

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
January 15, 2002**

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 2:00 P.M., Tuesday, January 15, 2002, Capitol Extension, Hearing Room E2.030, Austin, Texas. Present were: Mr. John Kerr, Board Member, Mr. H.L. Bert Mijares, Board Member, Ms. Cynthia Meyer, Board Member and Mr. David Kelly, 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. Ophelia Guerrero and Gabriela Klein were present.

Present in their designated capacities were the following persons: Jodie Jiles and Tilghman Naylor, Bear Stearns; Dale Lehman, U.S. Bancorp Piper Jaffray; Keith Richard, Siebert Brandford Shank; Alison Brisco, Lehman Brothers; J. Spann, Jefferson Wells; Andy Bynam, Salomon Smith Barney, Vincent Matrone, Goldman Sachs & Co.; Curt Shelmire, Morgan Stanley; Mark C. Nitcholas, RBC Dain Rauscher Inc.; Jim Fonteno, UBS PaineWebber; Curtis V. Flowers, Loop Capital Markets; Kay Watson, CKW Financial Group; Tim Kelley, Coastal Securities; Kelly Casto, Don Henderson, Roy Torkelson, JP Morgan; Robbi Jones, SBK-Brooks; Karin R. Werness, Bank One; Jerry Kyle, Andrews & Kurth; Larry Jordan, Estrada Hinojosa; Quintin Wiggins, Terry Smith, Derik Lockett, Texas Southern University; Kris Heckman, Office of the Governor; Jessica Pantano, Jack Foster, Jim Randall, James Bass, Amadeo Saenz, Texas Department of Transportation; Richard Donoghue, McCall Parkhurst & Horton, LLP; Johnnie Morales, Speaker's Office; Christi Martin, Association of Charter Educators, James Montgort, Fellowship Charter School; Robin Beauregard, Gerry Walton, Ron Porter, Cedar Ridge Charter School; and Patsy O'Neill, Charter School Resource Center.

Prior to the convening of the meeting, Ms. Porras advised that the current Board needed to elect a vice-chairman to conduct the meeting, since Mr. Serna was no longer serving on the Board. Bert Mijares made a motion for John Kerr to serve as Vice-Chairman. Cynthia Meyer seconded. The motion passed unanimously.

Item 1. Call to order.

Mr. Kerr called the meeting to order at 2:16 P.M. He introduced David Kelly, TPFA's new board member, who had been appointed to fill Mr. Branch's seat.

Item 2. Approval of minutes of the December 18, 2001 Board meeting.

Mr. Kerr asked if there were any corrections or additions to the minutes of the Board meeting of December 18, 2001. There being none, Mr. Mijares moved to approve the minutes as presented. Ms. Meyer seconded the motion. The motion passed unanimously.

Item 3. Election of Officers.

Election of Officers was postponed, pending additional appointments of a new Board Members.

Item 4. Report on pricing and sale of Texas Public Finance Authority Building Revenue Bonds (Texas Military Facilities Commission) Series 2002.

Ms. Edwards reported that the \$12,975,000 Texas Military Facilities Commission Revenue Bonds were priced on Wednesday, January 9, with Coastal Securities serving as Senior Manager. She reported that the bond sale was very successful, market conditions were good, and she complimented Coastal, the co-managers and the selling group on their performance. The pricing committee included Ms. Huey, who attended the pricing in person, and Mr. Mijares, who participated by telephone. Tim Kelley, Coastal Securities, provided an overview of the transaction for the Board. He reported that there was strong retail demand for the bonds, and that there was not much competing supply in the market. As a result, the financing achieved a true interest cost of 4.52%, and the refunding component produced total debt service savings of \$375,000, or 3.8% of the refunded bonds. Mike Bartolotta, First Southwest Company, agreed with Ms. Edwards and Mr. Kelley.

Mr. Kerr asked whether this financing could provide an indication of how close rates were to the 4.35% target set for the proposed fix out for the Commercial Paper. Tilghman Naylor, Bear Stearns & Co., said that the most recent analysis showed that the TIC for the GO CP fix out in current market conditions was approximately 4.60%. Discussion ensued about the economic forecast and the probability of another 0.25% interest rate cut by the Fed at the January 30 meeting. Mr. Bartolotta stated that many analysts expected the economy to improve by the third or fourth quarter and that rates could increase at that time. Research also shows that certain economic conditions could result in a scarcity of liquidity, which could translate into higher costs for variable rate debt liquidity facilities. He felt there may be an improvement in the tax-exempt market over the next few weeks where the Authority could possibly reach a 4.5% TIC, but that the window would be short. He explained that if rates began to fall, other issuers would also sell bonds and the increase in supply could cause rates to increase again quickly. He recommended that if the Authority wanted to fix out its commercial paper, that they should raise the TIC target to 4.5%, and be prepared to act very

quickly. Discussion ensued. Ms. Porras confirmed that the Board could not take formal action to change the parameter at this meeting because it was not posted on the agenda.

The Board instructed staff to post a meeting as soon as possible to consider the matter and take any necessary action to achieve the lowest interest rate possible.

