MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
October 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 11:00 A.M.,Tuesday, October 16, 2001, Capitol Extension, Room E1.026, State Capitol, Austin, Texas. Present were: Mr. Dan Branch, Chairman, Ms. Cynthia Meyer, Secretary; Mr. John Kerr, Board Member, Mr. H.L. Bert Mijares, Board Member and Ms. Helen Huey, 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, Charlie Cannon, Marce Snyder, Tracey Pena were also in attendance.

Present in their designated capacities were the following persons: Michael Bartolotta, David Potter, First Southwest Company; and John Walton, Maurice Thomas and Barry Bowens, Walton Johnson & Co., Jodie L. Jiles and Tilghman Naylor, Bear Stearns; J. Dale Lehman, U.S. Bancorp Piper Jaffray; Cheryl Allen, SWS Securities; Barry Adair, Morgan Stanley, Art Morales, Morgan Stanley, Curt Shelmire, Morgan Stanley; Lance G. Johnson, Estrada Hinojosa; Tim Kelley, Coastal Securities; Nora Chavez, A.G. Edwards; Keith Richard, Siebert Brandford Shank; Alison Brisco, Lehman Bros.; Curtis Flowers, Loop Capital Markets; Rogelio Rodriguez, Ramirez & Co.; Tony Rose, State Auditor’s Office, George V. Pedraza, UBS PaineWebber, Don Henderson and Richard Ramirez, JP Morgan; Karin R. Wernesss, Banc One Capital Markets; Paula Foster, TIERS; Aurin Olsen, Steve Rohn and Bernie Underwood, DHS, Jorge Garza, Salomon Smith Barney; Andy Bynam, Salomon Smith Barney; Judy Evans, David Kostroun, Martin Hubert, Kathy Reed and Delores Hibbs, Texas Department of Agriculture; Tom Oppenheim, Morgan Keegan, Bob Estrada, Estrada Hinojosa & Co.; Lydia Cruz, Texas Military Facilities Commission.

Item 1. Call to order.

Mr. Branch called the meeting to order at 11:15 A.M.

Mr. Branch asked the Board to observe a moment of silence in memory of those in the finance community who lost lives or family members or friends in the September 11 attack in New York. Mr. Branch recognized two TPFA staff members, Pamela Scivicque, for 11 years of service, and John Hernandez, for 10 years of service.

Item 2. Approval of minutes of the August 21, 2001 Board meeting.

Mr. Branch asked if there were any corrections or additions to the minutes of the Board meeting of August 21, 2001. There being none, Mr. Mijares moved to approve the minutes as presented. Ms. Meyer seconded the motion. The motion passed unanimously.

Item 3. Selection of Underwriting Pool, future financing alternatives and select firms for such financings.

Ms. Edwards acknowledged receipt of 24 proposals in response to the RFP issued in August for the underwriting pool and for two variable rate financings. Ms. Edwards recommended taking a different approach on the underwriting pool. She proposed that the pool have three categories: senior manager, co-manager and selling group, taking into consideration the size and type of firms and firm performance.

Staff recommended the senior manager category to include: Banc One Capital Markets, Bear Stearns, Coastal Securities, JP Morgan Securities, Lehman Brothers, Morgan Stanley, Salomon Smith Barney, UBS PaineWebber, and US Bancorp Piper Jaffray; the co-manager category to include: AG Edwards, Dain Rauscher, Estrada Hinojosa, Morgan Keegan, Ramirez & Co., SBK Brooks Investment Corporation, Siebert Brandford & Shank and SWS Securities; and the selling group category to include Frost National Bank, Loop Capital Markets, Raymond James & Associates, SAMCO Capital Markets, Southwestern Capital Markets and ValuBond. The proposals were evaluated and staff recommendations were based on the quality of the proposals, the capital base and distribution of capabilities of the firm, banker coverage, cost and fee structures included in the proposals, and the compliment of firms with regard to size, geographic coverage and distribution capabilities.

Discussion ensued about HUB requirements and Bank of America's omission for the proposed pool. Ms. Edwards also acknowledged that TPFA was continuing relationships with Merrill Lynch and Goldman Sachs as Commercial Paper dealers.

Mr. Kerr moved to adopt staff's recommendation for the underwriting pool with the addition of Bank of America being added to the Co-Manager category. Ms. Huey seconded. The motion passed unanimously.

