MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE

TEXAS PUBLIC FINANCE AUTHORITY

February 13, 2001

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 2:05 P.M., Tuesday, February 13, 2001, Stephen F. Austin Building, Room 118, 1700 N. Congress, Austin, Texas. Present were: Mr. Dan Serna, Vice-Chairman; Ms. Cynthia Meyer, Secretary, Ms. Helen Huey, Board Member; Mr. John Kerr, Board Member and Mr. Bert Mijares, Board Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director; Ms. Judith Porras, General Counsel; John Hernandez, Deputy Director, Ms. Jeanine Barron and Ms. Donna Richardson.

Present in their designated capacities were the following persons: Michael Bartolotta, First Southwest Company; Kay Watson, Walton Johnson & Company; J. Dale Lehman, U.S. Bancorp Piper Jaffray; Robbi J. Jones, SBK-Brooks; Karin R. Werness, BancOne Capital Markets, Inc.; Bob Kinney, PaineWebber; Lance G. Johnson, Estrada Hinojosa & Co.; Tilghman Naylor, Bear Stearns; Brian Middlebrook, Merrill Lynch; Curt Shelmire, Barry Adair, Autumn Strier and Art Morales, Morgan Stanley Dean Witter; Andy Bynam, Salomon Smith Barney; Kelly Casto and Don Henderson, J.P. Morgan; Tom Oppenheim, Morgan Keegan; Mark Nitcholas, Dain Rauscher; Cheryl Allen, Southwest Securities; Curtis Flowers, Loop Capital Markets; Jim Buie, Bond Review Board and Nancy Marstiller, Water Development Board.

Item 1: Call to order.

Mr. Serna called the meeting to order at 2:05 P.M.

Item 2: Approval of minutes of the January 16, 2001 Board meetings.

Mr. Serna asked if there were any corrections or additions to the minutes of the January 16, 2001 Board meeting. There being none, Mr. Mijares moved to approve the minutes. Ms. Huey seconded the motion. The motion passed unanimously.

Item 3: Consideration and action on proposals to refund outstanding bonds and general obligation commercial paper, including establishing savings parameters, selection of an underwriting team and bond counsel, and other necessary related matters.

Ms. Edwards reported that per the Board's instructions, staff along with the financial advisors refined the savings parameters for the proposed GO refunding. These parameters will result in a refunding of at least $200 million. This figure reflects First Southwest Company's analysis of possible refunding candidates. The saving is determined by a combination of the following factors: savings are greater with higher interest rates on old bonds, earlier call dates and longer amounts of time between the call date and the final maturity. First Southwest created debt profiles to analyze these factors. Ms. Edwards noted that the debt profile for general obligation bonds reflects that TPFA had two large refundings in 1997 and 1998, which refunded the higher coupon debt.

The base line recommendation is a net present value savings of 3% or greater than the par amount of refunded bonds with at least $6 million in total savings. Each refunded maturity must have at least 1% savings if there are more than two years to the call date or at least positive savings (greater than 0%) if there is less than two years to the call date.

Discussion ensued regarding how staff developed the recommendation and its effect on the size of the savings and refunding. Mr. Kerr asked if the 3% applies to the entire amount of bonds being refunding. Ms. Edwards answered it is on an aggregate. Mr. Bartolotta added that the universe of bonds under consideration is fairly durable as far as showing a $6 million PV savings. Regarding Mr. Serna's question concerning an aggregate analysis and resulting lower overall cost of issuance, Mr. Bartolotta responded that doing an aggregate the fixed cost is spread over a larger base making some bonds that would be marginal, more economical. Ms. Edwards added that the marginal candidates may have a call date farther out and because of that the escrow can earn a higher interest rate because of the longer life on the escrow. Mr. Bartolotta added this also preserves TPFA's ability for current refundings of those bonds that are not advance refundable.

Mr. Serna asked about the opportunity to look at the escrow requirements for the group. Ms. Edwards stated that Mr. Bartolotta's analysis makes use of State and Local Government Securities (SLGS) which is typically what TPFA uses to fund escrow.

The commercial paper program is the second component of the refunding. Ms. Edwards is monitoring the possibility of fixing out the commercial paper by issuing fixed-rate bonds and combining it with the refunding or possibly converting the commercial paper to another form of variable rate debt. Ms. Edwards reported that several of the proposals received from investment banking firms did consider combining the commercial paper fix-out with the refunding. Combining the two issues will increase the savings on the refunding by approximately $3.5 million, because the amount of interest earnings on the escrow is increased.

However, fixed-rate bonds typically bear a higher interest rate than commercial paper. From a budget position, Ms. Edwards stated that commercial paper averages 3.5% to 4%. Looking at that debt service compared to fixing out at the refunding interest rate, TPFA would be paying more on debt service. Ms. Edwards reviewed the comparison of commercial paper alternatives prepared by Mr. Bartolotta. The rate for the current CP was set at 3.51% which is the 10 year average of the Bond Market Association (BMA) index, and 5% was the rate used for the fix-out. Over a 20 year period the difference in debt service is approximately $34 million more when fixed out. Mr. Serna asked if both were net present value numbers. Ms. Edwards said the $34 million is PV and the gross number is $100 million roughly (the difference between $631 million and $537 million). To summarize, Mr. Serna stated that there is a $34 million present value cost to include the commercial paper.

Mr. Bartolotta added that it is usually beneficial to do a fix-out in conjunction with a refunding. There are advantages of sharing fixed costs in addition to the yield pick up, as a result of the extension of the average life of the CP. Once the banking team is in place, Ms. Edwards stated that analysis would be made to consider possibly fixing out a portion of the CP.

