

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator
Chris Hayden, Interim Chief Financial Officer

FROM: David Duran, Team Lead, Debt Management

DATE: August 6, 2015

SUBJECT: Consider approving by resolution delegating to the Executive Administrator the authority to utilize prepayments to pay and defease General Obligation Bonds.

ACTION REQUESTED

Consider approving by resolution delegating to the Executive Administrator the authority to utilize prepayments to pay and defease General Obligation Bonds.

BACKGROUND

The Texas Water Development Board (TWDB), through Resolution 06-10 (Attachment 2), authorizes the Executive Administrator to transfer as necessary, prepayments of financial assistance provided from Water Financial Assistance Bonds.

Historically, when prepayments are received, they are recycled into new loans. The utilization of prepayments into new loans can create a mismatch in funds available for paying the TWDB’s semi-annual debt service on its General Obligation Water Financial Assistance Bonds. Water Financial Assistance Bonds are issued for the Financial Assistance Account (Development Fund projects and Water Infrastructure Fund projects), State Participation Account, and Economically Distressed Areas Program Account.

Generally, Section 4.04(e) of each Water Financial Assistance Bond Resolution allows for the transfer of prepayments to each of the respective program Bond Payment Accounts with TWDB approval by resolution.

KEY ISSUES

The use of prepayments originally funded with tax-exempt bond proceeds is restricted under Internal Revenue Service (IRS) regulations. The IRS regulations also provide specific time constraints for the disposition of those prepayments.

If current market rates are lower than the borrower's rate on its loan, a market refunding can provide the borrower with debt service savings. Due to economic conditions and historically low market rates, the TWDB has received a significant amount of prepayments and, without significant market rate changes, anticipates continued receipt of prepayments.

Attachment 3 provides a graphic portrayal of the volume of prepayments received in the Development Fund II (DFund) program over the past ten fiscal years. Attachment 4 provides a listing of DFund prepayments received within the last two fiscal years and the disposition of those prepayments.

In order to facilitate the handling of prepayments in a timely manner, staff proposes that the TWDB delegate to the Executive Administrator the authority to take all necessary actions, to pay, redeem and defease Water Financial Assistance Bonds through August 31, 2016. Such delegation would provide staff flexibility to address the use of the prepayment proceeds, maintain appropriate program debt coverage ratios, and meet IRS regulations related to prepayments originally funded with tax-exempt bond proceeds.

RECOMMENDATION

The Executive Administrator recommends approving by resolution: (a) delegation to the Executive Administrator authority to utilize prepayments to pay and redeem General Obligation bonds; and (b) authorizing the Executive Administrator and the Development Fund Manager to take all necessary actions to effect the payment and defeasance of the bonds.

Attachment 1 – Resolution (15-)

Attachment 2 – Resolution (06-10)

Attachment 3 – Ten year history of DFund prepayments

Attachment 4 – DFund prepayment disposition for FY2015 (as of 7/31/2015)

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

Les Trobman, General Counsel

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
AUTHORIZING THE EXECUTIVE ADMINISTRATOR
TO UTILIZE PREPAYMENTS TO PAY, REDEEM AND DEFEASE
WATER FINANCIAL ASSISTANCE BONDS

(15-)

WHEREAS, utilizing the authority provided by Section 49-d-8, Section 49-d-9 and Section 49-d-10 of Article III of the Constitution of the State of Texas, the Texas Water Development Board (the "TWDB") has issued, as of August 1, 2015, State of Texas Water Financial Assistance Bonds for the Texas Water Development Fund II Financial Assistance Account, (the "DFund Bonds"), Economically Distressed Areas Program Account, (the "EDAP Bonds"), and State Participation Account, (the "State Participation Bonds"); and

WHEREAS, section 4.03(b) of each of the Bond Resolutions authorizing the issuance of the DFund Bonds, EDAP Bonds, and State Participation Bonds (collectively, the "Bond Resolutions") generally establishes, respectively, the Financial Assistance Account, Economically Distressed Areas Program Account, and State Participation Account each as a special account to be utilized, to provide financial assistance to political subdivisions of the State of Texas; and

WHEREAS, section 4.03(c) of each of the Bond Resolutions generally establishes the Financial Assistance Bond Payment Account, Economically Distressed Areas Bond Payment Account, and State Participation Bond Payment Account each as a special account to be utilized to pay the principal and interest on, respectively, the DFund Bonds, EDAP Bonds, and State Participation Bonds; and

