

AGENDA ITEM MEMO

BOARD MEETING DATE: July 25, 2023

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Ashley Harden, General Counsel
Rebecca Trevino, Chief Financial Officer

FROM: Georgia Sanchez, Development Fund Manager
Alejandro Imatzu, Senior Financial Analyst

SUBJECT: Development Fund II Program Lending Rate Scales

ACTION REQUESTED

Consider approving by resolution the establishment of new tax-exempt and taxable lending rate scales for the Texas Water Development Fund II Water Financial Assistance Account (DFund II) to be effective July 25, 2023.

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 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 35 basis points to the yield in each year in order to cover the risk exposure of the fund.

KEY ISSUES

On June 21, 2023, State of Texas Water Financial Assistance and Refunding Bonds were priced for DFund II. Series B was a refunding for savings and Series A of this transaction will be used to fund new Water Financial Assistance projects and to pay the costs of issuance.

Our Mission

Leading the state's efforts in
ensuring a secure water future
for Texas and its citizens

Board Members

Brooke T. Paup, Chairwoman | George B. Peyton V, Board Member | L'Oreal Stepney, P.E., Board Member
Jeff Walker, Executive Administrator

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While it is anticipated that all new proceeds will be expended by the end of calendar year 2023, the proposed new lending rate scales will also be used for new financial assistance funded with program equity or borrower prepayments.

Market data from the day of the sale was used to develop new tax-exempt and taxable lending rate scales, which include 35 basis points added to each yield to cover the costs of issuance and the costs of payment timing mismatch, default risk, and prepayment risk.

RECOMMENDATION

To set rates for financial assistance from DFund II which meet market conditions and cover the costs of the TWDB funds and risks, the Executive Administrator recommends approval of the new DFund II tax-exempt lending rate scale in Exhibit A to the resolution and taxable lending rate scale in Exhibit B to be effective as of July 25, 2023.

Attachment:

1. Resolution

A RESOLUTION OF THE TEXAS WATER DEVELOPMENT BOARD
APPROVING THE ESTABLISHMENT OF
NEW TAX-EXEMPT AND TAXABLE LENDING RATE SCALES
FOR THE FINANCIAL ASSISTANCE ACCOUNT OF THE
TEXAS WATER DEVELOPMENT FUND II

(23 -)

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, the Board previously approved a tax-exempt lending rate scale and taxable lending rate scale on May 11, 2022; and

WHEREAS, Board staff has prepared a new tax-exempt lending rate scale and a new taxable lending rate scale which will apply to financial assistance from the Texas Water Development Fund II (DFund II) as set forth in Exhibit A and Exhibit B to this Resolution and staff's July 25, 2023 Memorandum to the Board, to which documents express reference is made; and

WHEREAS, the Board finds that the new tax-exempt and taxable lending rate scales for the DFund II are based upon cost of funds, risk factors in managing the loan portfolios, 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 and taxable lending rate scales as attached in Exhibits A and B to this Resolution, effective July 25, 2023, for the tax-exempt and taxable 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 25th day of July 2023.

TEXAS WATER DEVELOPMENT BOARD

Brooke T. Paup, Chairwoman

DATE SIGNED: _____

ATTEST:

Jeff Walker, Executive Administrator

EXHIBIT A

LENDING RATE SCALE FOR DFUND II

Tax-Exempt Rates

Year	Rate
Year 1	3.40%
Year 2	3.30%
Year 3	3.21%
Year 4	3.13%
Year 5	3.10%
Year 6	3.10%
Year 7	3.11%
Year 8	3.10%
Year 9	3.11%
Year 10	3.17%
Year 11	3.37%
Year 12	3.60%
Year 13	3.79%
Year 14	3.98%
Year 15	4.11%
Year 16	4.20%
Year 17	4.28%
Year 18	4.35%
Year 19	4.40%
Year 20	4.44%
Year 21	4.63%
Year 22	4.63%
Year 23	4.63%
Year 24	4.63%
Year 25	4.64%
Year 26	4.73%
Year 27	4.73%
Year 28	4.73%
Year 29	4.73%
Year 30	4.73%
Year 31	4.88%
Year 32	4.88%
Year 33	4.88%
Year 34	4.88%
Year 35	4.88%
Year 36	4.88%
Year 37	4.88%
Year 38	4.88%
Year 39	4.88%
Year 40	4.88%

EXHIBIT B

LENDING RATE SCALE FOR DFUND II

Taxable Rates

Year	Rate
Year 1	5.62%
Year 2	5.24%
Year 3	4.95%
Year 4	4.81%
Year 5	4.85%
Year 6	4.82%
Year 7	4.86%
Year 8	4.79%
Year 9	4.83%
Year 10	4.88%
Year 11	4.97%
Year 12	5.07%
Year 13	5.14%
Year 14	5.20%
Year 15	5.25%
Year 16	5.30%
Year 17	5.30%
Year 18	5.30%
Year 19	5.30%
Year 20	5.41%
Year 21	5.41%
Year 22	5.41%
Year 23	5.41%
Year 24	5.41%
Year 25	5.41%
Year 26	5.41%
Year 27	5.41%
Year 28	5.41%
Year 29	5.41%
Year 30	5.41%
Year 31	5.61%
Year 32	5.61%
Year 33	5.61%
Year 34	5.61%
Year 35	5.61%
Year 36	5.61%
Year 37	5.61%
Year 38	5.61%
Year 39	5.61%
Year 40	5.61%