

Texas Public Finance Authority

Board of Directors:

R. David Kelly, Chairman
H.L. Bert Mijares, Jr., Vice-Chairman
J. Vaughn Brock, Secretary
Linda McKenna
Ruth C. Schiermeyer
Marcellus A. Taylor



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Kimberly K. Edwards
Executive Director

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY December 1, 2005

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 11:00 A.M., Thursday, December 1, 2005, Capitol Extension Hearing Room E2.010, Austin, Texas. Present were: Mr. David Kelly, Chairman; Bert Mijares, Vice-Chairman; Mr. Vaughn Brock, Secretary; Ms. Linda McKenna, Member; Ms. Ruth Schiermeyer, Member; and Mr. Mark Ellis, Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director, Ms. Judith Porras, General Counsel, Ms. Gabriela Klein, and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Tilghman Naylor, Bear Stearns; Ricardo Villasenor, Ramirez & Co.; Curt Shelmire, Merrill Lynch; Laura Powell, Desrye Morgan; UBS; Andy Bynam, Citigroup; Yava Scott, Siebert Brandford Shank & Co.; Duane Westerman, SAMCO Capital Markets; Richard Acosta, Popular Securities; Debi Jones, Morgan Keegan; Dale Lehman, Piper Jaffray; Nancy Hagquist, Winstead Sechrest & Minick; Jerry McGinty, Charles Marsh, Texas Department of Criminal Justice; and Tim Kelley, Coastal Securities.

Item 1. Call to order.

Mr. Kelly called the meeting to order at 11:07 A.M.

Item 2. Approval of minutes of the November 3, 2005 Board meeting.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of November 3. Mr. Mijares moved to approve the minutes. Mr. Ellis seconded. The motion passed unanimously.

Item 3. Consider a Request for Financing from the Texas Department of Criminal Justice for the issuance of general obligations to finance construction and repair projects, in an estimated amount of approximately \$66,000,000, select method of sale, appoint outside consultants, and take other necessary related action.

Ms. Edwards introduced the Request for Financing from the Texas Department of Criminal Justice (TDCJ). The 79th Legislature appropriated \$66 million of general obligation bond proceeds to TDCJ for construction, renovation, repair or deferred maintenance projects on buildings and facilities, including a \$3 million allocation for the Marlin Correctional Facility and an amount for estimated employee fringe benefits.

Mr. Charles Marsh, TDCJ's Chief Financial Officer, explained that over the past 20 years, TDCJ has used general obligation debt to construct approximately 110,000 state jail and prison beds. Over that same period of time, TDCJ has been appropriated nearly \$350 million for ongoing major repairs and alterations. Over one-third of the facilities are 25 years old or older. Twelve of the facilities are 75 years old. The Legislature has traditionally provided funding in lump sums to allow TDCJ flexibility in expending those funds as conditions change in the old units. The projects listed in the financing request include room renovations, kitchen renovations, roofing projects, security lighting and fencing, ventilation and water and wastewater systems projects.

Mr. Ellis asked for a clarification of fringe benefits. Mr. Marsh stated the fringe benefits were the benefits paid to current employees who are paid from bond funds only. Ms. Edwards added that state law requires employee benefits to be paid from the same funds from which the salaries are paid.

Mr. Kelly asked about the Marlin facility and Mr. Marsh responded that final decisions regarding the use of the facility had not yet been made. After the use of the facility is determined, the work will proceed through routine design, engineering and construction phases. Each stage of work is handled by in-house staff or contracted out depending on the expertise required and TDCJ's work load. Program managers monitor the performance of construction contracts and projects that reach a certain cost threshold require TDCJ Board approval.

Ms. Schiermeyer inquired further about the labor and fringe benefits computation. Mr. Jerry McGinty, TDCJ Budget Director, explained that TDCJ has used this funding method for the prior 18 years. The agency has continuous ongoing work paid with bond proceeds and the labor force is permanent, subject to agency-wide reductions in force. For example, in 2003, TDCJ had to cut 1700 positions, 200 of which were staff in bond-funded programs.

Mr. Mijares questioned the uniformity of the expenditure schedule. Mr. McGinty stated because the construction project work is ongoing, the expenditures are fairly consistent. The increases in the amounts of the expenditures indicate the agency's estimate of when the projects will move from design to construction. Mr. Mijares also asked whether the in-house project managers were at specific sites or responsible for multiple sites. Mr. McGinty responded that the managers were assigned throughout the State based on the concentration of the projects and workload.

Mr. Kelly asked Ms. Edwards to comment on how the TDCJ request should be financed. Ms. Edwards stated ordinarily she would recommend standard practice of funding the general obligation projects through the commercial paper program set up for this purpose. However, prompted by Chairman Kelly's request at the last meeting for an analysis of whether commercial paper should be fixed out given the current interest rate environment, she requested Mr. Tim Kelley of Coastal Securities to prepare an analysis comparing the use of fixed rate bonds to commercial paper to finance the TDCJ \$66 million request. Based on numbers run before Thanksgiving, the all-in-interest cost of the \$66 million transaction, as a fixed-rate bond issue would be about 4.4%. Ms. Edwards and Mr. Kelley reviewed charts and graphs of the historical performance of the Authority's commercial paper and the break-even analyses Mr. Kelley had prepared using various interest rate assumptions. The Authority's program has averaged in the 3-4% range from 1992 through 2001; since 2001 and into 2003, rates have gone as low as the 1% range and are currently increasing into the 3% range, but long term rates have not increased. Mr. Brock stated that since the Authority's variable rate debt has very rarely ever gone above 4-1/2%, it appears compelling to continue to use the commercial paper program. Mr. Mijares also commented that commercial paper seemed preferable to him. Ms. Edwards added that in addition to interest rates, the potential future needs for the program and managing the size of the program in terms of the Authority's Debt Management Guidelines should be considered. At present, general revenue supported commercial paper is about 7% of the Authority's outstanding debt, whereas the target set out in the Debt

