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AGENDA ITEM MEMO

BOARD MEETING DATE: August 21, 2025

TO: Board Members

THROUGH: Bryan McMath, Executive Administrator
Ashley Harden, General Counsel
Georgia Sanchez, Chief Financial Officer

FROM: David Duran, Director of Debt and Portfolio Management

SUBJECT: Delegation of Authority for Defeasance of General Obligation Bonds

ACTION REQUESTED

Consider approving by resolution delegation to the Executive Administrator and the Development Fund Manager the authority to utilize prepayments and other lawfully available funds to pay, redeem, and defease General Obligation Bonds.

BACKGROUND

Typically, when prepayments from debt service on outstanding political subdivision obligations held by the Texas Water Development Board (TWDB) are received, they are recycled into the purchase of new obligations. This utilization of prepayments can create a mismatch in funds available for paying the TWDB's semi-annual debt service on its General Obligation Bonds, including those issued for the Texas Water Development Fund II, Water Infrastructure Fund, Economically Distressed Areas Program, and State Participation programs. To avoid this, each bond resolution allows for such prepayments to be used for the redemption of the original funding source bond series within 90 days of the receipt of the prepayment. In addition to prepayments, other lawfully available funds may be used for the redemption of the bonds.

For the current delegation, the Executive Administrator or his designee is authorized through September 30, 2025 to pay, redeem or defease bonds, or to take any other necessary action to mitigate prepayment risk to the TWDB's portfolio for all of the TWDB Financial Assistance programs. The Executive Administrator must request annually the authority to make necessary payments as required by the terms of certain resolutions adopted by the TWDB authorizing the issuance of general obligation or revenue bonds for the TWDB Financial Assistance Programs.

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 an entity's rate on their original obligation purchased by the TWDB, a market refunding can provide the entity with debt service savings.

The Executive Administrator recommends the TWDB to delegate authority to the Executive Administrator and the Development Fund Manager to take all necessary actions to pay, redeem, and defease the TWDB General Obligation Bonds through September 30, 2026. Such delegation would provide staff flexibility to address the use of the prepayment proceeds and to timely meet IRS regulations related to prepayments originally funded with tax-exempt bond proceeds.

RECOMMENDATION

The Executive Administrator recommends approving by resolution the delegation of authority to the Executive Administrator and the Development Fund Manager to utilize prepayments and other lawfully available funds to pay, redeem and defease General Obligation Bonds.

Attachment:

1. Resolution - FY2026 GO PPMT Delegation

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD AUTHORIZING THE EXECUTIVE ADMINISTRATOR AND DEVELOPMENT FUND MANAGER TO UTILIZE PREPAYMENTS AND ALL LAWFULLY AVAILABLE FUNDS TO PAY, REDEEM, AND DEFEASE STATE OF TEXAS, GENERAL OBLIGATION WATER FINANCIAL ASSISTANCE BONDS

(25 -)

Recitals:

Section 49-d-8, Section 49-d-9, Section 49-d-10, Section 49-d-11, and Section 49-d-14 of Article III of the Constitution of the State of Texas, authorizes the Texas Water Development Board (TWDB) to issue State of Texas General Obligation Water Financial Assistance Bonds for one or more accounts of the Texas Water Development Fund II (DFund II) Financial Assistance Account (including DFund II Bonds and Water Infrastructure Fund Bonds, *collectively herein* the DFund Bonds), Economically Distressed Areas Program Account (EDAP Bonds), and State Participation Account (State Participation Bonds).

Each of the Bond Resolutions authorizing the issuance of the DFund Bonds, EDAP Bonds, and State Participation Bonds (collectively herein referred to as the Bond Resolutions) generally establish, 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.

The Financial Assistance Bond Payment Account, Economically Distressed Areas Program Bond Payment Account, and State Participation Bond Payment Account may each be utilized as a special account to pay the principal and interest on, respectively, the DFund Bonds, EDAP Bonds, and State Participation Bonds.

Each of the Bond Resolutions further provide that money in the Financial Assistance Account representing prepayments of financial assistance from political subdivisions provided from the Financial Assistance Account by the TWDB, money in the Economically Distressed Areas Program Account representing prepayments of financial assistance from political subdivisions provided from the Economically Distressed Areas Program Account by the TWDB, and money in the State Participation Account representing prepayments of financial assistance from political subdivisions provided from the State Participation Account by the TWDB shall not be available for transfer(s), 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.

The TWDB has received and continues to receive prepayments of financial assistance from political subdivisions provided from the Financial Assistance Account, Economically Distressed Areas Program Account, and the State Participation Account by the TWDB.

The Executive Administrator and Development Fund Manager require delegated authority to manage incoming prepayments to mitigate any negative impacts to the TWDB's portfolio of the receipt of such prepayments.

The TWDB, through Resolution No. 06-10, granted the Executive Administrator the 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 Program Bond Payment Account, and State Participation Bond Payment Account.

NOW, THEREFORE, based these findings, the Texas Water Development Board resolves and finds 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 representing prepayments of financial assistance, and all lawfully available funds, in the Financial Assistance Account including DFund II and Water Infrastructure Bonds, money representing prepayments of financial assistance, and all lawfully available funds, in the Economically Distressed Areas Program Account, money representing prepayments of financial assistance, and lawfully available funds, in the State Participation Account, that have been transferred to, respectively, the Financial Assistance Bond Payment Account, Economically Distressed Areas Program Bond Payment Account, and State Participation Bond Payment Account, pursuant to the authorization granted to the Executive Administrator under Board Resolution No. 06-10.

2. The authorization granted in this Resolution is effective October 1, 2025 and expires September 30, 2026, 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 at least annually to the TWDB Board members the amount 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 21st day of August 2025.

TEXAS WATER DEVELOPMENT BOARD

_____
L'Oreal Stepney, Chairwoman

DATE SIGNED: _____

ATTEST:

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Bryan McMath, Executive Administrator