

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: Economically Distressed Areas Program Lending Rate Scales

ACTION REQUESTED

Consider approving by resolution the establishment of new tax-exempt and taxable lending rate scales for the Economically Distressed Areas Program (EDAP) 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 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

On June 21, 2023, State of Texas Water Financial Assistance and Refunding Bonds were priced. Series C and taxable Series D will be used to fund new Water Financial Assistance projects in EDAP 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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Market data from the day of the sale was used to develop new tax-exempt and taxable lending rate scales. Basis points were added to cover the direct issuance costs associated with the bonds.

While it is anticipated that all new proceeds will be expended by February 2024, the proposed new lending rate scales will also be used for new financial assistance funded with borrower prepayments.

RECOMMENDATION

To set rates for financial assistance from EDAP which meet market conditions and cover the costs of TWDB funds, the Executive Administrator recommends approval of the new EDAP 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 A
NEW TAX-EXEMPT AND TAXABLE LENDING RATE SCALE
FOR THE ECONOMICALLY DISTRESSED AREAS PROGRAM ACCOUNT
OF THE TEXAS WATER DEVELOPMENT FUND II

(23 -)

WHEREAS, 31 Texas Administrative Code (TAC) § 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 board 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 June 21, 2023 sale of State of Texas Water Financial Assistance Bonds (EDAP), Series 2023C and 2023D, Board staff has prepared a new tax-exempt and taxable lending rate scales which will apply to financial assistance from the Economically Distressed Areas Program (EDAP) 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 establishment of a new tax-exempt lending rate scale for EDAP is necessary due to the sale of the State of Texas Water Financial Assistance Bonds (EDAP), Series 2023C and 2023D; and

WHEREAS, the Board finds that the new lending rate scale for the EDAP is based upon cost of funds, 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 and Exhibit B to this Resolution, to be effective July 25, 2023 for the tax-exempt and 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 July, 2023.

TEXAS WATER DEVELOPMENT BOARD

Brooke T. Paup, Chairwoman
DATE SIGNED: _____

ATTEST:

Jeff Walker Executive Administrator

EXHIBIT A

LENDING RATE SCALE FOR EDAP

Tax-Exempt Rates

Year	Rate
Year 1	3.17%
Year 2	3.07%
Year 3	2.95%
Year 4	2.87%
Year 5	2.83%
Year 6	2.83%
Year 7	2.83%
Year 8	2.83%
Year 9	2.83%
Year 10	2.87%
Year 11	3.07%
Year 12	3.30%
Year 13	3.49%
Year 14	3.66%
Year 15	3.81%
Year 16	3.95%
Year 17	3.99%
Year 18	4.03%
Year 19	4.06%
Year 20	4.09%
Year 21	4.13%
Year 22	4.15%

EXHIBIT B

LENDING RATE SCALE FOR EDAP

Taxable Rates

Year	Rate
Year 1	5.36%
Year 2	4.98%
Year 3	4.69%
Year 4	4.55%
Year 5	4.59%
Year 6	4.56%
Year 7	4.60%
Year 8	4.53%
Year 9	4.57%
Year 10	4.62%
Year 11	4.71%
Year 12	4.81%
Year 13	4.88%
Year 14	4.94%
Year 15	4.99%
Year 16	5.04%
Year 17	5.04%
Year 18	5.04%
Year 19	5.04%
Year 20	5.15%
Year 21	5.15%
Year 22	5.15%