WHEREAS, section 4.04(e) of each of the Bond Resolutions further provides that money in the Financial Assistance Account representing prepayments of financial assistance provided from the Financial Assistance Account, money in the Economically Distressed Areas Program Account representing prepayments of financial assistance provided from the Economically Distressed Areas Program Account, and money in the State Participation Account representing prepayments of financial assistance provided from the State Participation Account shall not be available for transfer, respectively, to the Financial Assistance Bond Payment Account, Economically Distressed Areas Program Bond Payment Account, and State Participation Bond Payment Account unless specifically authorized by a resolution of the Board; and

WHEREAS, the TWDB has received and continues to receive large unanticipated prepayments of financial assistance provided from the Financial Assistance Account, Economically Distressed Areas Program Account, and the State Participation Account; and

WHEREAS, flexibility to promptly manage incoming prepayments by TWDB staff allows for mitigation from any negative impact to the TWDB's portfolio of the receipt of such prepayments; and

WHEREAS, the TWDB, through Resolution No. 06-10, granted the Executive Administrator blanket authority to transfer, as necessary, prepayments of financial assistance located in the Financial Assistance Account, Economically Distressed Areas Program Account, and the State Participation Account to the respective Financial Assistance Bond Payment Account, Economically Distressed Areas Bond Payment Account, and State Participation Bond Payment Account.

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

1. The TWDB authorizes the Executive Administrator and the Development Fund Manager to pay, redeem, and defease, as necessary, Water Financial Assistance Bonds with money in the Financial Assistance Account representing prepayments of financial assistance provided from the Financial Assistance Account, money in the Economically Distressed Areas Program Account representing prepayments of financial assistance provided from the Economically Distressed Areas Program Account, and money in the State Participation Account representing prepayments of financial assistance provided from the State Participation Account, that have been transferred to respectively, the Financial Assistance Bond Payment Account, Economically Distressed Areas Bond Payment Account, and State Participation Bond Payment Account, pursuant to authorization granted to the Executive Administrator under Board Resolution No. 06-10.
2. The authorization granted in this Resolution expires August 31, 2016, except that the Executive Administrator and Development Fund Manager may complete any transactions initiated prior to that date but not yet completed. The authority in Board Resolution No. 06-10 shall continue to be effective.
3. The Executive Administrator shall report to the TWDB members at regular meetings of the TWDB the amounts of bonds paid, redeemed or defeased, under authority granted by this Resolution, during the period between regular meetings of the TWDB.

APPROVED and ordered of record this the 26th day of August, 2015.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Kevin Patteson
Executive Administrator

A RESOLUTION OF
THE TEXAS WATER DEVELOPMENT BOARD
AUTHORIZING THE EXECUTIVE ADMINISTRATOR TO DEPOSIT PREPAYMENTS TO
THE FINANCIAL ASSISTANCE BOND PAYMENT ACCOUNT,
TO THE ECONOMICALLY DISTRESSED AREAS PROGRAM
BOND PAYMENT ACCOUNT, AND
TO THE STATE PARTICIPATION BOND PAYMENT ACCOUNT

(06-10)

WHEREAS, utilizing the authority provided by Section 49-d-8 and Section 49-d-9 of Article III of the Constitution of the State of Texas, the Texas Water Development Board (the "Board") has issued, as of November 30, 2005, State of Texas Water Financial Assistance Bonds in the outstanding principal amount of \$931,355,000 [the "Development II Bonds"], State of Texas Water Financial Assistance Bonds (Economically Distressed Areas Program) in the outstanding principal amount of \$172,655,000 [the "Development II-EDAP Bonds"], and State of Texas Water Financial Assistance Bonds (State Participation Program) in the outstanding principal amount of \$141,580,000 [the "Development Fund II-State Participation Bonds"]; and

WHEREAS, section 4.03(b) of the bond resolutions authorizing the issuance of the Development Fund II Bonds, Development Fund II-EDAP Bonds, and Development II-State Participation Bonds (collectively, the "Bond Resolutions") establishes, respectively, the Water Financial Assistance Account, Economically Distressed Areas Program Account, and State Participation Account as a special account to be utilized, *inter alia*, to provide financial assistance to political subdivisions of the State of Texas; and

