

Texas Water Development Board

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TO: Board Members

THROUGH: Jeff Walker, Executive Administrator *aw*
Cindy Demers, Chief Financial Officer *cd*
Les Trobman, General Counsel *lt*

FROM: David Duran, Manager, Debt & Portfolio Management

DATE: June 29, 2016

SUBJECT: The establishment of a new tax-exempt lending rate scale for the Development Fund II Program

ACTION REQUESTED

Approve by resolution the establishment of a new tax-exempt lending rate scale for the Texas Water Development Fund II Water Financial Assistance Account (DFund II) to be effective July 7, 2016.

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 Board priced the proposed State of Texas Water Financial Assistance and Refunding Bonds, Subseries 2016B-1 on June 28, 2016 for a total of \$52,858,173 (par plus net premium minus underwriter's discount) in new money tax-exempt proceeds for the DFund II. The majority of these funds will be set aside to (a) reimburse the TWDB for previously funded Water Financial Assistance Projects, (b) transfer to the Clean Water and Drinking Water State Revolving Fund Programs to fund the required State Match, and (c) provide financial assistance to borrowers.

Our Mission

To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas

Board Members

Bech Bruun, Chairman | Kathleen Jackson, Board Member | Peter Lake, Board Member

Jeff Walker, Executive Administrator

While it is anticipated that all of the new money proceeds will be expended by the end of September 2016, the proposed lending rate will be used for loans closed from program equity or from borrower prepayments. There are no bond proceeds remaining from a prior issuance requiring a blended rate. The True Interest Cost on Subseries 2016B-1 which has a thirty year term is 1.25%. Market data from the day of the sale was used to develop yields for maturities up to 30 years, and then thirty-five (35) basis points were added to each yield to cover costs of issuance, and the costs of payment timing mismatch, default risk and prepayment risk. In addition, the yield in year 30 is used for the yield in years 31 through 40. **The proposed new lending rate of 2.65% represents a fifty eight (58) basis point decrease from the prior rate of 3.23%.**

RECOMMENDATION

The Executive Administrator recommends approval by resolution of the new DFund II Tax-exempt lending rate scale in Exhibit A to the resolution to be effective as of July 7, 2016.

Attachment: Attachment 1 – Resolution (16-)

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING THE ESTABLISHMENT OF A
NEW TAX-EXEMPT LENDING RATE SCALE
FOR THE FINANCIAL ASSISTANCE ACCOUNT OF THE
TEXAS WATER DEVELOPMENT FUND II
(16 -)

WHEREAS, on June 28, 2016, the Texas Water Development Board (TWDB) priced and sold \$58,555,000 State of Texas, Water Financial Assistance and Refunding Bonds, Subseries 2016B-1 resulting in the delivery of \$68,513,452.05 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 proceeds remaining from the July 20, 2016 sale of the Bonds and available funds from prepayments, Board staff has prepared a new tax-exempt lending rate scale which will apply to financial assistance from the Texas Water Development Fund II (DFund II) as set forth in Exhibit A to this Resolution and staff's June 29, 2016 Memorandum to the Board, to which documents express reference is made; and

WHEREAS, the Board finds that the establishment of a new tax-exempt lending rate scale for the DFund II is necessary; and

WHEREAS, the Board finds that the new tax-exempt lending rate scale for the DFund II is based upon cost of funds, risk factors in managing the loan portfolio, 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 lending rate scale in Exhibit A to this Resolution effective July 7, 2016 for the tax-exempt lending rates which apply to financial assistance provided from the Financial Assistance Account of the Texas Water Development Fund II.

APPROVED and ordered of record this the 7th day of July 2016.

TEXAS WATER DEVELOPMENT BOARD

Bech K. Bruun, Chairman

DATE SIGNED: _____

ATTEST:

Jeff Walker
Executive Administrator

LENDING RATE SCALE FOR DFUND II
Tax-Exempt Rate
Effective July 7, 2016

Year	New Rate
Year 1	0.92%
Year 2	1.02%
Year 3	1.11%
Year 4	1.24%
Year 5	1.36%
Year 6	1.48%
Year 7	1.57%
Year 8	1.67%
Year 9	1.76%
Year 10	1.86%
Year 11	2.22%
Year 12	2.42%
Year 13	2.63%
Year 14	2.79%
Year 15	2.93%
Year 16	3.05%
Year 17	3.17%
Year 18	3.24%
Year 19	3.31%
Year 20	3.37%
Year 21	3.55%
Year 22	3.55%
Year 23	3.55%
Year 24	3.55%
Year 25	3.55%
Year 26	3.63%
Year 27	3.63%
Year 28	3.63%
Year 29	3.63%
Year 30	3.65%
Year 31	3.65%
Year 32	3.65%
Year 33	3.65%
Year 34	3.65%
Year 35	3.65%
Year 36	3.65%
Year 37	3.65%
Year 38	3.65%
Year 39	3.65%
Year 40	3.65%

20 Year Borrowing Cost	2.65%
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