MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
October 15, 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 11:00 A.M.,Tuesday, October 15, 2002, Capitol Extension Hearing Room E2.030, Austin, Texas. Present were: Mr. John Kerr, Chairman, Mr. Dan Serna, Board Member, Mr. David Kelly, Board Member, and Mr. Vaughn Brock, Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director; Ms. Judith Porras, General Counsel; Mr. John Hernandez, Deputy Director; Ms. Paula Hatfield and Ms. Donna Richardson. Gabriela Klein, Pamela Scivicque, Ophelia Guerrero, and Ricky Horne were also in attendance.

Present in their designated capacities were the following persons: Paul Braden, Delgado Acosta Braden & Jones; Art Morales, Banc of America Securities; John Daniel, Lehman Brothers; Clarence Watson, Dale Lehman, U.S. Bancorp Piper Jaffray; Curt Shelmire, Morgan Stanley; Lance Johnson, Estrada Hinojosa & Co., Inc.; Karin Werness, Banc One Capital Markets; Mark C. Nitcholas, RBC Dain Rauscher Inc.; Rogelia Rodriguez, Ramirez & Co.; Carol Polumbo, McCall, Parkhurst & Horton; Jerry Kyle, Greg Shields, Andrews & Kurth; Nancy Hagquist, Winstead, Sechrest & Minick, P.C.; Suewan Johnson, Barron F. Wallace, Vinson & Elkins, LLP; Tim Kelley, Coastal Securities; Kay Watson, CKW Financial Group; and Mike Bartolotta, First Southwest Co.

Item 1. Call to order.

Mr. Kerr called the meeting to order at 10:14 A.M.

Item 2. Approval of minutes of the September 17, 2002 Board meeting.

Mr. Kerr asked if there were any corrections or additions to the minutes of the Board meeting of September 17, 2002. There being none, Mr. Serna moved to approve the minutes of the Board Meeting as presented. Mr. Brock seconded the motion. The motion passed unanimously.

Item 3. Consider the adoption of Resolution authorizing issuance of $228,320,000 general obligation refunding and new general obligation bonds, designate a pricing committee, and resolving other matters related to the sale and delivery of such bonds.

Ms. Edwards explained that at the September meeting the Board had decided to take advantage of declining interest rates to refund outstanding bonds and issue long-term fixed rate debt instead of commercial paper for the some of the projects that had been previously slated to be funded through the commercial paper program. The Board had established a 4.25% true interest cost target for the new money portion, and savings parameters of 3% overall, plus any maturities with positive savings that were within a year of the call date, for the refunding.

Ms. Edwards reported that after consulting with the client agencies regarding expenditure needs, staff recommends issuing approximately $75,000,000 of new money. The size of the refunding varies between $50 and 75 million, depending on tax-exempt and taxable interest rates. She explained that a thorough analysis of the various refunding options indicated it was more effective to take a slightly different approach in defining the savings parameters. The Resolution defines by series, the universe of "Refundable Bonds." The savings parameter test will be applied to only that universe of bonds, rather than all outstanding bonds. For this transaction, this approach works better in conjunction with the 3% savings parameter test, because it prevents us from refunding inefficient maturities that might be included in a 3% deal. She explained that unlike previous refundings, there is a more defined universe of refunding candidates that "work," so we are comfortable specifying them in advance. For example, there are one or two maturities of bonds issued in 2000 that might get picked up in a 3% screen. However, economically, it is more efficient to refund those maturities closer to their call date in 2010, even at higher rates.

Tim Kelley provided an update on the refunding based on current interest rates and further explained the analysis used to determine the universe of refunding candidates. In summary, the refunding will be selected from the universe of "refundable bonds," and will include those bonds that result in the maximum reduction of debt service cost to the Authority and satisfy either of the following: (1) those bonds that produce an aggregate net present value savings of at least 3% or (2) any refundable bond that can be called for redemption within one year of the issue date and has positive net present value savings. Discussion ensued about call features and the use of premium bonds. Bond counsel recommended minor clarification in the Resolution to better articulate the savings parameters.

