

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
January 20, 2004**

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 20, 2004, 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 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. Gabriela Klein and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Don Henderson, Kelly Casto, JP Morgan; Keith Richard, John Daniel, Lehman Brothers; Terry Thornton, Goldman Sachs, Andy Bynam, Citigroup; Levi H. Davis, Siebert, Brandford & Shank; Chris Allen, PFM; Nancy Hagquist, Winstead Sechrest & Minick; Timothy Peterson, First Southwest Company; Gregory Salinas, Richard Donoghue, McCall, Parkhurst & Horton; Jody Wright, Legislative Budget Board; Laura Powell, UBS Financial Services, Kay Watson, CKW Financial Group; Curt Shelmire, Morgan Stanley; and Patricia Rodriguez, Banc One Capital Markets.

Item 1. Call to order.

Mr. Kelly called the meeting to order at 2:03 P.M.

Item 2. Approval of minutes of the December 16, 2003 Board meeting.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of December 16, 2003. There being none, Mr. Mijares moved to approve the minutes as presented. Mr. Serna seconded the motion. The motion passed unanimously.

Item 3. Consider, approve, and authorize the distribution of a Preliminary Official Statement and Notice of Sale for the public sale of the Texas

Public Finance Authority Stephen F. Austin State University Revenue Financing System Revenue Bonds, Series 2004, in the par amount of approximately \$26,000,000, and approve other matters relating thereto.

Ms. Edwards explained that the Board was being asked to approve the distribution of the Preliminary Official Statement and Notice of Sale in preparation for the competitive sale of the bonds on February 18, 2004. She noted that the preparation of the Preliminary Official Statement had taken a little more work than usual because this was the first public sale on behalf of the University since the new financial reporting requirements of GASB 34 had taken effect. She thanked the financial advisor, Public Financial Management (PFM), for their work on revising the POS. She also noted that the University had received approval from the Texas Higher Education Coordinating Board to increase the portion of project costs funded from the bond issue to \$26,030,000.

Mr. Smitherman asked about expected ratings. Ms. Edwards stated that in the past these bonds had carried an A2 rating and no change was expected. Ms. Edwards explained that rating agencies and institutional buyers find it acceptable to present the pre-GASB34 four year historical data without changes and then begin the new GASB presentation as is presented beginning on page 18 of the POS.

Mr. Serna explained the purpose of the new reporting rules was to enable readers to be able to do cross industry comparisons. Mr. Kelly asked how the market would view a loss. Ms. Edwards stated that for a public, state-supported university, it is accepted that operations do not support themselves.

Mr. Mijares moved to approve the POS, deeming it final, and the NOS. Mr. Brock seconded. The motion passed unanimously.

Item 4. Consider, approve, and authorize the distribution of a Preliminary Official Statement and Notice of Sale for the public sale of the Texas Public Finance Authority (Texas Military Facilities Commission) Armory Improvement Revenue Bonds, Series 2004, in the par amount of approximately \$15,000,000, and adopt a Resolution authorizing the defeasance of the Series 1994 outstanding parity bonds, and approve other matters relating thereto.

Ms Edwards explained that the Texas Military Facilities Commission (TMFC) revenue bonds are slightly different from other TPFA revenue bonds in that they are issued under a 1979 Bond Resolution, which requires a reserve fund and semi-annual principal payments. When TPFA last issued bonds for TMFC in 2002, springing provisions were added to amend the indenture as the old bonds were paid off, specifically to remove the reserve fund requirement and the requirement for semi-annual principal payments. The amendments were scheduled to take full effect in October 2004. However, the financial advisor, Coastal Securities, had identified that the existing reserve fund and other funds available to the Commission could be used to defease of the old bonds prior to the issuance of the 2004 bonds. This would allow the new bonds to be issued with annual principal payments (a more efficient structure) and without a reserve fund, which would reduce the size of the bond issue by \$925,000. This would lower debt service by about \$50,000 per year over the life of the debt, and reduce the FY 2006 debt service appropriation by about \$500,000.

