Minutes

Texas Bond Review Board

Planning Session

Tuesday, September 9, 2008, 10:00 a.m.

John H. Reagan Building, Room 140

Austin, Texas

The Texas Bond Review Board convened a planning session at 10:00 a.m., Tuesday, September 9, 2008, in the John H. Reagan Building, Room 140 in Austin, Texas. Present were Ed Robertson, Chair and Alternate for Governor Rick Perry; Frank Battle, Alternate for Lt. Governor David Dewhurst; Lita Gonzalez, Alternate for Comptroller Susan Combs. Also in attendance were Tom Griess with the Office of the Attorney General, Bond Finance Office staff members and others.

**I. Call to Order**

Bob Kline, Executive Director of the Bond Review Board, called the meeting to order at 10:08 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.

**II.** **Texas Tech University (TTU), CHACP I – Stack Gas Heat Recovery**

Representatives present were: Jim Brunjes, Vice Chancellor and Chief Financial Officer; Charles Semple, Asst. Vice Chancellor, Governmental Relations; and Lon Meril, TTU; Mary Williams, FA, First Southwest Company; and Paul Braden, BC, Fulbright and Jaworski.

Bob Kline gave a brief summary of the transaction. TTU was seeking approval for a lease purchase of a gas stack heat recovery unit with an estimated total purchase price of $800,000 through the Texas Public Finance Authority’s (TPFA) Master Lease Purchase Program (MLPP). The financing purpose was to purchase and install a flue gas economizer to recover waste heat from the boiler exhaust stacks that will be used to preheat the condensate return at TTU’s Central Heating and Cooling Plant (CHACP) #1.

The Texas Tech University Board of Regents approved the project on July 24, 2008; and the Board’s MLPP Resolution with TPFA became effective on August 11, 2008.

The economizer was projected to provide annual savings of $240,000 and an estimated simple payback of 3.3 years.

Per Lon Meril from TTU, the savings from Plant #1 will be 30 billion BTUs per year, and the savings from Plant #2 will be about 18 billion BTUs of natural gas per year. Lon commented that the heat recovered from the stack gas should result in annual savings of $240,000 in natural gas in Plant #1 and about $130,000 in annual savings in Plant #2.

The University will pay for the lease purchase from its Maintenance Capital Improvement Funds. The payback of the financing is based on energy savings with an estimated simple payback of 3.3 years.

**III. Texas Tech University (TTU), CHACP II – Stack Gas Heat Recovery**

Representatives present were: Jim Brunjes, Vice Chancellor and Chief Financial Officer; Charles Semple, Asst. Vice Chancellor, Governmental Relations; and Lon Meril, TTU; Mary Williams, FA, First Southwest Company; and Paul Braden, BC, Fulbright and Jaworski.

Bob Kline gave a brief summary of the application. Texas Tech University was seeking to finance the purchase and installation of a flue gas economizer to recover waste heat from the boiler exhaust stacks and preheat the condensate return at Central Heating and Cooling Plant (CHACP) #2. The project was to be financed through the Texas Public Finance Authority’s (TPFA) Master Lease Purchase Program (MLPP) in an amount not to exceed $500,000. The economizer is projected to provide annual savings of $136,000 with an estimated simple payback of 3.7 years. The loan will be repaid from Texas Tech University’s current budget with the savings derived from the reduced energy costs.

Bob Kline commented that this application is similar to the previous one and the only difference is that this project will service the Texas Tech Health Science Center, and Plant #1 will service the main campus.

**IV. Board of Regents of the Texas Tech University System (TTUS) Revenue Financing System, Refunding and Improvement Bonds, Twelfth Series (2008)**

Representatives present were: Jim Brunjes, Vice Chancellor and Chief Financial Officer; Charles Semple, Asst. Vice Chancellor, Governmental Relations; and Lon Meril, TTU; Mary Williams, FA, First Southwest Company; and Paul Braden, BC, Fulbright and Jaworski.

Bob Kline gave a brief summary of the application. The Board of Regents of the Texas Tech University System was seeking authorization to issue its Texas Tech University System Revenue Financing System Refunding and Improvement Bonds, Twelfth Series (2008) in a maximum par and not-to-exceed the amount of $291,513,000 including premiums, if any, of which $79,908,000 will be issued as tuition revenue bonds (TRBs). The TTUS plans to issue bonds for the following purposes: acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, building structures, facilities, roads, or related infrastructure for TTUS, and for paying the related issuance costs. Bond proceeds of $130,869,000 are expected to be used for construction and infrastructure projects of which approximately $60,000,000 will be used to refund currently outstanding commercial paper.

