

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



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Dwight D. Burns
Executive Director

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

August 5, 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 10:00 a.m., Thursday, August 5, 2010, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Ms. Ruth Schiermeyer, Vice Chair; Mr. Gerald Alley, Member; Mr. Rodney K. Moore, Member; Mr. Tom Roddy; 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, Ms. Pamela Scivicque, Business Manager; Ms. Gabriela Klein, Mr. Rick Home, and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Tilghman Naylor, Jefferies; Jim Buie, Raymond James; Lisa Vanderbeek, Stifel Nicolaus; Desrye Morgan, Mesirow Financial, Nick Boyle, Morgan Stanley; George Pedraza, Wells Fargo Securities; John Daniel, Patrick Scott, Barclays Capital; Randy Bates, Bates & Coleman; Becky Villasenor, Cabrera Capital Markets; Mark Nicholson, Southwest Securities; Dale Lehman, Piper Jaffray & Co.; Yava Scott, Siebert, Bradford & Shank; Debi Jones, Morgan Keegan; Dalton Smith, Bank of America, Merrill Lynch; Cheryl McBride, Texas Department of Public Safety; Bill Gimson, Heidi McConnell, Cancer Prevention and Research Institute of Texas, Pam Darden, Captain Amanda Campeau, Tim Burford, Ghazi Dakik, Gary Mullen, Tim Anderson, Adjutant General's Department; Chris Allen, First Southwest Co.; Tim Kelley, Coastal Securities, Inc.; Julie Houston, Winstead; and Shanda and Jarrett Moore.

Item 1. Call to order.

Ms. Schiermeyer called the meeting to order at 10:04 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. Alley moved to excuse the absences of Dr. Wood and Mr. Meister. Mr. Villarreal seconded. The motion passed unanimously.

Item 4. Board and staff discussion and possible action by Board regarding Legislative Appropriations Request and possibly take action.

Mr. Burns directed the Board's attention to documents highlighting the budget process and draft documents related to the Legislative Appropriations Request. He reviewed the Authority's debt service and operating budgets.

Ms. Schiermeyer stated she believed it was important to point out that approximately \$60 million savings from refundings was about 10% of the Authority's budget. Mr. Burns stated the \$60 million savings was a significant multiple of the \$1.8 million operating budget. Prior to 2002, bond proceeds were set aside from revenue bonds to fund agency operations instead of being funded with general revenue appropriations. Since 2002, the Authority's operating budget has been funded with general revenue and appropriated receipts. The appropriated receipts are administrative fees from other state agencies who participate in the Master Lease Purchase Program, and any other fees collected by the Authority.

The Authority also has unexpended balance authority and can transfer budget items between each fiscal year. Funds remaining after the second year of the biennium are lapsed and returned to the State. State leadership requested that all agencies submit a baseline budget limiting general revenue funding to 95% of the current fiscal year funding level. Agencies were also requested to submit a scenario demonstrating a 10% reduction in general revenue, in addition to the 5% reduction.

Mr. Alley asked if there was a process for appealing any of the cuts. Ms. Durso explained that part of the LAR process is to show what would be necessary to cut in agency operations to achieve the requested reduction. Since the Authority is such a small agency, exceptional items could be requested with the explanation of why the Authority could not absorb such cuts and still function effectively. Mr. Alley asked if the administrative fees could be considered again to increase the revenue.

Ms. Durso stated the administrative fees option was going to be discussed with the Board in order to determine whether the Board would approve the Authority taking

the direction of seeking a different method of finance through perhaps bond proceeds or appropriated receipts.

Mr. Moore asked about the 5% cut was already in place and Mr. Burns answered "yes." Ms. Durso directed the Board's attention to a page describing the FY 2012-12 Administrative Operating Budget. This document shows the line items that were adjusted to fulfill the 5% cut.

Mr. Burns reviewed proposed budget scenarios. If the additional 10% cut is made, it would require a reduction in staff salaries by eliminating one or more FTEs (full time equivalents) or a 7% pay cut for all staff. The alternate approach staff would like to request is a change in the Authority's method of finance.

Exceptional Item #1 is proposed to achieve full funding from this fiscal year or basically restore the 5% cut. If the Legislature approved this, we would allocate the funds for continuing legal education and staff training, maintain staffing levels and provide a basic level of service. It is possible to request the 5% cut be restored through a non-general revenue stream such as appropriated receipts or another method of finance.