Pricing will be at Lehman Brothers' offices in New York. Mr. Brock, Mr. Kerr and Ms. Huey agreed to participate in the pricing committee. Mr. Mijares volunteered to serve as the alternate committee member. Mr. Kerr moved to accept staff's recommendation to adopt the Resolution with the changes suggested by bond counsel stated to page 9 and 10, and designation of the pricing committee. Mr. Serna seconded. The motion passed unanimously.

Item 4. Consider the adoption of Resolution authorizing issuance of $55,670,000 revenue refunding bonds, designate a pricing committee, and resolving other matters related to the sale and delivery of such bonds.

Ms. Edwards explained that the Revenue Refunding resolution takes the same approach as the GO Refunding in that it defines a universe of "Refundable Bonds" and then specifies that each maturity refunded must have positive savings. This approach was even more critical on the Revenue Bonds because there was one maturity with significant savings that allowed other maturities with negative savings to be included in the 3% screen. Therefore, the candidates for refunding were determined to be the series 1992, 1994 and 1996 bonds that produced an aggregate net present value savings of at least 3% and positive savings for each maturity. Mr. Kelley again reviewed the analysis and discussed the decision to not include certain bonds in the refunding universe because economically, it is more efficient to refund those maturities closer to their call dates. Further discussion ensured regarding section 2.2 of the resolution. Members of the pricing committee are Mr. Brock, Mr. Serna and Ms. Huey. Mr. Mijares volunteered to serve as the alternate pricing committee member.

Mr. Serna moved to accept staff's recommendation to approve the resolution with the following provisions: the par amount shall not exceed $55,715,000, the true interest cost shall not exceed 5%, and a final maturity not to exceed 20 years. Mr. Kelly seconded. The motion passed unanimously.

Item 5. Consider and renew First Southwest Co. contract for arbitrage rebate services.

Ms. Edwards reminded the Board that two years ago the Authority issued Requests for Proposals for arbitrage rebate services. First Southwest Co. was selected to continue to do the arbitrage rebate calculations on fixed rate bond issues and Deloitte Touche was selected to do the calculations on the commercial paper program. The First Southwest contract allows for two, two-year renewals. Staff recommends renewing the contract for a two year period. Mr. Brock moved to accept staff's recommendation. Mr. Kelly seconded. The motion passed unanimously.

Item 6. Consider any need to request legislation in the upcoming Legislative Session.

Ms. Edwards stated legislative activity would begin in late November with pre-filing of bills. She also advised that the documents to the Master Lease program were being updated and would be brought to the Board in October. She noted that a member of the Legislature has asked whether the Master Lease program could be used by local entities such as a community college district. The present statute does not permit this use. She also noted that the Authority staff had provided testimony to Legislative committees regarding the implementation of House Bill 6 on charter schools, and had been asked if any statutory changes were needed.

Mr. Serna suggested tabling this item until the next meeting to allow those Board members that were not present to consider the issue. Mr. Kelly requested that the Authority obtain input from members of the public, particularly the underwriting community, as well.

Item 7. Presentation of Annual Internal Audit Report, including follow-up on specific audit findings and proposed audit plan for FY 2003.

Mr. Garza reported on the summary of the Annual Internal Audit Report that is submitted to the Governor's Office, the Legislative Budget Board, the State Auditor's Office and the Sunset Commission. The report provided to the Board reflects the findings from the prior year and have been implemented by staff.

Item 8. Other Business/Staff Report.

Ms. Edwards reported that after reviewing each Board member's standing commitments, the best schedule for monthly meetings continues to be on Tuesdays, but recommended changing the standard time to 11:00 a.m.

Item 9. Adjourn.

The meeting adjourned at 11:25 A.M.

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

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"