Minutes

Texas Bond Review Board

Planning Session

Tuesday, November 10, 2020, 10:00 a.m.

Videoconference Meeting

The Texas Bond Review Board (BRB) convened in a planning session at 10:00 a.m., Tuesday, November 10, 2020 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 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. A quorum was present. He announced that due to Governor Greg Abbott’s March 13, 2020 proclamation of a state of disaster affecting all counties in Texas due to the Coronavirus (COVID-19) and the Governor’s March 16, 2020 suspension of certain provisions of the Texas Open Meetings Act, this meeting will be held by video webinar, as authorized under Texas Government Code section 551.127. No votes would be taken.

1. **Texas Department of Housing and Community Affairs Request for Annual Waiver of the Section 2306.142(l) Requirements pursuant to Texas Government Code 2306.142(m) for calendar year 2021**

Representative present was Monica Galuski, Director of Bond Finance and Chief Investment Officer, TDHCA

The Texas Department of Housing and Community Affairs (TDHCA or the Department) Single Family Mortgage Revenue Bond Program provides below-market interest rate mortgages to low, very low and moderate-income single-family homebuyers.

At its October 8, 2020 meeting, the TDHCA Board was presented with a report dated September 25, 2020 from its financial advisor, Stifel Public Finance (successor to George K. Baum & Company), addressing the feasibility and potential economic impact to the Department of fulfilling the Texas Government Code (TGC) Section 2306.142(l) requirements. This report has been submitted to the Bond Review Board (BRB).

At its meeting on October 8, 2020, the TDHCA Board approved a resolution requesting the BRB waive TGC Section 2306.142(l) requirements for all single-family revenue bonds issued by TDHCA in calendar year 2021.

TDHCA Single Family Bonds are special, limited obligations of TDHCA, payable solely out of the revenues, receipts, and security pledged under the Single Family Indenture. The Bonds do not constitute a general obligation of the state of Texas.

If the BRB waives the requirements of TGC Section 2306.142(l), this would allow TDHCA to submit any single-family application for BRB review on the exempt track for calendar year 2021.

The Department last conducted a market study pursuant to TGC Section 2306.142(l) to assess home mortgage credit needs in underserved economic and geographic submarkets in August 2002.

Monica Galuski answered questions from the Board.

1. **Texas Public Finance Authority Lease Revenue and Refunding Bonds (Texas Facilities Commission) Series 2020 (in one or more tax-exempt or taxable series)**

Representatives present were Lee Deviney, Executive Director, TPFA; Kevin Van Oort, General Counsel, TPFA; John Hernandez, Deputy Director, TPFA; John Barton, Sr. Financial Analyst, TPFA; Chris Allen, Financial Advisor, RBC Capital Markets; John Raff, Director of Facility Design and Construction, TFC; and Diane Jackson, CFO, TFC.

TPFA is requesting approval to issue its Lease Revenue and Refunding Bonds (Texas Facilities Commission), Series 2020 (in one or more taxable or tax-exempt series) in a maximum par and total proceeds amount of $400,000,000 including premiums, if any. The new money total bond proceeds amount is estimated to be approximately $200,000,000, and the CP refunding money total bond proceeds amount is estimated to be approximately $200,000,000.

TPFA staff states if any portion of the Series 2020 Bonds are issued as tax-exempt, there may be premium associated with that portion. If an all taxable structure is used, TPFA expects the Series 2020 Bonds to be sold as par bonds.

TPFA provided debt service for two different scenarios. One scenario assumes all bonds are issued as taxable at par, with no premium, in a maximum par and total proceeds amount of $400 million.

The second scenario assumes bonds are issued as both tax-exempt and taxable with a total par amount of $368,760,000, a premium of $31,239,604.05, and a total maximum proceeds amount of $399,999,604.05, including premiums.

The maximum bond proceeds amount requested in the BRB application does not include an issuer cash contribution from revenue lease payments of $3,065,418.04 (for the all taxable scenario), which TPFA expects to use to pay cost of issuance for the bonds and funding the escrowed interest.

The Series 2020 Bonds will be used to refund all or a portion of the TPFA Revenue Commercial Paper Notes (Texas Facilities Commission) Series 2016A (Taxable) and 2016B (Tax-Exempt), finance certain costs of the Capitol Complex and North Austin Complex projects and pay the costs of issuance.

TPFA will issue the bonds pursuant to the authority granted by Chapters 1207, 1232, 1371, and 2166 Texas Government Code, as amended and pursuant to H.B. 1, 84th Legislature, Regular Session, Article I, pg. I-45, Rider 19 (2015); S.B. 1, 85th Legislature, Regular Session, Article I, pg. I-46, Rider 16 (2017); and H.B. 1, 86th Legislature, Regular Session, Article I, Sec. 1, pg. I-43, Rider 3 (items a(1) and a(2)) and Article I, Sec. 1, pg. I-47, Rider 16 (2019).

The TPFA Board approved the bond resolution at its meeting on Thursday, November 5, 2020. The 2020-21 General Appropriations Act does not require written approval by the Legislative Budget Board for this financing.

The bonds will be issued in a negotiated sale as tax-exempt and/or taxable, revenue, not self-supporting, fixed-rate securities with an expected 20-year term. For the all taxable bond scenario, the Series 2020 Bonds are expected to have an average life of 10.404 years and an all-in true interest cost (TIC) of 2.57%. For the combination tax-exempt and taxable bond scenario, the Series 2020 Bonds are expected to have an average life of 10.421 years and an all-in true interest cost (TIC) of 2.53%.

