

TO: Board Members

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

FROM: David Duran, Team Lead, Debt Management

DATE: August 12, 2015

SUBJECT: Consider approving by resolution delegating to the Executive Administrator the authority to utilize prepayments to pay and defease Clean Water State Revolving Fund Bonds.

ACTION REQUESTED

Consider approving by resolution delegating to the Executive Administrator the authority to utilize prepayments to pay and defease Clean Water State Revolving Fund Bonds.

BACKGROUND

Historically, when prepayments are received, they are recycled into new loans. The utilization of prepayments into new loans can create a mismatch in funds available for paying the Texas Water Development Board’s (TWDB) semi-annual debt service on its Clean Water State Revolving Fund (CWSRF) Bonds.

Each CWSRF Bond resolution allows prepayments to be used for the redemption of the original funding source bond series within 90 days of the receipt of the prepayments.

KEY ISSUES

The use of prepayments originally funded with tax-exempt bond proceeds is restricted under Internal Revenue Service (IRS) regulations. The IRS regulations also provide specific time constraints for the disposition of those prepayments.

If current market rates are lower than the borrower’s rate on its loan, a market refunding can provide the borrower with debt service savings. Due to economic conditions and historically low market rates, the TWDB has received a significant amount of prepayments and without significant market rate changes, anticipates continued receipt of prepayments.

Attachment 2 provides a graphic portrayal of the volume of prepayments received in the CWSRF program over the past ten fiscal years. Attachment 3 provides a listing of CWSRF prepayments received during FY2015 and the disposition of those prepayments. Loans that were originally funded with program proceeds (program repayments or federal grant fund reimbursements) are not subject to the IRS regulations. These funds are treated as repayments, are invested and relent as needed within the program.

In order to facilitate the handling of prepayments in a timely manner, staff proposes that the TWDB consider delegating the authority to the Executive Administrator to transfer prepayments received from the CWSRF Program Account to the CWSRF Portfolio Redemption Account to pay, redeem, or defease CWSRF Bonds through August 31, 2016. Such delegation would provide staff flexibility to address the use of the prepayment proceeds, maintain appropriate CWSRF program debt coverage ratios, and meet IRS regulations related to prepayments originally funded with tax-exempt bond proceeds.

RECOMMENDATION

The Executive Administrator recommends adoption of a resolution to delegate authority to the Executive Administrator to transfer prepayments from the CWSRF Program Account to the CWSRF Portfolio Redemption Account and to pay, redeem and defease bonds as necessary to make efficient use of the prepayment monies.

Attachment 1 – Resolution (15-)

Attachment 2 – Ten year history of CWSRF prepayments

Attachment 3 – CWSRF prepayment disposition for FY2015 (as of 7/31/2015)

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

Les Trobman, General Counsel

A RESOLUTION OF
THE TEXAS WATER DEVELOPMENT BOARD
AUTHORIZING THE EXECUTIVE ADMINISTRATOR TO TRANSFER
PREPAYMENTS TO THE CLEAN WATER STATE REVOLVING FUND
BOND PAYMENT ACCOUNT
(15 -)

WHEREAS, utilizing the authority provided by the Constitution and the laws of the State, the Texas Water Development Board (the "TWDB") has outstanding, as of August 1, 2015, State Revolving Fund Revenue Bonds, (the "Revenue Bonds"), and State Match Debt, (the "Match Debt");

WHEREAS, each of the Bond Resolutions that authorize the aforementioned Bonds (collectively, the "Bond Resolutions") establish, respectively, the Program Account, as a special account to be utilized, *inter alia*, to provide financial assistance to political subdivisions of the State of Texas; and

WHEREAS, each of the Bond Resolutions establish the Portfolio Redemption Account, as a special account to be utilized to pay the principal and interest; and

WHEREAS, the TWDB has received and continues to receive large unanticipated prepayments of financial assistance provided from the Program Account; and

WHEREAS, flexibility to promptly manage incoming prepayments by TWDB staff allows for mitigation from any negative impact to the TWDB's portfolio of the receipt of such prepayments; and

WHEREAS, the TWDB finds that it is advisable and in the public interest to grant the Executive Administrator authority to transfer, as necessary, prepayments of financial assistance located in the Program Account to the respective Portfolio Redemption Account.