Ms. Edwards reminded the Board of the discussion at the last meeting about variable rate data, the desired amount of exposure and at what interest rate level variable rate debt should be fixed out. Since that time, interest rates have fallen to historic lows and are getting close to levels where the Board wants to fix out some of the commercial paper. Therefore, staff recommended that the Board consider a fixed rate financing rather the issuance of VRDBs to refund the commercial paper. Discussion ensued regarding fixing out the commercial paper. The Board concluded (staff and financial advisors formed a consensus) that the target interest rate for fixing out the Commercial Paper should be a maximum of 4.35%. Staff recommended the following: name three co-senior managers for this $400,000,000 deal, Bear Stearns & Co., Bank One Capital Markets, and Morgan Stanley, with Bear Stearns & Co. running the books on the transaction. Staff recommended the following firms as co-managers: AG Edwards, UBS PaineWebber, Morgan Keegan, Ramirez & Co., Siebert Brandford & Shank and SBK Brooks and Southwestern Capital Markets as the selling group member, with other firms added if market conditions warrant.

Mr. Bartolotta stated his belief that it was a good team for this transaction. Staff recommended that Vinson & Elkins LLP and Delgado Acosta Braden & Jones serve as co-bond counsel. Ms. Huey moved to approve staff's recommendations for the commercial paper fix-out, including Vinson & Elkins and Delgado Acosta Braden & Jones, adhering to the Authority's previously adopted debt management policies, and setting a 4.35% interest rate target. Ms. Meyer seconded the motion. The motion passed unanimously.

Ms. Edwards discussed setting up a new variable rate program. A ballot proposition goes before the voters on November 6 for $850,000,000 of general obligation bonds for 13 state agencies. After discussions with these agencies, TPFA would probably want to issue that in variable rate debt using commercial paper. To set up the initial CP program, staff recommended JP Morgan Securities and Lehman Brothers to serve as co-dealers. Staff recommended adding Morgan Stanley, Merrill Lynch and UBS PaineWebber to the pool for additional or future variable rate financings. Mr. Bartolotta agreed with the recommendation stating he believed it was a good strong team.

Ms. Edwards clarified that if the $850,000,000 proposal before voters passes, the legislature had appropriated about $280,000,000 for this biennium, which would be the initial size of the Commercial Paper program.

Mr. Kerr made a motion to adopt staff's recommendation for the variable rate pool. Mr. Mijares seconded. The motion passed unanimously.

Item 4. Request for Financing from the Texas Military Facilities Commission for the issuance of revenue bonds in the amount of approximately $5 million, select a method of sale, designate bond counsel, and take other necessary related action.

Ms. Edwards introduced the request for financing from the Texas Military Facilities Commission, formerly known as the National Guard Armory Board, which is responsible for building and maintaining armories for the National Guard. TPFA has issued bonds on behalf of the Texas National Guard Armory Board in the past and prior to that the Armory Board issued its own bonds. All of these bonds were issued under a master resolution created by the Armory Board in 1979. The amount of the current request for financing is approximately $5 million.

Lydia Cruz, the Deputy Director for the Commission, explained that these were three types of projects: (1) major maintenance at five armories; (2) roofing replacement at three locations; and (3) purchase of land in Houston. Major maintenance is defined to include repairing restrooms, installing ceilings and floors, replacing utility and service lines, exterior doors, windows, air conditioning systems, and anything beyond routine maintenance. The land purchase will be used in the future to build a facility for an armed forces reserve center for the National Guard, the Army Reserve and/or the Navy Reserve. Discussion ensued about the land, how the estimates were done, and whether this financing could be combined with other TPFA Revenue Bonds. Ms. Edwards reported that since the bonds had to be issued as additional bonds under the 1979 resolution, they could not be combined with other TPFA revenue bonds; however some of the existing Armory Board bonds might be candidates for refunding.

Staff recommended this transaction to be a negotiated sale using the following financing team: Coastal Securities as senior manager, and Estrada Hinojosa and UBS Bancorp Piper Jaffray as co-managers. Staff recommended the law firm of McCall Parkhurst & Horton, LLP. as bond counsel. Mr. Bartolotta agreed with staff's recommendation. Mr. Mijares made motion to accept staff's recommendation for a negotiated sale, the team of underwriters and bond counsel. Ms. Meyer seconded. The motion passed unanimously.