WHEREAS, section 4.03(c) of the Bond Resolutions establishes the Water Financial Assistance Bond Payment Account, Economically Distressed Areas Program Bond Payment Account, and State Participation Bond Payment Account as a special account to be utilized to pay the principal and interest on, respectively, the Development Fund II Bonds, Development Fund II-EDAP Bonds, and Development II-State Participation Bonds; and

WHEREAS, section 4.04(e) of the Bond Resolutions further provides that money in the Water Financial Assistance Account representing prepayments of financial assistance provided from the Water Financial Assistance Account, money in the Economically Distressed Areas Program Account representing prepayments of financial assistance provided from the Economically Distressed Areas Program Account, and money in the State Participation Account representing prepayments of financial assistance provided from the State Participation Account shall not be available for transfer, respectively, to the Water Financial Assistance Bond Payment Account, Economically Distressed Areas Program Bond Payment Account, and State Participation Bond Payment Account unless specifically authorized by a resolution of the Board; and

WHEREAS, the Board has received and continues to receive large unanticipated prepayments of financial assistance provided from the Water Financial Assistance Program Account, Economically Distressed Areas Program Account, and the State Participation Account; and

WHEREAS, flexibility to promptly manage incoming prepayments by Board staff allows for mitigation of any negative impact to the Board's portfolio of the receipt of such prepayments; and

WHEREAS, the Board finds that it is advisable and in the public interest to grant the Executive Administrator blanket authority to transfer, as necessary, prepayments of financial assistance located in the Water Financial Assistance Account, Economically Distressed Areas Program Account, and the State Participation Account to the respective Water Financial Assistance Bond Payment Account, Economically Distressed Areas Program Bond Payment Account, and State Participation Program Bond Payment Account.

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

1. The Board authorizes the Executive Administrator to transfer, as necessary, money in the Water Financial Assistance Account representing prepayments of financial assistance provided from the Water Financial Assistance Account, money in the Economically Distressed Areas Program Account representing prepayments of financial assistance provided from the Economically Distressed Areas Program Account, and money in the State Participation Account representing prepayments of financial assistance provided from the State Participation Account to, respectively, the Water Financial Assistance Bond Payment Account, Economically Distressed Areas Program Bond Payment Account, and State Participation Program Bond Payment Account.
2. The Executive Administrator shall report to the Board at regular meetings of the Board the amounts of prepayments received and subsequently transferred, under authority granted by this Resolution, during the period between regular meetings of the Board.

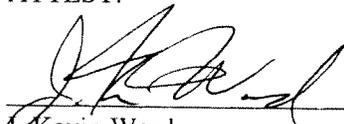
APPROVED and ordered of record this the 19th day of January 2006.

