

**MINUTES OF THE MEETING OF THE  
BOARD OF DIRECTORS OF THE  
TEXAS PUBLIC FINANCE AUTHORITY  
November 27, 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 1:32 A.M., Tuesday, November 27, 2001, Capitol Extension, Room E1.026, State Capitol, Austin, Texas. Present were: Mr. Dan Branch, Chairman, Mr. John Kerr, Board Member, Mr. H.L. Bert Mijares, Board Member, Mr. Dan Serna, Board Member, and Ms. Helen Huey, Board Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director; Ms. Judith Porras, General Counsel; John Hernandez, Deputy Director; Ms. Paula Hatfield and Ms. Donna Richardson. Gabriela Klein, Financial Analyst; Ophelia Guerrero, Chief Accountant, and Tracey Pena were also in attendance.

Present in their designated capacities were the following persons: Michael Bartolotta, First Southwest Company; Barry Bowens, Walton Johnson & Co.; Jodie L. Jiles and Tilghman Naylor, Bear Stearns; J. Dale Lehman, U.S. Bancorp Piper Jaffray; Barry Adair and Curt Shel mire, Morgan Stanley; Raymond Davenport, Delegado, Acosta, Braden & Jones; Vickie Hall and Shelly Zachary, Friedman Luzzatto; Bob Estrada, Estrada, Hinojosa & Co.; Bob Collie and Jerry Kyle, Andrews & Kurth; Barron F. Wallace and Suewan Johnson, Vinson & Elkins, LLP; Robbi J. Jones, SBK-Brooks; Tim Kelley, Coastal Securities; Renee Higginbotham-Brooks, Law Offices of Renee Higginbotham-Brooks; Mark Malveaux, McCall, Parkhurst & Horton, LLP; Curtis V. Flowers, Loop Capital Markets; Kelly Casto and Richard Ramirez, JP Morgan; John Daniel, Lehman Brothers; Tom Oppenheimer, Morgan Keegan & Co.; Vincent Matrone, Goldman Sachs; and Suzanne Hickey, Jackson Securities.

**Item 1. Call to order.**

Mr. Branch called the meeting to order at 1:32 P.M.

**Item 2. Approval of minutes of the October 16, 2001 Board meeting.**

Mr. Branch asked if there were any corrections or additions to the minutes of the Board meeting of October 16, 2001. There being none, Mr. Kerr moved to approve the minutes as presented. Ms. Huey seconded the motion. The motion passed unanimously.

**Item 3. Consider resolution authorizing the issuance of approximately \$375 million Texas Public Finance Authority General Obligation Refunding Bonds, Series 2002, the execution of documents in connection therewith, and designating a Pricing Committee to sell the bonds.**

Ms. Edwards explained that staff and the working group had accelerated the schedule on the bond sale to be in a position to obtain the very favorable interest rates that were available in late October and early November and meet the 4.35% target set by the board at the last meeting. She noted, however, in the past week, interest rates had begun to increase. Tilghman Naylor of Bear Stearns provided a more detailed report on market conditions, indicating that at current rates (November 26), the true interest cost of the bonds would be approximately 4.57%. He explained that they had done an analysis of various call features, including a 12 year call and no call, in an effort to lower the true interest cost of the bonds and he reviewed that analysis with the Board. Mr. Bartolotta concurred with Mr. Naylor's remarks regarding market conditions. He recommended that the Authority maintain its 4.35% target and continue to monitor the market. He noted that although there is a very heavy supply in December that makes it unlikely that rates will drop to the desired levels, there may be an improvement in January. He also commented that he thought the call feature should be preserved in some manner. The Board designated Bert Mijares, Helen Huey, Cynthia Meyer as Pricing Committee members, with Dan Serna as an alternate member. Mr. Mijares moved to adopt the resolution authorizing the issuance of general obligation refunding bonds in an amount not to exceed \$400 million. Ms. Huey seconded. The motion passed unanimously.

