MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY
July 17, 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 2:00 P.M.,Tuesday, July 17, 2001, William P. Clements Building, Committee Room 5, 300 W. 15th Street, Austin, Texas. Present were: Mr. Dan Branch, Chairman, Mr. Dan Serna, Vice-Chairman; Ms. Cynthia Meyer, Secretary; Mr. John Kerr, Board Member, and Mr. H.L. Bert Mijares, Board Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director; Ms. Judith Porras, General Counsel; John Hernandez, Deputy Director, Ms. Paula Hatfield and Ms. Donna Richardson.

Present in their designated capacities were the following persons: Michael Bartolotta, First Southwest Company; Kay Watson, Walton Johnson & Company; Jodie L. Jiles, Bear Stearns; Barron Wallace and John Hill, Jr., Vinson & Elkins; Andy Bynam, Salomon Smith Barney; Katherine Closmann, Jerry Kyle and Bob Collie, Andrews & Kurth; Art Morales and Curt Shelmire, Morgan Stanley; Curtis Flowers, Loop Capital Markets; Alison Brisco, Lehman Brothers; Richard Ramirez, David White, Don Henderson, JP Morgan; Zelma Smith, Legislative Budget Board; Suzanne Hickey, Jackson Securities.

Item 1. Call to order.

Mr. Branch called the meeting to order at 2:15 P.M.

Item 2. Approval of minutes of the March 20, 2001 Board meeting.

Mr. Branch asked if there were any corrections or additions to the minutes of the Board meeting of March 20, 2001. There being none, Mr. Serna moved to approve the minutes. Ms. Meyer seconded the motion. The motion passed unanimously.

Item 3. Report on pricing and sale of Texas Public Finance Authority General Obligation Refunding Bonds, Series 2001-A.

Ms. Edwards stated representatives from Morgan Stanley Dean Witter were present to provide a post sale analysis of the GO Refunding completed in April.

Mr. Curt Shelmire and Mr. Art Morales, Morgan Stanley Dean Witter, on behalf of the Underwriting Team members, reported that on April 3 TPFA issued approximately $319 million of GO Refunding Bonds; the final par amount of the Authority's transaction totaled $318,921.221.65, comprised of $286,015,000 of current interest serial bonds and $32,906,221.65 of capital appreciation bonds. The Authority refunded $320.93 million in outstanding GO Bonds, achieving $9.68 million in net present value savings (or 3.01% of refunded par) and $10.1 million in gross savings. The savings threshold passed the 3% minimum, established by the Board. The true interest cost was 4.40%, and both the arbitrage yield and escrow yield were 4.29%, indicating that there was not any negative arbitrage. The finance team had chosen to lock in SLG rates prior to the financing, which proved to be a good decision as well. Cost of issuance per bond was 48 cents and the overall underwriting discount was $4.98. Mr. Shelmire also remarked that about half of the $10.1 million of gross savings was distributed over the next couple of fiscal years, with the balance of the savings then distributed equally throughout the remainder of the refunding issue, so that the State could accomplish some of its budget objectives over the next biennium. Mr. Shelmire concluded by pointing out that interest rates have not been as favorable since the April bond sale and so the Authority was able to lock in rates at a very good level and have a successful refunding. Mr. Morales reviewed the orders, allotments, designations and allocation of the management fee.

Ms. Edwards reminded the Board that a different approach of allocating the management fee was utilized by the TPFA staff, its Financial Advisors, and the pricing committee members. The Authority made the allocation to each syndicate member based on participation in terms of their orders and their effort in helping to achieve TPFA's goals.

Mr. Serna inquired about whether all the member firms were pleased with their allotments and fee allocations and this was affirmed. He also inquired about the new avenue allowing for remote, online monitoring of how orders came in during the order period. Ms. Edwards reported that it worked very well. She remarked that it was a really good combination to have the financial advisors, Judith and two board members in New York for monitoring and John Hernandez and herself in the TPFA offices, watching the process online and being accessible by phone, if necessary.

