Texas Public Finance Authority

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MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY

July 9, 2009

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 10:00 a.m., Thursday, July 9, 2009, Stephen F. Austin Building, Room 170, Austin, Texas. Present were: Dr. Gary Wood, Chair; Ms. Ruth Schiermeyer, Vice Chair; Ms. Linda McKenna, Secretary; Mr. Tom Roddy, Member; Mr. Gerald Alley, Member; and Mr. Rodney K. Moore, Member.

Representing the Authority's staff was: Mr. Dwight D. Burns, Executive Director; Ms. Judith Porras, General Counsel; Mr. John Hernandez, Deputy Director; Mr. Ricky Horne; and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Julie Houston, Paul Martin, Winstead; Levi N. Davis, Siebert Brandford Shank; Lance Etchenerry, JP Morgan; Jodie Jiles, Clarence Grier, RBC Capital Markets; Tilghman Naylor, Jefferies; Curt Shelmire, Dalton Smith, Keith Richard, Bank of America Merrill Lynch; Curtis V. Flowers, Margaret Lezcano, Loop Capital Markets; Tim Kelley, Coastal Securities; Ricardo Villasenor, Cabrara Capital Markets; Collin Teague, Goldman Sachs & Co.; Dale Lehman, Piper Jaffray; Art Morales, Ramirez & Co., Inc.; Jim Buie, Raymond James & Assoc.; Lisa Vanderbeek, Stifell Nicolaus; Debi Jones, Morgan Keegan; Patrick Scott, Barclays Capital; Tim Peterson, First Southwest Co.; Jim Oliver,Texas Windstorm Insurance Association; Callie Clemans, Hillco Partners; Jerry Kyle, Andrews Kurth; and Barron Wallace, Vinson & Elkins.

Item 1. Call to order.

Dr. Wood called the meeting to order at 10:00 a.m.

Item 2. Confirm meeting posting compliance with the Open Meetings Act.

Dr. Wood confirmed the meeting had been duly posted in compliance with the Open Meetings Act.

Item 3. Approve the minutes of the June 17, 2009 Board meetings.

Dr. Wood asked if there were any corrections or additions to the minutes of the meeting held on June 17. Mr. Alley moved to approve the minutes of June 17. Mr. Roddy seconded. The motion passed unanimously.

Item 4. Consideration, discussion, and possible action concerning the financing for the Texas Windstorm Association, including the selection of an Issuing and Paying Agent for the commercial paper program for Class 1 securities, and approving a second financing request for Class 2 and Class 3 securities, determine a method of sale, select outside consultants, and take other necessary related action.

Mr. Burns reminded the Board that last month the Board had approved the initiation of a commercial paper program to provide the Texas Windstorm Insurance Association ("TWIA") with funding if a major storm event or events occur, resulting in excess losses to TWIA. After the meeting last month, the TWIA Board passed resolutions requesting long-term bond financing for Class 1, Class 2, and Class 3 securities. Staff recommends that the Board do likewise and approve a team to get started working on long-term issuances. The structure and revenue streams are unique and rating agencies and other market participants will want to assess not only the ability to repay short-term debt with liquidity from the Comptroller, but also the underlying revenue streams. It makes sense to go ahead and put together a team that would work on both commercial paper and long term debt at the same time.

It would behoove us to draw on the experience of investment banking firms that worked on catastrophic related financings nationwide. Staff recommendations for investment bank firms are based on consideration of a number of factors, including the existing underwriting pool, experience with similar issues, and presentations of numerous detailed, unsolicited analyses and proposals. With a team in place, we would be ready to issue bonds, as well as commercial paper, expeditiously, if necessary.

Ms. McKenna asked if someone from TWIA could explain the rationale of this option. Mr. Burns said long term debt was always in the plan, but the fastest way to get to market was the commercial paper program. He recognized Mr. Jim Oliver, General Manager of TWIA, to comment on the request for long term debt issues. Mr. Oliver explained the long term issuances would be needed should losses occur that exceed TWIA's ability to repay the securities with its premiums only.

Initially the TWIA Board met in emergency session to go ahead and work on the commercial paper right away. Then, the normal quarterly meeting was the 23rd of June. At that meeting, it was decided to move forward at the same time with the long term bond issuances as well, which can be repaid with other revenue sources. Also, with liquidity for the commercial paper limited to $300 million, given that losses from a storm similar to Hurricane Ike would be close to $2 billion, TWIA did not want to have to go looking for cash for a while until the bonds were sold.

