Texas Public Finance Authority

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

August 3, 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., Monday, August 3, 2009, Capital Extension Hearing Room E2.028, Austin, Texas. Present were: Dr. Gary Wood, Chair; Ms. Ruth Schiermeyer, Vice Chair; Mr. Tom Roddy, 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; Ms. Pamela Scivicque; and Ms. Paula Hatfield.

Present in their designated capacities were the following persons:

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 July 9, 2009 Board meetings.

Dr. Wood asked if there were any corrections or additions to the minutes of the meeting held on July 9. Mr. Roddy moved to approve the minutes of July 9 as presented. Ms. Schiermeyer seconded. The motion passed unanimously.

Item 4. **Consideration, discussion, and possible action to approve a Request for Financing from Texas Facilities Commission to issue approximately $29,000,000 of general obligation bonds to finance repair and renovation projects, select a method of sale, appoint outside consultants, and take other necessary related action.**

Mr. Burns stated the Texas Facilities Commission had submitted a financing request for approximately $29 million in deferred maintenance projects for several state facilitiesauthorized by the 81st Legislature. The draw down schedule anticipates monthly draws ranging from between $755,000 and $1.6 million beginning this November and ending about two years later. The request is for the full amount authorized by the 81st Legislature, $23,155,747 under Tx. Const. Art. III, Section 50-f, approved in 2001, and Section 50-g, approved in 2007.

Mr. Jorge Ramirez, Director of Energy Management and Operations, Texas Facilities Commission, summarized the financing request. The request is for general obligation bond financing approval. The Commission conducted a facility condition assessment approximately two years ago, covering approximately 6.9 million gross square feet of state-owned and maintained office buildings. The assessment was conducted by a team of highly qualified engineers from a nationally recognized firm. The findings projected a capital funding budget of approximately $400 million for all necessary repairs and maintenance of the buildings. Following this process, the Commission submitted a legislative appropriation request for a ten-year plan to address these needs. The financing for which the Commission is requesting approval represents a portion of the second set of these projects.

Dr. Wood asked whether the draw-down schedule covered the biennium. Mr. Ramirez replied that it does.

Staff recommends approving the request for financing and financing it through the appropriate commercial paper program. Ms. Schiermeyer moved to accept staff's recommendation. Mr. Roddy seconded. The motion passed unanimously.

Item 5. **Consider the adoption of a Resolution and approval of the Preliminary Official Statement for the General Obligation and Refunding Bonds, Series 2009, designate a pricing committee and take other necessary related action.**

Staff requests the adoption of the Resolution and approval of the Preliminary Official Statement, including designation of pricing committee, for up to $500 million in general obligation long-term bonds. The purpose of these bonds is to fix out commercial paper from three of four of the Authority's commercial paper programs to free up liquidity capacity and to issue approximately $180 million in new money for various projects that have already been approved. As discussed in last month's Board meeting, the Authority is considering using the Build America Bond incentive program from the federal government if the market for the bonds continues as the bonds are priced on August 11.

Christy Edwards, Vinson & Elkins, discussed two separate resolutions, one for the refunding Series 2009A and the other for the new money portion, Series 2009B. The maximum par amount on each of the resolutions is set for $350 million for Series 2009A and $200 million for Series 2009B, respectively. The total interest cost on the fee requires a small language change to make clear that it would be a not-to-exceed amount of 5%. Further, with regard to the BABs, it would include the interest credit being returned by the federal government.

Staff recommends that the Board adopt the resolution approving the Preliminary Official Statement for these bonds with the amendments Christy outlined and secondly, to designate a pricing committee. Dr. Wood indicated that the pricing committee would consist of Ms. Schiermeyer, Mr. Moore and himself. All other Board members were designated as alternate members of the pricing committee.

Mr. Roddy moved to accept staff's recommendations. Ms. Schiermeyer seconded. The motion passed unanimously.

