Texas Public Finance Authority

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MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY
June 16, 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 3:08 P.M., Wednesday, June 16, 2004, Capitol Extension Hearing Room E2.026, Austin, Texas. Present were: Mr. David Kelly, Chairman, Mr. Bert Mijares, Vice-Chairman, Mr. Dan Serna, Member and Ms. Helen Huey, 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, Mr. Ricky Horne and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Patrick Scott, Lehman Brothers; Dale Lehman, Piper Jaffray; Curtis Flowers, Loop Capital Markets; Andy Bynam, Citigroup Global Markets; Mark C. Nitcholas, RBC Dain Rauscher; Jim Buie, Banc of America Securities; Erlinda Cortez Dimas, Carmen T. Best, Siebert Brandford Shank; Richard Acosta, Ramirez & Co., Inc.; Chris Allen, Public Financial Management; Tom Oppenheim, Morgan Keegan; Tilghman Naylor, Bear Stearns; Laura Powell, UBS Financial Services; Roland Smith, Stephen F. Austin State University; Paul Braden, Delgado, Acosta Braden & Jones; Nancy Hagquist, Winstead, Sechrest & Minick; Bob Kline, Texas Bond Review Board; Kay Watson, CKW Financial Group; Tim Peterson, Mike Bartolotta, First Southwest Company; Tim Kelley, Coastal Securities; and Jody Wright, Legislative Budget Board.

Item 1. Call to order.

Mr. Kelly called the meeting to order at 3:08 P.M.

Item 2. Approval of minutes of the April 21, 2004 Board meeting.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of April 21, 2004. There being none, Mr. Mijares moved to approve the minutes as presented. Ms. Huey seconded the motion. The motion passed unanimously.

Mr. Kelly inquired whether there were any items on the agenda that should be taken out of order due to the fact the meeting was beginning later than planned. Ms. Edwards stated Item 4 could be tabled. Mr. Mijares moved to table Item 4. Ms. Huey seconded. The motion passed unanimously.

Item 3. Consider a Request for Financing from Stephen F. Austin State University for the issuance of revenue bonds for the construction of a parking garage at a cost of approximately $5,500,000, select a method of sale, and outside consultants, and take other necessary related action.

Ms. Edwards introduced Stephen F. Austin State University's request for $5.5 million to construct a parking garage to support the new student services building. Dr. Roland Smith, Vice President of Business Affairs for the University, explained the parking garage project was a companion to the project that the Authority approved several months ago. The garage is for approximately 400 spaces, consisting of a ground floor and three elevations. Ms. Edwards reminded the Board that the Student Center had been financed by a competitive sale several months ago. Staff recommended that Public Financial Management be retained as financial advisor, that Delgado Braden Acosta & Jones be retained as bond counsel and that a competitive sale be used to financed the parking garage.

Mr. Mijares moved to approve staff's recommendation. Mr. Serna seconded. The motion passed unanimously.

Item 4. Consider the proposed refunding of Texas State Technical College System Building Revenue and Refunding Bonds, Series 1992, to remove restrictive covenants affecting the Waco Campus Housing, select a method of sale, and take other necessary related action.

Mr. Mijares moved to table this item. Ms. Huey seconded. The motion passed unanimously.

Item 5. Consider a proposed amendment to the Texas Public Finance Authority Texas Southern University Revenue Financing System Revenue Bonds 1998 Master Resolution to revise certain provisions of the AMBAC bond insurance policy.

Ms. Edwards explained that in 1997 the Authority priced bonds for Texas Southern University and closed the transaction in 1998. At that time, TSU was under a lot of scrutiny because of their management practices and financial condition. The financing was executed with an insurance condition that TSU maintain one year's debt service in addition to a traditional debt service reserve fund on the two components of the bond issue being paid from student use fees. First Southwest Co. was the financial advisor on that transaction. For the past several years, since TSU's financial condition has improved and its enrollment has increased, Mr. Bartolotta, financial advisor on the transaction, has tried to negotiate an agreement to eliminate the insurance condition, and the bond issuer, AMBAC, has finally agreed. As the insurance requirement is documented in the Pricing Certificate that the Board adopted, Winstead, Sechrest & Minick drafted an amendment to that Certificate, and to the Bond Resolution which includes AMBAC's acknowledgement. TSU's

Board of Regents will also have to approve the identical resolution when they meet in early August. Ms. Huey complimented Mr. Bartolotta and the University. Mr. Serna questioned whether the arbitrage results would be within the acceptable parameters. Ms. Hagquist of Winstead Sechrest suggested a sentence be added to Section 4 of the resolution stating , "if rebate payments are required, they must be paid prior to funds being released to the University."

Ms. Huey moved approval of the proposed amendment including the additional sentence to Section 4. Mr. Serna seconded. The motion passed unanimously.

Item 6. Consider proposals to restructure investment of escrow accounts on outstanding TPFA refunding bonds.

