

**MINUTES OF THE MEETING OF THE  
BOARD OF DIRECTORS OF THE  
TEXAS PUBLIC FINANCE AUTHORITY  
May 20, 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 10:00 A.M., Tuesday, May 20, 2003, Stephen F. Austin Building, Room 118, Austin, Texas. Present were: Mr. David Kelly, Chairman, Mr. Bert Mijares, Vice Chairman, Mr. Vaughn Brock, Secretary 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 Ricky Horne, Pamela Scivicque, Ophelia Guerrero and Gabriela Klein.

Present in their designated capacities were the following persons: Dale Lehman, US Bancorp Piper Jaffray; Andy Bynam, Citigroup; Carlos Sharpless, Ramirez & Co., Inc.; Art Morales, Mike Walker, Banc of America Securities; Sara Ashworth, Morgan Keegan; Keith Richard, Siebert Brandford Shank; Terry Thornton, Goldman Sachs; Robbi Jones, SBK Brooks; Karin Werness, Banc One Capital Markets; Curtis V. Flowers, Loop Capital Markets; Curt Shelmire, Morgan Stanley; Paul Jack, Public Financial Management; Keith Lamb, John H. Alexander, Midwestern State University, Richard Donoghue, McCall, Parkhurst & Horton; Paul Braden, Delgado, Acosta, Braden & Jones; Jerry Kyle, Andrews & Kurth; Nancy Hagquist, Winstead, Sechrest & Minick; Tim Peterson, First Southwest Co.; Tim Kelley, Coastal Securities; and Kay Watson, CKW Financial Group.

**Item 1. Call to order.**

Mr. Kelly called the meeting to order at 10:12 A.M.

**Item 2. Approval of minutes of the April 15, 2003 Board meeting.**

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of April 15, 2003. There being none, Mr. Mijares moved to approve the minutes of the Board Meeting as presented. Mr. Serna seconded the motion. The motion passed unanimously.

Ms. Edwards updated the Board regarding Texas Southern University's request to postpone the pricing of the \$29.5 million TPFA/TSU Revenue Financing System Revenue Bonds. The University wanted to delay the pricing pending the outcome of legislation affecting increases or deregulation of tuition at all universities. Mr. Kelly questioned whether the University had revisited the issue of revising their current construction contract, and Ms. Edwards said she would make the appropriate inquiries and report to the Board in writing. Mr. Serna requested that the TSU project continue to be posted as a standing agenda item.

**Item 3. Consider a Request for Financing from Midwestern State University to finance renovations of residence halls in the amount of approximately \$9,300,000 through the issuance of revenue bonds, select a method of sale, financial advisor(s) and bond counsel, and take other necessary related action.**

Ms. Edwards stated that Midwestern State University had submitted a \$9,375,000 request for financing for revenue bonds to renovate two residence halls to be in compliance with the State Fire Marshall requirements. The total project cost is estimated to be \$8.1 million. The University requested the higher not to exceed amount to cover issuance cost and capitalized interest for two years. Ms. Edwards explained that the Bonds will be issued as additional bonds under the Master Resolution adopted in 1998, which pledges all available revenues of the University (excluding state appropriations). The Bonds are not tuition revenue bonds; therefore, the University does not expect to be reimbursed for the debt service from an appropriation by the Legislature. Two years of capitalized interest will provide sufficient time for the housing revenues to come on line to cover debt service. In addition, a prior series of bonds will also be retired in that same two-year time frame, creating additional debt capacity.

John Alexander, Vice President for Administration and Finance, and Keith Lamb, Associate Vice Present for Student Affairs, from Midwestern State University provided a project overview and answered questions about the project, project budget and selection process for various design and construction contracts. Mr. Alexander explained that the request had been initiated in response to the Fire Marshall's Plan necessitating residence hall renovations for safety reasons. Mr. Mijares complimented the University on providing a realistic draw schedule. Mr. Kelly thanked the University for its preparation of the request.

Staff recommended that the method of sale be a competitive sale, that McCall, Parkhurst & Horton serve as bond counsel and that Coastal Securities serve as financial advisor. Mr. Kelly asked if the issues regarding prior problems with electronic bidding on competitive sales had been resolved. Ms. Edwards responded that measures had been implemented to prevent the specific issues that arose in the past, but that often the nature of the problems associated with competitive sales and electronic bidding by nature were not something that could be anticipated or addressed beforehand.

