

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator
Cindy Demers, Chief Financial Officer

FROM: David Duran, Team Lead, Debt Management

DATE: October 23, 2015

SUBJECT: The establishment of a new taxable lending rate scale for the Development Fund II Program

ACTION REQUESTED

Approve by resolution the establishment of a new taxable lending rate scale for the Texas Water Development Fund II Water Financial Assistance Account (DFund II) to be effective November 10, 2015.

BACKGROUND

Pursuant to 31 Texas Administrative Code §363.33(b), the Texas Water Development Board (TWDB) will set new lending rate scales after each bond sale, or as necessary to meet changing market conditions. The rates are to be based upon the TWDB’s costs associated with bond issuance, risk factors associated with managing the loan portfolio, and market rate scales. This is generally accomplished by creating a weighted interest cost based on the borrowing rates of proceeds remaining from any of the TWDB’s previous bond issues combined with newly issued bond proceeds. Once the weighted interest cost is determined, basis points are added to cover the issuance cost, and may include basis points to cover default risk, prepayment risk, and any additional risk exposure in managing the fund. Historically, the TWDB has added thirty-five (35) basis points to cover the risk exposure of the fund.

KEY ISSUES

On June 18, 2015, TWDB closed on State of Texas Water Financial Assistance Bonds, Series 2015G for a total of \$11,370,342.82 (par plus net premium minus underwriter’s discount) in new money taxable proceeds for the DFund II. The majority of these funds were initially set aside to provide financial assistance to the San Jacinto River Authority. There remains approximately \$3.3 million of funds from Series 2015G, and while there are no remaining unused proceeds from prior issuances, there are available funds from prepayments received from borrowers. The True Interest Cost on Series 2015G which has a fifteen year term is 3.11%. Market data from the day of the sale was used to develop yields for maturities up to 40 years, and then

approximately twenty (20) basis points were added to cover costs of issuance, costs of payment timing mismatch, default risk and prepayment risk. The decrease from the historical 35 basis points used is to recognize that these funds will be combined with prepayments of bonds which don't have any associated costs of issuance, and to incentivize borrowers to seek loans and thereby reduce the time that the funds are unused with debt service not covered by revenues. **The proposed new lending rate of 3.73% represents a two (2) basis point increase from the prior rate of 3.71%.**

RECOMMENDATION

The Executive Administrator recommends approval by resolution of the new DFund II Taxable lending rate scale in Exhibit A to the resolution to be effective as of November 10, 2015.

CERTIFICATION

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

Les Trobman, General Counsel

Attachment 1 – Resolution (15-)

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING THE ESTABLISHMENT OF A
NEW TAXABLE LENDING RATE SCALE
FOR THE FINANCIAL ASSISTANCE ACCOUNT OF THE
TEXAS WATER DEVELOPMENT FUND II
(15 -)

WHEREAS, on June 18, 2015, the Texas Water Development Board (TWDB) sold and delivered \$11,415,000 State of Texas, Water Financial Assistance Bonds, Taxable Series 2015G resulting in the delivery of \$11,370,342.82 to the Board; and

WHEREAS, 31 Texas Administrative Code § 363.33(b) provides that after each bond sale, or as necessary to meet changing market conditions, the Board will set the lending rate(s) scales for loans and state participation projects based upon cost of funds, risk factors in managing the loan portfolio, and market rate scales; and

WHEREAS, in conjunction with the proceeds remaining from the June 18, 2015 sale of the Bonds and available funds from prepayments, Board staff has prepared a new taxable lending rate scale which will apply to financial assistance from the Texas Water Development Fund II (DFund II) as set forth in Exhibit A to this Resolution and staff's October 23, 2015 Memorandum to the Board, to which documents express reference is made; and

WHEREAS, the Board finds that the establishment of a new taxable lending rate scale for the DFund II is necessary; and

WHEREAS, the Board finds that the new taxable lending rate scale for the DFund II is based upon cost of funds, risk factors in managing the loan portfolio, and market rate scales, as appropriate.

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

The Board approves the new taxable lending rate scale in Exhibit A to this Resolution effective November 10, 2015 for the taxable lending rates which apply to financial assistance provided from the Financial Assistance Account of the Texas Water Development Fund II.

APPROVED and ordered of record this the 10th day of November 2015.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

LENDING RATE SCALE FOR DFUND II

Taxable Rate

Effective November 10, 2015

Year	New Rate
Year 1	0.80%
Year 2	1.17%
Year 3	1.56%
Year 4	2.06%
Year 5	2.26%
Year 6	2.58%
Year 7	2.73%
Year 8	2.94%
Year 9	3.07%
Year 10	3.19%
Year 11	3.37%
Year 12	3.64%
Year 13	3.89%
Year 14	3.89%
Year 15	3.89%
Year 16	4.41%
Year 17	4.41%
Year 18	4.41%
Year 19	4.41%
Year 20	4.41%
Year 21	4.56%
Year 22	4.56%
Year 23	4.56%
Year 24	4.56%
Year 25	4.56%
Year 26	4.56%
Year 27	4.56%
Year 28	4.56%
Year 29	4.56%
Year 30	4.56%
Year 31	4.56%
Year 32	4.56%
Year 33	4.56%
Year 34	4.56%
Year 35	4.56%
Year 36	4.56%
Year 37	4.56%
Year 38	4.56%
Year 39	4.56%
Year 40	4.56%

20 Year Borrowing Cost	3.73%
-------------------------------	--------------