

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
January 28, 2003**

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, January 28, 2003, Central Services Building, 1711 San Jacinto, Room 402, Austin, Texas. Present were: Mr. David Kelly, Chairman, Mr. Bert Mijares, Vice Chairman, Mr. Vaughn Brock, Secretary, Ms. Helen Huey, Member and Mr. Dan Serna, 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. Also present were Gabriela Klein, Ricky Horne and Ophelia Guerrero.

Present in their designated capacities were the following persons: John Daniel, Patrick Scott, Lehman Brothers; Art Morales, Banc of America Securities; Karin Werness, Banc One Capital Markets; Robbi J. Jones, SBK Brooks; Curtis Flowers, Loop Capital Markets; Chris Allen, Paul Jack, Public Financial Management; Dale Lehman, US Bancorp Piper Jaffray; Ricardo Villasena, A. G. Edwards; Laura Powell, UBS Paine Webber; Ajay Thomas, Curt Shelmire, Morgan Stanley; Erlinda C. Dimas, Siebert Brandford Shank; Paul Braden, Delgado, Acosta, Braden & Jones, P.C.; Barron F. Wallace, Vinson & Elkins, P.C.; Mike Bartolotta, Tim Peterson, First Southwest Co.; David Holland, Tim Kelley, Coastal Securities.

Item 1. Call to order.

Mr. Kerr called the meeting to order at 2:07 P.M. He congratulated David Kelly on his appointment as the new Board Chairman by the Governor. He also acknowledged the contributions of board member Cynthia Meyer and requested the Board to observe a moment of silence in her memory. Mr. Kerr then transferred chairmanship of the meeting to Mr. Kelly.

Item 2. Approval of minutes of the November 28, 2002 Board meeting.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of November 28, 2002. There being none, Mr. Brock moved to approve the minutes of the Board Meeting as presented. Mr. Mijares seconded the motion. The motion passed unanimously.

Item 3. Report on the sale of the Authority's General Obligation and Refunding Bonds, Series 2003.

Ms. Edwards reported that \$142,209,350 of bonds were priced on Monday, January 6. Members of the Pricing Committee were Mr. Brock, Mr. Mijares and Mr. Kerr. Ms. Edwards noted that the Authority had been monitoring the market for several months, hoping to meet the targeted true interest cost of 4.25%. Although the interest rate indexes had dropped significantly during the holidays, there was very little actual trading activity. The Authority made the decision to price on the first day after the holidays to get ahead of a large supply of new issues, particularly in Texas, expected that week. The refunding produced a savings of \$2.2 million and the new money transaction achieved a true interest cost of 4.2499% and created a budgetary savings of approximately \$4 million. John Daniel, Lehman Brothers, provided an explanation of the post-sale analysis, including market conditions, timing of the sale, comparable sales that week, such as City of Ft. Worth, and the University of Texas, and orders, allotments, and designations allocated to each co-manager. David Holland, Coastal Securities, also reported on the sale. He commended Lehman Brothers on pricing in a challenging market and congratulated the Authority on a successful sale.

Item 4. Consider a Request for Financing from the Texas Department of Criminal Justice for the repair, renovation and expansion of buildings and facilities in the amount of approximately \$80 million through the issuance of general obligation bonds or other obligations, select a method of sale, financial advisor(s) and bond counsel, and take other necessary related action.

Ms. Edwards introduced Brad Livingston from the Texas Department of Criminal Justice. Mr. Livingston reported that the requested financing would be used to expand the Western Regional Medical Facility and for repair and renovation of other buildings and facilities. Ms. Huey questioned the \$3 million designated as estimated fringe benefits. Mr. Livingston explained that fringe benefits of \$3 million would be for TDCJ employees engaged in the facilities division on these projects. Mr. Kerr inquired whether prior financings included amounts for employee benefits. Ms. Edwards replied that bond proceeds had been used to pay benefits on prior bond projects. Ms. Porras stated that the General Appropriations Act requires benefits be paid from the same fund from which employee salaries are funded. Therefore, if salaries are paid from bond proceeds, benefits must be paid from bond proceeds as well. Mr. Serna questioned whether the \$3 million fringe benefit amount was an allocation of general overhead and staffing or whether it was specific labor assigned, associated and obligated by the project and indicated discomfort with the former. He expressed concern over this policy as the practice of using long-term financing to fund "soft" or operating costs is more costly to taxpayers. Mr. Livingston stated some of the costs are project direct, i.e., some staff are specifically clocking their hours to a project, but there are also indirect costs

allocated to the project. These costs are not agency wide; they are division wide administrative costs of the project facilities division.