Item 6. Consider the adoption of a Resolution establishing the Authority's State of Texas General Obligation Commercial Paper Notes, (Cancer Prevention and Research Institute of Texas Project) Series A (Taxable) and Series B (Tax-Exempt), approving the Offering Memorandum, and authorizing a Liquidity Agreement, Dealer Agreements, and Issuing and Paying Agent Agreement, and resolving related matters.

Mr. Burns stated this was a new $225 million commercial paper program for the new Cancer Prevention Institute. The Authority anticipates drawing on the program as early as next month. This ten-year $300 billion program was passed by the citizens of Texas by a constitutional amendment in 2007.

Staff requests the Board adopt the resolution establishing the commercial paper program, approving the Offering Memorandum, and authorizing the Liquidity Agreement, Dealer Agreements and Issuing and Paying Agent Agreement.

Mr. Roddy asked why the Authority was doing a taxable and tax-exempt program. Mr. Burns explained that the main purpose of this funding will be to provide funds for research for institutions around the state and much of that funding will be considered taxable--actually, a substantial amount of it may be taxable. When proposals for debt service were submitted to the Legislative Budget Board, the Authority assumed 90% of the bonds would be taxable. A portion of the bonds will be tax-exempt. Funds will be awarded by the Institute for public purposes so the program has the flexibility to provide appropriate funding.

Ms. Schiermeyer moved to accept staff's recommendation. Mr. Moore seconded. The motion passed unanimously.

Item 7. Consider the adoption of a Resolution establishing the Authority's Texas Windstorm Insurance Association Revenue Commercial Paper Notes, Series 2009, approving the Offering Memorandum, and authorizing a Liquidity Agreement, Dealer Agreements, and Issuing and Paying Agent Agreement, and resolving related matters.

Mr. Paul Martin, bond counsel, asked that the Financing and Pledge Agreement be listed specifically. Mr. Burns stated that in addition to the Cancer Institute Commercial Paper Program, the Authority is establishing another commercial paper program for the Texas Windstorm Insurance Association. The Legislature authorized a $1 billion program, but there is a de facto limitation of $300 million with the Comptroller's backing.. The Authority expects that the revenues to repay the note will come from premiums of TWIA policyholders. These securities will not be issued until a series of storm events occur that would deplete TWIA's ability to rebate claims.

Last month the Board approved the establishment of an underwriting team to take a look at the commercial paper program, but also to look at issuing long-term debt based on Class 1 Securities, Class 2 and Class 3 securities. Thus far, the Bond Review Board has approved the commercial paper program. To issue long-term debt up to $250,000 billion, if the need occurs, the Authority would go back to the Bond Review Board. The Bond Review Board indicated it was possible to meet on an executive basis with eight days notice and could approve long-term issuance of debt at that time. It is difficult for the Bond Review Board to give approval for a bond issuance of that size without knowing any of the parameters. The par amount and the structuring costs are unknown. Because of the nature of the challenge being faced, the Authority wants as much paper work as possible ready to go. The $300 million commercial paper program in place gives the Association a good starting point to move forward.

This is a brand new revenue stream for the purposes of issuing bonds. The Comptroller uses the State Treasury to back this up in case of the commercial paper cannot be remarketed. Mr. Burns said he was optimistic that over the short-term the Comptroller would issue written approval in place. The Office of Attorney General and its public finance division need to be satisfied with the revenue streams and the propriety of their use for securities issued.

Dr. Wood asked Tim Peterson, First Southwest Co., to address the issues regarding the marketing ability of commercial paper. Mr. Peterson stated there are a couple of issues regarding what the Comptroller will approve. The commercial paper needs to be marketable but also that is defined as money market eligible and to achieve that the highest short-term ratings. Given the fact the program is new and there are outstanding questions as to the underlying credit of the program, the rating agencies are going to look through the Comptroller to the actual revenues to make a determination if it meets that highest short-term rating. Step 1 requires a determination of whether the highest short-term rating can be achieved to make it money market eligible. If the answer to step 1 is that it is eligible, Step 2 is to determine whether it is truly marketable. Southwest Financial is working with the dealers, Goldman Sachs and Merrill Lynch, to determine what their criteria may be to sell the paper and also looking at the rating agencies to determine what is needed to make it the highest short-term rating. Those two ultimately dovetail together as we provide language for the Comptroller that indicates the program will work.

