

**MINUTES OF THE MEETING OF THE  
BOARD OF DIRECTORS OF THE  
TEXAS PUBLIC FINANCE AUTHORITY  
January 16, 2001**

The Board of Directors (the "Board") of the Texas Public Finance Authority (the "Authority") convened in open meeting, notice duly posted pursuant to law (a copy of which notice is attached hereto as Exhibit "A") at 2:28 P.M., Tuesday, January 16, 2001, William P. Clements Building, Committee Room 5, 300 West 15th Street, Austin, Texas. Present were: Mr. Dan Branch, Chairman; Mr. Dan Serna, Vice-Chairman; Ms. Cynthia Meyer, Secretary, Ms. Helen Huey, Board Member; Mr. John Kerr, Board Member and Mr. Bert H.L. Mijares, Board Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director; Ms. Judith Porras, General Counsel; Ms. Marce Snyder and Ms. Donna Richardson.

Present in their designated capacities were the following persons: Michael Bartolotta and Francine Alleman, First Southwest Company; Kay Watson, Walton Johnson & Company; J. Dale Lehman and David Potter, U.S. Bancorp Piper Jaffray; Robbi J. Jones, SBK-Brooks; Karin R. Werness, BancOne Capital Markets, Inc.; Keith Richard, Siebert Brandford Shank; Jim Fonteno and Bob Kinney, PaineWebber; Bob Estrada, Estrada Hinojosa & Co.; Tilghman Naylor, Bear Stearns; Brian Middlebrook, Merrill Lynch; Curt Shelmire, Morgan Stanley Dean Witter; Alice Barrow, Southwest Securities; Andy Bynam, Salomon Smith Barney; Kelly Casto and Anthony Snell, J.P. Morgan; and Tom Oppenheim and Lori Sullivan, Morgan Keegan.

**Item 1:        Call to order.**

Mr. Branch called the meeting to order at 2:28 P.M.

**Item 2: Approval of minutes of the October 17, 2000 and December 12, 2000 Board meetings.**

Mr. Branch asked if there were any corrections or modifications to the minutes of the October 17, 2000 or the December 12, 2000 Board meeting. There were none. Mr. Mijares moved to approve the minutes of both meetings. Ms. Meyer seconded. The motion passed unanimously.

**Item 3: Report on pricing and sale of Texas Public Finance Authority Building Revenue Bonds (Texas Parks and Wildlife Department Projects) Series 2001.**

Ms. Edwards said she and Ms. Meyer attended the pricing for the Series 2001 Revenue Bonds on January 9, 2001 at the offices of U.S. Bancorp Piper Jaffrey in Minneapolis, MN, with Mr. Branch and Mr. Kerr participating via teleconference. She complimented Mr. Lehman and the U.S. Bancorp staff for their efforts on the sale.

Mr. Lehman thanked the Board for the opportunity to serve as Senior Manager for the Revenue Bonds and complimented the other members of the underwriting team. He reviewed the market conditions, pricing of the Series 2001 bonds and the orders and allotments. Mr. Lehman said the transaction received a True Interest Cost (TIC) of 4.3358 percent.

Mr. Bartolotta commented the banking team provided excellent service, and the firm did a good job underwriting which is reflected by the TIC. Ms. Watson added that the co-managers relayed positive comments, particularly regarding the level of communication during pricing.

Mr. Branch and Ms. Meyer, who served as pricing committee members, added their appreciation for the efforts of U.S. Bancorp Piper Jaffrey.

**Item 4: Consider and possibly take action concerning potential refunding outstanding commercial paper.**

Ms. Edwards said that with the recent decline in interest rates, refunding opportunities are being reviewed. She stated that approximately \$427 million of general obligation bonds and \$220 million of revenue bonds are possible refunding candidates. She also commented that TPFA should consider fixing out or converting the \$400 million of General Obligation Commercial Paper. She reminded the Board that in January 1998 they had established a fix-out parameter of 4.42%.

Mr. Bartolotta, Financial Advisor from First Southwest, briefed the Board on possible refunding opportunities. He also provided an overview and explanation for four variable rate financing alternatives for the commercial paper: commercial paper, variable rate demand bonds, "dutch auction" bonds and synthetic variable rate bonds through swaps. He addressed liquidity providers, the State's

credit rating and historical trends in the fixed-rate and variable rate markets.

Ms. Edwards said that the Board needs to consider several factors: what is the appropriate interest rate/savings level to refund fixed rate bonds, what is the appropriate level of exposure to variable rate debt, and based on that decision, at what level, if any, should the commercial paper be fixed out or converted to another form of variable rate debt. She noted that the currently there is \$400 million of General Obligation CP outstanding, and the cap on liquidity, which is provided by the comptroller's office, is currently \$440 million. The liquidity should be viewed as a "limited resource" since the comptroller's office provides liquidity to other state agencies and may not be able to increase the liquidity beyond the current \$440 million.

She noted that there are two factors driving the decision to convert or fix out the commercial paper: first is the economic decision, i.e., are interest rates low enough so that it makes sense to "lock in" a fixed rate; second is capacity, if TPFA desires to issue additional CP because the legislature approves additional GO bonds, it will need to create capacity in the existing program or create a new program.

