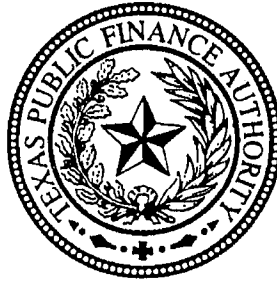


Texas Public Finance Authority

Board of Directors:

Gary E. Wood, Chair
Ruth C. Schiermeyer, Vice Chair
D. Joseph Meister, Secretary
Gerald Alley
Rodney K. Moore
Robert T. Roddy, Jr.
Massey Villarreal

Dwight D. Burns
Executive Director



Mailing Address:
Post Office Box 12906
Austin, Texas 78711-2906

Physical Address:
300 West 15th Street, Suite 411
Austin, Texas 78701

Telephone: (512) 463-5544
Facsimile: (512) 463-5501
www.tpfa.state.tx.us

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

April 7, 2010

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., Wednesday, April 7, 2010, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Ms. Ruth Schiermeyer, Vice Chair; Mr. Joe Meister, Secretary; Mr. Rodney K. Moore, Member; Mr. Gerald Alley, Member; and Mr. Massey Villarreal, Member.

Representing the Authority's staff was: Mr. Dwight D. Burns, Executive Director; Ms. Susan Durso, General Counsel; Mr. John Hernandez, Deputy Director; Ms. Pamela Scivicque, Business Manager; Ms. Gabriela Klein, and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Karl Biggers, M. R. Beal & Co.; Jim Buie, Raymond James & Associates; Lisa Vanderbeek, Stifel Nicolaus; Elana Evans, Claudia Gee Vassar, Cochran Baker Williams & Matthiesen; Danielle Bradford, Piper Jaffray; Curt Shelmire, Bank of America Merrill Lynch; Patrick Scott, Lance Etcheverry, Heath Barber, JP Morgan; Robbi Jones, Kipling Jones; Yava Scott, Siebert Bradford; Terry Thornton, Goldman Sachs & Co.; Tilghman Naylor, Jefferies; Mark Nitcholas, Hutchinson Shockley Erley & Co.; Dalton Smith, Bank of America Merrill Lynch; Paul Braden, Fulbright & Jaworksi; Tim Peterson, Chris Allen, First Southwest Co.; Tim Kelley, Coastal Securities; Julie Houston, Winstead; Lisa Duecker, Oscar Ybarra, Texas Department of Public Safety; and Liz Prado, Legislative Budget Board.

Item 1. Call to order.

Ms. Schiermeyer called the meeting to order at 11:00 a.m.

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

Ms. Schiermeyer confirmed the meeting had been duly posted in compliance with the Open Meetings Act.

Item 3. Excuse absences of board members.

Mr. Meister moved to excuse the absences of Dr. Wood and Mr. Roddy. Mr. Alley seconded. The motion passed unanimously.

Item 4. Approve the minutes of the March 4, 2010, Board meeting.

Ms. Schiermeyer asked if there were any corrections or additions to the minutes of the Board meeting of April 7, 2010. Mr. Meister moved to approve the minutes as submitted. Mr. Massey seconded. The motion passed unanimously.

Item 5. Select winning bid and adopt a resolution authorizing the issuance of approximately \$6,700,000 Texas Public Finance Authority Midwestern State University Revenue Financing System Revenue Bonds, Series 2010, the execution of documents in connection therewith, and other related actions to effect the sale and delivery of the bonds and resolve related matters.

Mr. Burns stated the competitive bond sale for Midwestern State University was held at the TPFA offices earlier in the day. He introduced Tim Peterson, First Southwest Co., who provided a report on the sale.

Tim Peterson, First Southwest Co., stated the Midwestern State University's Board of Regents had adopted its Resolution regarding the sale. He said seven bids had been received and that six bids were deemed to be qualified bids. Bond maturities ran out to 2035. The true interest cost bids received were: BOSC, Inc., 4.512133%; Southwest Securities, Inc., 4.632340%; JP Morgan Securities, Inc., 4.681970%; Morgan Keegan & Co., Inc., 4.684201%; SAMCO Capital Markets, 4.798967%; Piper Jaffray & Company, 4.941883%; and Mesirow Financial, Inc., 4.961439%.

The winning bidder elected to insure the bonds and will pay the insurance premium of \$84,000 to Assured Guaranty. Mr. Peterson said the sale was very successful for the University. The University had a revenue constraint of \$500,000 per year for its debt service and the annual debt service on these bonds is in the range of \$450,000. The University has a tenyear par call option, which allows it to accelerate the payoff of the bonds. Mr. Peterson indicated that if the TPFA approves the winning bidder that he will step out of the meeting and notify the winning bidder of the award.