Dr. Wood asked about Class 1, 2 and 3 repayment source. Mr. Oliver explained that Class 1 bonds should be repaid by TWIA policy holders out of their premiums. Class 2 bonds would repaid 30% by the property and casualty insurance industry and 70% by assessments by coastal property and casualty policy holders. The insurance companies would essentially assess them a percent of premium, and the third layer, $500 million, would be assessed to the property and casualty insurance companies.

Mr. Burns reiterated Mr. Oliver's comments concerning the maximum liquidity, adding if losses exceed the $300 million, a long-term debt issue will be necessary to free up that liquidity or provide financing directly, instead of issuing more commercial paper.

How this best can be done is dependent on the assessment of the strength of these revenue streams. The underwriting team, bond counsel and financial advisors will do the hard work of determining the best course of action.

Staff is recommending a broad syndicate consisting of the following: JP Morgan, Senior bookrunner, and Goldman Sachs, Raymond James & Associates, Loop Capital Markets and Merrill Lynch, co-senior managers; and Citigroup, RBC Capital Markets, Estrada Hinojosa, Piper Jaffray, Siebert Branford Shank, Ramirez & Co, Barclays Capital, Jeffries, Morgan Keegan and Morgan Stanley, co-managers. Further, staff proposes that Winstead and Shelton & Valadez continue as Co-Bond Counsel.

In response to Dr. Wood, Mr. Burns confirmed that the Board is being asked to approve TWIA's requests for the issuance of Class 1, Class 2, and Class 3 fixed- rate bond issues, and the selection of outside consultants just named. Mr. Roddy moved to accept staff's recommendations. Ms. McKenna seconded. The motion passed unanimously.

Dr. Wood introduced the paying agent selection item and recognized Mr. John Hernandez, Deputy Director of the Authority, to address this issue for both TWIA and the Cancer Prevention and Research Institute (the next agenda item posted).

Item5. Consideration, discussion, and possible further action concerning the financing for the Cancer Prevention and Research Institute, including the selection of an Issuing and Paying Agent for a commercial paper program, and other necessary related action.

Mr. Hernandez directed the Board's attention to a legal sized paper summarizing the results of the RFP distributed for issuing and paying agent. The respondents were Deutsche Bank, Bank of New York and US Bank. Of the three that submitted responses, the lowest was US Bank coming in with an acceptance fee of $1000, an annual administrative fee of $2,250 and a charge of $16 per trade.

The Authority has three general obligation commercial paper programs and one revenue commercial paper program. Deutsche Bank is currently the paying agent for the three general obligation programs and US Bank is the paying agent for the master lease revenue program. The dollar amounts proposed were very similar to what is in place right now. The lowest bid is US Bank and Deutsche came in right above them. He asked if there were questions about the grid or information provided on the grid.

Dr. Wood asked if the Board was selecting one firm for both new programs. Mr. Burns replied "yes." According to the grid, US Bank has the lowest bid. Mr. Hernandez reported that their service on the master lease program was good. Mr. Roddy asked about the Bank of New York. Mr. Hernandez responded that the Bank of New York was significantly above the other two. Their response included a request for a basis point of the authorized amount, and that has not been seen before.

Staff recommends selecting US Bank for issuing and paying agent services for TWIA and the Cancer commercial paper programs. Mr. Roddy moved to accept staff's recommendation. Ms. McKenna seconded. The motion passed unanimously.

Item 6. Consideration, discussion, and possible further action concerning the General Obligation and Refunding Bonds, Series 2009, to refund and fix-out commercial paper and finance new projects, including a market update and review of possible structuring alternatives and bond terms, and other necessary related action.

Dr. Wood introduced Tim Kelley, Coastal Securities, to provide a briefing on Build America Bonds. Mr. Kelley explained today's discussion was a continuation of the discussion from last month's meeting concerning the fix-out of commercial paper and funding some new money on the general obligation programs. Normally, this would all be done tax-exempt. An alternative is being presented because of the American Recovery and Reinvestment Act. The American Recovery and Reinvestment Act, passed in February, authorizes municipalities and state governments to issue taxable bonds and receive a rebate payment from Treasury equal to 35% of the interest paid. The purpose of the Build America Bond program is to provide a different investor universe and larger market for municipals.