Mr. Kerr inquired whether the constitutional issues regarding the Authority's ability to enter into swaps had been resolved. Ms. Porras answered that within the past year, the Authority received an informal response from the Attorney General's Public Finance Division, indicating that TPFA had the legal authority to enter into a swap.

Discussion ensued regarding the level of variable rate debt, and the appropriate level to refund fixed rate bonds, given an expected trend of lower interest rates for the next six months. Mr. Bartolotta said that since TPFA's outstanding fixed rate debt is at relatively low coupon rates, he recommends the Board establish refunding savings parameters on a "stair step" or matrix basis, in order to "pick-up" all available candidates. He offered to prepare a recommendation for the next meeting.

In order to take advantage of market conditions and possibly obtain Bond Review Board approval in February, Mr. Branch recommended moving the February TPFA Board meeting forward. Following a discussion, Board members agreed the February meeting will be February 13, 2001.

At this time, Mr. Branch excused himself and requested Mr. Serna chair the remaining portion of the open meeting.

Mr. Serna requested staff and financial advisors continue monitoring the refunding options, present a recommendation at the February meeting and prepare a Bond Review Board application for February.

**Item 5:        Review and approve TPFA’s Revised Personnel Policies and Procedures Manual.**

Ms. Edwards explained that changes to the TPFA Policies and Procedures Manual were as a result of new policies or statutory requirements to the existing policies. Ms. Porras and Ms. Barron have revised the manual to a concise and comprehensive set of policies. Following a discussion of the changes, Ms. Huey moved to approve the Policies and Procedures Manual. Mr. Kerr seconded. Motion passed unanimously. Mr. Serna asked if staff would be asked to sign an acknowledgement form. Ms. Porras said they would.

**Item 6:        Other Business/Staff Report  
Proposed legislation amending TPFA’s enabling act**

Ms. Edwards reported that draft language has been delivered to Representative Averitt’s office. The bill is being reviewed by the Legislative Council. Rep. Averitt will file the bill as soon as they get it back from the Legislative Council.

**Staffing and work assignment changes**

Ms. Edwards said interviews for the administrative technician position will be conducted the week of January 15. Applications have been received and interviews for the part-time network administrator will be scheduled in the near future.

**Establishing an Employee’s Assistance Plan**

Ms. Edwards commented that this item does not require formal Board action; however she wanted the Board to be aware of it because it could affect personnel issues at a later date. She said inquiries had been made regarding an employee’s assistance program. Initial research indicates the cost to TPFA would be minimal. If the Board concurred, TPFA would request bids for these types of services.

Mr. Serna inquired whether the use of an EAP is addressed in the Policies and Procedures manual approved today. Ms. Edwards responded no.

Mr. Serna asked staff to ensure that the EAP provisions be incorporated into the Policies and Procedures Manual as soon as they are put into effect.

**Request from Governor’s Office**

Ms. Edwards mentioned receiving the Governor’s letter requesting an assessment of actions that could be taken at the federal level through the Congress or Executive Branch that would benefit the agency.



Mr. Serna and Ms. Huey both noted they would be interested in seeking relaxation or elimination of the Arbitrage Rebate requirements. Mr. Kerr noted that in the past, TPFA had worked with other organizations on proposals to amend the 2% *de minimus* provisions for corporations investing in tax-exempt securities. Therefore he would suggest also stating TPFA's support for any Federal action that would broaden the base of investors in tax-exempt bonds or make tax-exempt bonds more attractive to investors.

Mr. Kerr inquired whether the Municipal Advisory Board (MAC) has previously addressed an issue of this type. Ms. Edwards responded that their primary role is to address state issues. She said the Government Finance Officers Association (GFOA) and National League of Cities have been more active on the federal level. Ms. Edwards noted that Mr. Bob Estrada, former chairman of the Municipal Securities Rulemaking Board (MSRB) and incoming chairman of the MAC, was present and asked if he had any comment.

Mr. Estrada noted that while this issue has been around in the past, with fresh leadership in Congress, particularly on House, Ways, and Means, it would be worth looking into. He also said that this is not an issue MSRB has addressed, but recommended researching the priorities of the Bond Market Association (BMA).

Ms. Edwards noted that these are complex issues and it would be difficult to be very specific in response to the Governor's request. She suggested making a general response and offering to provide more technical backup if necessary.

Mr. Serna recommended sending a general response to the Governor's Office in addition to checking MSRB and the BMA websites to coordinate legislative agendas.

The Board convened in Executive Session at 4:03 P.M.

**Item 7: Executive Session to consider personnel matters in accordance with Texas Government Code §551.074.**

Mr. Serna adjourned the Executive Session at 4:28 P.M. and re-convened the Open Meeting at 4:29 P.M. Mr. Serna stated that no action and no deliberation requiring action in open meeting was taken.

**Item 8: Adjourn.**

Mr. Serna adjourned the Open Meeting at 4:30 P.M. due to lack of a quorum.

The foregoing minutes were approved and passed by the Board of Directors on February 13, 2001.

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Cynthia L. Meyer  
Secretary, Board of Directors

ATTACHMENT  
Posting Notice - Exhibit "A"