

- SUBJECT:** Expanding financial arrangements available to the Veterans Land Board
- COMMITTEE:** Financial Institutions — favorable, without amendment
- VOTE:** 9 ayes — Averitt, Solomons, Denny, Ehrhardt, Elkins, Grusendorf, Marchant, Pitts, Juan Solis
- 0 nays
- WITNESSES:** For — Glen Gardner, Jr., Texas Coalition Veteran’s Organization; Bill McLemore, Texas Association of County Veteran’s Service Officers; Bill Stinson, Texas Association of Realtors
- Against — None
- On — David Dewhurst, General Land Office and Veterans Land Board; David Gloier and Rusty Martin, Veterans Land Board
- BACKGROUND:** The Veterans Land Board (VLB) operates financial assistance programs that sell land or make home-mortgage loans to veterans. To this end, the board manages the Veterans Land Fund, the Veterans Housing Assistance Program, and the Veterans Financial Assistance Program.
- The VLB may issue bonds and undertake bond-enhancement agreements, which are financial instruments designed to increase the rate of return on bonds. Examples of bond-enhancement agreements include interest-rate swaps, currency swaps, and other agreements designed to hedge payment, currency, interest rate, and other types of financial exposure. The board issues both general-obligation and revenue bonds.
- The VLB is authorized to build and operate veterans homes through issuance of revenue bonds to meet the state’s share for participation in the federal Construction Grants Program. Through this program, the VLB has overseen the construction of veterans homes in Texas.
- DIGEST:** HB 1812 would amend the Natural Resources Code to allow the VLB to authorize by resolution one or more designated officers or employees to represent the board in entering into and delivering a bond-enhancement

agreement. The board resolution would have to set the maximum amount and term for the agreement. Unless the board specified otherwise in approving it, a bond-enhancement agreement would not be a credit agreement under Art. 717q VTCS, relating to short-term obligations for public utilities, even if part of the agreement were made under that law. HB 1812 would apply these changes in bond-enhancement agreement procedures to sections of the Natural Resources Code that govern the Veterans Land Fund and the Veterans Housing Assistance Fund.

HB 1812 would add to the collateral requirements that determine the eligibility of a custodian of securities of the Veterans Land Fund. In addition to cash and U.S. government securities, a securities broker or dealer who borrowed a fund security could provide as collateral letters of credit issued by a bank that are of an "A" investment quality to guarantee at least 100 percent of the market value of the loaned securities. This collateral provision also would apply to sections of the code that govern the Veterans Land Fund and the Veterans Housing Assistance Fund.

The bill would prohibit the VLB from authorizing the use of any veterans home in a way that would violate 38 USC 8136, a federal statute dealing with funding recapture by the federal government for state-run projects that furnish homes, nursing homes, and hospital care for veterans if they fail to meet federal obligations.

The bill also would authorize the board to accept and administer gifts, grants, or donations to support, acquire, build, operate, enlarge, improve, furnish, or equip veterans homes on its own terms and conditions. The board could enter into cooperative agreements with nonprofit corporations for the solicitation, receipt, and disbursement of gift, grants, or donations.

HB 1812 would add mortgages to the means of securing payment of board-issued bonds for the Veterans Financial Assistance Program, consistent with the resolution of the board. The board also would be authorized to receive a pledge of mortgage of one or more veterans homes as security.

HB 1812 would amend Natural Resources Code, sec. 164.011(c) by specifying that the funds would not be subject to Government Code, chapter 404, governing which fees are deposited into the state treasury, and that the funds would remain under control of the board.

The bill would allow the board to use certified rather than registered mail in sending notices of forfeiture of purchase contracts. It also would make minor conforming changes.

HB 1812 would take immediate effect if finally approved by a two-thirds record vote of the membership in each house.

**SUPPORTERS
SAY:**

HB 1812 would provide much-needed flexibility for the VLB to improve its efficiency. The bill would expand the board's authority to authorize officers or employees to enter into bond-enhancement agreements. Currently, without this ability to delegate, the three-member, part-time board must negotiate every financial transaction, which limits the efficiency of board activities and the menu of available financial options. The changes proposed in HB 1812 would enable the board's investment staff to act more quickly in conducting business. The board would retain ultimate authority for these transactions by setting the maximum amount and term of each instrument.

Current law permits the VLB to lend securities of the Land and Housing Assistance funds to securities brokers and dealers. Under this program, large financial institutions like banks and insurance companies may borrow securities contained in the VLB's investment portfolio to use as collateral for financial transactions. In exchange, the borrowing institution pays the VLB a fee that represents incremental income earned on the board's investment portfolio. These transactions earn the board about \$500,000 annually.

Currently, the VLB may accept only cash or U.S. government securities as collateral. Industry practice allows the acceptance of letters of credit, a guarantee of payment usually made by a bank on behalf of a third party. This arrangement may offer an advantage to the lending institution. When cash or U.S. securities are used as collateral, their value is posted each day as marked-to-value. If the value falls below the requirement, the borrower must post more collateral. Standard procedure is to allow institutions to maintain their collateral requirements by pledging a portion in a letter of credit instead of sending small amounts of money periodically to maintain the value of the collateral. Allowing banks or other financial institutions to use letters of credit to guarantee the value of the collateral would make the VLB lending arrangement more attractive to these institutions.

HB 1812 also would reassure potential bond investors that no repayment to the federal Veterans Administration (VA) for funds provided as a federal contribution to the Construction Grants Program would ever be likely. Under this program, VA provides up to 65 percent of funds to build veterans homes, and the state provides the land and the remaining construction costs. The VLB is authorized to issue revenue bonds to meet these costs. If the homes built through this program are operated as veterans homes for at least 20 years, the state owes VA nothing. HB 1812 would require this practice by statute, thus reassuring potential bond investors. This provision also would prohibit the VLB from using a veterans home for another purpose, such as for a convention center.

Current law contains no provisions that specifically allow the VLB to provide mortgages on the state's veterans homes as security for repayment of revenue bonds. If the state established a veterans home without VA assistance, the board's ability to provide a mortgage on the home as security for repayment of the bonds would lower the interest rate on the bonds significantly, providing further savings to the VLB.

HB 1812 also would allow the VLB to save money by using certified mail rather than registered mail in sending notices of forfeiture of land due to nonpayment.

OPPONENTS
SAY:

Although the VLB would retain the authority to set the maximum amount and term of any bond-enhancement agreement, the board might delegate too much power to subordinates in negotiating financial arrangements that often exceed hundreds of thousands of dollars. For example, the board might discover the potential risks of a currency swap only after its representatives had negotiated the bond. At that point, it would be too late to cancel the arrangement.

Under current law, if the board lends securities to a financial institution, the borrower may use only cash and U.S. government securities as collateral. These items represent virtually no financial risk. Although often used at the industry level, letters of credit do entail the risk that a financial institution will not meet the difference between the marked-for-market worth of the collateral and the agreed amount.

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NOTES: The companion bill, SB 1555 by Fraser, passed the Senate on April 15 on the Local and Uncontested Calendar and was reported favorably, without amendment, by the House Financial Institutions Committee on April 19, making it eligible to be considered in lieu of HB 1812.