The Authority has been analyzing possible use of the direct pay Build America Bonds. Under the federal legislation, the bonds have to be issued in 2009 or 2010, finance new money capital projects, and meet all regular requirements for tax-exempt municipal bonds. Additionally, premium cannot be generated and costs of issuance must be limited to 2% of par. The Authority is well within these requirements, for the approximate $180 million new money for four agencies.

The Build America Bond program has been successful and there is speculation that the program might be extended beyond 2010. With that, there is a school of thought that the program might be adjusted to change the rebate percent, but such change would only apply to bonds issued under that program and not the current issue. It is our expectation that the Authority would get the 35% rebate for the life of the bonds.

Dr. Wood asked if the rebate would be paid each time payments would be disbursed under the bonds so that the Authority would apply for the rebate each time bonds were disbursed. Mr. Kelley said the procedures to receive the credit would require the Authority's staff to file for the rebate payment immediately before the six months interest payment on the bonds, and the timing is set up to work so that the subsidy will be received as bondholders are being paid. There should not be a cash flow interruption between what is received and what is paid out.

Mr. Roddy asked what the difference would be in yield for the investor. Mr. Kelley said the investor will receive a taxable rate instead of a tax-exempt rate. It is essentially the same as if taxable bonds are issued. An example of that would be in the final maturity of the current structure in 2029. If that were sold as a tax-exempt bond, the investor would receive a rate of return of about 4.80%; with a comparable Build America Bond, the investor would receive around 6.25%. From the Authority's perspective, it is paying 6.25 %, but is receiving 35% rebate. So the actual interest cost to the Authority would be lower than the 4.80%.

Mr. Roddy asked about default on the bonds. Mr. Kelley said it depends on whether default occurs on this issue or another issue, but this is a good legal question. Mr. Burns said staff would follow up on the question.

Mr. Kelley further explained the need for unique call features, in addition to a 10 year par call which is common in the municipal market. That is, there is the potential for the credit to go away. Therefore, an extraordinary call is anticipated to be included to the effect that if the subsidy goes away, the Authority will have the opportunity to call these bonds in and pay them off. The market place for the Build America Bonds will only accept what is commonly called a make-whole call. If that option is chosen, it may require the Authority to pay a premium to call them in and the decision at that point will be if the subsidy goes away will it be more beneficial to continue paying the bonds or call them in. The analysis will fluctuate depending on the market. The standard 10-year par call will be included, as that has proven to be necessary for the Authority's ability to advance refund its debt or efficiently restructure it, as may become necessary.

Mr. Kelley reviewed other issuers' experience with the Build America Bonds in Texas, and noted that takedowns have been higher than typical in the municipal market. For examples, the takedown on Dallas Area Rapid Transit bonds was $8.25, and the University of Texas paid takedown of $8.75. Normally in the long end, the Authority has been paying about $5 a bond. Of course, the takedown is always subject to negotiation, and the benefits calculated under the Build America Bonds are net of the takedown.

To date, over $12 billion Build America Bonds have been issued and the pricing has improved. The spreads to treasuries, which is how these are priced, have continued to come down. A lot of that is a function of the term and the credit quality. In this case, with a State of Texas issue, good reception is anticipated due to the credit quality.

Because the Authority is contemplating a refunding of commercial paper and new money, the structure is likely to end up with both the traditional tax-exempt bonds and taxable, direct pay Build America Bonds. The documents have been set up so this will be a pricing day decision or a decision very close to pricing. If it is not significantly better to do Build America Bonds, the Authority may end up issuing all tax exempt bonds. Analyses to date have shown that Build America Bonds will probably provide a benefit, but the market does change so this evaluation will have to be done at pricing.

