §§ 190.1, 190.2, 190.3, 190.4, 190.5, 190.6, 190.7, and 190.8**

As it relates to the state’s Private Activity Bond program, BRB staff proposes updates and clarifications to its administrative code rules allowing for the submission of either a hard copy or electronic copy of the PAB application materials and granting authorization for and guidance on the use of electronic signatures. The proposed rule changes were published in the August 6, 2021, publication of the Texas Register, and the public comment period extended through midnight on Sunday, September 5, 2021.

BRB staff did not receive any comments during the public comment period.

1. **EXEMPT – Texas Water Development Board State Water Implementation Revenue Fund for Texas Revenue Bonds, Series 2021**

This transaction was submitted on the BRB EXEMPT track, and the 6-day review period expired on Thursday, September 9, 2021.

1. **EXEMPT – Texas Water Development Board State Revolving Fund Revenue Bonds, Series 2021**

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

This transaction was submitted on the BRB EXEMPT track. The Board’s 6-day review period will begin once the application is complete.

The TWDB seeks approval to issue its State Revolving Fund Revenue Bonds Series 2021 with a maximum par amount of $500,000,000 and a maximum total proceeds amount including premium, if any, not to exceed $502,556,785. At this time, TWDB staff expects to issue bonds with a total par amount of $413,550,000.

The Series 2021 Bonds are being issued to: 1) provide funds to the Water Resources Fund to (a) augment the CWSRF and the DWSRF, and (b) provide state matching funds to obtain federal capitalization grants relating to the CWSRF and the DWSRF, and 2) to pay costs of issuance.

The Series 2021 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 September 9, 2021, the TWDB adopted the resolution for the issuance of the Series 2021 Bonds.

The Series 2021 Bonds will be sold through a negotiated sale as revenue, self-supporting, tax-exempt, fixed rate securities with an expected final maturity date of August 1, 2041

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.

TWDB received ratings of AAA and AAA from S&P and Fitch, respectively, both with a stable outlook on September 13, 2021, and September 9, 2021, respectively.

Total cost of issuance per $1,000 bond is estimated at $5.84.

1. **EXEMPT – Texas State Affordable Housing Corporation Multifamily Mortgage Revenue Notes (W. Leo Daniels Towers), Series 2021A-1 and Series 2021A-2**

Representative present was David Danenfelzer, Senior Director, TSAHC.

This transaction was submitted on the BRB EXEMPT track. The Board’s 6-day review period will begin once the application is complete.

TSAHC is seeking approval for the issuance of its Texas State Affordable Housing Corporation Multifamily Housing Mortgage Revenue Notes (W. Leo Daniels Towers) Series 2021A-1 Series and 2021A-2 (the Notes) in an aggregate maximum par amount and maximum total proceeds amount of $15,000,000 including premiums, if any.

The financing includes long‐term tax‐exempt bonds**,** a deferred forgivable loan from the City of Houston’s CDBG Disaster Relief program, 4% housing tax credits, a seller note paid from cash flow after debt service, and a deferred developer fee.

Roughly $4.5 million will be used for property acquisition costs, with a total rehabilitation of $13.7 million, or $137,000 per unit.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for Thursday, September 23, 2021, at 10am in Room 402 of the Clements Building. Staff is working with Board members on meeting dates for an October planning session and Board meeting.

1. **Items for Future Agendas**

Each Board member received an updated list of future agenda items.

1. **Report from the Executive Director**
   * The BRB has received approximately 2,142 local debt issuances for processing during fiscal year 2021. This is the most transactions every received during one fiscal year for processing and is a 13% increase (245 transactions) from the amount of local debt issuances received during fiscal year 2020.
   * Applications for the 2022 Private Activity Bond (PAB) Program year will be received starting October 5th through October 20th. The PAB Program is in high demand and staff is planning to receive more applications for the 2022 PAB lottery than last year. BRB staff plans to hold the lottery on Thursday, November 4, 2021, in the Clements Building, Room 402 and via videoconference.
   * Staff has started receiving State Debt Issuer Reports for fiscal year 2021. These reports are due by Wednesday, September 15, 2021. With these reports, staff will begin to reconcile the state debt information for the period ending August 31, 2021. Staff expects a draft of the state debt numbers to be available around mid to late October. Final numbers will be published in the agency’s 2021 Annual Debt Report on December 1, 2021.
2. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:30 a.m.