

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
August 21, 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, August 21, 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. Pamela Scivicque, Business Manager; Ms. Paula Hatfield and Ms. Donna Richardson. Gabriela Klein, Financial Analyst and Ophelia Guerrero, Chief Accountant were also in attendance.

Present in their designated capacities were the following persons: Michael Bartolotta, First Southwest Company; Kay Watson, Walton Johnson & Company; Gilbert A. Herrera, Chairman of General Services Commission; John Davenport, Julie King, and Tom Beard, General Services Commission, Alison Brisco, Lehman Bros.; Don Henderson, JP Morgan; Tilghman Naylor, Bear Stearns; Autumn Strier, Morgan Stanley; Ramon Guzman, RK & Assoc.; Tom Oppenheim, Morgan Keegan; Robbi J. Jones, SBK Brooks; Karin Werness, Banc One Capital Markets; John Daniel, Lehman Bros.; Suzanne Hickey, Jackson Securities; Dale Lehman, U.S. Bancorp Piper Jaffrey; and Lance Johnson, Estrada Hinojosa.

Item 1. Call to order.

Mr. Branch called the meeting to order at 2:12 P.M.

Item 2. Approval of minutes of the July 17, 2001 Board meeting.

Mr. Branch asked if there were any corrections or additions to the minutes of the Board meeting of July 17, 2001. There being none, Mr. Kerr moved to approve the minutes. Mr. Mijares seconded the motion. The motion passed unanimously.

**Item 3. Briefing on General Service Commission's Sunset Bill (SB 311)
by Ann Dillon, GSC Acting Executive Director and Dorothy Sinclair,
Director of Fiscal Affairs**

Mr. Gilbert Herrera, Chairman of the General Services Commission introduced fellow board member, Tom Beard, and John Davenport and Julie King of GSC's staff. He provided an overview of SB311 and reported on the changes affecting GSC. Chairman Herrera confirmed that the agency would continue to administer the HUB program in response to Mr. Mijares' question. Chairman Herrera also extended his regards to Helen Huey who was not present for the meeting. Mr. Branch welcomed Mr. Herrera and stated he looked forward to continuing TPFA's excellent working relationship with GSC.

Item 4. Discussion and possible adoption of debt management policies

Ms. Edwards introduced John Hernandez, who explained a graph he prepared in response to Mr. Kerr's question last month about matching assets and liabilities. The graph charted the State's interest rates earned on the general cash pool, where bond and commercial paper proceeds are invested, and interest rates paid on TPFA's commercial paper. Ms. Edwards noted that the rates earned closely matched the rates paid on the commercial paper program and that it confirmed that the State does keep its cash invested relatively short.

Discussion ensued about the proposed debt management policies. Mr. Branch suggested that reference be made to the original Underwriting Policies, including a date, so that changes are easy to follow in the future. Mr. Kerr confirmed these Underwriting Policies were the guidelines developed at an earlier Board work session. He suggested that staff put together a compilation of Board adopted policies and guidelines that would in each case indicate when they were adopted, so that a manual would be available that new Board members could review. Mr. Branch stated the advantage of being able to revise and

amend the policies as events change. Ms. Edwards stated the policies were posted on the Authority's website. In response to Mr. Kerr's question, Ms. Edwards confirmed proposed policies did not conflict with any current Bond Review Board policies. She stated that the Bond Review Board would be establishing a working committee which would likely include TPFA and other state issuers in order to develop a debt management policy, as required by the recently enacted statute. Mr. Branch suggested that the language in the proposed policies under the Swaps and Derivatives read as follows: "The Authority will consider the advisory guidelines provided by its staff and financial advisors in implementing swaps and other derivative products."

Mr. Kerr moved that the debt management guidelines be adopted. Ms. Meyer seconded. Mr. Kerr clarified that the guidelines would be adopted with the following changes: (1) add a date to the document; (2) under "Method of Sale" add a footnote to specifically cross reference the Authority's underwriting policies regarding HUB participation and par amount; and (3) change the language in Section 9 to read as follows: "The Authority will consider the advisory guidelines provided by staff and its financial advisors in implementing swaps and other derivative products." Ms. Edwards restated the proposed changes adding a cross-reference to the Underwriting Policies previously adopted on October 17, 2000, as well as indicating original sources. The motion passed unanimously.

Item 5. Follow-up review of 77th Legislative Session

Ms. Edwards reported that this item was reposted in the event Board members had additional questions. There were none.

Item 6. Other Business/Staff Report

A. Bids for Property Insurance

Ms. Edwards requested Ms. Scivique and Ms. Porras to explain the bids received for insurance on property financed with Revenue Bonds. Ms. Scivique compared the three bids received and noted that two bids did not comply with the bid specifications. The third bid which was from Travelers, was .070%, which is substantially higher than the current coverage which expires on August 31, 2001 and was about .03%. The Travelers bid used the coverage from the Texas Windpool to buy down the deductible on the Corpus Christi properties and the Elias Ramirez building, in Houston which sustained damages during the recent floods.

Ms. Porras clarified that because the bidders seem to have had some difficulty in responding to the bid, our recommendation would be to reject all bids and re-advertise with modified specifications.

Mr. Mijares made a motion to accept staff's recommendation to reject all bids and re-advertise. Mr. Kerr seconded. Ms. Meyer made the point the Board was not rejecting the bid saying re-bidding is necessary to get a better price; the specifications are going to be changed. Ms. Porras clarified the Authority always reserves the right to reject any and all bids for any reason or no reason. Mr. Mijares suggested that bidders be encouraged to attend a pre-bid conference. Mr. Branch restated the motion: accept staff's recommendation to re-bid on a urgent basis; that the Executive Director report back to the Board regarding status, and that some sort of pre-conference attempt with bidders be obtained. The motion passed unanimously.

B. Flood Damage

Ms. Scivique reported that the flood damage to the Elias Ramirez Building has been about \$603,000, that she expected FEMA to pay \$100,000 or the deductible to the state's insurance policy, and that the State would not be impacted financially for this loss.

C. FY02 Operating Budget

Ms. Edwards reviewed the Adjusted FY02 Operating Budget for the Agency.

Mr. Branch adjourned the open meeting at 3:40 p.m. in order for the Board to meet in Executive Session to consider personnel matters in accordance with Texas Government Code §551.074.

Mr. Branch reconvened the open meeting at 3:45 p.m. and the Board agreed to raise the salary of the Executive Director to the maximum amount established by the Legislature for the next biennium, effective September 1, 2001.

Item 7. Adjourn.

The meeting adjourned at 3:48 P.M.

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

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT
Posting Notice - Exhibit "A"