Item 5. Consider a Request for Financing from Texas Southern University for financing facility construction and renovations, and acquisition of land in the approximate amount of \$49.5 million through the issuance of tuition revenue bonds, select a method of sale, and take other necessary related action.

Ms. Edwards reminded the Board that these bonds were authorized pursuant to HB 658, which was passed by the 77th Legislature. The Bonds are similar to the tuition revenue bonds TPFAs issued for Texas Southern University in 1998, where the University pledges its gross revenues to the bonds and the legislature reimburses the university for the debt service from a general revenue appropriation. She introduced Quinton Wiggins, Vice President of TSU and Terry Smith, Vice President of Architecture and Derik Lockett.

Mr. Wiggins explained the genesis of this effort was a federal lawsuit involving the Office of Civil Rights of the U.S. Justice Department that addressed years of underfunding at TSU. The settlement addressed three areas for improvement: academic programs, new academic programs and deferred maintenance. The three projects proposed are the Sterling Student Life Center Renovation, New Science Building and Law School Renovation and Addition. The purpose, scope, estimated schedule, and cost of the projects were reviewed. Mr. Wiggins stated that TSU is required to report the status of these projects every six months to the Legislative Budget Board, Governor's Office and Texas Higher Education Coordinating Board, as well as to the U. S. Justice Department. Mr. Smith presented a slide show of the buildings at TSU revealing the need for the projects. Mr. Kelly and Mr. Mijares asked questions regarding the project budgets and contingency funding.

Ms. Edwards recommended the Board approve this financing, and that co-senior managers be Salomon Smith Barney and SBK-Brooks, with Salomon Smith Barney running the books. She said that the recommendation for co-senior managers was based on the fact that the bankers at each firm had previous financing experience with the University. The type of sale would be negotiated. Bond Counsel and Financial Advisor for this transaction would be chosen in February when the RFP process is complete. Mr. Kerr moved to adopt staff's recommendation. Mr. Kelly seconded. The motion was adopted unanimously.

Item 6. Consider a Request for Financing from the Texas School for the Deaf for financing facility construction and renovations in the approximate amount of \$7 million through the issuance of general obligation bonds, select a method of sale, and take other necessary related action.

Ms. Edwards reminded the Board this project was included in the \$850 million of G. O. bonds approved by the voters on November 6. As discussed at previous board meetings, staff recommends that the Authority establish a new general obligation commercial paper program to fund

these projects for renovation, repair and new construction. In October, the Board had selected J.P. Morgan and Lehman Brothers from the pool of five firms to handle variable rate deals to serve as the initial dealers for the new program. Staff recommends combining this request with the \$33.9 million request from the Department of Health received last month and a \$31 million request from the Department of Criminal Justice expected to be received in February. The specific structure of a new CP program, however, will be developed after Bond Counsel and the Financial Advisor are selected to have the expertise of these consultants. Bond Counsel and Financial Advisor for this transaction would be chosen in February when the RFP process is complete.

Ms. Meyer moved to adopt staff's recommendation. Mr. Mijares seconded. The motion passed unanimously.

Item 7. Consider a Request for Financing from the Office of the Governor and the Texas Department of Transportation to finance colonia access roadway projects in the approximate amount of \$50 million, select a method of sale, and take other necessary related action.

Ms. Edwards reminded the Board these bonds were authorized by SB 1296 and approved by the voters in November. The Legislation calls for TPFA to issue up to \$175,000,000 in G.O. bonds to provide financial assistance to counties for colonia access roadway projects. This program is unique as it involves the Texas Department of Transportation and the Governor's Office. Ms. Edwards introduced Kris Heckman from Governor Perry's office. Mr. Heckman provided an explanation of how counties will apply for funds, how the Texas Department of Transportation will reimburse the counties, how the allocation of funds is set up to deal with the border counties, the colonia population using a need-based formula and how some of the funds could be applied for on a project-by-project basis.

Staff recommended this financing be approved as a commercial paper transaction, but that specific recommendations be deferred until selection of Bond Counsel and Financial Advisor. Mr. Mijares moved to adopt staff's recommendation. Ms. Meyer seconded. The motion passed unanimously.

Item 8. Discuss and consider possible action on the selection of an Internal Auditor.

Ms. Edwards reported that 7 applications had been received in response to the RFP for an Internal Auditor. Copies of each of the applications were provided directly to the Board and a summary was promised to follow later this week. Ms. Meyer was named as a replacement for Dan Serna to review the applications.

Item 9. Other Business/Staff Report.

Christi Martin, Executive Director from Association of Charter Educators introduced herself to the Board and provided a brief summary on charter schools and her association's perspective on the need for the H.B. 6 financing alternatives. Ms. Martin's association is a non-profit organization that provides free services to those needing assistance and guidance in establishing charter schools.

Ms. Martin introduced Patsy O’Neill, Executive Director of the Charter School Resource Center, and offered both of their assistance to the Board should questions arise regarding charter schools.

No other business was discussed.

Item 10. Adjourn.

The meeting adjourned at 3:55 P.M.

The foregoing minutes were approved and passed by the Board of Directors on February 19, 2002.

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT
Posting Notice - Exhibit “A”