



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 28

Agenda Date: October 21, 2021

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Resolution through the City of San Antonio, Texas, Education Facilities Corporation authorizing the issuance of up to \$30,000,000 in tax-exempt and taxable Higher Education Revenue Bonds for Hallmark University, Inc., doing business as Hallmark University, a nonprofit corporation organized and existing under the laws of the State of Texas, and a private institution of higher education (the "University").

SUMMARY:

Consideration of the following in connection with the Financing of Certain Education Facilities Corporation bonds for Hallmark University.

At this time, the City Council of the City of San Antonio will recess and convene as the Board of Directors of the City of San Antonio, Texas Education Facilities Corporation to consider the following:

- This Resolution authorizes the issuance of up to \$30,000,000 of its (i) Higher Education Revenue Bonds, Series 2021A ("Series 2021A Bonds"), and (ii) Higher Education Revenue Bonds, Taxable Series 2021B ("Taxable Series 2021B Bonds") for the benefit of the University

At this time, the Board of Directors of the City of San Antonio, Texas Education Facilities

Corporation will adjourn and the City Council of the City of San Antonio will reconvene to consider the following:

· This Resolution approves the issuance of up to \$30,000,000 of its (i) Higher Education Revenue Bonds, Series 2021A (“Series 2021A Bonds”), and (ii) Higher Education Revenue Bonds, Taxable Series 2021B (“Taxable Series 2021B Bonds”) for the benefit of the University

BACKGROUND INFORMATION:

The University, originally organized in 1969 as Hallmark Aero-Tech, is a nonprofit (effective January 1, 2013) institution of higher education in San Antonio offering degrees in Aviation Maintenance, Information Technology, Cybersecurity, Business, and Nursing. The University’s main campus, located next to IH-10 between Huebner Road and Wurzbach Road, houses classes, labs, and support services for students pursuing degrees in business, information technology, and healthcare. The Aeronautics campus is located on Wetmore Road next to the San Antonio International Airport and houses classes, labs, and support services for students pursuing aviation maintenance degrees and certifications. The University currently serves over 800 active students on its two campuses.

The City of San Antonio, Texas Higher Education Authority was created by the City of San Antonio in 1984 for the purpose of aiding educational institutions of higher education with tax-exempt bond financing options to improve their facilities. On May 31, 2001, the City Council approved amendments to the Corporation's Articles of Incorporation to change its name to the City of San Antonio, Texas Education Facilities Corporation. The City Council serves as the 11-member Board of Directors of the Corporation.

The University has requested that the Corporation and the City Council approve the issuance of the Series 2021A Bonds and the Taxable Series 2021B Bonds.

The Series 2021A Bonds will be loaned to the University and will be used for the following purposes: (i) to finance the acquisition of certain land within the City of San Antonio (the “City”) of approximately 20 acres in gross area and related improvements, including an approximately 72,000 square foot building, generally identified by the address of 9855 Westover Hills Boulevard, San Antonio, Texas 78251 (the “Property”), to serve as the new main campus of the University, and the capital costs to design, construct, expand, improve, renovate, furnish and equip certain educational and support facilities of the University, including parking, located at and on the Property (collectively, the “2021 Projects”); (ii) to fund a reasonably required deposit to an account of a debt service reserve fund, providing additional security for the Series 2021A Bonds; (iii) fund up to two years’ interest on the Series 2021A Bonds, and (iv) to pay certain costs of issuance.

The Taxable Series 2021B Bonds will be loaned to the University and will be used for the following purposes: (i) prepay and retire a commercial loan originally provided to the University on January 1, 2013, and amended and restated as of December 31, 2017, by Eaglemount, LP f/k/a Hallmark Aerotech, L.P. (the “2017 Lender”) pursuant to an Amended and Restated Loan

and Security Agreement, dated as of December 31, 2017, between the 2017 Lender and the University, to finance costs relating to the purchase, construction and/or renovation of educational facilities and facilities incidental, subordinate, or related to or appropriate in connection with educational facilities including, without limitation, the purchase of property, improvements, fixtures and equipment located at 10401 Frontage Road (IH 10 West), San Antonio, Texas 78230 and at 901 Wetmore Road, San Antonio, TX 78216 (the “2017 Projects”), (ii) to pay any project costs of the 2021 Projects that Bond Counsel determines cannot be financed on a tax-exempt basis, (iii) to fund a reasonably required deposit to an account of a debt service reserve fund, providing additional security for the Series 2021B Bonds, (iv) to fund an amount estimated by the University to be required for operating expenses during the first year of operation of the 2021 Projects (which estimated amount neither the Corporation nor its Board will independently determine or verify), and (v) to pay certain costs of issuance.