Mr. Mijares moved to accept staff's recommendation. Mr. Brock seconded. The motion passed unanimously.

**Item 4. Consider adoption of an amendment to the Resolution authorizing the issuance and sale of the Authority's General Obligation Bonds (Texas Department of Criminal Justice Projects) Series 2003A to include refunding a portion of outstanding general obligation debt.**

Ms. Edwards reported that in April the Bond Review Board approved the issuance of \$45.5 million of bonds for TDCJ construction, renovation and repair projects. The appropriation of debt service approved by the Appropriations Conference Committee provided debt service appropriations for the full \$80 million of new money that was originally appropriated in FY 02/03, but assumed no principal repayment in the FY04/05 biennium. The appropriation also assumed a \$50 million debt restructuring to keep debt service within current expenditure levels. Since then, interest rates have fallen so that it also made sense to consider "fixing out" some commercial paper, and possibly refund another \$39.3 million of bonds, for approximately \$1.4 million of PV savings. Ms. Edwards also noted that the Authority had issued \$8 million of commercial paper to meet TDCJ's immediate cash flow needs through June.

Messrs. Serna and Kelly question whether the Texas Department of Criminal Justice revised its project list and project budgets, and Mr. Serna requested updated information on the component of the project budget that would be allocated to salaries and other indirect costs. Mr. Kelly asked about the commercial paper fix-out. Ms. Edwards explained that the analysis was very similar to the analysis performed on the CP fixout in January. Mr. Brock questioned whether the Authority should have more variable rate debt, either through commercial paper or swap contracts. Ms. Edwards clarified that the Authority only had the legal Authority to enter into swaps on a small portion of its outstanding debt, i.e., its revenue debt and that portion of General Obligation debt that was approved by the voters prior to 2001. Mr. Brock commented that in the current interest rate environment of extremely low short-term rates and a steep yield curve, it makes sense to do a transaction with a portion of it variable and a portion of it fixed, and asked for comment from the financial advisor. Discussion ensued.

Mr. Serna commented that as stewards of the taxpayers money, it was the Board's responsibility to balance the risk of variable rate debt and costs of locking into historical low fixed rates. In his opinion the prudent action would be to lock in the current low interest rates. He also commented that he would benefit from more education regarding the benefits and risks of various swap products before considering them. Other Board members agreed. Mr. Kelly asked Judith Porras whether Board can have a strategy session on SWAPs and Ms. Porras responded affirmatively.

Ms. Edwards called the Board's attention to the blacklined Resolution that was distributed at the meeting, commenting that it amends the resolution adopted at the February meeting to authorize the refunding, commercial paper fix out and debt restructuring. She explained the four components of the transaction in further detail. Barron F. Wallace, Vinson & Elkins, discussed options to delegate to the pricing committee savings parameters for the refunding, interest rates on the CP fixout, and the size of the restructuring.

Mr. Brock moved to continue using commercial paper until the Board has a work session on swaps. Mr. Kelly inquired if the only downside to this approach is interest rate risk, i.e, that interest rates rise before the work session is conducted and a final decision is made. Ms. Edwards responded “yes, and the marginal cost of doing two separate bond issues.” Mr. Brock’s motion failed on the lack of a second.

Mr. Serna then moved to adopt amendments to the Resolution to include authorizing: (1) refunding bonds that would produce at least 3% net present value savings; (2) restructuring bonds in an amount required to reduce debt service to an amount equal to the Authority’s appropriations for debt service in the 2004-05 biennium; and (3) the commercial paper fixout at not more than 4.35% true interest cost.

**Item 5. Other Business/Staff Report.  
Discuss Legislation of Interest to TPFA.**

Ms. Edwards announced that TPFA’s new board member, Barry Smitherman had been confirmed by the Senate Nominations Committee and would likely be at the next meeting.

Discussion ensued among the Board members regarding their calendars and availability for a work session on SWAPs. A half day session was tentatively scheduled for July 15, in conjunction with the regularly scheduled Board meeting.

**Item 6. Adjourn.**

The meeting adjourned at 11:30 A.M.

The foregoing minutes were approved and passed by the Board of Directors on June \_\_, 2003.

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Vaughn Brock  
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit “A”