

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
February 19, 2002**

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 1:45 P.M., Tuesday, February 19, 2002, Capitol Extension, Hearing Room E2.030, Austin, Texas. Present were: Mr. John Kerr, Chairman, Mr. H.L. Bert Mijares, Board Member, Mr. David Kelly, Board Member and Mr. Vaughn Brock, 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: Tilghman Naylor, Bear Stearns; Dale Lehman, U.S. Bancorp Piper Jaffray; Andy Bynam, Salomon Smith Barney, Curt Shelmire, Morgan Stanley; Mark C. Nitcholas, RBC Dain Rauscher Inc.; Kay Watson, CKW Financial Group; Tim Kelley, Coastal Securities; Karin R. Werness, Bank One; Jerry Kyle, Bob Collie, Andrews & Kurth; Donald Gonzales, Estrada Hinojosa; Barron Wallace, Vinson & Elkins LLP; Vickie Hall, Friedman Luzzatto; Nancy Hagquist, Bob Griffo, Winstead, Sechrest & Minick PC.; Julie Houston, Akin, Gump; Suzanne Hickey, Jackson Securities; Desrye Morgan, Wickliff & Hall, PC; Val Shepperd, Zelma Smith, LBB; Brad Livingston, Jerry McGinty, Celeste Byrne, Charles Marsh, Texas Department of Criminal Justice..

Item 1. Call to order.

Mr. Kerr called the meeting to order at 1:47 P.M.

Item 2. Approval of minutes of the January 15, 2002 and January 24, 2002 Board meeting.

Mr. Kerr asked if there were any corrections or additions to the minutes of the Board meeting of January 15, 2002. There being none, Mr. Mijares moved to approve the minutes as presented. Mr. Kerr seconded the motion. The motion passed unanimously.

Mr. Kerr asked if there were any corrections or additions to the minutes of the Board meeting of January 24, 2002. There being none, Mr. Mijares moved to approve the minutes as presented. Mr. Kelly seconded the motion. The motion passed unanimously.

Item 3. Election of Officers.

Election of Officers was deferred for action at the next meeting.

Item 4. Report on the pricing of the State of Texas, Texas Public Finance Authority GO Refunding Bonds, Series 2002.

Ms. Edwards reported on the bond sale to fix out of the GOCP program. The bonds were priced on January 23 and the Board convened on the following day to approve the bond resolution. Ms. Edwards stated the sale was successful having been executed within a narrow window to achieve a true interest cost just over 4.44%. Tilghman Naylor, Bear Stearns & Co., reviewed the pricing books which contained an overview of the market, a schedule of the debt service and budgetary savings of approximately \$54 million, and a summary of the orders, allotments and takedowns allocated to each member of the underwriting syndicate. He noted that the book also contained a schedule showing how the Authority allocated the structuring fee among the co-seniors and co-managers based on their performance. Mr. Bartolotta agreed the sale was well executed and the Authority took advantage of a narrow window in which to provide a budgetary savings for the State.

Item 5. Consider selection of Bond Counsel for the 2002-03 biennium, and designate counsel for the following specific issues: \$49.5 million TSU Tuition Revenue Bonds; General Obligations authorized by HB 3064/HJR 97 and Colonia Roadway Projects authorized by SB 1296/SJR 37.

Ms. Edwards stated that the Authority's recommendation was to continue the use of a pool of pre-approved law firms to serve as bond and/or co-bond counsel. The firms recommended were chosen on the basis of the quality of their proposals, the qualifications and experience of the attorneys in those firms and their experience related to TPFA and its' anticipated workload. Staff recommended the following firms for the pool: Andrews & Kurth LLP, Delgado Acosta Braden & Jones PC, Escamilla & Poneck, Inc., McCall Parkhurst & Horton LLP, Vinson & Elkins LLP, Wickliff & Hall PC, and Winstead, Sechrest & Minick PC.

Mr. Mijares inquired whether this pool would be in effect for a two-year period. Ms. Edwards explained the RFP covered the current biennium, so in this case the pool would serve for 18-months, through August 31, 2003. Mr. Kelly inquired how staff monitored efficiency. Ms. Porras answered that Board sees the actual work product in the form of the bond resolution. Also most contracts contain a cap on fees and expenses, which is reported to the Board. Mr. Kerr added that through the Board's past practice of using two law firms as co-bond counsel on each transaction to meet the Authority's HUB goals, staff also ensures that there is efficient service without duplication of effort.

Mr. Mijares moved to accept staff's recommendation for the Bond Counsel Pool. Mr. Brock seconded. The motion passed unanimously.