Referring to a handout, Mr. Burns asked the Board to look the annual debt service anticipated for the sale. The University had a goal of achieving debt service of no more than \$500,000 a year and we have achieved that goal and actually surpassed that goal. Most of the annual debt service will be in the range of \$450,000 and specifically the winning bid was Bank of Oklahoma or BOSC, Inc. with a true interest cost of

4.512133%. Mr. Alley asked if bond insurance is consistent or inconsistent with a transaction of this size. Mr. Peterson said it was consistent historically for the University bonds to be insured and most of the bids included insurance. The two bidders that did not include insurance offered the two highest bids. Mr. Alley expressed concern about the viability of the insurance companies. Mr. Peterson acknowledged it was a very legitimate concern still because most bond insurance companies no longer exist and the rates reflect the lack of competition.

Mr. Meister moved to accept the winning bid as recommended by staff and to adopt the Resolution for the sale and delivery of the bonds described. Mr. Moore seconded. The motion passed unanimously.

Item 6. Consideration, discussion, and possible action to approve a Request for Financing from Texas Department of Public Safety to issue approximately \$6,100,000 of general obligation bonds to finance the construction of a crime lab in Laredo, Texas, select a method of sale, appoint outside consultants, and take other action as necessary.

Mr. Burns introduced the financing request to issue \$6.1 million of general obligation debt to construct a new crime laboratory in Laredo, Texas. It is anticipated that cash draw downs for this project will commence in June 2010 and be completed by August 2012. Given the estimated expenditure schedule for construction and relatively small amounts needed monthly staff believes that commercial paper is the appropriate vehicle for funding this request. Ms. Durso stated this item was approved the DPS Board on March 31st after the packets were assembled, so updated material was provided separately from the mailed board packets.

Mr. Oscar Ybarra, Deputy Assistant Director of Finance for the Department of Public Safety (Department), said this facility is located on Department grounds at 1901 Bob Bullock Loop, in Laredo, TX. The Department approved the Resolution at its last open meeting. This facility will be approximately 14,400 square feet and be financed with \$6.1 million bonds as appropriated during the last legislative session. The Department had constructed facilities there since 1995. Three analysts are in place now and only focus on controlled substances at this time. Considering an increase in crime on the border, specifically Laredo, McAllen, and El Paso, the law enforcement entities in these areas requested additional support and crime analysis to expand beyond controlled substances. Currently these law enforcement entities submit evidence to McAllen and this project would allow for submission at the crime lab and address the back-log in McAllen. The legislature also provided dollars via Fund 6 for six additional staff members, five of which will be scientists and one an evidence technician. Laboratory personnel will be available to collect evidence from Laredo, Webb County, and surrounding counties.

Ms. Durso clarified that the request includes \$6.1 million plus cost of issuance and any administrative costs.

Mr. Moore moved to approve staff's recommendation to authorize the issuance of \$6.1 million of general obligation debt for use by the Texas Department of Public Safety to construct a crime lab in Laredo, Texas. Mr. Meister seconded. The motion passed unanimously.

Item 7. Consideration, discussion and possible action on a proposed Request for Proposals for Bond Counsel for FY 11 and the FY12-13 biennium.

Ms. Durso said the last time the Board issued a Request for Proposals for bond counsel services was in 2008 and it covered 2008, 2009 and FY 2010. Since we are approaching the end of FY 2010, Ms. Durso recommended that a notice of the form included in the board packet be distributed. The notice can be placed on the Authority's website today, and on the electronic market place. On Monday, the Request for Proposals for Bond Counsel can be made available. The Government Code requires the Attorney General to approve outside counsel contracts. This request is not for the award of a contract, but simply asks for qualifications to serve as counsel based on abilities to cover all of the issues raised by a municipal financing including the availability of tax counsel. The request includes HUB goals consistent with the procurement requirements, including whether the firm could qualify, but perhaps have not become certified.

Mr. Meister stated that in the past the Board had been disappointed with the number of responses and that the Board has discussed what other affirmative actions can be taken to encourage the number of responses received.