Mr. Branch noted that the Authority had been able to deliver some savings (60% of it in the first two years) that was helpful to the Legislature. Ms. Edwards agreed that taking larger increments of savings in fiscal years 02 and 03 did provide some relief in the budgetary process.

Ms. Edwards commended the Morgan Stanley staff for their extensive financial analysis. Mr. Kerr also suggested that staff write to the Attorney General's office and report how effectively we have been able to price bonds under the new statutory procedure which permits a more flexible pricing schedule. Mr.

Branch extended the Board's thanks to all members of the financing team for their work on this refinancing effort.

Item 4. Review of 77th Legislative Session.

Ms. Edwards first reviewed the Authority's section of the appropriations bill, pointing out that the total appropriation for agency operations did not change from the last biennium; that the Authority was paid primarily out of general revenue, rather than bond proceeds, and that the Authority had been successful in getting an increase in the cap on the Executive Director's salary.

She reported on HB3064 and the companion HJR 97, a constitutional amendment authorizing TPFA to issue $850 million of GO bonds. Reps. Rob Junell and Talmidge Heflin, worked with about 13 different agencies to identify their capital needs primarily for deferred maintenance and repair and rehabilitation over a 10 year time-frame. Ultimately, they narrowed the requests down to the first 6 years, which resulted in the $850 million figure. The FY02-3 Appropriations Bill, SB1, authorized about $41 million of GO Bonds in the first year and $237 million in the second year of the biennium. The other GO Bond bill that passed was SB 1296/HJR37 providing for highway construction of county roadways in the Colonias area. Mr. Mijares inquired whether the language on the ballot would show allocation to specific agencies or would be presented as a lump sum. Ms. Porras answered that the question on the ballot would be presented as a lump sum of $850 million.

Ms. Edwards reviewed other legislation authorizing the issuance of bonds by TPFA. She reported that approximately $236,061,080 revenue bonds were in the appropriations bill. In addition, bonds were authorized by HB6 on charter schools, SB1839 on nursing home reform, and SB1173 on the Nimitz Museum. The appropriations bill also included provisions to issue revenue bonds for the General Services Commission, Texas Military Facilities Commission, Texas Department of Agriculture, Parks and Wildlife Department and Department of Human Services. TPFA was also authorized by HB658 to issue tuition revenue bonds for Midwestern State University, Stephen F. Austin State University and Texas Southern University.

Mr. Branch asked if the Joint Underwriting Association, in SB1839, was created by the State, as an insurance "back-stop". Ms. Porras reported that yes, it was; it was created in 1975 to provide medical malpractice insurance for physicians and other health care providers, and under SB1839, is to be an insurer of last resort for nursing homes.

Ms. Edwards reported that the Authority's anticipated workload could be as much as 4 or 5 bond issues this fall. On the GO side, the Authority would issue about $455 million, assuming the Colonia Roadways bonds are approved by the voters, or about $278 without the Colonia Roadways Bonds. On the revenue side, about $215 million is authorized and about half of that is the tuition revenue bond issues.

Ms. Porras also reported on SB311 relating to the General Services Commission and the $16 million appropriated for it. Under SB311, the GSC is changed to the Texas Procurement and Building Commission, but the authorization for the financings and lease payments are continued to the successor agency. Additional changes to GSC included transferring telecommunications to the Department of Information Resources and changing how the Commission is appointed, to give more direct oversight to the Legislature. Mr. Branch requested an update on the GSC and its transition to be given at the next board meeting.

Ms. Porras reviewed other legislation that did not authorize bonds, but affected TPFA. HB 2153, TPFA's "clean-up" bill requires our Board to have 7 members. HB 609, a state administrative type law, requires TPFA to have an internal audit function effective September 1.

Item 5. Discussion of Commercial Paper programs and other debt management policies.

