

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator
Amanda Landry, Chief Financial Officer

FROM: David Duran, Financial Analyst

DATE: June 15, 2015

SUBJECT: The establishment of a new tax-exempt lending rate scale for the Economically Distressed Areas Program

ACTION REQUESTED

Approve by resolution the establishment of a new tax-exempt lending rate scale for the Economically Distressed Areas Program (EDAP) to be effective July 2, 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. 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 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 will close on State of Texas Water Financial Assistance Bonds, Series 2015E for a total of \$49,838,178.38 (par plus net premium minus underwriter’s discount) in new money tax-exempt proceeds for EDAP. The True Interest Cost on Series 2015E is 3.1333%. Approximately four (4) basis points were added to the interest cost to cover costs of issuance, bringing the proposed rate to 3.18%. The decrease from the historical 35 basis points used is to recognize the small portion of the funds used to make loans, and to recognize that general revenue of the state is appropriated to pay debt service on TWDB’s bonds. **The proposed new lending rate of 3.18% represents a sixteen (16) basis point increase from the prior rate of 3.02%.**

RECOMMENDATION

The Executive Administrator recommends approval by resolution of the new EDAP Tax-Exempt lending rate scale in Attachment A to the Resolution to be effective as of July 2, 2015.

Attachment 1: Resolution (15-)

CERTIFICATION

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

Les Trobman, General Counsel

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING THE ESTABLISHMENT OF A
NEW LENDING RATE SCALE
FOR THE ECONOMICALLY DISTRESSED AREAS PROGRAM ACCOUNT
OF THE TEXAS WATER DEVELOPMENT FUND II

(15-)

WHEREAS, on June 18, 2015, the Texas Water Development Board (TWDB) sold and delivered \$43,715,000 State of Texas, Water Financial Assistance Bonds, (EDAP), Series 2015E resulting in the delivery of \$49,838,178.38 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 June 18, 2015 sale of State of Texas Water Financial Assistance Bonds (EDAP), Series 2015E, Board staff has prepared a new tax-exempt lending rate scale which will apply to financial assistance from the Economically Distressed Areas Program (EDAP) as set forth in Attachment A to this Resolution and staff's June 15, 2015 Memorandum to the Board, to which documents express reference is made; and

WHEREAS, the Board finds that the establishment of a new lending rate scale for EDAP is necessary due to the sale of the State of Texas Water Financial Assistance Bonds (EDAP), Series 2015E; and

WHEREAS, the Board finds that the new lending rate scale for the EDAP is based upon cost of funds, risk factors in managing the loan, 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 lending rate scale in Attachment A to this Resolution, to be effective July 2, 2015 for the tax-exempt lending rates which apply to financial assistance provided from the Economically Distressed Areas Program.

APPROVED and ordered of record this the 2nd day of July 2015.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

LENDING RATE SCALE FOR EDAP
Tax-Exempt Rate Effective July 2, 2015

Year	New Rate
Year 1	0.59%
Year 2	0.89%
Year 3	1.28%
Year 4	1.53%
Year 5	1.75%
Year 6	2.02%
Year 7	2.18%
Year 8	2.33%
Year 9	2.50%
Year 10	2.61%
Year 11	2.92%
Year 12	3.16%
Year 13	3.35%
Year 14	3.49%
Year 15	3.62%
Year 16	3.72%
Year 17	3.81%
Year 18	3.88%
Year 19	3.95%
Year 20	4.01%
Borrowing Cost for EDAP Loans	3.18%