**Item 4. Consider and take action with respect to compliance with Texas Internal Audit Act.**

Ms. Edwards explained to the Board that the 77<sup>th</sup> Legislature had passed legislation that eliminated small state agencies' exemption from the statutory requirement to have an Internal Auditor. Staff recommended that the Authority issue a Request for Proposals for internal audit services and provided a draft RFP for the Board. Ms. Porras provided clarification regarding the requirements of the statute. Discussion ensued regarding the effective date, costs and budgeted amount. Ms. Edwards stated that since the statute provided that agencies with the authority to charge fees could use such fee revenue to cover the cost of compliance, she recommended that TPFA use Master Lease Program Fees to pay for these services. Mr. Serna recommended that the Board establish a subcommittee to establish selection procedures, including evaluating proposals and interviewing firms as necessary. The Board concurred and determined that Dan Serna, Bert Mijares and Helen Huey would serve on the subcommittee. Mr. Serna moved to issue a Request for Proposal for internal audit services. Ms. Huey seconded. The motion passed unanimously.

**Item 5. Consider and take action on Financial Advisor and Bond Counsel contracts.**

Ms. Edwards explained that in August, the Board voted to extend the current financial advisor contracts for six months in order to provide continuity of service on the current bond issues. Subsequently, Kay Watson, the primary staff contact to TPFA from Walton Johnson and Company,

was terminated from her employment with the firm. As a result, Ms. Edwards recommended the contract extension with Walton Johnson be terminated, since the firm was not able to provide the continuity of service that the contract extension was intended to provide. Discussion ensued regarding the termination provisions of the contract. Ms. Huey moved to terminate Walton Johnson's contract. Mr. Mijares seconded. The motion passed unanimously.

Ms. Edwards informed the Board that bond counsel services on the current bond issues were also being performed under extensions of existing contracts, but that new RFP's would need to be issued before bond counsel could be hired for any new transaction. Discussion ensued regarding the timing of new transactions. It was the consensus of the Board that RFP's for financial advisory services should be issued at the end of the current contract extensions and for bond counsel services when needed for new transactions.

**Item 6. Briefing on charter school financings authorized by HB 6, 77<sup>th</sup> Legislature, 2001.**

Ms. Edwards informed the Board that TPFA staff had met with Texas Education Agency staff to discuss implementation of the bill and had preliminary meetings with representatives from two charter schools. She reviewed Section 32 of H.B. 6, Acts, 77<sup>th</sup> Legislature, which requires the TPFA Board to establish a non-profit corporation to issue revenue bonds on behalf of open-enrollment charter schools and appoint the directors of the board in consultation with the Commissioner of Education. Ms. Edwards noted that the Commissioner had sent a letter suggesting the board be comprised of the TPFA Board of Directors, plus two additional members, Dr. Hugh Hayes, Deputy Commissioner of Education, and Ms. Francis Teran, President of the Board of the Association of Charter Educators.

Ms. Edwards introduced Susan Barnes, Jim Thompson, and Joe Wisnoski of the Texas Education Agency. Ms. Barnes provided an overview of the state's existing charter school program and answered specific questions from Board Members regarding the charter process, funding mechanisms, and facilities design and construction management.

Ms. Edwards recommended that the TPFA Board defer action on establishing the non-profit corporation board until the Authority had received a request for financing from a school. No action was taken.

**Item 7. Other Business/Staff Report.**

Ms. Edwards recognized TPFA staff Ophelia Guerrero, Shannon Lucero, Loan Nguyen, Gabriela Klein, and John Hernandez for preparing the agency's Annual Financial Report ahead of schedule. A copy was provided to each Board member.

**Item 8. Adjourn.**

The meeting adjourned at 2:57 P.M.

The foregoing minutes were approved and passed by the Board of Directors on December 18, 2001.

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Cynthia L. Meyer  
Secretary, Board of Directors

ATTACHMENT  
Posting Notice - Exhibit "A"