Management Guidelines is 20%. However, in two or three years, the ratio will be larger as the fixed rate debt continues to be paid off and at the same time, new issuance authority might require commercial paper to be fixed out, to provide more capacity, at a much higher interest rate than could be achieved currently. Following further discussion, Mr. Kelly asked if the Board was in agreement that commercial paper should be used. Mr. Brock moved to approve the request for financing and issue the debt through commercial paper. Mr. Ellis seconded. The motion passed unanimously.

Ms. Edwards added that she had provided the Board with a copy of the Authority's Debt Management Guidelines, which are relevant to a discussion of when to fix out variable rate debt. Ms. Edwards said that the guideline for considering locking in low interest rates (the second sentence of items 7 of the Guidelines) is too subjective and geared to interest rate environment when it was written in August 2001. Mr. Kelly asked if the Board could amend the policies at this time. Ms. Porras stated the item needed to be posted for a consideration at a future Board meeting.

**Item 4. Other Business/Staff Report.
Update on Texas Public Finance Authority Charter School Finance Corporation.**

Ms. Edwards reviewed for the Board that the Charter School Finance Corporation (CSFC) was created last year to issue bonds on behalf of charter schools. The three members of the CSFC Board have significant expertise in education generally, and charter schools specifically. In December 2004, bonds were issued in the amount of \$9 million for the School of Excellence in San Antonio. This year, the CSFC teamed with Texas Education Agency and a nonprofit organization in San Antonio called The Resource Center for Charter Schools to apply for a federal grant for credit enhancement for bonds issued on behalf of charter schools. CSFC was initially awarded \$6.9 million and it may receive more funds. The grant monies do not go directly to the schools, but are used to provide a guarantee, i.e., a debt service reserve fund or other forms of credit enhancement for bonds issued on behalf of a school. The CSFC Board is scheduled to meet December 19 to discuss the application process, the program and hopefully approve the application itself.

Ms. Edwards added that although the consortium is the grant recipient she is the person listed as the Administrator of the grant. Mr. Kelly asked if it was possible to assess a fee for the administration or issuance of these grants. Ms. Edwards replied the CSFC can determine whether or not to charge an application or issuance fee on behalf of the schools. Mr. Kelly asked if the TPFA Board could make that request of the CSFC Board so that TPFA could recover the cost. Ms. Edwards said she would relay the Board's concern to the CSFC Board.

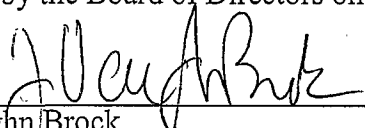
Ms. Edwards called the Board's attention to a copy of the Authority's Annual Financial Report. She expressed appreciation to John Hernandez and Ophelia Guerrero for their work in preparing the Authority's AFR. This report is unaudited and is combined with reports from 254 other agencies to form the State's Comprehensive Annual Financial Report which is published in March.

Mr. Ellis announced he would be submitting a letter of resignation to the Governor's office. He stated he had enjoyed his tenure on the Authority's Board for the past eighteen months.

Item 5. Adjourn.

The meeting adjourned at 12:02 A.M.

The foregoing minutes were approved and passed by the Board of Directors on February 2, 2006.



Vaughn Brock
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"

Open Meeting Submission

Success!
Row inserted

TRD: 2005009740
Date Posted: 11/23/2005
Status: Accepted
Agency Id: 0113
Date of Submission: 11/23/2005
Agency Name: Texas Public Finance Authority
Board: Texas Public Finance Authority
Liaison Id: 3
Date of Meeting: 12/01/2005
Time of Meeting: 11:00 AM (###:## 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
 THURSDAY, DECEMBER 1, 2005 11:00 A.M.
 CAPITOL EXTENSION HEARING ROOM E2.010
 AUSTIN, TEXAS 78701

- Agenda:**
1. Call to order.
 2. Approval of minutes of the November 3, 2005 Board meeting.
 3. Consider a Request for Financing from the Texas Department of Criminal Justice for the issuance of general obligations to finance construction and repair projects, in an estimated amount of approximately \$66,000,000, select method of sale, appoint outside consultants, and take other necessary related action.
 4. Other Business/Staff Report.
Update on Texas Public Finance Authority Charter School Finance Corporation.
- Closed Meeting
5. Pursuant to Texas Government 551.071(2), the Board may convene in closed session at any time during this meeting to obtain legal advice from its counsel concerning any matter, listed on this agenda, in which the duty of its attorney under the Texas Disciplinary Rules of Professional Conduct conflict with Texas Government Code, chapter 551.

Reconvene Open Meeting

6. The open meeting will be reconvened for final action of the Board concerning matters deliberated in the Closed Meeting, if such action is required.

7. 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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