Ms. Scivicque reminded the Board that it approved an increase in the Master Lease Purchase Program administrative fees. Initially, .5% was charged on the leases outstanding. The Board approved an additional increase of .5% to pay for the increase in liquidity costs. The total amount that is now collected from agencies is a full 1%. The Board could direct staff to request that the 5% cut be addressed through either Master Lease Purchase Program appropriated receipts or another method of finance. The Authority could set aside revenue bond proceeds to fund that portion of the operating budget.

Mr. Burns stated he believed that agencies would not receive the same consideration to requested exceptional items that was given in prior legislative sessions due to State budget constraints. Ms. Durso stated that if the Authority requested a different method of finance that the exceptional item would not be necessary.

Ms. Schiermeyer asked if the funding would allow membership in the Municipal Advisory Council and Ms. Durso answered "yes." Ms. Durso said that \$8,400 was spent on internal accounting software updates. The recommendation is based on balancing the risk of needing software updates against the belief that staff has a crucial need to have access to the MAC services, which includes information about municipal debt across the State of Texas, and that the subscription cost is about equivalent to the software update. From a risk-benefit assessment standpoint, it is a bigger benefit to staff to have access to the MAC than to risk something happening to the software system. The Authority has reduced essential resources such as legal information from West Publishing, a subscription to the **Bond Buyer**, etc., making it difficult for professional staff to stay abreast of developments in the market. Even if the Authority is not restored to full

funding, this is the direction staff is leaning. Ms. Schiermeyer asked if the appropriated receipts will allow for salary increases. Mr. Burns stated that with regard to Exceptional Item #1 that is not included. Exception Item #2 does include salary increases. Ms. Schiermeyer asked if the appropriated receipts would allow enough to do those things and give salary increases. Ms Scivicque stated "yes" and directed attention to another schedule called "Estimated Revenue Collection Supporting Schedule." Mr. Alley said that if fees could subsidize the operating budget, he preferred that the budget be increased so that operations were efficient.

Mr. Burns said the proposed budget allowed funds for an internal audit that has not been done for the Authority in ten years and a modest merit pool for staff salaries that does not include my position.

Ms. Durso stated staff was trying to get some direction about Board expectations for staff in regard to the agency budget process with respect to the Authority's needs. Would the Board's preference be that the Authority continue to operate and participate in the cuts that have been asked or is the Board of a collective mind, like Mr. Alley expressed, to support that the Authority would seek alternate methods of funding in addition to general revenue funding to operate effectively and efficiently? For the reasons previously stated and the cuts that would be necessary, staff does not believe it could operate effectively and efficiently if the cuts were absorbed. Ms. Durso explained she had discussed with Ms. Scivicque whether or not the 1% appropriated receipts would be enough to fund the Authority entirely and it is not. The incremental increase would provide funding to achieve the things discussed.

Ms. Schiermeyer asked how the Executive Director's salary could be increased. Ms. Durso explained that the procedure would be for the Board to approve the increase as an exceptional item and a Board member would present the reasons for that increase to the Appropriations Committee and Senate Finance Committee during the legislative process. Ms. Durso stated that in the last session the legislature asked the State Auditor's office to canvas all the exempt executive positions and produce a report on that outcome to find out whether like positions at similar agencies were being paid appropriately. For the most part, the recommendation was that 87% of the executives are paid near what was expected. In TPFA's case, the executive director position was \$5,000 under the average, but was still within the minimums of the group TPFA fits in, a Group IV, and the range is \$118,000 to \$140,000, and it is currently limited to the not to exceed \$120,000. The average for other finance authorities and agencies of similar size and responsibilities was \$125,000. If the Board desired for the Executive Director's salary to be increased, that is a Board request and not something staff can pursue.

Ms. Schiermeyer stated she had asked in order to see if the range could be increased giving the Board the leeway to provide an increase in the future. Ms. Durso stated another way of seeking authority is to state that the Board would like more flexibility in what can be offered to the Executive Director in the future. In that case, the

Board is not asking the legislature to appropriate x-number of dollars, but request authority, if sufficient funds exist in appropriated receipts or another method of finance, to increase the range for the salary given to the Executive Director.

