

**TO:** Board Members

**THROUGH:** Kevin Patteson, Executive Administrator

**FROM:** Cindy Demers, Chief Financial Officer/Development Fund Manager

**DATE:** January 11, 2016

**SUBJECT:** Briefing and discussion on the Bond Sale Results for \$234,795,000 State of Texas, General Obligation Water Financial Assistance Bonds Series 2015D.

**ACTION REQUESTED**

No action is requested. This is a briefing and discussion on the results of the issuance of the referenced bonds.

**BACKGROUND**

On September 4, 2014, the Board approved by Resolution a request by the Lower Colorado River Authority (“LCRA”) for a loan from the Water Development Fund to finance the planning, acquisition, design, and construction of an off-channel reservoir and associated improvement (“Lane City Reservoir Project”). On January 29, 2015, the Board authorized staff to prepare for the issuance of up to \$255,000,000 in Water Financial Assistance Bonds to fund this commitment to the Lower Colorado River Authority. The TWDB approved the transaction by Resolution at the February 25, 2015 board meeting.

Estrada Hinojosa and Company served as financial advisor. Bracewell & Giuliani served as bond counsel and Mahomes Bolden served as disclosure counsel. Jefferies was the book-running senior manager, and Frost Bank, FTN Financial, Piper Jaffray, Siebert Brandford Shank, and Wells Fargo served as co-managers.

This was a unique transaction for the Board, as the financing was done solely for the benefit of LCRA. The bonds purchased by the Water Development Fund from LCRA match in all material financing terms to the Series 2015D bonds that were sold. The principal amounts, coupons, maturity dates, interest payment dates and call provisions of the Series 2015D Bonds match exactly the terms of the LCRA Bonds. This conduit financing allowed LCRA to structure a financing with unique debt service structures that matched their specific needs since LCRA is assuming the full debt service risk and cost of financing for TWDB’s Series 2015D Bonds. LCRA also benefits from the State’s AAA General Obligation Bond rating resulting in a lower interest cost.

<p><b>Our Mission</b></p> <p>To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas</p>	<p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p>	<p><b>Board Members</b></p> <p>Bech Bruun, Chairman   Kathleen Jackson, Member   Peter Lake, Member</p> <p>Kevin Patteson, Executive Administrator</p>
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Bond Review Board approval was received on March 23, 2015. On July 20, 2015, LCRA requested that the Board extend the expiration date of the financing commitment from September 2015 to March 31, 2016 to provide LCRA more time and flexibility in its construction contract procurement process. Consequently, the bonds were not priced until Tuesday, October 27, 2015, with the issue closing on November 24, 2015.

## **BOND PRICING**

Chairman Bruun and staff traveled to Jefferies's New York offices to oversee the pricing of the bonds. Staff was joined by Jim Travis, Jonathan Hurst, and Stephen Kellicker from LCRA; and Paul Jack and Noe Hinojosa, the Board's financial advisors from Estrada Hinojosa & Company, Inc.

Pre-pricing discussions focused on the markets expectations surrounding the Federal Reserve Board Open Market Committee's meeting taking place on October 28th, lack of new issuance volume for the week, and institutional investor demand. On Monday, October 26, 2015, initial pre-marketing interest rate coupons and spreads were communicated to the underwriting syndicate and institutional investors. Based upon feedback during the pre-marketing period, the coupon structure of the transaction was improved for the benefit of LCRA through the introduction of lower coupon bonds for the formal bond sale order period. The order period generated approximately \$613 million in orders. This volume allowed yields to be lowered in all maturities by 3 to 4 basis points (0.03% - 0.04%).

Texas retail was the first priority, followed by national retail, net designated and member orders. Retail was defined as individuals only.

Throughout the order period, staff reviewed orders and received periodic status reports. Staff noted for all underwriting firms the orders turned in, the types of orders, and the distribution of investor demand across maturities.

## **RESULTS**

The final pricing of the bonds, relative to the Municipal Bond benchmark, priced better than any Tax-Exempt, Fixed Rate, State of Texas General Obligation bond sold in 2015.

By utilizing the TWDB program, LCRA saved over \$18 million in total debt service costs than if they would have done the transaction on their own credit (\$8.9 million PV).

Key statistics are shown in on the following page.

Total Par Amount Sold:	\$234,795,000
All-in-True Interest Cost:	3.7897%
Average Life:	22.4 years
Total Debt Service:	\$462,787,459.25
Average Annual Debt Service:	\$15,701,016.43

### **UNDERWRITING COST SUMMARY**

The final underwriting cost was \$3.91 per bond, negotiated as follows:

	<u>\$ Per Bond</u>	<u>Total \$ Amount</u>
Average Takedown	\$3.633	\$852,944
Underwriter's Expenses	<u>0.273</u>	<u>64,249</u>
Total Spread	<u>\$3.906</u>	<u>\$917,193</u>

### **PERFORMANCE ASSESSMENT**

In general, the TWDB was pleased with the performance of the underwriting syndicate on the refunding transactions. Jefferies led the transaction well, and was receptive to TWDB's and LCRA's requests for price adjustments. The co-managers also were supportive of the transaction.