

**TO:** Board Members

**THROUGH:** Kevin Patteson, Executive Administrator

**FROM:** Amanda Landry, Chief Financial Officer and Development Fund Manager

**DATE:** July 17, 2015

**SUBJECT:** Texas Water Development Board State Water Implementation Revenue Fund for Texas (SWIRFT) Revenue Bonds, Series 2015 Authorizing Resolution which includes approving the Master Trust Indenture, Bond Indentures, SWIFT Funds Transfer Agreement and Preliminary Official Statement and the selection of the underwriting syndicate for the Series 2015 Bond issuances.

## **ACTION REQUESTED**

Approve by resolution the following: (a) the issuance of Texas Water Development Board State Water Implementation Revenue Fund for Texas Revenue Bonds, Series 2015 A and B, (b) the execution of the Master Trust Indenture and Bond Indentures, (c) the execution of the State Water Implementation Fund for Texas Funds Transfer Agreement, (d) the Preliminary Official Statement, and (e) the authorization of the Executive Administrator, the Development Fund Manager, and the Chief Financial Officer to act on behalf of the Texas Water Development Board in the sale and delivery of multiple series of the State Water Implementation Revenue Fund for Texas Revenue Bonds issuances and to select the underwriting syndicate for the Series 2015 A and B Bonds.

## **BACKGROUND**

The TWDB is authorized to issue revenue bonds associated with the SWIRFT under the Texas Constitution section 49(d)13 and Texas Water Code section 15.475.

On September 18, 2014, the Texas Water Development Board (TWDB) approved the selection of a team of financial advisors, bond counsel, disclosure counsel and senior managing underwriter for the initial 2015 State Water Implementation Revenue Fund for Texas (SWIRFT) bond issuance.

Documents attached for your review include the Authorizing Bond Resolution, SWIRFT Master Trust Indenture, Bond Indentures, Preliminary Official Statement and SWIFT Funds Transfer

### **Our Mission** : **Board Members**

To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas :  
: Bech Bruun, Chairman | Carlos Rubinstein, Member | Kathleen Jackson, Member  
: Kevin Patteson, Executive Administrator

Agreement. Staff anticipates non-material edits to these documents prior to execution and publication.

The Series 2015 Bonds are the first series of Master Trust Bonds to be issued pursuant to the Master Trust Indenture to be executed between the board and the master trustee and Bond Indentures to be executed between the board and the bond trustee. At the Board's July 2, 2015 meeting the Bank of New York ("BNY") Mellon was selected as the master trustee and Series 2015 Bonds trustee.

For the SWIFT Funds Transfer Agreement, the executive administrator recommends a not to exceed transfer amount (as explained fully in Section 2.01 of the agreement) of \$175 million. The actual amount for the transfer will be determined after SWIRFT Bonds are priced and the bond purchase agreement is signed as explained in Section 2.02. In the current market conditions, we would anticipate the amount of the transfer to be less than the \$155 million figure previously discussed but are recommending a not to exceed amount of \$175 million to account for market fluctuations that may occur from now until the planned bond pricing date.

It is anticipated that the Legislative Budget Board will approve the Series 2015 bond issuance and SWIFT Funds Transfer Agreement by July 21, 2015. After approval of this item staff will make application to the Bond Review Board (BRB) under the non-exempt application process. SWIRFT bond issues going forward are expected to be submitted to the BRB with an exempt application, however, since this is the first SWIRFT bond issue, the non-exempt process is being undertaken. The Board anticipates receiving BRB approval no later than September 18, 2015.

#### **ADDITIONS TO TRANSACTION TEAM**

At the September 18, 2014 board meeting the board selected the following firms to assist in the preparation for this issuance.

- Financial Advisors: First Southwest Company and Estrada Hinojosa Investment Bankers
- Bond Counsel: McCall Parkhurst & Horton L.L.C.
- Disclosure Counsel: Hardwick Law Firm, LLC
- Senior Managing Underwriter: Citigroup Capital Markets, LLC

The following underwriting firms are recommended to be added to the transaction team as co-managers for the bond sale.

- Bank of America Merrill Lynch
- Coastal Securities, Inc.
- J. P. Morgan
- Loop Capital Markets
- Morgan Stanley & Co., LLC
- Piper Jaffray & Co.
- RBC Capital Markets
- SAMCO Capital Markets
- Siebert Brandford Shank & Co. LLC

The above underwriters are all current members of the Board's underwriting pool which was selected pursuant to a RFP process in 2014. This syndicate of firms represents a mix of Texas based firms, large national firms, strong regional firms and minority owned firms. The number of firms is larger than what the Board has utilized in the past, but is appropriate given the anticipated size of the transaction and is consistent with market practices.

### **BOND SIZING**

The TWDB is evaluating applications for SWIRFT financial assistance totaling \$3,899,485,000 including multi-year commitments. As of this date, the projected amount for the 2015 bond financing is \$1,005,775,000 in financial assistance. The Board will also consider commitments related to these projects at the July 23, 2015 meeting.

The final bond sizing will be determined by the amount and terms of financial assistance formally requested by the underlying SWIRFT borrowers as recorded in Financing Agreements executed prior to the TWDB SWIRFT bond pricing. The maximum par amount of \$1,025,000,000 includes underwriters discount and costs of issuance.

### **COSTS OF ISSUANCE**

Based on the estimated par amount of the bonds, the costs of issuance for the transaction have been estimated at a not to exceed cost of \$5.00 per bond for the underwriter's discount and a maximum of \$1,655,750 for all other related costs (i.e. bond counsel, disclosure counsel and financial advisory fees, bond ratings, Master and Bond Trustee fees and other miscellaneous costs).

The estimated fees and expenses are comparable with other new revenue bond programs with complex structures, where indentures are drafted from scratch, flow of funds are developed, and initial ratings are obtained. We would also expect that with the next SWIRFT issuance to see a reduction to the costs of issuance, since the work that has been done over the past year by the financing team lays the foundation and framework for future bond issues. The estimated fees and expenses are detailed in Attachment 8. The fees and expenses may be negotiated further based on market conditions at the time of pricing.

### **SCHEDULE**

The Schedule of Events has been provided as Attachment 9. Staff anticipates pricing the Bonds the week of October 5, 2015 and closing the transaction on or about November 4, 2015.

### **RECOMMENDATION**

The Executive Administrator recommends adoption by resolution the following: (a) the issuance of Texas Water Development Board State Water Implementation Revenue Fund for Texas Revenue Bonds, Series 2015 A and B, (b) the execution of the Master Trust Indenture and Bond Indentures, (c) the execution of the State Water Implementation Fund for Texas Funds Transfer Agreement, (d) the Preliminary Official Statement, and (e) the authorization of the Executive Administrator, the Development Fund Manager, and the Chief Financial Officer to act on behalf of the Texas Water Development Board in the sale and delivery of multiple series of the State Water Implementation Revenue Fund for Texas Revenue Bonds issuances and the selection of an underwriting syndicate for the Bond issuances.

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

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Les Trobman, General Counsel

Attachments:

- 1 – SWIRFT Master Trust Indenture
- 2 – SWIRFT 2015A Bond Indenture
- 3 – SWIRFT 2015B Taxable Bond Indenture
- 4 – SWIRFT Series 2015 Bond Resolution
- 5 – Draft Preliminary Official Statement
- 6 – SWIFT Funds Transfer Agreement
- 7 – Draft Debt Service Schedules
- 8 – Estimated Costs of Issuance
- 9 – Schedule of Events