

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
December 16, 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, December 16, 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, Ms. Helen Huey, Member and Mr. Barry 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, Gabriela Klein and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Dale Lehman, US Bancorp Piper Jaffray; Cheryl Allen, Southwest Securities; Al Rodriguez, Merrill Lynch; Don Henderson, Kelly Castro, JP Morgan; Ajay Thomas, Morgan Stanley; Andy Bynam, Citigroup; Laura Powell, Frank Farley, UBS; Keith Richard, Lehman Brothers; Heath Barber, Bank One; Curtis Flowers, Loop Capital Markets; Carmen T. Best, Jackson Securities; Robert A. Estrada, Estrada Hinojosa & Co.; Terry Thornton, Goldman Sachs; Karin Werness; Art Morales, Banc of America; Mark Nitcholas, RBC Dain Rauscher; Ed Jefferson, Duncan Williams; Erlinda Cortez Dimas, Siebert Brandford Shank; Barron F. Wallace, Vinson & Elkins; Nancy Hagquist, Winstead, Sechrest & Minick; Paul Braden, Degado, Acosta Braden & Jones; Chris Allen, PFM; Mike Bartolotta, Timothy Peterson, First Southwest Company; Greg Shields, Andrews & Kurth; Mike Schulman, Locke, Liddell & Sapp; Kay Watson, CKW Financial Group; Tim Kelley, Coastal Securities; Roland Smith, John Rulfs, Stephen F. Austin State University; William Beckham, J. T. Glover, Quintin Wiggins, Texas Southern University; and Lydia Giesbers, John Wells, Texas Military Facilities Commission.

Item 1. Call to order.

Mr. Kelly called the meeting to order at 2:06 P.M.

Item 2. Approval of minutes of the October 21, 2003 Board meeting.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of October 21, 2003. There being none, Mr. Serna moved to approve the minutes as presented. Mr. Smitherman seconded the motion. The motion passed unanimously

Item 3. Consider selection of Bond Counsel, Financial Advisor and Swap Advisor, for the 2004-2005 biennium and specific work assignment as necessary.

Ms. Edwards thanked everyone who submitted proposals. Staff recommendations for Bond Counsel are Delgado, Braden, Acosta & Jones; Renee Higginbotham-Brooks; McCall, Parkhurst & Horton; Vinson & Elkins, and Winstead Sechrest & Minick. If the Authority has additional work, staff reserves the right to also use the following firms: Andrews & Kurth; Fulbright & Jaworski and Locke, Liddell & Sapp.

Ms. Huey moved for approval of staff's recommendation. Mr. Smitherman seconded. The motion passed unanimously.

Ms. Porras added that the Authority wanted to extend bond counsel contracts for on-going work with three firms: (1) Vinson & Elkins for continuing tax work on the TWC Bonds; (2) Winstead Secrest & Minick for continuing disclosure work; and (3) McCall Parkhurst & Horton for continuing tax work with privatization issues for MHMR projects.

Mr. Kelly expressed appreciation for the thoughtful proposals and staff's review of the proposals. In regards to the Swap Advisor and Financial Advisor RFPs, Mr. Kelly stated he felt there should be a separation between the Financial Advisors and Swap Advisors engagements. Ms. Edwards further explained that under the State's procurement statute, information is accepted on fees and expenses for Financial Advisors and Swap Advisors, which is different than the procedure for bond counsel. Therefore the evaluation of the Financial Advisor and Swap advisor proposals included fees, as well as the quality of the proposal, and the firm qualifications.

For the Financial Advisor RFP, Ms. Edwards explained the staff recommendation as follows: Staff would like to continue to use several firms as financial advisors to handle the Authority's work. However, staff would like to assign work now instead of on a transaction by transaction basis. Feedback from the financial advisors has indicated this process would provide the Authority with more continuity of service. Staff recommends the following firms be used as Financial Advisor: CKW Financial Group, Coastal Securities, First Southwest Company and Public Financial Management (PFM). First Southwest Company submitted a joint proposal with Estrada Hinojosa, but also indicated they would be willing to be considered on a stand-alone basis. Ms. Edwards reiterated the Board's policy that any firm serving as a financial advisor in any capacity cannot serve the Authority as an underwriter.

Mr. Smitherman inquired about staff's analysis of the fee structure. Ms. Edwards stated she would like to negotiate with each of the firms, using the Authority's historical fee structure, i.e., an hourly rate up to a cap, and cap amounts as a basis. Typically, the amount expended has been about

85-90% of the cap. Mr. Smitherman clarified that firms should not interpret their selection as communicating that the Board approves their fee schedule as proposed. Ms. Edwards and General Counsel confirmed that actual fees for each transaction can and will be negotiated. Mr. Kelly stated the Authority wanted to adequately compensate firms for performance. Mr. Serna said that TPFAs had been very tough on negotiating fee structure when performance has been less than expected.