TEXAS WATER DEVELOPMENT BOARD



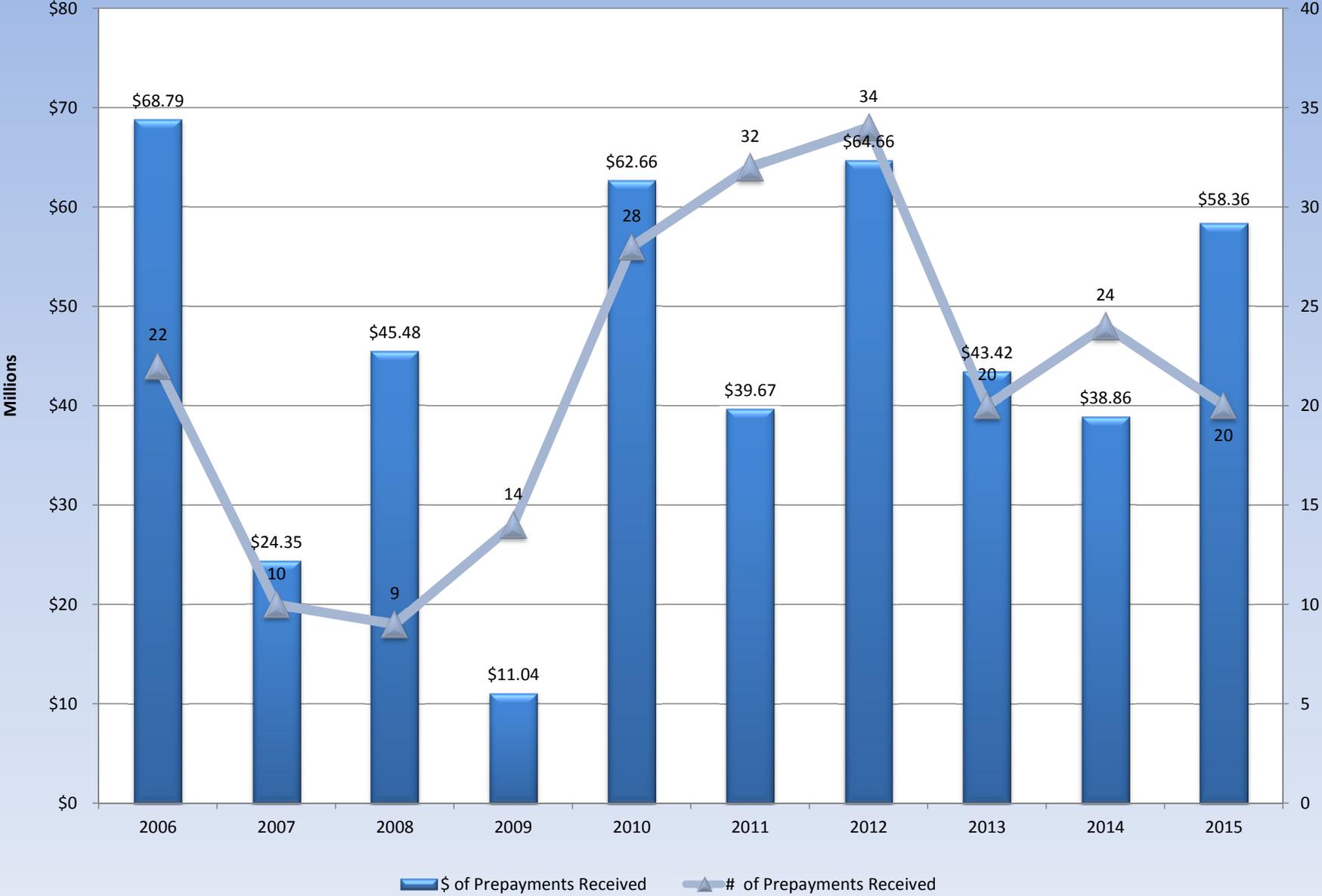
E.G. Rod Pittman, Chairman

ATTEST:



Kevin Ward
Executive Administrator

Texas Water Development Board DFUNDII Prepayment History



Water Development Fund II
Disposition of Prepayments Received During
Fiscal Year 2015*

ATTACHMENT 4

Program Participant	Repayment Date	Prepayment Amount	Disposition of Funds
Port O'Connor MUD	9/1/2014	\$ 1,410,000.00	Relent
Bolivar SUD	9/15/2014	\$ 730,000.00	Relent
Greater Texoma UA	10/1/2014	\$ 330,000.00	Relent
Porter SUD	12/1/2014	\$ 795,000.00	Expected to be relent
Lavaca Navidad River Authority	12/2/2014	\$ 25,100,000.00	Bonds redeemed
Lavaca Navidad River Authority	12/2/2014	\$ 13,800,000.00	Bonds redeemed
Lavaca Navidad River Authority	12/2/2014	\$ 6,100,000.00	Expected to be relent
City of Hico	2/15/2015	\$ 2,420,000.00	Bonds expected to be redeemed
Porter SUD	6/1/2015	\$ 840,000.00	Expected to be relent
Porter SUD	6/1/2015	\$ 275,000.00	Expected to be relent
City of Bovina	8/15/2015	\$ 1,085,000.00	Bonds expected to be redeemed
H-M-W SUD	3/1/2015	\$ 1,890,000.00	Expected to be relent
City of Montgomery	4/21/2015	\$ 810,000.00	Bonds expected to be redeemed
Far Hills UA	4/29/2015	\$ 255,000.00	Expected to be relent
City of Beasley	4/29/2015	\$ 300,000.00	Expected to be relent
City of Beasley	4/29/2015	\$ 25,000.00	Expected to be relent
Harris Co WCID #27	6/16/2015	\$ 215,000.00	Expected to be relent
Montgomery Co MUD #56	6/5/2015	\$ 590,000.00	Expected to be relent
Benton City WSC	7/15/2015	\$ 1,105,000.00	Equity - will pay debt service or be relent
Benton City WSC	7/15/2015	\$ 280,000.00	Equity - will pay debt service or be relent
Prepayments Received During Fiscal Year 2015:		<u>\$ 58,355,000.00</u>	

*Prepayments received, and notices of prepayments to be received during FY2015 as of 7/31/2015.