Ms. Edwards reported that staff had met with Financial Advisors and contacted other states and the rating agencies to develop some broad debt management policies for the Board's consideration. These policies are intended to serve as guidelines and to articulate in writing the Authority's practices regarding debt management over the past few years. In addition, they should provide context for the discussion regarding the commercial paper programs. Discussion ensued. She reviewed the materials provided in the Board packet on the State's current outstanding debt and discussed the amount of variable rate debt.

Mr. Bartolotta noted that rating agencies will not provide a hard and fast recommendation for outstanding debt in variable rate mode. The target of 20% is a self-imposed guideline appropriate for the maximum for the State. Mr. Kerr asked if it made sense to look at the total percentage of variable rate debt, the total debt for the State, but also the asset/liability match. Ms. Edwards concurred. Discussion ensued and the Board reached a consensus to defer action on the debt management policies until the next Board meeting.

Discussion then turned to the staff's recommendation regarding the existing and new commercial paper programs and the RFP process to implement the recommended changes. Mr. Serna pointed out that the Authority should not issue an RFP unless the Authority truly intended to make a change. Discussion continued regarding the dealer contract with Goldman Sachs on the MLLP CP program. Mr. Serna pointed out that the terms of the existing contract are favorable. Mr. Bartolotta commented that, realistically, it would be difficult for the Authority staff to set up a new program and implement changes on both CP programs all at the same time. The Board reached a consensus to defer changing the MLLP CP program or including it in an RFP for CP dealers until a later date.

Mr. Serna made a motion to accept Staff's recommendation, except for the MLLP CP program. Ms. Edwards restated the staff recommendation:

> (1) to convert the GO CP program to another form of variable rate financing by issuing multi-modal variable rate demand bonds to execute a current refunding of the existing GO CP, and use the multi-modal feature to achieve the Authority's variable rate target, by converting a portion to fixed rate as and when appropriate;
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> (2) create a new GO CP program to fund any new constitutional authorization if approved by voters in November, and to fund the remaining $47.8 appropriated but unissued debt under the existing authorization. The new program could total up

to $1.1 billion; however, we would only obtain liquidity, TPFA approval and BRB approval for the amount appropriated in the initial biennium, approximately $325-500 million.

(3) Issue one RFP, excluding the CP dealer for the MLLP CP program.

Ms. Meyer seconded the motion. Mr. Kerr requested a clarification that this motion would also include the staff recommendation with respect to the underwriting pool to be incorporated in this same RFP. Mr. Branch affirmed that the RFP would address (1) VRDB dealer for existing GO CP, (2) CP dealer for the new CP program (contingent on voter approval), and (3) TPFA FY 2002-03 Underwriting Pool. The motion passed.

Item 6. Other Business. Staff Report; Discussion of Request for Proposal process for Financial Adviser and Bond Counsel.

Discussion ensued about TPFA's anticipated fall workload, possible new Board members transition, the RFP process for Financial Advisor and Bond Counsel contracts. Ms. Edwards and Ms. Porras stated that the existing Financial Advisor and Bond Counsel contracts contained provisions to extend them beyond the August 31 termination date, and recommended that the Authority do so. Mr. Kerr stated he was in favor of exercising the option of extending the current Financial Advisors' contracts for a period of less than the one year full term, but long enough to handle TPFA's workload should the $850 million referendum pass in the November election. The Board discussed that the current procedure for selecting a law firm could be continued also to cover required work before new RFPs can be processed. The other Board members agreed.

Ms. Edwards reported that the Employee Assistance Program, which was presented to the Board several months ago, had been implemented and personnel policies modified, as requested.

Mr. Branch inquired whether the Authority had any positions open. Ms. Edwards reported there were no staff openings. She introduced Paula Hatfield as the replacement for Jeanine Barron who retired in June. The Board extended best wishes to Jeanine Barron.

Item 7. Adjourn.

The meeting adjourned at 4:15 P.M.

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT
Posting Notice - Exhibit "A"