Mr. Serna also requested clarification concerning the joint proposal of First Southwest and Estrada Hinojosa, and the Chair recognized Mr. Robert Estrada, Chairman of Estrada Hinojosa & Company. Mr. Estrada commented on his view of the Board's policy and responsibility and stated that his firm would continue to serve as underwriter for the Authority. Mr. Kelly thanked Mr. Estrada for his comments. The Board confirmed its policy that Financial Advisors are restricted from underwriting, and Mr. Smitherman summarized that any of the firms recommended must make a business decision as to whether they want to serve on the financial advisory team or compete for an underwriter position.

Ms. Edwards clarified there is no intention that the firms be assigned on a rotation basis. Rather, firms are to be selected for specific transactions based on their qualifications and the needs of the transaction. Ms. Edwards added that she wanted to allocate work assignments in advance, and the firms can decide for themselves whether it is enough work. Considering issues of work continuity and the fact that the work is complex and often unpredictable, she made the following recommendations for initial assignments, which are the three requests for financing on the current agenda, and other ongoing work. For initial assignments:

(1) PFM and CKW Financial Group were recommended to serve as Co-Financial Advisors for the \$30 million Stephen F. Austin State University revenue bonds. These firms have been financial advisors for the previous SFA deals and are very familiar with the University

(2) Coastal Securities and CKW Financial Group were recommended to serve as Co-Financial Advisors for the \$13.5 million Texas Military Facilities Commission (TMFC) revenue bonds. Coastal previously served as senior manager on the TMFC 2002 bond issue, and the banker is very familiar with the Bond Resolution and the structure of the financing.

(3) First Southwest and CKW Financial Group were recommended to serve as Co-Financial Advisors for the \$3.5 million Texas Southern University revenue bonds. These firms have been financial advisors for the previous TSU deals and are very familiar with the University.

Ms. Edwards explained that CKW Financial Group was recommended to work on all three of these transactions because they are being done at the same time and required tasks such as soliciting printer bids and communicating with rating agencies can be accomplished more efficiently if one firm coordinates that effort.

For the on-going work: (1) PFM was recommended to handle future SFA and Midwestern State University financings, although none are currently anticipated, and charter school financings. (2) Coastal Securities was recommended to work on any new money GO financings, day-to-day questions concerning the GO commercial paper programs and any refundings, refinancings or escrow restructurings. Coastal had worked on setting up the general obligation commercial paper programs.

Coastal would also be assigned any ongoing work related to the Texas Workforce Commission Revenue Bonds Series 2003 revenue bonds, in conjunction with First Southwest, who also worked on that transaction. (3) First Southwest would be assigned to work on the Texas Military Preparedness Commission financing. This is a \$250 million general obligation debt program authorized by the voters to set up a revolving loan fund to provide loans to defense based communities to enhance the military value of the military bases in their communities during the base realignment and closure process. The program will probably be similar to a state revolving loan fund, and First Southwest has served as financial advisor to the state's revolving loan program at the Texas Water Board. In addition, First Southwest would be assigned work on any financing for the FAIR Plan, which is a last resort residential property insurance program. Although bonds have been authorized for this program, financing may not be requested. First Southwest would also handle ongoing work including day-to-day questions on the Master Lease Commercial Paper Program, and along with Coastal, the TWC bonds.

Mr. Kelly commented that the thought process was logical and thoughtful. Mr. Serna asked about the Military Facilities Commission and the Military Preparedness Commission being two separate independent agencies. Ms. Edwards explained that they are two separate agencies: the Military Facilities Commission used to be called the "National Guard Armory Board", and the Military Preparedness Commission used to be part of the Economic Development office, which was transferred to the Governor's office, and renamed.

Mssrs. Serna and Smitherman inquired about the possibility of fixing-out outstanding commercial paper. Ms. Edwards stated the Authority had under \$50 million outstanding under the general obligation programs, consisting of about \$30 million for the Colonias Roadway program and \$19 million for the general government program (ie, Series A.) Although the revenue Master Lease Program may double by the end of the biennium, she does not expect any new GO issuances for another 6 to 12 months.

Mr. Mijares moved to accept staff's recommendations for financial advisors and the initial assignments. Mr. Brock seconded. Robert Estrada withdrew his joint proposal with First Southwest Company, and Mr. Mijares amended his motion to accept staff's recommendation to exclude Estrada Hinojosa as a financial advisor. Mr. Serna seconded the amendment. The amended motion passed unanimously.

