

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator
Chris Hayden, Interim Chief Financial Officer

FROM: David Duran, Team Lead - Debt Management

DATE: August 7, 2015

SUBJECT: Consider approving by resolution the reimbursement of the costs of loans and funds transfers through the issuance, sale and delivery of up to \$51,942,600 of Water Financial Assistance General Obligation Bonds.

ACTION REQUESTED

Consider approving by resolution the reimbursement of the costs of loans and funds transfers through the issuance, sale and delivery of up to \$51,942,600 of Water Financial Assistance General Obligation Bonds.

BACKGROUND

Under the Development Fund II (DFund) program, the agency funds loans with program cash on hand and sells bonds to reimburse the program as needed. This allows the agency to avoid the additional interest rate costs and compliance monitoring associated with issuing bonds with Tax Increase Prevention and Reconciliation Act provisions.

The Tax Increase Prevention and Reconciliation Act requires that 30% of bonds issued be lent to eligible borrowers within the first year and 95% be lent within three years. If not met, the unmet portion of the bonds must be called which requires the bonds to be issued with extraordinary redemption language and historically has required a 102% call premium in the bond structure.

In order to reimburse itself under federal regulations, the agency must provide notice through the adoption of a Reimbursement Resolution of loans that it may fund with cash and may at a later date seek to reimburse itself for. The Board has eighteen (18) months from the date loans are closed to sell bonds and reimburse the DFund.

KEY ISSUES

Bonds will be sold to reimburse the DFund during Fiscal Year 2016 as the Board’s equity will be used to initially fund loans. Money in the DFund will also be available for transfer to any State Revolving Fund administered by the Board for the purpose of funding the state match for federal capitalization grants. Staff will continue to monitor all outstanding commitments and subsequent

loan closings identified in the Reimbursement Resolution as well as program fund balances and State Revolving Fund match requirements.

SUMMARY

The formal adoption of a Reimbursement Resolution (Attachment 1) is necessary under IRS regulations to provide notice of the Board's intent to reimburse the costs of closing program loans. This allows the Board to maintain program liquidity and cash availability for loan closings while eliminating the potential compliance issues and costs of bonds issued with the Tax Increase Prevention and Reconciliation Act provisions. Exhibit A identifies two (2) required state match contributions and four (4) loan commitments made to date since June 2012 totaling \$51,942,600 for possible future reimbursement.

RECOMMENDATION

The Executive Administrator recommends adoption of a Reimbursement Resolution expressing official intent to reimburse costs of loans and funds transfers through the issuance, sale and delivery of up to \$51,942,600 of Water Financial Assistance General Obligation Bonds.

Attachment: Attachment 1 - Reimbursement Resolution
Exhibit A – Loan Commitments and State Match Requirements

CERTIFICATION

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

Les Trobman, General Counsel

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD TO REIMBURSE COSTS OF LOANS THROUGH THE ISSUANCE, SALE, AND DELIVERY OF UP TO \$51,942,600 IN WATER FINANCIAL ASSISTANCE GENERAL OBLIGATION BONDS

(15-)

WHEREAS, the Texas Water Development Board (the "TWDB") expects prior to the issuance of Water Financial Assistance General Obligation Bonds (the "Obligations") to finance from available revenues other than bond proceeds one or more loans and state match attached hereto in **Exhibit A** ("Loans") in connection with the design, planning, acquisition and construction of water supply, wastewater and flood control projects (the "Projects"); and

WHEREAS, the TWDB must comply with the Tax Increase Prevention and Reconciliation Act Provisions related to issuing bonds; and

WHEREAS, pursuant to Internal Revenue Service regulations, when the TWDB intends to reimburse itself for the costs of loans and funds transfers, it must first provide notice of said intent in accordance with Section 1.150-2 of the U.S. Treasury Regulations; and

WHEREAS, the TWDB declares said intent to reimburse itself for such loans at such time as it issues Obligations to finance the Loans; and

WHEREAS, the TWDB finds, considers, and declares that the reimbursement of the TWDB for the payment of such expenditures are in the public interest, appropriate, and consistent with the lawful objectives of the TWDB; and,

NOW THEREFORE, based on these considerations and findings, the TWDB resolves as follows:

1. The TWDB reasonably expects to incur Obligations, as one or more series, with an aggregate maximum principal amount estimated not to exceed \$51,942,600 for the purpose of paying the costs of the Loans.
2. All costs to be reimbursed pursuant to this Resolution will be solely for the purpose of reimbursement of the Loans for the Projects set forth in Exhibit A.
3. No tax-exempt Obligations will be issued by the TWDB in furtherance of this Resolution after a date which is later than 18 months after the date the Loans are made.
4. The foregoing notwithstanding, no tax-exempt Obligations will be issued pursuant to this Resolution more than three (3) years after the date any expenditure which is to be reimbursed is paid.
5. No proceeds of Obligations will be used pursuant hereto to reimburse costs previously paid with the proceeds of other Obligations issued by the TWDB or any related entity.

APPROVED and ordered of record this 26th day of August, 2015.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

ATTEST:

Kevin Patteson
Executive Administrator

Texas Water Development Board
 Water Development Fund
 Loans/Match Authorized for Reimbursement in August 2015
 For Fiscal Year 2016

Exhibit A

Recipient Name	Loan Number	Commitment Date	Estimated Closing Date	Commitment Amount
San Jacinto RA	L1000208	6/21/2012	9/15/2015	\$ 12,500,000
Brushy Creek MUD	L1000350	11/20/2014	9/21/2015	\$ 2,425,000
Anton	L1000448	7/2/2015	9/24/2015	\$ 3,000,000
Brownwood	L1000076	9/20/2012	9/30/2015	\$ 8,560,000
TOTAL				\$ 26,485,000

State Match Requirements*

Drinking Water State Revolving Fund - 2016	12,706,400
Clean Water State Revolving Fund - 2016	12,751,200
Total State Match	25,457,600
Total Reimbursement	51,942,600

*Amounts estimated, assumed to be the same as 2015 state match.