

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
May 21, 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 2:00 P.M., Tuesday, May 21, 2002, Capitol Extension, Hearing Room E2.030, Austin, Texas. Present were: Mr. John Kerr, Chairman, Mr. H.L. Bert Mijares, Vice Chairman, Ms. Cynthia Meyers, Secretary, Mr. David Kelly, Board Member, Mr. Vaughn Brock, Board Member and Mr. Dan Serna, 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. Gabriela Klein was also in attendance.

Present in their designated capacities were the following persons: Rogelio Rodriquez, Ramirez & Co.; Kelly Casto, Don Henderson, JP Morgan; Tom Oppenheim, Morgan Keegan; Art Morales, Banc of America Securities; Paul Braden, Delgado, Acosta Braden & Jones, PC; Dusty Traylor, RBC Dain Rauscher; Tim Kelley, Coastal Securities; Laura Powell, UBS PaineWebber; John Daniel, Lehman Brothers; Chris Allen, PFM; Nora Chavez, AG Edwards; Kay Watson, CKW Financial, Karin Werness, Greg Tijerina, Bank One Capital Markets; Richard Donoghue, McCall, Parkhurst & Horton, LLP; and Clarence Watson, Dale Lehman, US Bancorp Piper Jaffray.

Item 1. Call to order.

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

Item 2. Approval of minutes of the April 16, 2002 Board meeting.

Mr. Kerr asked if there were any corrections or additions to the minutes of the Board

meeting of April 16, 2002. There being none, Mr. Mijares moved to approve the minutes of the Board Meeting as presented. Mr. Kelly seconded the motion. Mr. Serna abstained. The motion passed with 4 votes and one abstention. Ms. Meyer was absent for this vote.

Item 3. Consider the adoption of a Resolution to establish a Commercial Paper Program to finance state assistance to border counties for colonias roadway projects, in the total amount of \$175 million, authorizing agreements required for the Program and the taking of other action to effect the sale and delivery of the Notes, and resolving related matters.

Ms. Edwards explained that the Bond Resolution and related documents for the commercial paper program being established for the Colonias Access Roadways Program (the “Series 2002B” CP program) was very similar to the documents adopted at the last Board meeting relating to the \$881 million GO CP program (the “Series 2002A” CP program). The Series 2002B Resolution was modeled after the Series 2002A resolution and the similarity between the documents will make administration more efficient. She noted that the dealers will be the same, JP Morgan Chase and Lehman Brothers, and that the Comptroller’s office will also provide the liquidity for the 2002B program. There are only two client agencies for the 2002B program: the Governor’s Office and Texas Department of Transportation.

Discussion ensued regarding the Colonias Access Roadways grant program administration and procedures. The initial request for financing must originate from the Governor’s Office, however the Texas Department of Transportation is responsible for awarding and administering the grant program to the counties. Ms. Edwards noted that the Board had been provided with a list of the first \$50 million of projects that TxDOT had already awarded to the counties. TxDOT indicated they would probably need \$5 million initially to provide funding for design costs. However, since the counties will be reimbursed after TxDOT approves the work plan for each project, it would be several months before the remainder of the \$50 million of CP would need to be issued. Once the CP Program is in place, TxDOT plans to have their regional offices work with the counties to prepare a timetable and expenditure schedule for each project.

Mr. Kerr questioned the availability of appropriations to meet debt service for the current biennium. Ms. Edwards responded that although a line item appropriation specifically for this issue had not been included in the current appropriations act, the authorizing law included the appropriation, and staff was confident that sufficient funds were available to meet debt service for this biennium from the Authority’s lump sum appropriation for general obligation debt. Mr. Donoghue, McCall, Parkhurst, confirmed that the authorizing law, which is the constitutional amendment and statute, contain required appropriation authority for the debt. Furthermore, the authorizing law requires the timing and amount of debt issuance for this project to be determined and requested by the Governor.

Further discussion ensued regarding the appropriation process and procedures for estimating debt service. Mr. Kelly inquired about the use of capitalized interest. Tim Kelley, Coastal Securities, responded that he had estimated the cost of capitalizing interest, but the financial advisors and staff were not recommending that at this time. He also indicated that he had reviewed the debt service estimates for the commercial paper and was comfortable with them.

Mr. Brock moved that the Resolution be adopted. Mr. Mijares seconded. The motion passes unanimously.

Item 4. Consider, approve, and authorize the distribution of a Preliminary Official Statement and Notice of Sale for the sale of the Authority's \$14,070,000 Stephen F. Austin Revenue Financing System Revenue Bonds, Series 2002.