Dr. Wood asked what the Authority would do if the Comptroller's Office indicates the program will not work. Mr. Peterson said that in that event, the options would be to evaluate if it is not the highest short-term rating, is there a market for the paper? There might be other buyers who would cost more in the market, but that would allow market access, get the liquidity to fund it for a short window of time until fixed rate debt is sold. It may cost significantly more in interest rate cost than the highest short-term rating paper would for money markets, but it would also be a very short window until the fixed rate debt is sold. Alternatively, if there is no market for this paper, the Authority would have to go directly to fixed rate bonds. The reality is that it may or may not be a problem. It depends on unknown facts such as how big is the storm, how fast does it come, how fast are the claims and how much cash is on hand to pay the claims.

If the Authority does not have a commercial paper program and a storm hits, the fixed rate debt has to occur very fast. Mr. Peterson said that in the event the Comptroller does not sign off, another option is to go out and attempt to find a letter of credit bank to wrap this program and trade off its credit. That scenario would be difficult in this market. For example, the Texas Water Development Board recently came out with a short-term program and just for liquidity, not a full letter of credit, but for liquidity, the cost was 90 basis points. Ninety basis points on $300 million is $2.7 million a year cash going out and it is not known if the commercial paper is needed. With this program, a lower letter of credit cost would be in excess of that and the Authority could be paying $4-5 million per year cash out and not even need the program.

Dr. Wood asked if the liquidity from the Comptroller's Office could be withdrawn. Mr. Peterson stated this was the critical nature of the questions "is it the highest short-term rating?" If the Comptroller's Office has enough "out" provisions, or if TWIA doesn't do "XYZ," the Comptroller withdraws the liquidity, then as a bondholder or purchaser of those commercial paper notes, the underlying credit of TWIA is being looked to because it is not known whether the Comptroller is going to be there, which is why the rating agencies say 'you don't' have the highest short-term credit' because it is unknown whether the Comptroller will be around or not.

Mr. Burns addressed the comment that the liquidity could be withdrawn. That is based on really extreme circumstances such as events of default. Basically, if this revenue stream falls to the point where the debt cannot be repaid, then the Comptroller has "out" provisions for extraordinary provisions. The Authority's other commercial paper programs have the same "out" provisions for extraordinary happenings.

For example, in TPFA's general obligation commercial paper programs, if for some reason the State does not pay debt service, then the Comptroller can back out of the liquidity agreement. In this case, similar provisions and extraordinary provisions would be in place. Dr. Wood asked t if the Comptroller was willing to provide the $300 million in liquidity that can be counted on to continue to be available to the Authority. Mr. Burns indicated that it is usually for a period of two years or to last throughout the biennium. Usually with the Authority's existing commercial paper programs it is based on the State's general obligation credit and that is "AA" almost the highest obtainable. The commercial paper is rated by the rating agencies based on not only the strength of liquidity from the Comptroller, but also on the underlying credit quality of that revenue stream. Usually the underlying credit quality of commercial paper that is marketable tends to be AA. With preliminary analysis, even though no conversations have occurred yet with the rating agencies, it might be that a single "A" revenue stream or a cap on this.

In terms of long-term debt, if everything else works out, then it is possible to market that on a long-term basis. There are single A credit rating throughout the State and throughout the country. It actually is good credit. When it comes to commercial paper, it adds a measure of complexity because there is a higher level of scrutiny. It is considered short-term, and needs to be very liquid so the credit quality needs to be higher. The Board approved an underwriting team because this was anticipated.

Mr. Peterson said the underlying credit with the new program is going to receive a lot of scrutiny from the rating agencies. The termination provisions from the Comptroller, while some of those may be remote, they are termination provisions and in a post-meltdown world, we can talk about how challenging or how remote it would be that something would happen, but who would have thought Lehman Brothers would be gone or that Bear Stearns would not be on the street. The rating agencies are very gun-shy and they are very, very meticulous in this world. The challenge is for the Comptroller to get comfortable.