Ms. Edwards thanked all the firms for the Swap Proposals and recommended that some of the firms be interviewed. The firms to be interviewed are Swap Financial Group, Sound Capital Management, CDR Financial and Investment Management Advisory Group, Inc. (IMAGE). Ms. Edwards stated she would like to have some of the financial advisors participate in the interviewing process. Discussion ensued concerning the interview process and public meeting requirements. Mr. Brock moved for staff to interview the recommended firms. Mr. Smitherman seconded. The motion passed unanimously.

Mr. Kelly announced that Item 6 would be taken out of order.

Item 6. Consider a Request for Financing from the Texas Southern University for the construction, repair and renovation of buildings and facilities in the amount of approximately \$3,504,000 through the issuance of tuition revenue bonds, select a method of sale, financial advisor(s) and bond counsel, and take other necessary related action.

Ms. Edwards introduced TSU's request for \$3,504,000 of tuition revenue bonds authorized by the 78th Legislature, Third Called Session. The funds requested are for about a dozen buildings where damage was incurred during Tropical Storm Allison. Mr. Quintin Wiggins, Senior Vice President for Finance of TSU, was available to answer questions. Mr. J. T. Glover, Vice President of Maintenance and Operations was available to provide a detailed overview of the buildings that were damaged by the storm. Mr. Mijares asked whether this request includes additional work for the Law School, which has been included in previous financings. Mr. Wiggins explained that the required work was included in original plans, but the University thought it would be paid with FEMA funds. However, the University did not receive sufficient FEMA funds to cover these costs.

Mr. Smitherman asked for an update on the law school physical plant and how the improvements fit into the long term strategic plan for the law school to make certain academic advances. Mr. Bill Beckham, Vice President of Architectural Services, indicated the improvements are scheduled to be completed this summer, and ready for the class entering in 2004.

Staff indicated that due to the small size of the transaction, a negotiated sale or a private placement would be contemplated. The University is interested in refinancing some revenue debt, which would possibly make the transaction larger. Staff recommended that First Southwest Company and CKW Financial Group serve as co-financial advisors, that bond counsel be Winstead, Sechrest & Minick and that Siebert Branford Shank and SBK Brooks serve as co-senior managers or placement agents, depending on the method of sale.

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

Item 4. Consider a Request for Financing from Stephen F. Austin State University for construction of the University Center in the amount of approximately \$30 million through the issuance of revenue bonds, select a method of sale and outside consultants, and take other necessary related action.

Ms. Edwards introduced this financing for renovation of the University's Student Center. The debt service will be paid out of the University's own revenues, primarily a student center fee. Staff recommended the financing be a competitive sale with PFM serving as financial advisor, and Delgado, Acosta, Braden & Jones and Renee Higginbotham-Brooks serving as co-bond counsel.

Dr. Roland Smith and other University staff were available to answer questions about the budget and the new expenditure schedule. Dr. Smith, Vice President for Business Affairs of the University, reviewed the project and the legislation passed by the 78th Legislature authorizing an additional student fee to pay debt service, contingent on the approval of the student body. Dr. Smith reported that students approved the additional fee at an election held in March.

Ms. Huey moved to accept the staff recommendations. Mr. Mijares seconded. The motion passed unanimously.

Item 5. Consider a Request for Financing from Texas Military Facilities Commission for repair, renovation and construction projects, in an estimated amount of approximately \$13 million through the issuance of revenue bonds, select a method of sale and outside consultants, and take other necessary related action.

Ms. Edwards stated the Authority had issued similar bonds two years ago. The Indenture was updated at that time. This request is to finance repairs at existing armories and construction of a new armory. Staff recommended a competitive sale with Coastal Securities serving as financial advisor and McCall, Parkhurst & Horton serving as bond counsel. Ms. Huey moved to accept staff recommendation. Mr. Mijares seconded. The motion passed unanimously.

Item 7. Consider issuance of Request for Proposals for Underwriting Services for the FY2004-05 biennium.

Ms. Edwards stated she planned to issue the RFP before Christmas and expected responses by January that could be shared with the Board in February. Mr. Smitherman clarified the Board's policy to reward good ideas even if a firm is not part of the Underwriting Pool.

Item 8. Other Business/Staff Report.

The Board briefly discussed rescheduling its regular board meeting days and time.

Item 9. Adjourn.

The meeting adjourned at 3:40 P.M.

The foregoing minutes were approved and passed by the Board of Directors on January __, 2004.

Vaughn Brock
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"