

Texas Public Finance Authority

Board of Directors:

R. David Kelly, Chairman
H.L. Bert Mijares, Jr., Vice-Chairman
J. Vaughn Brock
Helen Huey
Daniel T. Serna
Barry T. Smitherman



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Kimberly K. Edwards
Executive Director

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY August 19, 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 1:00 P.M., Tuesday, August 19, 2003, Capitol Extension, Hearing Room E2.010, Austin, Texas. Present were: Mr. David Kelly, Chairman, Mr. Bert Mijares, Vice Chairman, Mr. Vaughn Brock, Secretary, Mr. Dan Serna, Member and Mr. Barry T. Smitherman, Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director, Mr. John Hernandez, Deputy Director, Ms. Judith Porras, General Counsel, Ms. Pamela Scivicque, Business Manager, Ms. Paula Hatfield and Ms. Donna Richardson. Also present was Gabriela Klein.

Present in their designated capacities were the following persons: Peter Badger, Sanders, Morris, Harris; Dale Lehman, US Bancorp Piper Jaffray; Cheryl Allen, Southwest Securities; Ed Jefferson, Duncan Williams; Al Rodriguez, Michelle Vobach, Merrill Lynch; Nick Papan, Morgan Keegan; Art Morales, Banc of America Securities; Courtney Knight, Anthony Haley, George K. Baum & Co.; Curtis Flowers, Loop Capital Markets; Richard Ramirez, Terry Thornton, Goldman Sachs; Bob Estrada, Estrada Hinojosa & Co.; Katy McArthur, Lehman Brothers; Carlos Sharpless, Richard Acosta, Ramiarez & Co.; Mark C. Nitcholas, RBC Dain Rauscher, Inc; Don Henderson, Kelly Casto, JP Morgan; Erlinda Dimas, Levi Davis, Siebert Brandford Shank; Ricardo Villasenor, Nora Chavez, AG Edwards & Sons Inc.; Laura Powell, UBS; Karin Werness, Patricia Rodriguez, Banc One Capital Markets, Inc.; Jodie Jiles, David Potter, First Albany; Curt Shelmire, Morgan Stanley; Larry Oaks, Stan Graves, Texas Historical Commission; Zelma Smith, Legislative Budget Board; Gene Crump, Texas Workforce Commission; Chris Allen, Public Financial Management; Barron F. Wallace, Vinson & Elkins; Nancy Hagquist, Winstead, Sechrest & Minick; Tim Kelley, Coastal Securities; Kay Watson, CKW Financial Services; Mike Bartolotta, Tim Peterson, First Southwest Co.; Rob Todd, Todd Law Firm.

Item 1. Call to order.

Mr. Kelly called the meeting to order at 1:10 P.M.

Item 2. Approval of minutes of the July 8 and July 17, 2003 Board meetings.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meetings of July 8 and July 17, 2003. There being none, Mr. Serna moved to approve the minutes as presented. Mr. Smitherman seconded the motion. The motion passed unanimously.

Item 3. Report on the sale of the Texas Public Finance Authority Midwestern State University Revenue Financing Tuition Revenue Bonds, Series 2003.

Ms. Edwards stated that bonds were priced August 13, and the savings target for the refunding was exceeded by \$50,000. Mark Nitcholas, RBC Dain Rauscher, reviewed a post sale analysis of the financing which consisted of \$8.8 million in new money and a \$4.3 million refunding. Mr. Smitherman asked whether Mr. Nitcholas was surprised by the quantity of orders from the selling group. Mr. Nitcholas responded that it was not unexpected given that all members of the selling group have strong retail marketing in Texas. Ms. Edwards explained that prior to the opening of the order period, Coastal Securities, the Financial Advisor, determined a selling group should be added, because the market felt a little soft and additional retail support seemed to be needed. Ms. Edwards said she was surprised at the number of selling group orders, particularly with one from Valubond, an online trading platform that sells retail through the Charles Schwab network. This order for a key maturity avoided having to make that maturity a term bond, which saved about 13 basis points on the bond. Tim Kelley, Coastal Securities, also commented on the pricing and compared it to other transactions. With respect to the Galveston County transaction, Mr. Kelley explained that on a yield to maturity basis, the disparity is not as large as it appears since the Galveston County bonds were priced as premium bonds. Mr. Serna, who participated in the pricing by phone, expressed appreciation for the clear and informative call as well as the upfront pricing work that made the transaction work.

