

**TO:** Board Members

**THROUGH:** Jeff Walker, Executive Administrator  
Rebecca Trevino, Chief Financial Officer  
Todd Chenoweth, General Counsel

**FROM:** Georgia Sanchez, Director of Debt and Portfolio Management

**DATE:** January 2, 2020

**SUBJECT:** Establish new tax-exempt and taxable lending rate scales for the Development Fund II Program

**ACTION REQUESTED**

Approve by resolution the establishment of new tax-exempt and taxable lending rate scales for the Texas Water Development Fund II Water Financial Assistance Account (DFund II) to be effective January 16, 2020.

**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 the yield in each year in order to cover the risk exposure of the fund.

**KEY ISSUES**

The current taxable and tax-exempt lending rate scales were approved by the board in conjunction with the last State of Texas Water Financial Assistance bond sales, which occurred in September 2014 and January 2018 for taxable and tax-exempt purposes, respectively, and remain in place to close loans from program equity or from borrower prepayments. Market rates have declined significantly since the lending rates were approved.

<p><a href="#">Our Mission</a></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><a href="#">Board Members</a></p> <p>Peter M. Lake, Chairman   Kathleen Jackson, Board Member   Brooke T. Paup, Board Member</p> <p>Jeff Walker, Executive Administrator</p>
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**RECOMMENDATION**

In order to set rates for DFund II which meets market conditions, the Executive Administrator recommends approval by resolution of the new DFund II tax- exempt lending rate scale in Exhibit A to the resolution and taxable lending rate scale in Exhibit B to be effective as of January 16, 2020.

Attachments:

Resolution  
Exhibit A  
Exhibit B

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD  
APPROVING THE ESTABLISHMENT OF  
NEW TAX-EXEMPT AND TAXABLE LENDING RATE SCALES  
FOR THE FINANCIAL ASSISTANCE ACCOUNT OF THE  
TEXAS WATER DEVELOPMENT FUND II

(20 - )

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, subsection (1) of 31 TAC § 363.33(b) provides that the Board will establish separate lending rate scales for tax-exempt and taxable projects from loans made from the Texas Water Development Fund II Account (DFUND II); and

WHEREAS, the Board by TWDB Resolution No. 18-006 approved a tax-exempt lending rate scale on January 22, 2018 in conjunction with the sale of Water Financial Assistance Bonds; and

WHEREAS, the Board by TWDB Resolution No. 15-132 approved a taxable lending rate scale on November 10, 2015 in conjunction with the sale of Water Financial Assistance Bonds; and

WHEREAS, Board staff has prepared new tax-exempt and taxable lending rate scales which will apply to the financial assistance provided from DFUND II as set forth in Exhibits A and B to this Resolution, respectively, in accordance with staff's January 2, 2020 Memorandum to the Board, to which documents express reference is made; and

WHEREAS, the Board finds that the establishment of new tax-exempt and taxable lending rate scales is necessary to meet changing market conditions for DFund II; and

WHEREAS, the Board finds that the new tax-exempt and taxable lending rate scales for the DFund II is based upon cost of funds, risk factors in managing the loan portfolios, 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 tax-exempt and taxable lending rate scales as attached to this Resolution in Exhibits A and B, effective January 16, 2020, for the tax-exempt and taxable lending rates which will apply to financial assistance provided from the Financial Assistance Account of the Texas Water Development Fund II.

APPROVED and ordered of record this the 16th day of January 2020.

TEXAS WATER DEVELOPMENT BOARD

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Peter M. Lake, Chairman

DATE SIGNED: \_\_\_\_\_

ATTEST:

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Jeff Walker, Executive Administrator

## EXHIBIT A

### LENDING RATE SCALE FOR DFUND II

#### Tax-Exempt Rates

Year	Rate
Year 1	1.33%
Year 2	1.34%
Year 3	1.35%
Year 4	1.37%
Year 5	1.41%
Year 6	1.45%
Year 7	1.54%
Year 8	1.61%
Year 9	1.69%
Year 10	1.76%
Year 11	1.84%
Year 12	2.14%
Year 13	1.96%
Year 14	2.01%
Year 15	2.06%
Year 16	2.10%
Year 17	2.14%
Year 18	2.18%
Year 19	2.22%
Year 20	2.25%
Year 21	2.28%
Year 22	2.45%
Year 23	2.45%
Year 24	2.45%
Year 25	2.45%
Year 26	2.45%
Year 27	2.51%
Year 28	2.51%
Year 29	2.51%
Year 30	2.51%
Year 31	2.51%
Year 32	2.51%
Year 33	2.51%
Year 34	2.51%
Year 35	2.51%
Year 36	2.51%
Year 37	2.51%
Year 38	2.51%
Year 39	2.51%
Year 40	2.51%

## EXHIBIT B

### LENDING RATE SCALE FOR DFUND II

#### Taxable Rates

Year	Rate
Year 1	2.02%
Year 2	2.07%
Year 3	2.12%
Year 4	2.21%
Year 5	2.32%
Year 6	2.42%
Year 7	2.54%
Year 8	2.64%
Year 9	2.73%
Year 10	2.83%
Year 11	2.93%
Year 12	3.02%
Year 13	3.11%
Year 14	3.20%
Year 15	3.26%
Year 16	3.36%
Year 17	3.64%
Year 18	3.64%
Year 19	3.64%
Year 20	3.64%
Year 21	3.64%
Year 22	3.75%
Year 23	3.75%
Year 24	3.75%
Year 25	3.75%
Year 26	3.75%
Year 27	3.75%
Year 28	3.75%
Year 29	3.75%
Year 30	3.75%
Year 31	3.75%
Year 32	3.75%
Year 33	3.75%
Year 34	3.75%
Year 35	3.75%
Year 36	3.75%
Year 37	3.75%
Year 38	3.75%
Year 39	3.75%
Year 40	3.75%