The bonds are supported by lease appropriations made to agencies for lease payments. As such, the bonds 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 (TFC). 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 bonds.

TPFA is expected to receive ratings of Aa1 and AA+ from Moody’s and S&P, respectively, which are the same as previously issued TFC appropriation backed revenue bonds.

Total cost of issuance is expected to be approximately $2,610,000 or $6.53 per bond.

The refunding bonds will be issued to pay off all outstanding Series 2016A (Taxable) and Series 2016B (Tax-Exempt) 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. The current liquidity agreement for the Series 2016AB CP program with the CPA office is $200 million.

Lee Deviney answered questions from the Board.

1. **EXEMPT - Texas Private Activity Bond Surface Transportation Corporation Senior Lien Revenue Refunding Bonds (LBJ Infrastructure Group LLC I-635 Managed Lanes Project) Taxable Series 2020C (in one or more series)**

This transaction was submitted on the BRB EXEMPT track, and staff is still waiting for a complete application. Final rating reports are expected later this week.

Representatives present were Benjamin Asher, Director, TxDOT; Jennifer Wright, Project Finance & Debt Director, TxDOT; Jim Bateman, General Counsel, TxDOT; and Carol Polumbo, Partner, McCall Parkhurst & Horton, Bond Counsel.

PABSTC is requesting an exempt track approval from the BRB for the issuance of the Senior Lien Revenue Refunding Bonds Taxable Series 2020C under BRB Rule 181.9(a)(6) which states that formal approval is not required for self-supporting revenue securities that have no general revenue impact to the state.

PABSTC submitted an Exempt Issuer State Debt Notice of Intent to issue its Senior Lien Revenue Refunding Bonds (LBJ Infrastructure Group LLC I-635 Managed Lanes Project), Taxable Series 2020C (in one or more series) in a maximum par amount and maximum total proceeds amount not to exceed $1,201,455,000 including premiums, if any.

Proceeds of the Taxable Series 2020C bonds will be used to refinance the entire outstanding 2010 TIFIA loan balance in the amount of $1,136,276,012 and pay for cost of issuance including other associated transaction fees.

Per TXDOT staff, in order to achieve the highest amount of savings possible, the Developer is considering two difference scenarios. Scenario one contemplates the issuance of bonds with a term structure. Scenario two contemplates a mix of serial bonds with two bullet maturities and CABs (Capital Appreciation Bonds). Scenario two reduces the cost of the debt which produces a higher amount of savings. Until the Developer is closer to the pricing, a decision of the final structure won’t be made as it will depend on the market situation at that moment.

Under scenario one, the Taxable Series 2020C bonds are expected to produce an estimated net present value (NPV) cash savings of $1,279,146 and an overall NPV percent savings of 0.11%. Under this scenario, the final maturity of the Taxable Series 2020C refunding bonds is expected to be June 30, 2050.

Under scenario two, the Taxable Series 2020C bonds are expected to produce an estimated NPV cash savings of $108,247,568 and an overall NPV percent savings of 9.53%. Under this scenario, the final maturity of the Taxable Series 2020C refunding bonds is expected to be December 31, 2035.

PABSTC is authorized by State law, including Subchapters A-C of Chapter 431 Texas Transportation Code, to issue the bonds.

On May 28, 2020 in Minute Order 115749, TTC authorized PABSTC to issue one or more series of bonds to refinance the 2010 TIFIA loan, per the Developer’s request, in accordance with the CDA between the Developer and TXDOT.

On June 16, 2020 the Corporation approved the issuance of one or more series of bonds in a maximum principal amount not to exceed $1,850,000,000 to include the refunding of the 2010 TIFIA loan and related costs.

The Corporation expects to received ratings of BBB- from Fitch and Baa3 from Moody’s.

Total cost of issuance is expected to be $11,069,501 or $9.45 per bond.

Ben Asher and Jennifer Wright answered questions from the Board.

1. **Public Comment**

There were no public comments.

1. **Date for Next Board Meeting**

The next Board Meeting is scheduled for Thursday, November 19, 2020 at 10am.

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 continuing to process local government debt issues for fiscal year 2020. BRB staff expects to receive more than 1,900 local debt issues for processing in fiscal year 2020. That is a 28% increase from last year and the most ever received in one fiscal year. Staff expects to complete all processing by November 30th.
* The 2021 Private Activity Bond lottery took place via Zoom webinar on Thursday, November 5th. There was a total of 68 applications in line to receive a reservation on or around January 2, 2021. Total requested amount of state volume cap during the lottery was $2,683,000,000.
* Rob will be speaking at the Texas Association of Local Housing Finance Agencies conference on Tuesday, November 10, 2020 at 12pm.
* Staff has reconciled all state debt outstanding based on the State Debt Issuer Reports received back in October. Staff is preparing the agency’s State Debt Annual Report for FY 2020 and plans to send a draft to the Board by Monday, November 23, 2020. Due to the local government processing backlog, local debt for fiscal year 2019 will remain in the state debt report until staff completes processing and updates the figures.
* The new BRB Data Center website is in beta testing. Staff would like to release the data center on the agency’s website by late November.
* The next Texas Public Finance Seminar is scheduled for Thursday, November 12th at 1pm. Nick Samuels, from Moody’s Investors Service, will discuss the credit environment for state credit, the strengths and challenges that drive Texas’ credit profile, what factors are developing that will shape credit after COVID and how environmental, social and governance (ESG) factors help shape credit.

1. **Adjourn**

There being no further business, the planning sessionwas adjourned at 10:34 a.m.