Item 4. Consider a Request for Financing from the Texas Historical Commission for the financing of county courthouse renovation projects in the amount of approximately \$45 million through the issuance of general obligations, select a method of sale, and take other necessary related action.

Ms. Edwards explained that the 78th Legislature appropriated \$45 million dollars of general obligation proceeds for the Texas Historical Commission's courthouse renovation program. Ms. Edwards introduced Larry Oaks, Executive Director, and Stan Graves, Program Administrator, to provide a summary of the program.

Mr. Oaks explained that the function of the historical preservation program is to provide funds to renovate and restore historical county courthouses to provide historical and functional facilities for county government, as well as a centerpiece to attract heritage tourists, who comprise a significant portion of the travel market. The program began in 1999 with a \$50 million appropriation of general revenue. Texas has 254 counties with 230 courthouses in need of renovation. A county must develop a comprehensive master preservation plan to be eligible to receive a grant. Mr. Oaks stated about 35 courthouses have either been restored or are in the process of a major restoration. Fourteen courthouse projects have been completed.

Mr. Kelly complimented the Agency for its work as steward for our culture and architectural heritage.

Mr. Mijares asked how the costs were running from the beginning until the completion of the project. Mr. Graves responded that initially cost overruns were common, but during the last round, all projects had come in at or below the budget. Currently, there is a better construction market and participants have learned from experience how to cost out these building more accurately.

Staff recommended that this request be funded through the Series 2002A General Obligation commercial paper program. Mr. Mijares moved to accept staff's recommendation. Ms. Smitherman seconded. The motion passed unanimously.

Item 5. Consider the adoption of a resolution authorizing the issuance of approximately \$1.3 billion of revenue obligations for the Texas Workforce Commission Unemployment Obligation Assessment Revenue Bonds, Series 2003, select an underwriting syndicate, designate a pricing committee, and take such other necessary action relating to the issuance and sale of the obligations.

Ms. Edwards provided a summary of the structure of the financing. The three objectives are (1) to repay the federal advances of \$350 million as of September 30 (if repaid by September 30 and no additional borrowing, no interest is charged); (2) to comply with state law, which requires that the fund balance have a floor equal to 1% of the taxable wage base, or about \$750 million, on October 1. If the balance is below the floor, the state deficit tax, which is calculated to recover the \$750 million in a one year period is automatically charged, and (3) to allow the repayment to be spread out over a longer period of time through the issuance of bonds.

TPFA worked closely with the Texas Workforce Commission, and Ms. Edwards thanked Gene Crump, everyone on his staff and the commission for their efforts. There are two provisions of the federal tax law that affect the proposed structure, requiring a portion to be issued as taxable debt. The arbitrage rebate rules require the money to be spent within a six month period to avoid paying arbitrage rebate on the debt. The second is the working capital rules which require the money to be spent within a thirteen month period, and to demonstrate that no other funds are available for working capital.

The financial advisors and Goldman Sachs put together a structure that would amortize the taxable debt first with the tax-exempt debt at the end. Half of the debt or about \$600 million, is variable rate for pre-payment flexibility, most of it has a five year bullet maturity, but with the intent that a larger amount will be prepaid every year so, overall, there is a level debt service structure.

Rating agency presentations are scheduled for August 24 and 25, and discussions are on-going. Hopefully, significant coverage in excess of 1.5 times can be shown allowing us to not have a reserve fund, and a high enough underlying rating so that bond insurance is not necessary. However, the issue is being pre-qualified for bond insurance.