Tim Kelley, Coastal Securities, explained that the total cost of the cash defeasance is about \$1.7 million, which can be met by using the existing reserve fund (approximately \$1 million), \$500,000 from funds appropriated to the Commission for the April 2004 debt service payment, (this debt service would now be paid from the defeasance escrow), and approximately \$227,000 from other available revenues of the Commission. Ms. Edwards clarified that the Commission's Board was scheduled to meet on February 6 to approve the defeasance and the use of the funds.

Ms. Edwards drew attention to pages 10, 20 and 21 of the POS and the fact that the financial statements had not yet been fully converted to the GASB 34 format before the Board packets were prepared. She explained that the statements had not been provided in the new format and that TPFA, bond counsel and the financial advisor were working with TMFC to convert the 2002-03 financial reports to the appropriate form. However, the changes would be in format only and would not affect the substance of the financial reports.

Mr. Serna questioned the ability of the Board to deem the POS final since the document was not complete or in its full reporting compliance format. Discussion ensued.

Mr. Richard Donoghue, Bond Counsel with McCall Parkhurst & Horton, stated the Board has the opportunity to delegate to staff instructions to restate these numbers in compliance with GASB regulations. If the Board was not comfortable with the restatement, staff does not have to go forward with the sale and the Board does not have to accept bids.

Mr. Smitherman asked Bond Counsel if approval could be made contingent upon the changes being made, which would mean the Board would not need to take any additional steps, but if changes are not made, then the Board could postpone the sale. Mr. Donoghue said this was possible and the delegation to staff would be within parameters of compliance with GASB 34 reporting requirements.

Ms. Edwards stated that the substance of the document is accurate, but the format would change. Instead of seeing a fund balance, it would be stated as a net asset. These numbers are provided from the agency's annual financial reports which is not audited by an outside entity.

Mr. Brock suggested that a course of action be taken that was suggested by Bond Counsel. In the interim, Mr. Kelly can examine the revised financials with Mr. Serna, and if there is a problem, another board meeting can be called and the action can be rescinded.

Mr. Brock moved approval of the POS and NOS contingent upon the staff restating the numbers provided by TMFC as revenues and expenditures in accordance with GASB requirements. Mr. Mijares seconded.

Mr. Serna stated he would be voting no on the motion because in terms of what is the industry expected financial reporting for purposes of bond issuance, the document is incomplete. He believes the Board's single most important responsibility is to see to it that the issuance of this Authority is accurate and complete when it goes to market.

Mr. Brock called the question. The motion passed on a vote of 3-2, with Messrs. Serna and Kelly voting “No.”

Mr. Brock moved to approve the defeasance. Mr. Smitherman seconded. The motion passed unanimously.

Item 5. Discussion of possible alternative financing structures for the Authority’s Texas Southern University Revenue Financing System Revenue Bonds, Series 2004, and take necessary action with respect thereto.

Ms. Edwards stated this matter was posted in the event action were required. She reported that the financing team of the financial advisor, First Southwest Company, and the underwriters, SBK Brooks and Siebert Branford Shank, evaluated options for refunding the University’s current debt, but did not find anything that was cost effective at this time. At the University’s request, they also evaluated using a fixed to floating swap to increase the University’s variable rate exposure. At this point, neither option is cost effective, and the University’s request for \$3.5 million will proceed as a traditional negotiated sale.

Item 6. Other Business/Staff Report.

Ms. Edwards explained changes in state law now requiring small agencies to complete risk assessments instead of internal audits. The alternatives of performing this task in-house or with outside consultants or a combination thereof was reviewed. Staff will proceed to complete the initial assessment in-house and possibly rely upon an outside firm for oversight and review.

Item 7. Executive Session to consider personnel matters in accordance with Texas Government Code §551.074.

Mr. Kelly adjourned the open meeting at 3:10 p.m. in order for the Board to meet in Executive Session to consider personnel matters in accordance with Texas Government Code §551.074.

Mr. Kelly reconvened the open meeting at 4:25 p.m. and stated no action had been taken.

Item 8. Adjourn.

The meeting adjourned at 4:27 P.M.

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

Vaughn Brock
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"