The issuance of the Series 2021A Bonds and the Taxable Series 2021B Bonds will enable the University to refund and refinance all of its outstanding long-term indebtedness, restructure its annual debt service requirements, release it from financial covenants required by such long-term indebtedness, and acquire and improve new campus facilities essential to its operations and educational mission. Any portion of the 2017 Taxable Loan not retired with proceeds of the Bonds will be retired with funds contributed by the University for such purpose, and no portion of the 2017 Taxable Loan will remain outstanding upon the issuance of the Bonds.

On December 10, 2020, the Board of Trustees of the University approved a resolution authorizing the University to finance up to \$30,000,000 of the costs of the 2021 Project, refund and refinance all of its outstanding long-term indebtedness and pay all transaction costs (including costs of issuance), authorized the University to borrow funds from the Corporation in an amount sufficient to accomplish such purposes, delegated authority to the University Board’s Executive Committee to approve substantially final drafts of all related financing documents, and authorized certain University officials to approve all final terms and execute all related documents. The University’s Executive Committee will meet on October 8, 2021, to approve all related financing documents in substantially final form.

Section 147(f) of the Internal Revenue Code, as amended (the “Code”), requires that the issuance of any qualified 501(c)(3) obligations be approved by the applicable elected representative of the governmental unit in which the project is located (which in this case is the City Council) after a public hearing following reasonable public notice. The Series 2021A Bonds will be issued as tax-exempt obligations, which will require the approval of the City Council. A public hearing regarding the issuance of the Series 2021A Bonds was held on October 13, 2021, in compliance with federal tax law.

ISSUE:

Chapter 53A of the Texas Education Code authorizes the Corporation to issue Higher Education Revenue Bonds for institutions of higher education to acquire, construct, enlarge, extend, repair, renovate, improve and refinance educational and housing facilities and facilities incidental, subordinate, or related thereto or appropriate in connection therewith, and to set aside out of the proceeds from the sale of such Bonds money for the payment of not more than two years’

interest on the Bonds and an amount estimated by the participating institution of higher education to be required for operating expenses of the educational and housing facilities financed with Bonds during the first year of operation. The proposed actions by the Corporation and the City are consistent with the Corporation's ability to issue tax-exempt and taxable obligations for non-profit educational institutions such as the University. Since 2001, the Corporation has also authorized tax-exempt and taxable bonds and other obligations for the University of the Incarnate Word, St. Mary's University, Trinity University, and Our Lady of the Lake University. This action is also consistent with the City's efforts to leverage local educational resources to create a more vibrant economy and to facilitate the development of a highly-skilled workforce.

ALTERNATIVES:

If the Corporation does not authorize this issuance, the University will need to seek other sources to finance the 2021 Project and refinance all of its outstanding 2017 Taxable Loan.

FISCAL IMPACT:

Neither the City nor the Corporation is obligated in any manner to pay the debt issued by the Corporation. The City will receive an application fee of \$2,500.00 from the University upon the adoption of the requested Resolution, and the City of San Antonio, Texas Education Facilities Corporation will receive an administrative fee of \$20,000.00, which will be deposited into the Education Facilities Corporation account upon the closing.

RECOMMENDATION:

The Corporation approves a Resolution authorizing the issuance of up to \$30,000,000 in Series 2021A Bonds and Taxable Series 2021B Bonds for Hallmark University and approving all related documents.

The City Council approves a Resolution authorizing the Corporation to issue up to \$30,000,000 in Series 2021A Bonds and Taxable Series 2021B Bonds for Hallmark University, and approving the issuance of the Series 2021A Bonds for purposes of Section 147(f) of the Code.