

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator

FROM: Amanda Landry, Chief Financial Officer

DATE: June 10, 2015

SUBJECT: The establishment of a new tax-exempt lending rate scale for the Development Fund II to be used to provide state matching funds for the State Revolving Funds

ACTION REQUESTED

Approve by resolution the establishment of a new tax-exempt lending rate scale for the Development Fund II Water Financial Assistance Program to be used for the sole purpose of providing state matching funds for the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) to be effective June 16, 2015.

BACKGROUND

Pursuant to the Water Quality Act of 1987 and the Safe Drinking Water Act amendments of 1996 (Acts), the United States Environmental Protection Agency (EPA) provides federal capitalization grants to the Texas Water Development Board (TWDB) for the purpose of capitalizing the CWSRF and DWSRF. The TWDB is required to contribute at least a 20 percent match for each capitalization grant. Monies in the CWSRF and DWSRF are used to finance projects that support the goals of the Acts.

KEY ISSUES

On June 18, 2015, TWDB will close on State of Texas Water Financial Assistance Bonds, Series 2015F for a total of \$42,564,107.64 (par plus net premium minus underwriter’s discount) in new money tax-exempt proceeds to finance the state match for the CWSRF and DWSRF. The True Interest Cost on Series 2015F is 1.8606%. The rate scale to be used for the state match will be based upon the True Interest Cost plus eight basis points to cover costs of issuance.

Traditionally TWDB has also added an additional spread to cover the cost of mismatched payments and prepayment risk. However, in the event of a loan prepayment funded by the proposed state match must be used to call bonds early, TWDB staff will take measures to ensure that the Development Fund II is made whole. The proposed lending rate for the state match is 1.94%.

RECOMENDATION

The Executive Administrator recommends approval by resolution of the state match Tax-Exempt lending rate scale in Attachment A to be effective as of June 16, 2015.

This recommendation has been reviewed by legal counsel and complies with applicable statutes and Board rules.

Les Trobman, General Counsel

Attachment: 1: Resolution (15-)

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

(15-052)

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, Board staff has prepared a new tax-exempt lending rate scale which will apply solely to an interfund loan from the Financial Assistance Account of the Texas Water Development Fund II (DFund II) to the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF), as set forth in Attachment A to this Resolution and the staff's June 10, 2015, Memorandum to the Board, to which documents express reference is made; and

WHEREAS, pursuant to 33 U.S.C. § 1382(b)(2), and 42 U.S.C. § 300j-12(e), the TWDB is required to deposit into the CWSRF and DWSRF, respectively, a State match of at least 20 percent of the federal capitalization grants provided to the State (State Match); and

WHEREAS, the Board finds that the establishment of a tax-exempt lending rate scale to execute an interfund loan from the DFund II to finance the State Match for the CWSRF and DWSRF is necessary; and

WHEREAS, the Board finds that the tax-exempt lending rate scale for the DFund II is based upon cost of funds.

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

The Board approves the tax-exempt lending rate scale in Attachment A to this Resolution, to be effective June 16, 2015 for the tax-exempt lending rate which will apply to the interfund loan from the Financial Assistance Account of the Texas Water Development Fund II to the Clean Water State Revolving Fund and Drinking Water State Revolving Fund for the purpose of financing the required State Match of federal capitalization grant funds.

APPROVED and ordered of record this the 16th day of June 2015.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

LENDING RATE SCALE FOR DFUND II**Tax-Exempt Rates for CWSRF and DWSRF State Match Effective June 16, 2015**

Year	New Rate
Year 1	0.29%
Year 2	0.55%
Year 3	0.95%
Year 4	1.34%
Year 5	1.59%
Year 6	1.81%
Year 7	2.08%
Year 8	2.24%
Year 9	2.39%
Year 10	2.56%

Borrowing Cost for State Match Loan	1.94%
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