The Board expects to currently refund a total principal amount of $142,680,000 of which $135,355,000 is from TTUS bonds outstanding while $7,325,000 is from the San Angelo State portion of the Texas State University System bonds outstanding. The total amount needed for this refunding is approximately $153,776,502 including accrued interest. Additionally, the anticipated NPV savings is 4.5%.

The Board adopted and authorized the Twelfth Supplemental Resolution authorizing the issuance of the bonds at its August 8, 2008 meeting. The Texas Higher Education Coordinating Board approved all projects through approval letters with various dates from 8/31/2006 through 8/21/2008.

Jim Brunjes commented that the majority of the new bonds were the University’s tuition revenue bonds that were authorized by the 79th Legislature in the 3rd called session.

On September 11th, 2007 the TTUS board passed a binding resolution for San Angelo State that commits TTUS to pay debt-service for the debt that had been issued on behalf of San Angelo State University by the Texas State University System. TTUS made debt-service payments on September 15, 2007 and March 15, 2008, and the next payment will be made on September 15, 2008.

Mr. Brunjes stated that additional discussions with TSUS have resulted in an agreement for a note to be given from TTIS to TSUS that will establish the TTUS debt assumed on behalf of San Angelo State University as parity debt within the Texas Tech University System Revenue Financing System. The note will not affect the rating of Aa3 for the Texas Tech University System. The note agreement is expected to be approved by the TTUS Board of Regents this Friday at 11:15 a.m.

Bob Kline requested that Texas Tech University submit a notification to the BFO when the note agreement is approved. As of 11/05/08 an agreement has not been approved.

**V. EXEMPT – Veterans’ Land Board of the State of Texas, Veterans’ Housing Assistant Program, Fund II Series 2008B Bonds**

This transaction was approved on the exempt track on August 29, 2008.

1. **Texas State Technical College (TSTC) System, Revenue Financing Bonds, Series 2008A**

Representatives present were: Gary Hendricks, Vice Chancellor for Financial & Administrative Services, TSTC; Susan Wallis, Vice President for Financial Services, TSTC West Texas; Jennifer Douglas, Placement Agent, First Southwest Company; and Richard Donoghue, BC, McCall, Parkhurst & Horton.

Bob Kline gave a brief summary of the transaction saying that Texas State Technical College System is seeking approval to issue its Texas State Technical College System Revenue Finance System (RFS) Bonds, Series 2008A in an aggregate and par amount not to exceed $1,000,000. Net proceeds after issuance costs will be issued to pay down a portion of the $2.2 million of MLPP financing used to purchase and install TSTC’s first wind turbine at its West Texas Sweetwater campus.

The Energy Policy Act of 2005 created Clean Renewable Energy Bonds (CREB). Eligible projects must be renewable energy projects (i.e., solar, wind, biomass and landfill gas) used for the generation of electricity. The System received a 2007 CREB allocation in the maximum amount of $1,000,000 from the US Treasury Department on December 21, 2007. Under its terms, the CREB bonds must be issued no later than December 31, 2008. Additionally, the bonds bear interest at 0%, and the bondholders receive federal tax credits in lieu of interest payments. The tax credit rates and the final maturity of CREBs change monthly.

The TSTC Board of Regents and THECB approved the transaction on September 3, 2008.

1. **EXEMPT – Texas Department of Housing and Community Affairs Multifamily Housing Revenue Bonds (Providence Town Square Apartments), Series 2008**

This transaction is on the exempt track with the 6-day review period ending at the COB on Monday, September 15, 2008.

1. **Texas Department of Housing and Community Affairs (TDHCA) Single Family Mortgage Revenue Bonds (Draw Down Facility), Series 2008A and Series 2008B**

Representatives present were: Matt Pogor, Director of Bond Finance, TDHCA; Gary Machak, FA, RBC Capital Markets; and Elizabeth Rippy, BC, Vinson & Elkins.

Bob Kline gave a brief summary of the transaction stating that TDHCA was requesting approval from the Bond Review Board for its TDHCA Single Family Mortgage Revenue Bonds (Draw Down Facility), Series 2008A and Series 2008B with an aggregate total and par amount outstanding of $400,000,000 comprised of $200,000,000 in maximum and par amount for the Series 2008A Bonds and the Series 2008B Bonds, respectively. The initial draw for the Series 2008A Bonds was expected on October 14, 2008 in the amount of $71,431,000, and the initial draw for the Series 2008B Bonds was expected in January 2009 in the amount of $80,000,000.

The Draw Down Facility is intended to replace the Department’s commercial paper program originally established in 1994 to: 1) recycle certain prepayments of single family and residential mortgage revenue bonds into new mortgage loans and thus preserve private activity bond volume cap under the Department’s single family mortgage revenue bond program, and 2) to warehouse new volume cap authority.