Item 5. Request for Financing from the Texas Department of Human Services TIERS Project for the issuance of revenue bonds in the amount of approximately $35 million, select a method of sale, designate bond counsel, and take other necessary related action.

Bernie Underwood, Director of Budget Management Services of the Department of Human Services provided an explanation of the TIERS project. Ms. Edwards stated this project was a major, long-term project for the State. The 76th and 77th Legislatures authorized revenue bond financing for a portion of the project, specifically the design development software to revise how human services applications are processed, and services and benefits are accessed. In the last biennium, TPFA financed $9.8 million of the project through the Master Lease Program. Staff recommended the Master Lease Program also be used for this $35 million request. Mr. Bartolotta agreed that it would be more economical and efficient to finance computer software through the Master Lease Program. Discussion ensued regarding the total project cost, funding and schedule.

Ms. Meyer moved to adopt staff's recommendation to use the MLPP for funding. Mr. Kerr seconded. The motion passed unanimously.

Item 6. Request for Financing from the Texas Agriculture Department for the issuance of revenue bonds in the amount of approximately $1.8 million, select a method of sale, designate bond counsel, and take other necessary related action.

Ms. Edwards reported this request for funding was for a metrology lab and introduced Martin Hubert, Assistant Deputy Commissioner of the Texas Department of Agriculture. He explained that metrology is the science of weights and measures. TDA currently has a lab located off of South Congress in Austin, and it calibrates approximately 28,000 standards of mass, length, and volume annually. Industries that require metrology services include pharmaceutical, aerospace, manufacturing, gas stations, grocery stores, high tech industries such as computer chip producers and the Texas Lottery.

TDA received authority to relocate and update its facilities from the 77th Legislature. The new project will consist of a 10,000 square foot building, land acquisition, construction management and equipment for the lab. The Texas Building and Procurement Commission will construct the project. They conducted a project analysis in December of 2000 and estimated the cost at be $1.8 million. TDA is presently working with the Texas Youth Commission on a long-term lease to locate the lab on some of TYC property in Giddings, where TDA already has an existing operation. Use of any site is subject to satisfactory vibration testing. Timing for construction completion and move-in is scheduled for August 2003. Discussion ensued regarding the role of TBPC, the project costs if the TYC lease is approved and the appropriation rider language. Staff clarified that the rider states legislative intent that TDA increase lab fees in an amount sufficient to offset the debt service on the financing. Even though the fees are not the legal security pledge for the debt. Mr. Hubert noted that the fees had not been increased since 1991, and even with the increase, the fees were among the lowest in the region..

Staff recommended this $1.8m financing be funded through the MLPP, due to the size of the financing. Mr. Bartolotta concurred. Ms. Meyer made a motion to accept staff's recommendation. Ms. Huey seconded. The motion passed unanimously.

Item 7. Other Business/Staff Report

A. Bids for Property Insurance

Ms. Scivicque reported that two bids responsive to the emergency bid request for a 90-day coverage period were received. Leon Petty's bid did not comply with the bid specifications. FM Global's bid of $392,000 of which $320,000 was for all risk coverage on the exceptional properties (Houston and Corpus Christi). Staff accepted the bid for all locations except Houston and Corpus Christi. While preparing the contract, FM Global received a bid to insure the Houston property for about $31,000. TPFA accepted that bid and now has all risk coverage on all property, excluding the Corpus Christi property, for about $103,000 for the 90-day period. TPFA modified the request for coverage on the Corpus Christi facility for fire and extended coverage only, as required by the bond documents. FM Globral can provide that coverage for $13,400 a year. The contract for the same insurance coverage was extended through this fiscal year due to the events of September 11 and the uncertainty in the insurance industry. The cost to provide all risk insurance through the end of the fiscal year is $288,000 for all property, excluding the exceptional property. Fire and extended coverage will be obtained on the exceptional property. FM has agreed to such an extension.

Ms. Porras and Ms. Scivique reported that this insurance coverage is only until the end of the fiscal year 2002 which will provide time to modify specifications as may be needed to receive better bids. Mr. Branch stated it sounded like a prudent approach.

Item 8. Adjourn.

The meeting adjourned at 12:45 P.M.

The foregoing minutes were approved and passed by the Board of Directors on November 27, 2001.

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT
Posting Notice - Exhibit “A”