Staff recommended Vinson & Elkins, LLP for bond counsel on the TSU transaction, co-bond counsel of Vinson & Elkins, LLP and Wickliff & Hall, PC on the new GO CP program, and co-bond counsel of McCall Parkhurst & Horton, LLP and Delgado Acosta Braden & Jones, PC on the Colonias transaction. Staff's recommendation was based on the experience of the attorneys and the firms necessary for each transaction.

Staff also clarified that contracts with these firms are contingent on being able to negotiate a fair and reasonable fee. Mr. Kelly moved to adopt staff's recommendation for bond counsel for these three transactions. Mr. Mijares seconded. Motion approved unanimously.

Item 6. Consider selection of Financial Advisors for the 2002-03 biennium, and designate advisors for the following specific issues: \$49.5 million TSU Tuition Revenue Bonds; General Obligations authorized by HB 3064/HJR 97 and Colonia Roadway Projects authorized by SB 1296/SJR 37.

Ms. Edwards stated that due to the diverse nature of the transactions expected during the current biennium, and the quality of the proposals received indicating a depth of experience at several firms, she recommended that the Authority move to using a pool of firms for financial advisory services, similar to the process in place for bond counsel. The Authority would contract with each firm on a transaction basis and establish a not to exceed cap for each transaction. She noted that unlike the bond counsel RFP, the Financial Advisor RFP did request a cost proposal, and that most of the proposals were all very competitive and very close.

Staff's recommended the following firms for the Financial Advisor Pool: Coastal Securities, CKW Financial Group, Inc., Estrada Hinojosa, First Southwest Company, and Public Financial Management. Discussion ensued as to whether the Authority should prohibit members of the Financial Advisor Pool from underwriting any of the Authority's bonds, or just on those transactions where the firm served as financial advisor. The Board solicited input from the firms recommended to serve in the financial advisor pool, and clarification from staff as to whether such a prohibition was disclosed in the RFP.

Staff also recommended that a separate contract be offered to First Southwest Company to provide ongoing financial advisory services that were not related to any specific transaction.

Mr. Mijares moved to accept staff's recommendation for the Financial Advisor Pool along with language prohibiting members of the Financial Advisor Pool from serving as Underwriters, Dealers or Remarketing Agent, and for a separate contract with First Southwest Company to provide ongoing advisory services as required. Mr. Kelly seconded. The motion passed unanimously.

Staff further recommended that First Southwest Company and CKW Financial Group provide co-financial advisor services for the TSU transaction, and that Coastal Securities and Estrada Hinojosa serve as co-financial advisors for the two CP program transactions. Mr. Mijares moved to accept staff's recommendation. Mr. Kelly seconded. The motion passed unanimously.

Item 7. Consider a Request for Financing from the Texas Department of Criminal Justice in the amount of \$31,000,000 through the issuance of general obligation bonds, select a method of sale, and take other necessary related action.

Brad Livingston, Texas Department of Criminal Justice, provided a brief description of the project. The \$31,000,000 would be used for repairs and renovations at various TDCJ facilities statewide. He noted that the \$31,000,000 was originally appropriated to TDCJ during the 1996-97 biennium as part of the Prison Capacity construction projects that the State embarked on in the late 80's and early 90's. Staff recommended this transaction be financed through the new commercial paper that would be established to fund the \$850 million of GO bond-financed projects approved by

the voters in November 2000. Mr. Mijares moved to accept staff's recommendation to approve financing under the commercial paper program. Mr. Brock seconded. The motion passed unanimously.

Item 8. Designate co-managers for TSU Tuition Revenue Bonds.

Ms. Edwards reminded the Board that at the last meeting Salomon Smith Barney and SBK Brooks were selected to serve as senior co-managers on this transaction. She recommended the following four firms serve as co-managers: Dain Rauscher, Southwest Securities, Siebert Brandford Shank & Co. and Loop Capital Markets. Mr. Bartolotta agreed that the six underwriting firms are the right size syndicate for this size transaction. Mr. Kelly moved to accept staff's recommendation. Mr. Mijares seconded. The motion passed unanimously.

Item 9. Report from the Subcommittee on the evaluation of RFPs for Internal Auditor and the possible selection of an Internal Auditor.

This matter was postponed pending another subcommittee meeting. Members of the subcommittee would be Bert Mijares, Cynthia Meyer and Helen Huey. Mr. Brock agreed to serve as an alternate member.

Item 10. Other Business/Staff Report.

Ms. Edwards informed the Board that the Texas State Technical College System has requested an opinion from the Attorney General's office regarding whether TPFA could issue bonds on their behalf. She also introduced TPFA's new Board member, Mr. J. Vaughn Brock.

Item 11. Adjourn.

The meeting adjourned at 3:16 P.M.

The foregoing minutes were approved and passed by the Board of Directors on March 19, 2002.

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT
Posting Notice - Exhibit "A"