Mr. Burns thanked the Board for their comments on the Legislative Appropriation Request. Ms. Durso asked the Board if they wished to express guidance. Ms. Schiermeyer asked for other Board members to comment on the Executive Director salary issue. Mr. Villarreal stated he was concerned about the fees. If there is a slowdown in economic conditions in the next or following legislative session, is it hurtful to the agency if there is less work followed by fewer fees to collect.

Ms. Durso stated that in the immediate term on the number of leases that exist now, the MLPP receipts can be used. Moving forward, if there are no approved projects for the Master Lease Purchase Program, and the program remained constant without increasing the fee any more than the 1%, there would not be sufficient revenue from that to keep up with the budget. At that time, the Authority would enter another legislative session and, then again, discuss method of finance. If the Authority gives up general revenue on the appropriated receipts from the Master Lease Purchase Program alone that would not be sufficient. If revenue bond proceeds were able to be used, it would depend, of course, on the projects approved for revenue in the upcoming sessions. This may be a good way to approach this biennium, but at another time it may be necessary to adjust the method of finance decision. There is risk involved in making this decision. Mr. Burns stated these decisions were made on a biennial basis.

Mr. Hernandez added that on the MLPP spreadsheet no expectations for new leases were included. The spreadsheet reflects existing, outstanding debt only. Worst case scenario on most of the expenses was taken. Mr. Burns stated these numbers were conservative. Ms. Durso directed the Board's attention to the spreadsheet with the footer marked "Contact Person: Chris Gilliland," which shows the numbers being discussed out to 2015 if appropriated receipts are based on a constant of the current leases.

Ms. Schiermeyer asked for Board comment about requesting an increase in the Executive Director's salary range to the average level for Group IV or an increase in the cap for the salary, not an increase in the Executive Director's salary, to \$125,000 so the Board would have leeway over the next two years. The consensus of the members was to seek an increase in the not-to-exceed amount to \$125,000, but not to request any additional appropriation. Mr. Roddy complimented staff for assembling the LAR and stated it looked like various sources of funds exist to accomplish everything requested today and that he believed it ought to be pursued. The other Board members agreed.

Ms. Scivicque asked how the Board wanted the Authority to present the direction for funding, if a combination of Master Lease Purchase Program appropriated receipts and bond revenue proceeds were to be used and Ms. Schiermeyer answered "yes."

Ms. Schiermeyer stated the work session was concluded.

Item 5. Approve the minutes of the June 8, 2010 Board meeting.

Ms. Schiermeyer asked if there were any corrections or additions to the minutes of the Board meeting of June 8, 2010. Mr. Roddy moved to approve the minutes as submitted. Mr. Alley seconded. The motion passed unanimously.

Item 6. Consideration, discussion and possible action to approve an amendment to the contract for services between TPFA and TPFA CSFC for staff services, including an increase in the fees for staff services regarding charter school conduit issuances.

Ms. Durso explained that the Authority provides administrative services to the Charter School Finance Corporation through a service contract. The Authority serves as a conduit issuer for charter schools that seek to issue bonds for construction and renovation of facilities, and administers the credit enhancement grant. Under the Americans Recovery and Reinvestment Act there is an investment vehicle for open enrollment charter schools that is very much like the Build America Bonds and it is called the Qualified School Construction Bonds ("QSCBs"). There have been a number of charter schools coming to the TPFA CSFC for conduit financings in the last several months because of allocations to the State under that Act. These issuances are a bit more complicated than the ones done in the past and most of them are multi series whereas in the past issues have been single series. This has increased the workload of staff as it is directed toward the Charter School Finance Corporation and also been a drain on the agency's tangible resources.

Staff has discussed these issues with the Charter School Finance Corporation Board and asked that an amendment to the contract be sought. The CSFC Board approved the change in the contract raising the fee in a single series issuance from \$5,000 to \$6,000 and if there are multiple series, another \$2,500, so that the total to any issuer would be \$8,500. Small cities charge typically between \$15,000 and \$25,000 per issuance depending upon the size of the issuance. In fact, in discussions with bond counsel, it was suggested that the Authority charge \$15,000. However, staff is of the opinion that it offers this service as a part of its obligation to the public and is not seeking that level of increase. Staff requests that the Board approve the amendment proposed by the Corporation.

Mr. Alley moved to approve the proposed amendment to the contract between the Authority and the Corporation, as described. Mr. Moore seconded. The motion passed unanimously.

