

Texas Water Development Board

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TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator

FROM: Amanda Landry, Chief Financial Officer

DATE: February 23, 2015

SUBJECT: State of Texas General Obligation Water Financial Assistance Bonds, Series 2015E (Economically Distressed Areas Program), 2015F and 2015G (Taxable).

ACTION REQUESTED

Consider a revision of the not to exceed aggregate principal established at the January 29, 2015 board meeting to \$110,000,000 due to changes in the plan of finance, and approve by resolution the following: (a) the issuance, sale and delivery of State of Texas, General Obligation Water Financial Assistance Bonds, Series 2015E (Economically Distressed Areas Program), 2015F, and 2015G (taxable) in one or more series in an aggregate principal amount not to exceed \$110,000,000; (b) a Preliminary Official Statement; and (c) authorization for the Executive Administrator and the Development Fund Manager to act on behalf of the Texas Water Development Board in the sale and delivery of such bonds.

BACKGROUND

On January 29, 2015 the board authorized the issuance of up to \$78,000,000 in General Obligation bonds for the Development Fund Program to finance \$50 million in funding for the Economically Distressed Areas Program (EDAP) in the fiscal 2014-2015 biennium and provide funding for upcoming state match requirements for both the Clean Water (CW) and Drinking Water (DW) State Revolving Fund (SRF) grants. Ramirez & Co., Inc was selected as the book-running Senior Manager and Co-Managers include Loop Capital Markets, Mesirow Financial and SAMCO Capital Markets.

First Southwest Company will serve as financial advisor for this transaction. Norton Rose Fulbright will serve as bond counsel and Escamilla & Poneck as disclosure counsel

Staff in coordination with the consultants, has drafted the required documents and after approval of this item will make application to the Bond Review Board (BRB) under the non-exempt application process. The Board anticipates receiving BRB approval on March 19, 2015. Documents attached for your review include the Bond Resolution and Preliminary Official

Our Mission	:	Board Members
To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas	:	Carlos Rubinstein, Chairman Bech Bruun, Member Kathleen Jackson, Member
	:	Kevin Patteson, Executive Administrator

Statement. Staff anticipates minor edits to update these documents prior to publication. There is sufficient constitutional authority for this issuance.

MODIFICATION OF NOT TO EXCEED AGGREGATE PRINCIPAL AMOUNT

This item recommends an increase to the not to exceed aggregate principal amount to \$110,000,000 due to changes in the plan of finance since the January 29, 2015 board meeting.

Subsequent to the January 29, 2015 board meeting, TWDB staff and financial advisor analyzed the state match component of the transaction in detail. Specifically, the financing of the state match requirements associated with the Drinking Water State Revolving Fund (DWSRF) were reexamined. The DWSRF program has funded its state match requirement in quarterly installments since program inception.

We have concluded that the DWSRF program's cash flows now have the ability to finance the annual state match requirements up front. This is possible due to cash accumulated in the interest repayments accounts and the projected accruals to the interest accounts related to recent closings of large DWSRF loans.

The plan of finance and proposed not to exceed amount was expanded to provide financing for a cumulative \$45,500,000 of state match requirements for the CWSRF and DWSRF program. Making the change to up-front funding of the DWSRF match streamlines our administration of this aspect of the program.

In addition to the modification for the increased match financing, the staff was recently notified of requests for closing taxable loan commitments from the Development Fund program. An analysis of available equity balances concluded there were not sufficient funds to fund the loans. Therefore, the plan of finance was expanded to provide financing for a cumulative \$12,750,000 for the funding of two taxable loans.

BOND SIZING

Preliminary debt service schedules for the bonds at a not-to-exceed format are included as Attachment 3. The maximum par amount of \$110,000,000 includes underwriter's discount, costs of issuance, and rounding amounts. While the par and premium amounts may be adjusted at the time of pricing due to market considerations, total proceeds will not exceed \$110,000,000. Final issue size will depend upon the underlying borrowers.

COSTS OF ISSUANCE

Based on historical costs of issuance and the estimated par amount of the new bonds, the costs of issuance for the transaction have been estimated at a not to exceed cost of \$5.45 per bond for the underwriter's discount and a maximum of \$375,000 for all other related costs (i.e. bond counsel, disclosure counsel and financial advisory fees, bond ratings, paying agent/registrar fees and other miscellaneous costs).

The estimated fees and expenses are in line with the market and other similarly sized and structured bond transactions and are detailed in Attachment 4. The fees and expenses may be negotiated further based on market conditions at the time of pricing.

SCHEDULE

The Schedule of Events has been provided as Attachment 5. Staff anticipates pricing the bonds April 27, 2015 and closing the transaction May 20, 2015.

RECOMMENDATION

Revise the not to exceed aggregate principal established at the January 29, 2015 board meeting to \$110,000,000 due to changes in the plan of finance, and approve by resolution the following: (a) the issuance, sale and delivery of State of Texas, General Obligation Water Financial Assistance Bonds, Series 2015E (Economically Distressed Areas Program), 2015F, and 2015G (taxable) in one or more series in an aggregate principal amount not to exceed \$110,000,000; (b) a Preliminary Official Statement; and (c) authorization for the Executive Administrator and the Development Fund Manager to act on behalf of the Texas Water Development Board in the sale and delivery of such bonds.

Attachments:

- 1 – 2015E (EDAP) Bond Resolution
- 2 – 2015F Bond Resolution
- 3 – 2015G (Taxable) Bond Resolution
- 4 – Draft Preliminary Official Statement
- 5 – Draft Debt Service Schedules
- 6 – Estimated Costs of Issuance
- 7 – Schedule of Events

This recommendation has been reviewed by legal counsel and is within the TWDB's legal authority.

Les Trobman, General Counsel