NOW, THEREFORE, based on said considerations and findings, the Texas Water Development Board resolves as follows:

1. The TWDB authorizes the Executive Administrator to transfer, as necessary, money in the Clean Water State Revolving Fund Program Account representing prepayments of financial assistance provided from the Clean Water State Revolving Fund Program Account to the Clean Water State Revolving Fund Portfolio Redemption Account and to pay, redeem and defease bonds as necessary to make efficient use of the prepayment monies.

2. The authorization granted in this Resolution expires August 31, 2016, except that the Executive Administrator may complete any transactions initiated prior to that date but not yet completed.
3. The Executive Administrator shall report to the TWDB at regular meetings of the TWDB the amounts of prepayments received and subsequently transferred, and the bonds paid, redeemed or defeased under authority granted by this Resolution, during the period between regular meetings of the TWDB.

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

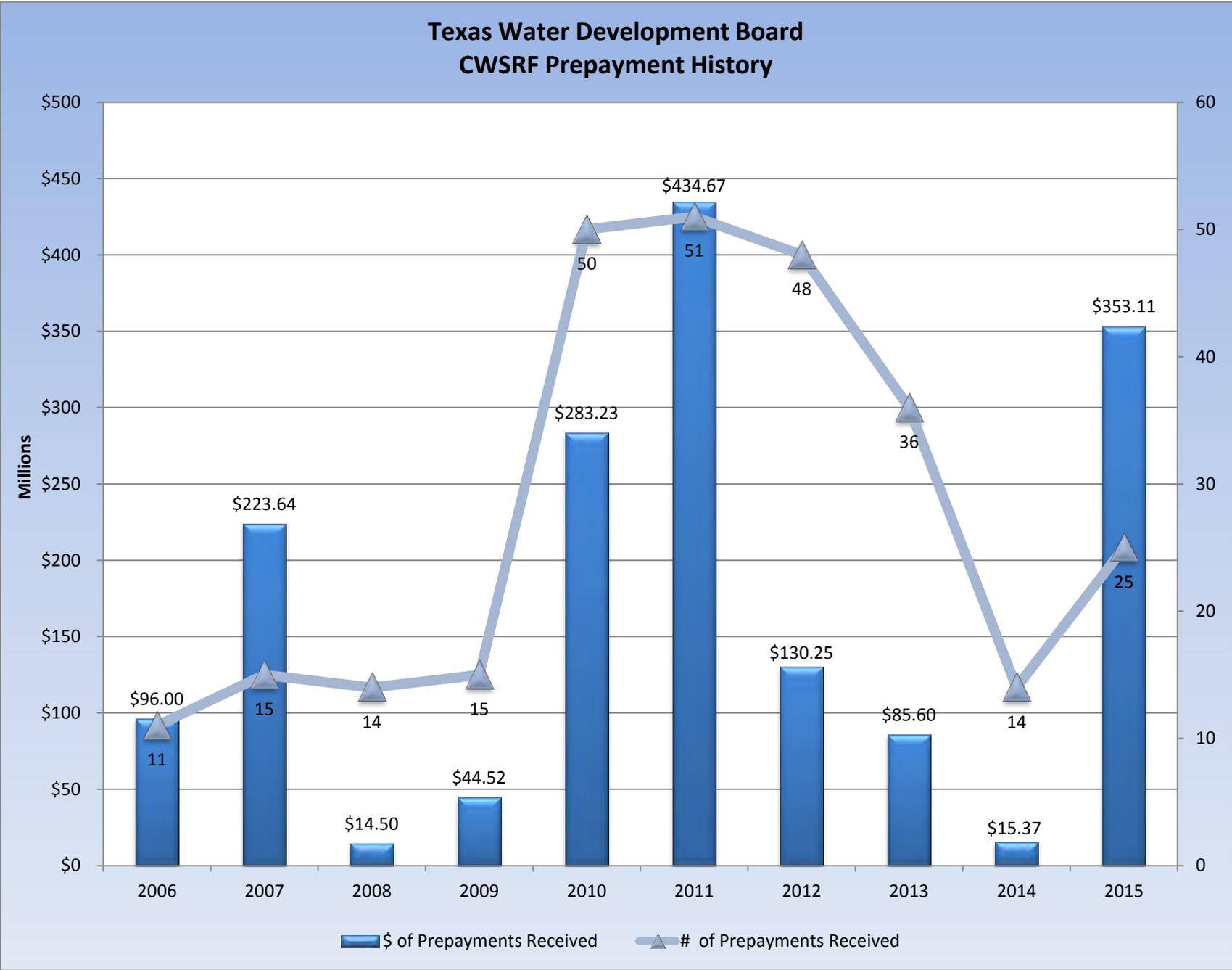
TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator



**Clean Water State Revolving Fund
Disposition of Prepayments Received During
Fiscal Year 2015***

Program Participant	Repayment Date	Prepayment Amount	Disposition of Funds
City of Garland	9/1/2014	\$ 24,000,000.00	Equity - will pay debt service or be relent
City of Deer Park	11/24/2014	\$ 1,250,000.00	Equity - will pay debt service or be relent
City of Houston	12/1/2014	\$ 61,470,000.00	Equity - will pay debt service or be relent
City of Houston	12/1/2014	\$ 70,355,000.00	Expected to be relent
Polk Co FSWD #2	12/9/2014	\$ 1,895,000.00	Relent
Cibolo Creek MA	1/10/2015	\$ 3,685,000.00	Equity - will pay debt service or be relent
Bell Co WCID #1	1/10/2015	\$ 24,310,000.00	Relent
Bell Co WCID #1	1/10/2015	\$ 3,165,000.00	Equity - will pay debt service or be relent
Trinity River Authority	2/1/2015	\$ 104,955,000.00	Bonds redeemed
City of Marble Falls	2/1/2015	\$ 1,710,000.00	Equity - will pay debt service or be relent
City of Quinlan	2/18/2015	\$ 135,000.00	Bonds redeemed
San Antonio Water System	2/27/2015	\$ 18,835,000.00	Bonds redeemed
San Antonio Water System	2/27/2015	\$ 6,785,000.00	Bonds redeemed
City of Winnsboro	2/27/2015	\$ 110,000.00	Equity - will pay debt service or be relent
City of Dripping Springs	3/20/2015	\$ 7,290,000.00	Bonds redeemed
City of Tahoka	4/27/2015	\$ 375,000.00	Expected to be relent
New Caney MUD	5/22/2015	\$ 270,000.00	Equity - will pay debt service or be relent
New Caney MUD	5/22/2015	\$ 3,050,000.00	Equity - will pay debt service or be relent
City of Tomball	6/15/2015	\$ 2,010,000.00	Equity - will pay debt service or be relent
City of Springtown	8/14/2015	\$ 55,000.00	Equity - will pay debt service or be relent
City of Bardwell	8/1/2015	\$ 47,000.00	Equity - will pay debt service or be relent
City of Point	7/22/2015	\$ 150,000.00	Equity - will pay debt service or be relent
City of Forth Worth	7/31/2015	\$ 3,500,000.00	Equity - will pay debt service or be relent
City of Baytown	8/1/2015	\$ 7,825,000.00	Equity - will pay debt service or be relent
Lumberton MUD	8/21/2015	\$ 5,875,000.00	Equity - will pay debt service or be relent

Prepayments Received During Fiscal Year 2014:

\$ 353,107,000.00

*Prepayments received, and notices of prepayments to be received, during FY2015 as of 7/31/2015.