The RFP is sent to a list of Texas-based, public finance bond counsel listed in the book, The Bond Buyer's Municipal Marketplace. It is also sent to bond counsel who have an existing relationship with the Authority or who have expressed interest in having a relationship with the Authority, and is placed on the Authority's website and published in the State's Electronic Business Daily site. The RFP includes information on how to become HUB-certified. Additionally, it is noted whether firms are minority-owned, or woman-owned so that information is included in the Authority's Supplemental HUB Report. To meet the requirements of HUB certification the primary office of the firm has to be located in Texas.

Mr. Massey asked whether the Authority sends out anything to the Certified Master Bidders list maintained at the Comptroller's office with commodity codes and Ms. Durso said no, it was posted on the Electronic Business Daily site.

Mr. Alley moved to approve staff's recommendation to issue a request for proposals on April 9, 2010, to obtain the services of bond counsel, including posting a notice of the RFP on the Authority's website and on the Electronic Business Daily with

proposals due by 5 p.m. on May 7, 2010. Mr. Meister seconded. The motion passed unanimously.

Item 8. Consideration, discussion, and possible action on obtaining property insurance for facilities financed with lease revenue bonds.

Pamela Scivicque stated the Authority is required by the lease revenue bond covenants to maintain property insurance and business interruption insurance for completed projects financed with revenue bonds until the outstanding obligations are paid in full if insurance is available at a reasonable cost.

The current insurance policy issued through the State Office of Risk Management ("SORM") expires April 30, 2010. The insurance plan offered is a three-tiered, shared, and layered program providing coverage for 24 different state agencies and universities insuring values totaling \$11.5 billion.

Sally Becker, Insurance Specialist from SORM was available to answer questions. Mr. Meister asked if the Authority would be in default under its contractual obligation if insurance was not purchased. Ms. Durso said, yes, unless the Authority had the ability to self-insure. Mr. Meister then asked how the insurance quotes compared with other entities similarly situated to the TPFAs. Ms. Durso explained that the state law requires the Authority to use the State Office of Risk Management insurance so SORM obtains the bids. Ms. Becker stated the SORM is authorized to be an insurance program for state agencies and in the same legislation SORM was required to determine whether insurance is appropriate for an agency to purchase. If SORM determines an agency can purchase insurance, it is approved. The statute requires SORM to review each line of insurance, one at a time, to determine what SORM can provide for each agency. Ms. Becker said 24 state agencies participate in the SORM program and larger agencies similar to TPFAs are the universities, University of Houston and the Texas State University System.

Mr. Meister asked how the cost was covered and Ms. Scivicque explained that the agencies request legislative appropriations and the appropriations are transferred to TPFAs in order to make the insurance premiums. Ms. Scivicque said the agencies involved were the Texas Facilities Commission and the State Preservation Board. TPFAs provide those agencies with debt service amounts and additional administrative costs to include in their Legislative Appropriation Request.

Ms. Scivicque stated that a request for proposals for insurance coverage had been issued and two responses from Wells Fargo and National Union Fire had been received. She described in detail the options for coverage and costs.

Staff recommended renewing the existing policy with current insurance providers with National Union Fire underwriting the Master Policy (\$100M), Lexington Insurance Company Underwriting the Primary Policy (\$500M), and Traveler's underwriting the

Excess Policy (\$500M); the Authority recommends declining Terrorism Coverage on the Master and Excess Policies.

Mr. Meister moved to adopt staff's recommendation to renew the expiring insurance policy through the Statewide Property Insurance Program administered by the State Office of Risk Management for the period from April 30, 2010 to April 30, 2011 with the terms as described above by staff. Mr. Massey seconded. The motion passed unanimously.

Item 9. Sunset Report and Budget Savings Formal Response to Sunset

Mr. Burns stated the Authority's Sunset hearing was yesterday and that the Authority was in agreement with the Sunset Commission's recommendations. Ms. Durso stated the Sunset Commission decision will be announced in late May. The procedure going forward will be that the Sunset Commission will instruct staff to work with the Legislative Council to develop a Sunset bill and that one of the members of the Sunset Commission will carry the Authority's bill. The bill will contain the Commission's recommendations.

Mr. Meister thanked staff for the good job working with the Sunset Commission. Mr. Massey thanked the Vice Chair, Ruth Schiermeyer, for her great job at providing testimony yesterday.

Mr. Burns discussed the Authority's 5% budget savings reduction proposal. Ms. Schiermeyer expressed concern about the Authority's ability to cut travel costs if the Authority takes on additional bond sales from universities. She asked if exceptional items were being submitted. Ms. Scivicque stated the budget cycle was just beginning and that the Board will receive some scenarios for the FY2012-13 biennium and exceptional items will likely be included to fully fund the 5% savings.