Ms. Edwards stated she was pleased with the overall structure of the financing. As a strategic plan, it lowers the cost, provides a very comfortable margin in terms of repayment, and it meets the policy objectives of the Workforce Commission in the terms of the obligation assessment and the flexibility of the payment of the debt. The resolution contemplates three series of bonds: Series A, the tax-exempt fixed-rate portion of \$350 million used for the federal advances repayment; Series B, the taxable piece that is fixed-rate (\$350 million); and Series C, the taxable piece that is variable rate (\$650 million). The overall cost of borrowing is projected to be 3.15%, and the weighted average maturity is a little over 3 years.

Mr. Kelly asked if the 2004-05 assessments could be reallocated. Ms. Edwards stated the tax rate was set annually. TPFA will inform the Workforce Commission of the gross dollar amount needed to pay debt service. By statute and rule, the Commission sets the rate to generate that dollar amount of revenue.

Mr. Smitherman asked if there were preliminary indications on ratings. Mr. Bartolotta said a triple A rating had been requested, and he explained that historically the collection rates of the general tax, the deficit tax and replenishment tax is 99%. With the high collection rate, 1.5x coverage, and the structure of fixed and variable debt, the aim was to achieve a AA1 to AAA rating. The transaction is short and with the obligation assessment set by rule, it is expected that over-collections will provide sufficient cash flow. However, the rating agencies need to get comfortable with the rate setting mechanism.

Tim Kelley, Coastal Securities, explained the debt service estimate, including the amortization of variable rate debt.

Barron Wallace, Vinson & Elkins, discussed the draft of the new resolution. Nancy Hagquist, Winstead, Sechrest & Minick, provided a new draft of the Preliminary Official Statement. Mr. Wallace explained that this new resolution authorizes additional bonds, authorizes a multi-modal variable rate demand bond, a fixed-rate bond and an auction rate bond, which may be used without liquidity. Maximum flexibility has been added for the Pricing Committee to determine a weekly, monthly, or flexible term mode, and a taxable mode. The committee will have more decisions to be made than ordinarily. There is also a provision permitting conversion from taxable to tax-exempt. The flow of funds is fairly simple due to the obligation trust fund that is created under the Act. There are three different funds, so debt service and bond administration expenses can be paid, and a redemption account is provided to redeem the variable rate bonds.

Ms. Edwards said the Preliminary Official Statement had been updated to include more disclosure information. Appendix B includes the statistics on employment, the tax base, etc. which is provided by the Texas Workforce Commission and updated annually by them.

The bonds are scheduled to be sold in New York on September 9 or 10. The Pricing Committee consists of David Kelly, Barry Smitherman and Dan Serna, who will participate by phone. Alternates will be Helen Huey and Vaughn Brock.

Staff recommended an underwriting syndicate for each of the Series 2003A, Tax Exempt Fixed Rate Bonds, 2003B, Taxable Fixed Rate Bonds, and 2003C, Taxable Variable Rate Bonds

(Attachment B). Mr. Brock moved to adopt the bond resolution including the official statement, staff recommendation of the underwriting syndicate and the pricing committee. Mr. Smitherman seconded. The motion passed unanimously.

Mr. Smitherman requested a brief break at 2:45 p.m. The Board reconvened at 3:02 p.m.

Item 6. Consider and discuss policies and procedures relating to the adoption of a SWAP policy, including scheduling a work session and procedures for receiving public comment.

Discussion ensued about holding a work session on SWAP policies. Ms. Edwards agreed to schedule a work session in the near future whenever the monthly Board agenda seemed light.

Item 7. Consider approval of a renewal of the contract for arbitrage consulting services for the State of Texas General Obligation Commercial Paper Program, Series 2002A.

Ms. Porras stated this was an administrative task for the Board and explained the options to renew the arbitrage consulting contact with Deloitte Touche. Mr. Mijares moved to renew the contract for a period of two years. Mr. Serna seconded. The motion passed unanimously.