Item 7. Consideration, discussion and possible action to approve the Adjutant General's Request for Financing to issue \$6,535,000.00 in general obligation debt pursuant to Art. III, sec. 50-g, Texas Constitution, and Acts of the 81st Legislature, for repair and renovation of certain readiness centers, and take other necessary related action.

Mr. Burns stated the Adjutant General leads the Texas Army National Guard, Texas Air National Guard and Texas State Guard. Mr. Burns introduced Captain Amanda Campeau, Resource Manager for the Facilities Director. Captain Campeau stated all the projects being repaired or renovated had reached their estimated, useful life. Ms. Schiermeyer asked if several projects were combined to make up the \$6,535,000 request and if all of the money was being requested at one time. Captain Campeau stated all the money was being requested at once and that the projects would be executed between now and the end of the State's fiscal year 2011.

Mr. Moore asked if the projects were in different geographic locations and if so, if the bids would be independent for each location or would the projects be coupled together for bidding. Captain Campeau indicated the bids would be independent. Mr. Moore asked if the bids were turn-key or construction management. Captain Campeau answered "construction management." He then asked if she knew why it was determined that construction management was the way to proceed instead of turn-key bid.

Mr. Ghazi Dakik, Chief of Planning and Programming for the CFMO office, part of the Adjutant General Department's office, responded that the projects are turn-key bidding. Mr. Moore said he was happy to see it was turn-key and for the projects submitted it was money best spent.

Staff recommends that the request for financing be approved and financed through the commercial paper program. Mr. Villarreal moved to accept staff's recommendation. Mr. Moore seconded. The motion passed unanimously.

Item 8. Consideration, discussion, and possible action to approve the Department of Public Safety's Request for Financing to issue \$10 million in general obligation debt pursuant to Art. III, sec. 50-g, Texas Constitution and Acts of the 81st Legislature, for repair and renovation of certain department building and facilities and take other necessary related action.

Mr. Burns introduced Cheryl McBride, Chief Financial Officer for the Department of Public Safety to discuss its request for \$10 million. Ms. McBride said the Department was fortunate to have \$10 million in bond authority granted by the last legislature and has several hundred buildings across the State. Many of the buildings have been neglected over the past 75 years. A study was commissioned by the Texas Facilities Commission and Parsons Engineering to review the buildings. The near-term

repairs needed are approximately \$155 million; about 6 years out, it goes up to \$360 million and so \$10 million is a pretty small amount. Priority is being given to life safety issues and critical items identified in the Parsons' report.

Mr. Alley asked about the project management fees and whether or not those fees were internal fees. Ms. McBride stated it was a combination of external and internal staff. The plan is to hire a contract project manager and an administrative person to help guide the entire project. DPS has about five staff in-house project managers who will be working on this project. Ms. McBride thanked the Board and TPFPA staff.

Staff recommended that the request for financing be approved and financed through the commercial paper program. Mr. Roddy moved to accept staff's recommendation. Mr. Alley seconded. The motion passed unanimously.

Item 9. Consideration, discussion and possible action adopting a Resolution approving the amended liquidity agreement, amended dealer agreements, the amended issuing and paying agency agreement, and the offering memorandum for the Texas Public Finance Authority General Obligation Commercial Paper Notes (Cancer Prevention and Research Institute Project) Series A and B, in the amount of \$450,000,000 and take other necessary related action.

Mr. Burns stated that on June 8, 2010, the Board approved the resolution increasing the size of the commercial paper program for the Cancer Prevention and Research Institute Project from \$250 million to \$450 million. This increase allows the CP program to match CPRIT's total bond authority for the biennium and a new liquidity agreement has been drafted with the Comptroller of Public Accounts office. Mr. Burns introduced Bill Gimson, Executive Director of the Cancer Prevention and Research Institute of Texas.

Mr. Gimson thanked Mr. Burns and TPFPA staff for an incredible first year. He reported that CPRIT invests in the health of Texans, to save lives, reduce cancer cases and ultimately bring economic return back to the State of Texas. It also invests in the research superiority of the State and the life science infrastructure of the State of Texas. In summary, last year CPRIT received 1100 proposals for cancer research, cancer prevention and cancer commercialization grants. 150 outside reviewers--non-residents of Texas--performed 8,500 reviews of grant applications. CPRIT awarded 155 grants totaling about \$216 million in every part of the State. Forty-three institutions across Texas received a grant.