Ms. Edwards discussed the structure of State and Local Government Securities (SLGS) that the U.S. Treasury issues only for state and local governments to invest in for their refunding escrows. The interest rates on SLGS are set based on where the market closed the day before. By 4:30 p.m. Texas time, the rates for the next day are known. The rules allow issuers to redeem, or sell back to Treasury, the SLGS they hold, subscribe for new securities, and cancel the subscription within a period of 60 days, with only a 5 basis point penalty. Under these rules, escrow funds can be restructured for the purpose of recapturing some negative arbitrage, by the substitution of the securities paying interest rates siginificantly below the arbitrage yield limit with sescurities paying higher rates. Although the Bureau of the Public Debt has discussed restricting these procedures, it has not yet published rule changes.

The Authority has three refundings, executed in 2002 and 2003, that had a significant amount of negative arbitrage and are candidates for restructuring. Ms. Edwards reviewed for the Board a preliminary analysis of each of these escrows showing the maximum potential amount that could be recovered, and the amounts that could be recovered with 10, 20, and 50 basis point increases in interest rates. Mr. Kelly requested a summary of the risk factors. Mr. Bartolotta, First Southwest Co., stated the biggest risk factor would be the loss of the 5 basis points penalty amount, if you redeemed existing SLGS and the next day's market did not return that 5 basis point amount. The risk is if you redeem and subscribe the next day, and the rules are changed, requiring you to buy open market securities. The difference between the open market price and the SLG redemption price is the potential economic risk of the transaction. Ms. Edwards questioned the liklihood of this scenario occurring, and stated that although rule changes may be expected, fair warning is usually given through publication of the proposed change, with a comment period and advance notice of a final action. Ms. Edwards stated she believed that the more likely risk was not realizing sufficient funds to cover the fixed costs of the transaction work. The restructuring agent will have to monitor the market daily and consult with the Authority to trigger the substitution. Also, the escrow agreements require, for each substitution of escrowed securties, a new tax counsel opinion that the arbitrage yield is not being violated and a verification agent's opinion that the securities are sufficient to pay the debt service on the refunded bonds. The tax and verification agent opinions would not require work until the transaction is executed, but there is a possibility that the escrow restructuring agent could not recover its costs if a transaction is not ultimately executed.

Discussion ensued regarding the level of fixed cost required to execute the transaction and the likelihood of interest rates increasing enough to make the transactions financially viable. Mr. Bartolotta and Mr. Peterson discussed the economics of each series of Bonds, indicating that the Series 2002 Revenue Bonds and the Series 2003 GO Bonds are more likely to generate savings than the Series 2003A GO Bonds. Mr. Kelly indicated his preference would be to monitor all three series. Mr. Serna moved to approve the Authority's escrow restructuring provided that the fixed costs could be recovered. Ms. Huey seconded. The motion passed unanimously.

Staff recommended that First Southwest Co. serve as escrow restructuring agent or as financial advisor and Vinson & Elkins serve as bond counsel.

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

Item 7. Consider the request of Bear Stearns to be included in the current Underwriting Pool.

Ms. Edwards stated that Bear Stearns was not selected as a member of the Authority's underwriting pool during the last RFP because at the time, Mr. Smitherman had a business relationship with Bear Stearns and was a member of our Board. Since that time, Mr. Smitherman and Bear Stearns have terminated the relationship and Mr. Smitherman is no longer a member of the TPFA Board. As a result, Bear Stearns has requested that the firm be considered as part of TPFA's underwriting pool. When the pool was formed, Ms. Edwards noted that she appreciated Bear Stearns' effort in submitting a thorough, well-prepared proposal, that the firm was certainly qualified to serve in the pool, and that they could be considered in the event circumstances changed. Mr. Mijares moved to accept staff's recommendation to include Bear Stearns as a member of the Authority's Underwriting Pool. Mr. Serna seconded. The motion passed unanimously.

Item 8. Approve the Strategic Plan.

Ms. Edwards explained that the first step of the State's budget and Legislative cycle is the preparation of a multi-year strategic plan, which will lay the groundwork for the Authority's Legislative Appropriation Request. The strategic plan is prepared in late spring/early summer; the LAR will be presented to the Board in July and submitted in late August. The budget offices will review the requests in preparation for the Legislative session beginning in January. The various components of the Strategic Plan are proscribed by the Legislative Budget Board and the Governor's Office of Budget and Planning. Ms. Edwards thanked TPFA staff, particularly Pam Scivicque and her team that worked on the Strategic Plan.

Mr. Mijares moved to approve the Strategic Plan. Ms. Huey seconded. The motion passed unanimously.

Item 9. Other Business/Staff Report.

Ms. Edwards provided a brief update on the Texas Workforce Commission obligations. No prepayments have been made to date, but are expected to be made in September.

Item 10. Adjourn.

The meeting concluded at 4:02 P.M.

The foregoing minutes were approved and passed by the Board of Directors on July 20, 2004.

J V Brock

Vaughn Brock
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"