Item 8. Staff review of responses to the Request for Proposals for Property Insurance and award a contract.

Pamela Scivicque, Business Manager, reported that only one firm, FM Global, responded to the Request for Proposal for property insurance. Discussion ensued about the cost of the coverage and the purpose of the insurance. Ms. Porras stated that the individual agencies do not have specific authority to purchase insurance; only TPFA has authority to purchase the insurance for the revenue bond financed facilities. The Board instructed staff to obtain additional quotes from FM Global reflecting different levels of coverage or deductibles and report that recommendation to the Board. Ms. Scivicque stated the contract expires September 1, 2003. Ms. Porras suggested that given the price of the proposal, staff could be instructed to pursue alternative pricing. Mr. Brock moved to table the renewal issue. Mr. Serna seconded. The motion passed unanimously.

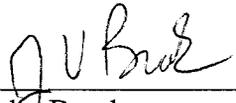
Item 9. Other Business/Staff Report.

Mr. Smitherman disclosed he had a partnership interest in a company that has recently been retained by Bear Stearns. He stated he had reviewed the arrangement with the Governor's Office, the Texas Ethics Commission and Harris County Attorney's Office. Bear Stearns has agreed to refrain from doing business with TPFA as long as he remains on the Board or until the consulting agreement terminates.

Item 10. Adjourn.

The meeting adjourned at 4:02 P.M.

The foregoing minutes were approved and passed by the Board of Directors on September 21, 2003.



Vaughn Brock
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"



Open Meeting Submission

Success!

Row inserted

TRD: 2003007096
Date Posted: 08/11/2003
Status: Accepted
Agency Id: 113
Date of Submission: 08/11/2003
Agency Name: Texas Public Finance Authority
Board: Texas Public Finance Authority
Liaison Id: 3
Date of Meeting: 08/19/2003
Time of Meeting: 01:00 PM (###:## AM Local Time)
Street Location: Capitol Extension, Hearing Room E2.010
City Location: Austin
State Location: TX
Liaison Name: Paula Hatfield
Additional Information Obtained From: If you need any additional information contact Paula Hatfield, 512/463-5544, 300 W. 15th Street, Suite 411, Austin, Texas 78701.

TEXAS PUBLIC FINANCE AUTHORITY
 TUESDAY, AUGUST 19, 2003 1:00 PM
 CAPITOL EXTENSION, HEARING ROOM E2.010
 AUSTIN, TEXAS 78701

- Agenda:**
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 2. Approval of minutes of the July 8, 2003 and July 17, 2003 Board meetings.
 3. Report on the sale of the Texas Public Finance Authority Midwestern State University Revenue Financing Tuition Revenue Bonds, Series 2003.

4. Consider a Request for Financing from the Texas Historical Commission for the financing of county courthouse renovation projects in the amount of approximately \$45 million through the issuance of general obligations, select a method of sale, and take other necessary related action.
5. Consider the adoption of a resolution authorizing the issuance of approximately \$1.3 billion of revenue obligations for the Texas Workforce Commission Unemployment Obligation Assessment Revenue Bonds, Series 2003, select an underwriting syndicate, designate a pricing committee, and take such other necessary action relating to the issuance and sale of the obligations.
6. Consider and discuss policies and procedures relating to the adoption of a SWAP policy, including scheduling a work session and procedures for receiving public comment.
7. Consider approval of a renewal of the contract for arbitrage consulting services for the State of Texas General Obligation Commercial Paper Program, Series 2002A.
8. Staff review of responses to the Request for Proposals for Property Insurance and award a contract.
9. Other Business/Staff Report.
10. Adjourn.

Persons with disabilities, who have special communication or other needs, who are planning to attend the meeting should contact Paula Hatfield or Donna Richardson at 512/463-5544. Requests should be made as far in advance as possible.

Certification: I certify that I have reviewed this document and that it conforms to all applicable Texas Register filing requirements. Kimberly K. Edwards, Executive Director, Certifying Official; Paula Hatfield, Agency Liaison.

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