Texas Water Development Board

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TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Rebecca Trevino, CPA, Chief Financial Officer

FROM: Georgia Sanchez, Development Fund Manager

DATE: September 19, 2019

SUBJECT: Fiscal Year 2019 Prepayment and Bond Redemption Report

ACTION REQUESTED

No action requested. This is solely a report on prepayments received and bonds redeemed or defeased during Fiscal Year (FY) 2019 by authority granted by the board.

BACKGROUND

When market rates fall below the rates on outstanding loans, borrowers can achieve debt service savings by issuing new debt to refund outstanding debt held by the Texas Water Development Board (TWDB). Borrowers of the TWDB's programs have steadily refunded debt held by the TWDB generating prepayments that must be disposed of efficiently, and market rates will be a key factor driving the volume of prepayments in the future.

The use of prepayments originally funded with tax-exempt bond proceeds is restricted and involves specific time constraints for disposition as required by Internal Revenue Service (IRS) regulations. Most prepayments that are received by the TWDB are used to originate new loans, which reduces the need to issue additional bonds and facilitates compliance with IRS timing requirements but can also create cash flow mismatches between the loans being prepaid and the underlying TWDB bonds which funded them. Alternatively, prepayments are also used to redeem or defease bonds from time to time if funds are not needed for new loans. Program equity may also be used to redeem or defease bonds to deleverage a program's cash flows and generate savings in excess of interest earnings on fund balances.

In September of 2018, the board granted the Executive Administrator and Development Fund Manager authority through September 30, 2019 to use prepayments and other lawfully available funds to pay, redeem, and defease debt related to for the Water Financial Assistance bonds.

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

Peter M. Lake, Chairman | Kathleen Jackson, Board Member | Brooke T. Paup, Board Member

Jeff Walker, Executive Administrator

KEY ISSUES

This report is provided as a summary of prepayments received and actions taken in FY 2019 under the delegated authority. The delegation provided flexibility to address the use of prepayment proceeds in a timely manner, maintain appropriate program debt service coverage ratios, and comply with IRS regulations related to prepayments originally funded with tax-exempt bond proceeds. The actions taken also resulted in significant debt service savings for the agency.

Table 1 of Attachment 1 provides a summary by program of prepayments received during FY 2019 and the disposition of those prepayments. Within the fiscal year, the TWDB received approximately $438 million from 45 prepayments.

Table 2 of Attachment 1 provides a summary of six actions taken during FY 2019 that reduced the TWDB's debt outstanding, excluding bond refundings. This has resulted in significant debt service savings. Note that Table 2 does not include redemptions that resulted from regularly-scheduled debt service payments, nor does it include redemptions that resulted from refunding transactions. Redemptions that resulted from refunding transactions were done by authority granted in separate board action (bond resolutions).

RECOMMENDATION

There is no action requested. This is solely a report on prepayments received and bonds redeemed or defeased during FY 2019 by the authority granted by the board.

Attachment: 1 – Table 1: FY 2019 TWDB Prepayments
Table 2: FY 2019 TWDB Bond Redemptions and Defeasances

Table 1

FY 2019 TWDB Prepayments Received

Program	Principal Prepaid	Amount Used to Redeem/Defease Bonds
DFUND	$ 183,625,000	$ 160,255,000
WIF	11,305,000	-
EDAP*	202,827	-
RWAF	5,143,032	-
CWSRF	205,195,000	-
DWSRF	32,526,000	-
Total	**$ 437,996,859**	**$ 160,255,000**

**Consists of final accountings from grants and not loan prepayments.*

Table 2

FY 2019 TWDB Bond Redemptions and Defeasances*

Date	Program	Debt	Par
9/25/2018	DFUND	2016B-2	$ 13,895,000
3/25/2019	DFUND	2016B-2	11,580,000
7/16/2019	WIF	2018B-1 and 2018B-3	10,425,000
8/1/2019	DFUND	2009C-1	158,750,000
8/1/2019	DFUND	2010A	15,165,000
8/1/2019	SP	2009A-1	7,155,000
		Total	**$ 216,970,000**

Program Totals	
DFUND	$ 199,390,000
WIF	10,425,000
SP	7,155,000
Total	**$ 216,970,000**

**Does not include regularly scheduled debt service payments, nor redemptions that resulted from refunding bond transactions.*