For tax purposes, each series of the Bonds will have its own distinct tax plan. Series 2008A Bonds will be used to capture eligible prepayments and repayments, and the Series 2008B Bonds will be used to warehouse volume cap. The use of the two series enables the Department to more efficiently use the new volume cap that is captured.

Under applicable federal income tax law, the Department is permitted to recycle into new mortgage loans any prepayments and repayments received within ten years after the date when the bonds to finance such mortgage loans were originally issued. The amount that can be recycled is equal to the amount of the principal payments and prepayments of the mortgage loans associated with the Department’s prior bond issues. The preserved volume cap can then be used to fund additional mortgage loans.

The draw down bond proceeds will be used to refund and discharge the original bonds corresponding to the principal payments and prepayments.

In accordance with the Texas Government Code Section 2306.142(m) the Department requests that the Bond Review Board waive the requirements of Texas Government Code Section 2306.142(l) based on its determination that it is unfeasible or will damage the financial condition of TDHCA to issue bonds with the restrictions contained therein.

1. **Texas Department of Housing and Community Affairs (TDHCA) Single Family Mortgage Revenue Bonds, 2008 Series A and Single Family Variable-Rate Mortgage Revenue Bonds, 2008 Series B**

Representatives present were: Matt Pogor, Director of Bond Finance, TDHCA; Gary Machak, FA, RBC Capital Markets; Rob Etteldorf, Managing Director, RBC Capital Markets; Elizabeth Rippy, BC, Vinson & Elkins; Peter Weiss, Senior Manager, J.P. Morgan; and mark Malveaux, Disclosure Counsel, McCall Parkhurst & Horton.

Bob Kline stated that TDHCA was seeking approval for its Single Family Mortgage Revenue Bonds, 2008 Series A and Single Family Variable-Rate Mortgage Revenue Bonds, 2008 Series B in a par and not to exceed amount of $129,600,000 including premiums, if any. The 2008 Series Bonds will be used to provide funds to finance the purchase of low interest-rate mortgage loans made by lenders to homebuyers of low, very low and moderate income who are acquiring moderately priced residences. Proceeds will provide down payment and closing cost assistance, to fund capitalized interest and to pay costs of issuance.

In accordance with the Texas Government Code Section 2306.142(m) the Department requests that the Bond Review Board waive the requirements of Texas Government Code Section 2306.142(l) based on its determination that it is unfeasible or will damage the financial condition of TDHCA to issue bonds with the restrictions contained within.

1. **Texas A&M University System (TAMUS), Approval of Authorized but unissued Tuition Revenue Bond Projects**

Representatives present were: Maria Robinson, Director of Treasury Services, TAMUS

Bob Kline gave a brief summary stating that TAMUS was seeking approval to issue authorized but unissued TRBs with a total par and not to exceed amount of $32,894,000 including premiums if any. Costs for the two projects total $40,731,000 including $7,837,000 of project costs to be funded through other sources. The System has two remaining authorized but unissued TRB projects: one for TAMU – San Antonio (Kingsville Campus) and one for TAMU – Central Texas (Tarleton State). Requests for approval for these projects will come before the Bond Review Board at a later date.

The Board requested from TAMUS a list of the 15 projects and where each project stands.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next Board meeting will be held next Thursday, September 18 in Room E2.026, Capital Extension.

1. **Items for Future Agendas**

A list of projected bond issuances that will need to be reviewed for Fiscal Year 2009 and 2010 was passed out to the Board.

1. **Report from Executive Director**

* The 2010 – 2011 Capital Expenditure Plan has been submitted and is posted on the agency’s website.
* The SAO audit report on Energy Saving Performance Contract (ESPC) has been provided to the Legislative Audit Committee and will be released to the public on Thursday, September 11, 2008.
* The comment period for the amendments to the Board’s Commercial Paper Rules ends on September 29, 2008 and no comments have been received to date. Staff recommendations will be presented at the Planning Session in November for Board approval at the Board meeting on the 19th.
* We will review the SAO Report and work with the AG’s office to determine if we need to amend our rules for the approval process for ESPCs.
* We are sending out PAB forms to housing issuers to provide them with the options to use the Emergency Volume Cap under the rules that were approved at the August 29 Board meeting.
* Staff provided testimony last week on the agency’s 2010-2011 LAR.
* The BRB is currently receiving Annual Issuer Reports to complete the 2008 Annual Report.
* Mr. Kline is working with Peter Schapiro, the Board’s swap advisor to prepare the first draft of the State’s Derivative Policy and to set up a training session with the Board at a convenient time.

**Adjourn**

There being no further business the meeting was adjourned at 11:51 a.m.