Mr. Villarreal moved to accept staff's recommendation to adopt a Resolution approving the amended liquidity agreement, the amended issuing and paying agency agreement and dealer agreements and the offering memorandum. Mr. Moore seconded. The motion passed unanimously.

Item 10. Presentation on sale of Texas Public Finance Authority General Obligation Refunding Bonds, Series 2010A and Series 2010B.

Mr. Burns directed the Board's attention to the booklet provided by Barclays Capital, the book-runner on the recent general obligation refunding. He introduced John Daniel to provide a review of the transaction.

The TPFA State of Texas General Obligation Refunding Bonds consisted of two series that sold on June 22, 2010. Series A, \$180,490,000, refunded a portion of the Authority's outstanding general obligation commercial paper notes to achieve long term fixed rate financing and Series B, \$153,050,000, refunded a portion of the outstanding general obligation bonds of the State issued by the Authority to achieve debt service savings. The all-in costs of funds to TPFA for the transaction was 3.29% and the Series B refunded portion of the bonds resulted in a net present value savings of approximately \$7.4 million.

Mr. Daniel, Barclays Capital, thanked the members of the team including Coastal Securities, Financial Advisor; McCall Parkhurst & Horton, Bond Counsel, the underwriters, Cabrera, Citi, Jefferies, Loop Capital Markets, Morgan Keegan, Piper Jaffray and Ramirez, along with Fulbright & Jaworski who served as underwriters' counsel.

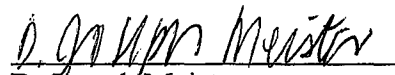
Item 11. Executive Director's Report--Market Update

Mr. Burns invited anyone with questions about the TPFA status report or market conditions to call him.

Item 12. Adjourn.

The meeting adjourned at 11:59 a.m.

The foregoing minutes were approved and passed by the Board of Directors on September 2, 2010.



D. Joseph Meister
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Open Meeting Submission

Success!

Row inserted

TRD: 2010005825
Date Posted: 07/28/2010
Status: Accepted
Agency Id: 0113
Date of Submission: 07/28/2010
Agency Name: Texas Public Finance Authority
Board: Texas Public Finance Authority
Liaison Id: 3
Date of Meeting: 08/05/2010
Time of Meeting: 10:00 AM (###:## AM Local Time)
Street Location: Capital 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.

TEXAS PUBLIC FINANCE AUTHORITY
 THURSDAY, AUGUST 5, 2010, 10:00 A.M.
 Capitol Extension Hearing Room E2.028
 AUSTIN, TEXAS 78701

- Agenda:**
1. WORKSESSION: Call to order.
 2. Confirm meeting posting compliance with the Open Meetings Act.
 3. Excuse absences of board members.
 4. Board and staff discussion and possible action by Board regarding Legislative Appropriations Request and possibly take action.

RECESS UNTIL 11:00 A.M.

5. Reconvene in Open Meeting at 11:00 A.M. ζ affirm quorum
6. Approve the minutes of the June 8, 2010 Board meeting.
7. Consideration, discussion and possible action to approve an amendment to the contract for services between TPFA and TPFA CSFC for staff services, including an increase in the fees for staff services regarding charter school conduit issuances.
8. Consideration, discussion and possible action to approve the Adjutant General's Request for Financing to issue \$6,535,000.00 in general obligation debt pursuant to Art. III, sec. 50-g, Texas Constitution, and Acts of the 81st Legislature, for repair and renovation of certain readiness centers, and take other necessary related action.
9. Consideration, discussion, and possible action to approve the Department of Public Safety's Request for Financing to issue \$10 million in general obligation debt pursuant to Art. III, sec. 50-g, Texas Constitution and Acts of the 81st Legislature, for repair and renovation of certain department building and facilities and take other necessary related action.
10. Consideration, discussion and possible action adopting a Resolution approving the amended liquidity agreement, amended dealer agreements, the amended issuing and paying agency agreement, and the offering memorandum for the Texas Public Finance Authority General Obligation Commercial Paper Notes (Cancer Prevention and Research Institute Project) Series A and B, in the amount of \$450,000,000 and take other necessary related action.
11. Presentation on sale of Texas Public Finance Authority General Obligation Refunding Bonds, Series 2010A and Series 2010B.
12. Executive Director's Report--Market Update

Executive Session:

13. 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

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

15. 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.

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