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AGENDA ITEM MEMO

BOARD MEETING DATE: May 9, 2024

TO: Board Members

THROUGH: Bryan McMath, Interim Executive Administrator
Rebecca Trevino, Chief Financial Officer
Ashley Harden, General Counsel

FROM: David Duran, Director, Debt and Portfolio Management

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 May 9, 2024.

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, 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, default risk, prepayment risk, and any additional risk exposure in managing the fund, as applicable. Historically, the TWDB has added 35 basis points to each year in order to cover the risk exposure of the fund.

KEY ISSUES

The current taxable and tax-exempt lending rate scales were approved by the board in conjunction with the last State of Texas Water Financial Assistance bond sale, which occurred on June 21, 2023, and remain in place to close loans from program equity,

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Leading the state’s efforts in ensuring a secure water future for Texas	:	Brooke T. Paup, Chairwoman George B. Peyton V, Board Member L’Oreal Stepney, P.E., Board Member Bryan McMath, Interim Executive Administrator

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borrower prepayments, or proceeds on hand from prior bond sales. Market rates have substantially changed since the prior lending rates were approved, and the proposed scales are more reflective of current market conditions.

The proposed scales are based on current estimates of the Board's cost of funds, and includes 35 basis points added to each yield to cover the risks to the fund. The tax-exempt scale is blended with the \$6.28 million remaining from the State of Texas Water Financial Assistance Bonds, Series 2023A, which were issued with a True Interest Cost of 3.90%.

RECOMMENDATION

The Executive Administrator recommends approval by resolution of the new DFund II tax-exempt and taxable lending rate scales in Exhibits A and B to the resolution, respectively, to be effective as of May 9, 2024.

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

(24-___)

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 June 21, 2023; 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 May 9, 2024 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 May 9, 2024, 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 9th day of May 2024.

TEXAS WATER DEVELOPMENT BOARD

Brooke T. Paup, Chairwoman

DATE SIGNED: _____

ATTEST:

Bryan McMath, Interim Executive Administrator

EXHIBIT A

LENDING RATE SCALE FOR DFUND II

Tax-Exempt Rates

Year	Rate
Year 1	3.71%
Year 2	3.56%
Year 3	3.38%
Year 4	3.27%
Year 5	3.23%
Year 6	3.23%
Year 7	3.21%
Year 8	3.23%
Year 9	3.26%
Year 10	3.30%
Year 11	3.54%
Year 12	3.73%
Year 13	3.94%
Year 14	4.06%
Year 15	4.19%
Year 16	4.33%
Year 17	4.42%
Year 18	4.49%
Year 19	4.56%
Year 20	4.63%
Year 21	4.56%
Year 22	4.58%
Year 23	4.61%
Year 24	4.66%
Year 25	4.70%
Year 26	4.75%
Year 27	4.76%
Year 28	4.79%
Year 29	4.79%
Year 30	4.82%
Year 31	4.91%
Year 32	4.91%
Year 33	4.91%
Year 34	4.91%
Year 35	4.91%
Year 36	5.00%
Year 37	5.00%
Year 38	5.00%
Year 39	5.00%
Year 40	5.00%

EXHIBIT B

LENDING RATE SCALE FOR DFUND II

Taxable Rates

Year	Rate
Year 1	5.44%
Year 2	5.44%
Year 3	5.45%
Year 4	5.47%
Year 5	5.47%
Year 6	5.47%
Year 7	5.49%
Year 8	5.49%
Year 9	5.52%
Year 10	5.57%
Year 11	5.67%
Year 12	5.72%
Year 13	5.77%
Year 14	5.82%
Year 15	5.85%
Year 16	5.87%
Year 17	5.99%
Year 18	5.99%
Year 19	5.99%
Year 20	5.99%
Year 21	6.14%
Year 22	6.14%
Year 23	6.14%
Year 24	6.14%
Year 25	6.14%
Year 26	6.14%
Year 27	6.14%
Year 28	6.14%
Year 29	6.14%
Year 30	6.14%
Year 31	6.19%
Year 32	6.19%
Year 33	6.19%
Year 34	6.19%
Year 35	6.19%
Year 36	6.24%
Year 37	6.24%
Year 38	6.24%
Year 39	6.24%
Year 40	6.24%