Mr. Meister suggested the Board might consider meeting less often and for longer times. Ms. Durso stated there was a discussion on future meetings later on this month's agenda because in order to make the FY10 cuts, it may be necessary to cut one or two meetings between now and the end of the year.

Item 10. Discussion and possible action on staff recommendations regarding Small Agency Risk Assessment requirements and internal audit options.

John Hernandez stated that the Authority had an internal audit in 2001. Subsequent to 2001, legislative action permitted small state agencies to perform risk assessments instead of obtaining internal audits. The Risk Assessment prepared this year is provided for Board review.

Staff recommends that the Authority instruct staff to explore options for securing the services of an outside auditor to review the Authority's risks. Ms. Durso stated if costs of an internal audit were obtained, this item could be an exceptional item in the Authority's Legislative Appropriation Request.

Mr. Meister asked if the Comptroller of Public Accounts provided these kinds of services to other state agencies. Mr. Hernandez stated the Comptroller does perform some reviews. Mr. Meister asked what the best practice for agencies in similar situations as TPFA. Mr. Hernandez stated that options such as entering into an agreement with The University of Texas for someone pursuing a Masters Degree to come in and review whatever agency program the Board wished to review. Also, the option of contracting with another agency for the services of an internal auditor has been considered.

Mr. Meister asked what other agencies similar to TPFA do or what tends to be the norm. Mr. Hernandez stated he would ask and obtain that information from the State Auditor's Office. Ms. Scivicque stated that she participates in the Small State Agency Taskforce and that most small state agencies perform the internal, staff-driven Risk Assessment. The Risk Assessment program is administered by the State Auditor's Office.

Ms. Durso stated that a statute exists for agencies of certain size to have internal auditors on staff. An exemption exists for state agencies that have an operating budget of less than \$10 million. The Risk Assessment is a self-assessment instrument developed by the State Auditor's Office and it is fairly comprehensive. The Authority handles a lot of funds with a very small staff which means that a lot of times there are not opportunities to have a lot of cross-training or cross-coverage. The Authority tries to meet the best practices of the accounting and auditing standards with separation of duties so that one person is not approving the payments and writing the checks at the same time. However, given all that and that the Authority has new leadership and a strongly, static staff, it may be a good time to explore options and learn what the costs might be for an internal audit. If the internal audit services were sought, the Board would receive a presentation of an internal audit plan. The internal audit statute requires that any internal auditor is only to be directed by the Board and not by the Executive Director. So, the Board would have a direct relationship with the internal auditor so no issue of loyalty or fiduciary duty would exist.

Mr. Meister stated he did not want a Masters Degree student performing the audit and prefers a certified, professional individual. Then, Mr. Meister asked how Mr. Hernandez weighed the probabilities in the current Risk Assessment and what had specifically happened during the last five years that would provide an example of risks. Mr. Hernandez stated on the Risk Assessment document includes a discussion of the impact and probability. Mr. Meister said he was asking about the impact, but was interested in how the probability was determined. Mr. Hernandez stated the probabilities were rated based on someone inexperienced performing the tasks.

Mr. Massey moved to accept staff's recommendation to explore the cost of obtaining outside internal audit services and to report back to the Board those findings. Mr. Meister seconded. The motion passed unanimously.

Item 11. Staff Reports

- a. **Survey of Employee Engagement Report**
- b. **Brief report on the sale of the Texas Public Finance Authority
Stephen F. Austin University Revenue Financing System Revenue and
Refunding Bonds, Series 2010 and 2010A**

Ms. Durso explained that the results from the University of Texas's Social Work Department's Survey of Employee Engagement Report had been received. The data has been reviewed and although some of the scores looked to be moderate or moderately high some might actually be higher because of averaging. the responses to particular questions. Ms. Durso stated that she was working with a volunteer group of staff who are not supervisors who have met twice to explore the lower scores. The group has developed a plan to ferret out more information about what the low scores mean and what were the people thinking when the survey questions were answered.

From the feedback, a variety of optional responses are presented to the Senior Staff to determine what might be implemented to improve on these scores. Good morale is very important particularly with a small agency that has a lot of familial aspects to it.

Mr. Meister asked if 100% participation included all the staff and Ms. Durso said "yes." Mr. Meister said it would be helpful to break out people in supervisory roles to look at how the scores look. Ms. Durso said more information would be provided to the extent feedback is obtained. Mr. Meister asked if the Board needed to get more deeply involved in this process and Mr. Burns said he did not think so. Ms. Durso stated that if she learned anything in the process that she believed rose to the level of needing greater attention that she would certainly inform the Board. Ms. Schiermeyer said that low areas should be part of the goals to raise those areas by next year. Mr. Moore stated the morale of each staff person is important.