Ms. Edwards explained that the competitive sale process requires the Board to approve the form of the Preliminary Official Statement (POS) and the form of the Notice of Sale (NOS). She noted that the NOS includes the language TPFA has used on prior competitive bond sales requiring bidders to demonstrate their good faith effort to include HUB or minority owned firms. She also explained that the Authority had requested Kay Watson, CKW Financial Group, Inc., to solicit bids for internet bidding and printing services. The lowest bid was from Grant Street Advisors/Muni-Auction, who had teamed up with Image Master to provide electronic bidding, electronic dissemination of the offering documents and a limited number of physical hard copies of the POS, NOS and Final OS.

Discussion ensued about the extensive financial disclosures of the University in the POS. The financial information was provided by the University. As financial advisor, First Southwest Co. is responsible for assembling the official statement. Ms. Edwards stated an underlying rating from Moody's and Fitch would be available, and that the bonds would be pre-qualified for bond insurance. Prospective bidders had the option to obtain bond insurance at their own expense. She noted that the ratings for these revenue bonds are based only on the University's creditworthiness because the debt is not backed by Legislative appropriations.

Mr. Brock moved to approve the form of the POS and the NOS. Mr. Kelly seconded. The motion passed unanimously.

Item 5. Consider, approve, and authorize the distribution of a Preliminary Official Statement and Notice of Sale for the sale of the Authority's \$8,965,000 Midwestern State University Revenue Financing System Revenue Bonds, Series 2002.

Ms. Edwards stated that Midwestern's documents were very similar to the ones for Stephen F. Austin and that the NOS was identical in terms of the bid specifications. One bid for one university is scheduled for 11 a.m. and another is scheduled for 11:30 a.m. giving the Financial Advisors time to verify the bids prior to the Board meeting. The procedure will be for the apparent low bidder to receive a verbal award subject to the Board's approval at the Board meeting. Mr. Serna moved to approve the POS and the NOS. Ms. Meyer seconded. The motion passed unanimously.

Item 6. Consider and approve the Authority's Strategic Plan

Ms. Edwards discussed the proposed Strategic Plan, which is required by statute and forms the basis for the Authority's legislative appropriations request or the Authority's budget request each year. The format and content is laid out in a set of instructions provided by the Legislative Budget Board and the Governor's Office. The five year plan includes a Customer Satisfaction Survey, Workforce Plan, Performance Measures, HUB goals and other components. Because the State uses performance based budgeting, the plan includes performance benchmarks. The Authority has two key performance measures that reflect the Authority's workload: the number of requests for financing that are approved and the number of financial transactions, i.e., the number of journal vouchers that are entered into the accounting system.

Ms. Edwards reported that the Customer Satisfaction Survey results were in the 85% approval range and that the Authority had participated in a Survey of Organizational Excellence, a management tool provided through the University of Texas to assess employees' perceptions of the work environment and conditions. Mr. Mijares moved to approve the Authority's Strategic Plan as presented by staff. Ms. Meyer seconded. The motion passed unanimously.

Item 7. Consider and approve an Internal Audit Plan proposed by Garza/Gonzalez & Associates, Internal Auditor

Ms. Edwards introduced Rene Garza of Gonzales/Garza Associates, Inc. Mr. Garza reviewed the draft audit plan explaining that he had identified thirteen areas for audit based on sixteen risk analysis factors. From the thirteen, he selected two areas, Debt Administration and Performance Measures, for audit during the remaining, short FY02 period ending in August, 2002. The first audit report is due November 1. Mr. Serna moved to approve the 2002 Internal Audit Plan. Mr. Mijares seconded. The motion passed unanimously.

Item 8. Other Business/Staff Report.

A. Briefing on tax-exempt leveraged leasing structure to monetize depreciation.

Mr. Bartolotta reviewed the structure, characteristics, and risks of tax-exempt leveraged lease transactions. Such transactions usually involve a large amount, around \$50-\$75 million, of depreciable assets with a long useful life, and preferably assets that have not been financed with tax-exempt bonds or have no outstanding tax-exempt debt. Under a typical structure, the Authority would transfer assets to an equity investor who would lease them back to the Authority. These transactions are usually structured to meet the requirements of the equity investors, who consider the transaction's terms confidential and proprietary, which would make it difficult to bid or negotiate the deal in a public forum. The transaction costs, including legal fees are usually substantial, and may be incurred regardless of whether the transaction is actually consummated. Since the transaction is not a bond issue and it would require the disposition of the State property, the Authority probably does not have existing statutory authority to consider such a transaction at this time. Further, the Authority does not have title to the required critical mass of assets as it is required to release title to financed property back to the client agency as soon as the related debt is paid off.

B. 2002A GO CP

Ms. Edwards reported that the 2002A GO Commercial Program sold at 1.45%, 123 days, and that JP Morgan Chase served as the dealer.

Item 9. Adjourn.

The meeting adjourned at 3:52 P.M.

The foregoing minutes were approved and passed by the Board of Directors on June 18, 2002.

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"