

**TO:** Board Members

**THROUGH:** Jeff Walker, Executive Administrator  
Rebecca Trevino, Chief Financial Officer  
Todd Chenoweth, General Counsel

**FROM:** Georgia Sanchez, Director, Debt and Portfolio Management

**DATE:** January 28, 2019

**SUBJECT:** Establish a new taxable lending rate scale for the Economically Distressed Areas Program

**ACTION REQUESTED**

Approve by resolution the establishment of a new taxable lending rate scale for the Economically Distressed Areas Program (EDAP) to be effective on February 25, 2019.

**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.

**KEY ISSUES**

The Board priced \$8,821,000 State of Texas Water Financial Assistance Bonds, Taxable Series 2019B on January 28, 2019 for EDAP. Proceeds will be used to fund new Water Financial Assistance projects and to pay the costs of issuance.

While it is anticipated that all new money proceeds will be expended by the end of calendar year 2019, the proposed new taxable lending rate scale may also be used for taxable loans closed from program equity or from borrower prepayments.

<p style="text-align: center; color: #0070C0;">Our Mission</p> <p>To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas</p>	<p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p> <p>⋮</p>	<p style="text-align: center; color: #0070C0;">Board Members</p> <p>Peter M. Lake, Chairman   Kathleen Jackson, Board Member   Brooke T. Paup, Board Member</p> <p>Jeff Walker, Executive Administrator</p>
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The True Interest Cost (TIC) on Series 2019B, which has a five-year term, is 2.76%. Market data from the day of the sale was used to develop yields for maturities up to 20 years. No additional basis points were added to cover program risks, and only direct costs are covered in the scale, in recognition of the small portion of the funds used to make loans and the appropriation of general revenue to pay debt service on the bonds.

**RECOMMENDATION**

To set a taxable rate scale for EDAP which meets market conditions and covers cost of funds, the Executive Administrator recommends approval by resolution of the new EDAP taxable lending rate scale, as seen in Exhibit A to the Resolution, effective as of February 25, 2019.

Attachment: Resolution

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

(19 - )

WHEREAS, on February 20, 2019, the Texas Water Development Board (TWDB) will sell and deliver \$8,821,000 State of Texas, Water Financial Assistance Bonds, (EDAP), Taxable Series 2019B resulting in the delivery of \$8,871,741.73 in proceeds 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 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, subsection (4) in 31 TAC § 363.33(b) provides that the Board will establish separate lending rate scales for tax-exempt and taxable projects from loans made from the EDAP Program Account; and

WHEREAS, in conjunction with the February 20, 2019 sale of State of Texas Water Financial Assistance Bonds (EDAP), Series 2019B, Board staff has prepared a new taxable lending rate scale which will apply to financial assistance from the Economically Distressed Areas Program (EDAP) as set forth in Exhibit A to this Resolution and staff's January 28, 2019 Memorandum to the Board, to which documents express reference is made; and

WHEREAS, the Board finds that the establishment of a new taxable lending rate scale for EDAP is necessary due to the sale of the State of Texas Water Financial Assistance Bonds (EDAP), Taxable Series 2019B; and

WHEREAS, the Board finds that the new lending rate scale for the EDAP is based upon cost of funds 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 Exhibit A to this Resolution, to be effective February 25, 2019 for the taxable lending rates which apply to financial assistance provided from the Economically Distressed Areas Program Account.

APPROVED and ordered of record this the 25th day of February, 2019.

TEXAS WATER DEVELOPMENT BOARD

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Peter Lake, Chairman

DATE SIGNED: \_\_\_\_\_

ATTEST:

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Jeff Walker Executive Administrator

**LENDING RATE SCALE FOR EDAP**  
**Taxable Rate Effective February 25, 2019**

<b>Year</b>	<b>New Rate</b>
Year 1	2.60%
Year 2	2.67%
Year 3	2.69%
Year 4	2.72%
Year 5	2.75%
Year 6*	2.85%
Year 7*	2.92%
Year 8*	3.07%
Year 9*	3.13%
Year 10*	3.23%
Year 11*	3.28%
Year 12*	3.38%
Year 13*	3.48%
Year 14*	3.53%
Year 15*	3.58%
Year 16*	3.63%
Year 17*	3.92%
Year 18*	3.92%
Year 19*	3.92%
Year 20*	3.92%

\*Rates projected by Hilltop Securities as of January 28, 2019.

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