Mr. Burns stated that post-sale analysis of the Stephen F. Austin State University bond sale would be provided at the next meeting. Tim Peterson, First Southwest Co., and Robbi Jones, Kipling Jones & Co., provided a brief report on the sale. Mr. Peterson stated the sale was successful even though the market was not as strong or robust as hoped. The true interest cost was 4.08% of blended new money and refunding. The savings for the State was in excess of a half million dollars. Mr. Meister asked for feedback concerning the use of a co-financial advising firm. Mr. Peterson said from his perspective it worked well because work assignments were well-defined from the beginning. Ms. Jones stated Mr. Durso had done a very good in the beginning in seeing that the total scope of services was well-defined and clearly delineated. Both firms

understood the expectations. Mr. Burns said this type of transaction was a good example of the use of two financial advisors. Ms. Durso stated she found both firms very responsive, very timely and appreciated their efforts and their complement of one another. Mr. Meister expressed appreciation to Ms. Durso for her work.

Item 12. *Executive Session:*

The Board went into Executive Session at 12:44 p.m.

Reconvene Open Meeting

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

The Board re-convened at 12:59 p.m. No action was taken as a result of the Executive Session.

Item 13. Discuss future meeting dates, including budgetary needs to save travel funds.

Ms. Durso stated budgetary needs might necessitate eliminating two meetings during the remainder of the fiscal year. In May, Ms. Durso, has a conflict with the May 6 meeting and will be attending the Bond Lawyers Conference at that time. The Board was canvassed about availability on May 13. Mr. Meister moved that the next Board meeting be scheduled in June. Mr. Moore seconded. The motion passed unanimously.

Item 14. Adjourn.

The meeting adjourned at 1:05 p.m.

The foregoing minutes were approved and passed by the Board of Directors on June 8, 2010.

D. Joseph Meister
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A

Approved
June 8



Open Meeting Archive

Agency Name: Texas Public Finance Authority
Date of Meeting: 04/07/2010
Time of Meeting: 11:00 AM
Board: Texas Public Finance Authority
Street Location: Capitol Extension Hearing Room E2.028
City Location: Austin
State Location: TX
Status: Active
Date of Submission: 03/30/2010
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.
Emergency Mtg: N
Agenda: TEXAS PUBLIC FINANCE AUTHORITY
WEDNESDAY, APRIL 7, 2010, 11:00 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. Excuse absences of board members.
4. Approve the minutes of the March 4, 2010, Board meeting.
5. Select winning bid and adopt a resolution authorizing the issuance of approximately \$6,700,000 Texas Public Finance Authority Midwestern State University Revenue Financing System Revenue Bonds, Series 2010, the execution of documents in connection therewith, and other related actions to effect the sale and delivery of the bonds and resolve related matters.
6. Consideration, discussion, and possible action to approve a Request for Financing from Texas Department of Public Safety to issue approximately \$6,100,000 of general obligation bonds to finance the construction of a crime lab in Laredo, Texas, select a method of sale, appoint outside consultants, and take other action as necessary.
7. Consideration, discussion and possible action on a proposed Request for Proposals for Bond Counsel for FY 11 and the FY12-13 biennium.

8. Consideration, discussion, and possible action on obtaining property insurance for facilities financed with lease revenue bonds.

9. Sunset Report and Budget Savings Formal Response to Sunset

10. Discussion and possible action on staff recommendations regarding Small Agency Risk Assessment requirements and internal audit options.

11. Staff Reports

a. Survey of Employee Engagement Report

b. Brief report on the sale of the Texas Public Finance Authority Stephen F. Austin University Revenue Financing System Revenue and Refunding Bonds, Series 2010 and 2010A

Executive Session:

12. a. 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 conflicts with Texas Government Code, chapter 551.

b. Pursuant to Texas Government 551.074, the Board may convene in closed session at any time during this meeting to deliberate regarding the duties and performance of the Executive Director or General Counsel, including evaluation of performance.

Reconvene Open Meeting

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

Discuss future meeting dates, including budgetary needs to save travel funds.

14. 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. Susan K. Durso, General Counsel, Certifying Official; Paula Hatfield, Agency Liaison.

TRD ID: 2010002384

Datestamp: 03/30/2010 04:41 PM

Archive Date: 04/09/2010

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