In terms of the remaining portion of the CP, Ms. Edwards recommended waiting another month into the legislative session to get a better sense as to the capacity issue and making a recommendation at that time.

Following the discussion, Ms. Edwards made the following recommendation: TPFA will combine a CP fix-out with the refunding to the extent that the additional savings created by the fix-out is greater than the resulting increase in debt service (i.e., the difference between the debt service on fixed out CP and the estimated debt service on variable rate CP, estimated using the historical 10 year BMA index) or if the fix-out rate is 4.25% or lower (as measured by the TIC of the fix-out portion of the refunding.)

In response to a question from Mr. Serna, Ms. Edwards explained that if TPFA were converting CP to variable rate as opposed to fixing it out at a fixed rate, that would be considered a completely separate transaction and require separate analysis from the refunding. It would not help the refunding, but may be a future consideration.

Mr. Serna asked about current refunding opportunities. Mr. Bartolotta said they were included in the analysis.

Mr. Serna wanted to make sure that any action taken by the Board today would allow Ms. Edwards the opportunity to pick up any additional savings that may occur over the next 30-45 days. Given current market conditions, Ms. Edwards explained that the savings criteria can currently be met. This could change given the time needed to go to the Bond Review Board and to return to the Board with bond documents. The earliest pricing date would be late March or early April. The supply of bonds appears to be increasing, with the municipal bonds moving more slowly than Treasury bonds.

Ms. Edwards added that the Texas Parks and Wildlife Department (TPWD)GO Bonds, Series 1992, 1996 and possibly some of the series 2000 may be considered in the refunding. However, since the TPWD bonds must be issued as a separate series, she recommended that they only be included if the savings they generate would be meaningful enough to the budget.

Mr. Serna asked Ms. Edwards or Mr. Bartolotta to reiterate why for example the $7.7 million revenue bonds at 5.91% are not available for refunding. Ms. Edwards noted that most of the revenue bonds have been recent issuances and have relatively low coupons (over half in the 4.5% to 5% range) with a relatively long period to the call date. This scenario does not justify doing a separate refunding at this time. Past revenue refundings have been successful when combined with the issuance of new money. At this time there are no new money revenue bonds that have been approved by the legislature. Ms. Edwards will continue to monitor legislative activity.

Mr. Kerr inquired if there were any statewide guidelines for variable rate debt exposure. Ms. Edwards responded that the Bond Review Board (BRB) may have some data and asked Mr. Jim Buie for the BRB to comment. Mr. Buie indicated that BRB does not have a recommendation on the overall level of variable rate exposure at this time.

Mr. Kerr moved to adopt the recommended parameters as applies to the GO bonds and to proceed ahead on that basis. Ms. Meyer seconded the motion. The motion passed by unanimous vote.

Mr. Serna asked if Board action was needed at this time regarding a pricing committee. Ms. Edwards recommended waiting until the resolution has been adopted.

Ms. Edwards commended the firms for the refunding analysis submitted and recommended the following underwriting team: Morgan Stanley Dean Witter (book-runner) and U.S. Bancorp Piper Jaffray as co-senior managers. The naming of other syndicate members will be deferred until closer to the pricing date.

The staff recommended Vinson & Elkins to serve as bond counsel.

Ms. Huey moved to approve the staff recommendation of the underwriting team and the bond counsel at a cap not to exceed $30,000. Mr. Mijares seconded the motion. The motion was approved unanimously.

4. Other Business/Staff Report

Ms. Edwards advised that TPFA has two positions open. The Budget Analyst position opening was posted internally as an Administrative Technician due to some changes in duties. Ms. Marce Snyder accepted the position effective February 1, 2001. Ms. Barron will assist all of the executive staff with some of her duties being assumed by other staff. Interviews are ongoing for the IR position.

Ms. Edwards reported that the Senate and the House have conducted budget hearings for TPFA.

The House Sub-Committee on General Government has gone through "mark up," the process of making changes to the initial LBB budget recommendation. Mr. Branch testified before the Senate and the House. TPFA still has to appear before the full House committee. Ms. Edwards added that TPFA is providing advice when requested regarding transportation bonds. Mr. Kerr asked if there would be a separate issuing authority or TxDOT. Ms. Edwards responded that it appears that TxDOT has had authority to issue bonds, especially under the Texas Turnpike Authority, as well as the State Infrastructure Bank. Some of the bond proposals involve GARVEE bonds, i.e., using the federal reimbursement to pay the debt service. Legislation to date does not mention TPFA as the issuer of the bonds.

Mr. Serna asked about the status of the tobacco settlement issue. Ms. Edwards was not aware of any activity regarding tobacco bonds. Mr. Kerr inquired as to the status of TPFA possibly issuing bonds to recover stranded costs of joint powers municipal utilities. Ms. Edwards stated that she had received correspondence from Gregg Jones at Fulbright & Jaworski. The Texas Municipal Power Agency has submitted a private letter request to the IRS and is responding to questions from the IRS. Ms. Edwards was not aware of any activity regarding Sam Rayburn.

Mr. Serna asked that Board members be provided any analysis from proposals that Ms. Edwards feels would be helpful.

The meeting adjourned at 3:18 P.M.

The foregoing minutes were approved and passed by the Board of Directors on March 20, 2001.

Cynthia L. Meyer

Secretary, Board of Directors

ATTACHMENT

Posting Notice - Exhibit "A"