Mr. Kelley reviewed a graph he prepared (on page 10 of the presentation), which shows two things: The cross-over point of the taxable and municipal curve and the benefit or lower interest rate cost that the BABS can provide. In about 2020, the Build America Bond line drops below the traditional muni curve, and that is where the benefit of issuing Build America Bonds is realized. As the date gets longer, the spread gets bigger and that supports the notion that the longer one goes out, the spread between the two yield curves is better. However, this does not mean debt should be placed out long just to improve the interest rate. The normal debt structure is the objective. The benefits of the Build America Bonds for the Authority would be in the 2020 through 2029 period, and tax exempts would be issued on the short end. The estimated combined true interest cost would be described as the all in interest costs of the two transactions together, which is calculated to be a 3.75% interest rate. That is very, very good for 20 year debt. By comparison, the estimated interest rate with tax-exempts only would be over or around 4%. The difference produces about $11 million or $8 million present value savings. That is potentially the Authority's goal.

Dr. Wood asked if the Authority went longer than the 20 years, would the benefit improve. Mr. Kelley said yes, it would, but the question is complicated; the spread between what would be paid on a tax exempt and Build America Bonds would be larger, out longer. However, putting debt out longer means future interest will be paid for a longer period of time. A balance between the two is necessary. The entities that have used a longer term typically have longer debt structure than the Authority does, and it is normal for them to reach out and go that long. For example, the city of San Antonio utility typically issues 30 year debt, and it is not abnormal for them to reach out longer on the yield curve, but the Authority has always used a 20 year, level principal structure.

Ms. Schiermeyer asked if there was a maximum amount the federal government has allowed on the Build America Bonds. Mr. Kelley responded that when the program was established no volume limit was included, although a time limit was specified requiring bonds to be issued in 2009 and 2010.

Dr. Wood thanked Mr. Kelley for his good presentation.

Ms. Porras requested that the Board formally approve the issuance of taxable, direct pay Build America Bonds, if that proves to be the most cost-effective. Ms. Schiermeyer moved to accept staff's recommendation. Ms. McKenna seconded. The motion passed unanimously.

Item 7. Other Business/Staff Report

Mr. Burns said the Board members had indicated their preferences for regular meetings on the first Thursday of each month. Next month, however, to help meet the accelerated time line to close the GO Refunding issue and the Cancer Institute's commercial paper program by the end of the fiscal year (August 31), the Board is asked to meet on August 3. Dr. Wood said the Board would take that under advisement and hoped the Board could meet then.

Item 8. Adjourn.

Dr. Wood adjourned the meeting at 10:50 a.m.

The foregoing minutes were approved and passed by the Board of Directors on August 3, 2009.

Linda McKenna
Secretary

Attachment: Posting Notice - "Exhibit A"

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Open Meeting Submission

Success!

Row inserted

TRD:	2009004970
Date Posted:	07/01/2009
Status:	Accepted
Agency Id:	0113
Date of Submission:	07/01/2009
Agency Name:	Texas Public Finance Authority
Board:	Texas Public Finance Authority
Liaison Id:	3
Date of Meeting:	07/09/2009
Time of Meeting:	10:00 AM (**##:## AM Local Time)**
Street Location:	Stephen F. Austin State Office Building, Room 170
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, TX 78701.

Agenda:

TEXAS PUBLIC FINANCE AUTHORITY
THURSDAY, JULY 9, 2009 10:00 A.M.
Stephen F. Austin State Office Building, Room 170
AUSTIN, TEXAS 78701

1. Call to order.

2. Confirm meeting posting compliance with the Open Meetings Act.

3. Approve the minutes of the June 17, 2009 Board meeting.

4. Consideration, discussion, and possible action concerning the financing for the Texas Windstorm Association, including the selection of an Issuing and Paying Agent for the commercial paper program for Class 1 securities, and approving a second financing request for Class 2 and Class 3 securities, determine a method of sale, select outside consultants, and take other necessary related action.

5. Consideration, discussion, and possible further action concerning the financing

for the Cancer Prevention and Research Institute, including the selection of an Issuing and Paying Agent for a commercial paper program, and other necessary related action.

6. Consideration, discussion, and possible further action concerning the General Obligation and Refunding Bonds, Series 2009, to refund and fix-out commercial paper and finance new projects, including a market update and review of possible structuring alternatives and bond terms, and other necessary related action.

7. Other Business/Staff Report

Closed Meeting
8. 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
9. The open meeting will be reconvened for final action of the Board concerning matters deliberated in the Closed Meeting, if such action is required.

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. Dwight D. Burns, Executive Director, Certifying Official; Paula Hatfield, Agency Liaison.

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