Clarification was provided that the amount of bonds issued would not exceed \$80,000,000, the estimated cost of projects, and interest earnings on the bond proceeds will be required to fund fringe benefits. Ms. Porras stated that the Legislature authorizes through a rider in the Appropriations Act and a section in the TPFA statute, that the earnings on the bond proceeds are project funds to be used by the agencies for their projects.

Mr. Mijares questioned the project administration cost of approximately \$1.4 million for the Western Regional Medical Facility. Mr. Livingston explained that about half the amount was for project contingency and the remainder included costs for in-house construction employees such as the inspectors, project managers, and engineers. Mr. Mijares asked what was included in the indirect project cost amount and Mr. Livingston stated it was for agency overhead for funding that is allocated to all the Department's projects. Discussion ensued.

Ms. Edwards remarked that although the Authority had established the commercial paper program in 2002 to finance the general obligation bond projects, interest rates remain low. Therefore, Staff recommended that this financing be executed through the issuance of fixed rate bonds with a true interest cost of approximately 4.25 percent. If that interest rate is not attainable, staff recommends the issuance of commercial paper to provide for cash flow needs of the agency. Staff also recommended that Coastal Securities and CKW Financial Group, Inc. serve as financial advisors, and that Vinson & Elkins and Delgado, Acosta, Braden & Jones serve as co-bond counsel. The underwriting team would consist of co-senior managers of Salomon Smith Barney serving as the bookrunner and Morgan Stanley, and co-managers of Estrada Hinojosa, Loop Capital Markets, Morgan Keegan and US Bank Piper Jaffray.

Mr. Kerr inquired about the Board's policy regarding the selection process of the financial advisor. Ms. Edwards explained the Board's policy to begin using a pool for financial services had been to utilize the strengths of the different firms and assignments have been based on the substance of the work. Discussion ensued about the past selection and fees awarded to financial advisors.

Board action was taken in two separate motions. Mr. Kerr moved to approve the request for financing. Ms. Huey seconded. The motion passed with five affirmative votes, with Mr. Serna voting no. Then, Mr. Kerr moved to accept staff's recommendation for the method of sale and financial team as stated above, but with the financial advisors team consisting of First Southwest Co. and CKW Financial Group, Inc. Ms. Huey seconded. The motion passed unanimously.

Item 5. Consideration and possible action to form a non-profit corporation pursuant to Texas Education Code §53.351 and discussion of a proposed financing for the School of Excellence in Education of San Antonio.

Ms. Edwards reminded the Board that at the November meeting TPFA received a \$3.4 million request for financing from the School of Excellence, an open enrollment charter school in San Antonio. House Bill 6 requires TPFA to establish a conduit issuer to issue bonds on behalf of charter schools. The proposed Articles of Incorporation and Corporation Bylaws are exhibits to the Resolution establishing the conduit, non-profit corporation.

Ms. Edwards stated that Christy Martin and Patsy O'Neill had been named by the Commissioner of Education to serve on the non-profit corporation along with directors designated by the TPFA board. Discussion ensued about the proposed articles of incorporation, bylaws and the liability of board members serving on the non-profit corporation. This matter was tabled so that bond counsel could further research issues related to the composition of the non-profit board and explore the processes for submitting future financial requests from the non-profit board to the TPFA Board.

Item 6.Election of Officers.

Mr. Mijares moved that Vaughn Brock serve as Secretary of the TPFA Board. Ms. Huey seconded. The motion passed unanimously.

Item 7.Other Business/Staff Report.

Ms. Edwards reported that staff would keep the board informed regarding legislative matters and mentioned she was addressing the recent request by the state's governing leadership for an immediate 7% budget cut.

Ms. Huey thanked the TPFA Board and staff for efforts expended on her behalf during her absences over the past year.

Item 8.Adjourn.

The meeting adjourned at 4:04 P.M.

The foregoing minutes were approved and passed by the Board of Directors on February __, 2003.

Vaughn Brock
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"