Mr. Martin, Winstead, pointed out that the resolution being considered assumed the liquidity of the Comptroller. If a bank is required, another resolution will be presented to the Board.

Staff recommends that the Board adopt the Resolution, approve the Offering Memorandum and approve the related documents.

Ms. Schiermeyer asked if there were costs to the Authority if this money is not drawn upon. Mr. Burns answered "no" and stated the set-up costs, the revenue stream of the $300 million program, the information that the Association has provided so far says clearly they are capable of providing the revenue stream to support $300 million in debt. For example, if $300 million is taken out long for the maximum term of ten years, there is more than enough revenue stream to support that.

Ms. Porras added that the legislation authorizing this authorizes a maximum total of $2.5 billion under the various classes each year. So this beginning $300 million is just for 2009 bonds. If 2009 and the Bond Review Board approved it to the Authority to issue the $300 million terminates December 31, 2009. So, the authorization would be done and the documents would be completed annually, calendar year by calendar year, so it will be reviewed on the same basis next year. Hopefully, a lot of these initial questions will be ironed out so the issuance will be much easier.

Mr. Roddy moved to accept staff's recommendation. Mr. Moore seconded. The motion passed unanimously.

Item 8. Other Business/Staff Report.

Mr. Burns said ratings had been applied for and the State's Aa1 from Moody's affirmed, the rating AA from Standard & Poor's is affirmed.

Mr. Burns announced this meeting might be last official meeting for our General Counsel, Judith Porras, who is retiring after twenty-six years of government service. Mr. Burns said he had agreed quiet reluctantly that Ms. Porras will begin working part-time in August and her position has been posted. He indicated Ms. Porras had been a potent weapon and shield for the Authority. Dr. Wood asked that Ms. Porras attend the September 5 meeting. Dr. Wood stated that he hated to see Ms. Porras leave her position.

Item 9. Adjourn.

Dr. Wood adjourned the meeting at 10:40 a.m.

The foregoing minutes were approved and passed by the Board of Directors on October 8, 2009.

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Secretary

Attachment: Posting Notice - "Exhibit A"

OFFICE of the SECRETARY of STATE

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Open Meeting Submission

Success!

Row inserted

TRD:	2009005571
Date Posted:	07/23/2009
Status:	Accepted
Agency Id:	0113
Date of Submission:	07/23/2009
Agency Name:	Texas Public Finance Authority
Board:	Texas Public Finance Authority
Liaison Id:	3
Date of Meeting:	08/03/2009
Time of Meeting:	10:00 AM (**##:## AM Local Time)**
Street Location:	Capitol Extension Hearing Room E2.028
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
MONDAY, AUGUST 3, 2009 10:00 A.M.
Capitol Extension Hearing Room E2.028
AUSTIN, TEXAS 78701

1. Call to order.

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

3. Approve the minutes of the July 9, 2009 Board meeting.

4. Consideration, discussion, and possible action to approve a Request for Financing from Texas Facilities Commission to issue approximately $29,000,000 of general obligation bonds to finance repair and renovation projects, select a method of sale, appoint outside consultants, and take other necessary related action.

5. Consider the adoption of a Resolution and approval of the Preliminary Official

Statement for the General Obligation and Refunding Bonds, Series 2009, designate a pricing committee and take other necessary related.

6. Consider the adoption of a Resolution establishing the Authority¿s State of Texas General Obligation Commercial Paper Notes, (Cancer Prevention and Research Institute of Texas Project) Series A (Taxable) and Series B (Tax-Exempt), approving the Offering Memorandum, and authorizing a Liquidity Agreement, Dealer Agreements, and Issuing and Paying Agent Agreement, and resolving related matters.

7. Consider the adoption of a Resolution establishing the Authority¿s Texas Windstorm Insurance Association Revenue Commercial Paper Notes, Series 2009, approving the Offering Memorandum, and authorizing a Liquidity Agreement, Dealer Agreements, and Issuing and Paying Agent Agreement, and resolving related matters

8. Other Business/Staff Report

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

11. 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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