

## AGENDA ITEM MEMO

**BOARD MEETING DATE:** August 10, 2023

**TO:** Board Members

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

**FROM:** Georgia Sanchez, Development Fund Manager

**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 program. 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.

Historically, the Executive Administrator has received delegation authority to defease General Obligation Bonds on an annual basis since Fiscal Year 2010, and the authority was expanded to include the Development Fund Manager in Fiscal Year 2015. In October 2022, in response to a Sunset Commission recommendation, the board approved by an updated separation of policy-making responsibilities of the board, the management responsibilities of the Executive Administrator, and related delegations to the Executive Administrator. As part of this delegation, the Executive Administrator or his designee is authorized to

redeem, defease, prepay bonds, or to take any other necessary action to mitigate prepayment risk to the Board'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. The last delegation authority expires on September 30, 2023.

### **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 proposes that the TWDB consider delegating authority to the Executive Administrator and the Development Fund Manager to take all necessary actions to pay, redeem, and defease TWDB General Obligation Bonds through September 30, 2024. 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**

To efficiently manage prepayments, the Executive Administrator recommends adoption of a resolution delegating 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 - FY2024 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

(23- )

WHEREAS, utilizing the authority provided by Section 49-d-8, Section 49-d-9, Section 49-d-10, and Section 49-d-11 of Article III of the Constitution of the State of Texas, the Texas Water Development Board (TWDB) has issued 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); and

WHEREAS, applicable sections of 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; and

WHEREAS, 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; and

WHEREAS, applicable sections of 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; and

WHEREAS, 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; and

WHEREAS, the flexibility to promptly manage incoming prepayments by the Executive Administrator and Development Fund Manager allows for the mitigation of any negative impact to the TWDB's portfolio of the receipt of such prepayments; and

WHEREAS, 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 on said considerations and findings, the Texas Water Development Board resolves 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, 2023 and expires September 30, 2024, 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 10<sup>th</sup> day of August 2023.

TEXAS WATER DEVELOPMENT BOARD

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Brooke T. Paup  
Chairwoman

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

ATTEST:

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Jeff Walker  
Executive Administrator