

**MINUTES OF THE MEETING OF THE
BOARD OF DIRECTORS OF THE
TEXAS PUBLIC FINANCE AUTHORITY
April 16, 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 10:40 A.M., Tuesday, April 16, 2002, Capitol Extension, Hearing Room E2.030, Austin, Texas. Present were: Mr. John Kerr, Chairman, Mr. H.L. Bert Mijares, Vice Chairman, Mr. David Kelly, Board Member and Mr. Vaughn Brock, 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 was also in attendance.

Present in their designated capacities were the following persons: Devin Phillips, Salomon Smith Barney; John Alexander, Dan Williams, Midwestern State University; Dale Lehman, U.S. Bancorp Piper Jaffray; Tilghman Naylor, Bear Stearns; Curtis V. Flowers, Loop Capital Markets; John D. Rulfs, Danny R. Gallant, Stephen F. Austin State University; Christian McCarthy, Lehman Brothers; Barry Adair, Curt Shelmire, Morgan Stanley; Don Henderson, Kelly Castro, JP Morgan; Tim Kelley, Coastal Securities; George Pedraza, UBS PaineWebber; and Barron F. Wallace, Vinson & Elkins, LLP.

Item 1. Call to order.

Mr. Kerr called the meeting to order at 10:40 A.M. Mr. Kerr noted that Board Member Helen Huey had not been able to attend a number of meetings due to personal and health requirements at home. Texas law requires the Board to take action on the absences. Mr. Kerr proposed a resolution to excuse Ms. Huey's absences. Mr. Mijares moved that Ms. Huey's absences from Board meetings be excused. Mr. Brock seconded. The motion passed unanimously.

Item 2. Approval of minutes of the March 19, 2002 Board meeting and the March 19 Work Session.

Mr. Kerr asked if there were any corrections or additions to the minutes of the Board meeting of March 19, 2002. There being none, Mr. Mijares moved to approve the minutes of the Board Meeting and the Work Session as presented. Mr. Kelly seconded the motion. The motion passed unanimously.

Item 3. Report on the pricing and sale of the Authority's Texas Southern University Revenue Financing System Bonds, Series 2002.

Ms. Edwards reported that the bonds were sold on April 10, 2002. Salomon Smith Barney served as the book running senior manager. Devin Phillips from Dallas gave an overview of the sale and reviewed the post sale analysis, which highlighted orders, allotments and designation for each firm. Mr. Phillips reported that the sale was a success due in large part to the rating upgrade by Moody's from Baa3 to Baa1. The rating upgrade resulted in very competitive bids for the credit enhancement bids and also was well received by investors. Catherine Miller-Brei reported that First Southwest Co. was very pleased with the pricing and felt it was very well received in the market. The Pricing Committee members, John Kerr, David Kelly and Vaughn Brock, agreed that the sale went smoothly. Ms. Edwards commended the co-managers on their work, and in particular noted that Loop, SBK Brooks and Siebert Brandford & Shank showed strong support early in the order period.

Item 4. Consider the adoption of a Resolution to establish a Commercial Paper Program to finance construction and/or acquisition of projects by various State agencies in the amount of \$881 million, authorizing agreements required for the Program and the taking of other action to effect the sale and delivery of the Notes and resolving related matter.

Ms. Edwards explained that a new General Obligation Commercial Paper program was being established to replace the Series 1993 GO Commercial Paper program, which was converted to fixed rate debt in January. She gave an overview of how commercial paper programs work. She explained that a liquidity facility is required, in the event a buyer cannot be found. Liquidity for TPFA's commercial paper is provided by the State Treasury for 4 basis points on the outstanding amount and 2 basis points on the remainder.

Barron Wallace, Bond Counsel, explained the legal documents necessary to establish the Commercial Paper Program. The primary document is the Bond Resolution. He attempted to make the resolution more flexible to allow it to be amended more easily, to add or replace dealers more easily, and also to add or replace credit providers. He called attention to Article II, which references an \$881 million program. He explained that at any one time the Authority cannot have an outstanding amount beyond the commitment level of the Liquidity. After discussions with the Attorney General's office and the Bond Review Board, a second provision was added, which clarified that the Authority could not issue more than the Legislature appropriated. The resolution also approves other documents necessary for the program, such as the dealer agreements, the liquidity agreement, a financing agreement, a funds management agreement, and a DTC master note

agreement, and designates the Liquidity Provider, Dealers, and Paying Agent. Mr. Wallace clarified that the \$881 million consists of the \$850 million that was authorized by the 2001 constitutional amendment, and \$31 million appropriated by the Legislature for the Texas Department of Criminal Justice from prior constitutional authorizations. This amount was included because it did not get issued before the old 1993 program was fixed out.

Mr. Kelly inquired about the Paying Agent agreement fee. Ms. Edwards pointed out that on Commercial Paper an outside bank is required to serve as the Paying Agent. On bond issues, TPFA serves as its own paying agent. Kay Watson handled the Request for Proposal for Paying Agent. Ms. Watson reported that she sent a Request for Proposal to approximately ten firms. Four firms responded and all have excellent services. The Authority's recommendation to select Deutsche Bank Trust Co. is based on their lowest price fee quote, the quality of service provided, and their reporting system. Ms. Edwards noted that Deutsche Bank was one of the responders who bid a per transaction fee in addition to the base fee, but provided better report capabilities. Ms. Edwards indicated a desire to begin providing the Board with some performance reporting on the Commercial Paper transactions. The Paying Agent will provide the raw data for those reports.

Ms. Edwards explained the Comptroller is agreeable to providing liquidity in an amount of \$475 million for the Authority's GO programs, for a fee of 4 basis points, through August 31, 2004. She noted however that the \$475 million of Liquidity may be spread over two commercial Paper programs. The Colonia Roadways Program may also be funded with Commercial Paper and if so, the Authority would dedicate \$175 million to that program, leaving \$300 million for this program. If not, the full \$475 million would be used for this Commercial Paper program.

Mr. Mijares moved to accept staff's recommendation for approval of the Resolution, for Deutsche Bank Trust Co. America to be the Issuing and Paying Agent for the Commercial Paper program, and for the liquidity agreement to reflect an amount "up to \$475 million." Mr. Kelly seconded. The motion passed unanimously.

Item 5. Consider a Request for Financing from Midwestern State University for the issuance of tuition revenue bonds in the amount of approximately \$8.0 million, select the method of sale, consultants, and take other necessary related action.

Ms. Edwards introduced the tuition revenue financing authorized by House Bill 658. In 1998, a similar program was established for Midwestern State University and these bonds will be issued under that 1998 Resolution. The Texas Higher Education Coordinating Board approved the projects, which include street improvements, drainage and repair, chilled-water distribution systems, HVAC upgrades and ADA improvements. Mr. John Alexander from Midwestern State University addressed Mr. Kelly's questions regarding contingency in the budget. The total amount authorized by H.B. 658 is \$8,967,500. Ms. Edwards said that due to the size of the issue, staff recommends this be sold through a competitive sale.

Mr. Kerr reminded the Board that policies had been adopted in the past to encourage participation in any competitive sale by HUB firms in these syndicates by requiring the firm heading up the syndicate to make a good faith effort to invite HUB firms to participate. The bidder must be

able to provide the Authority evidence of its good faith effort. Also, it has been the Board's policy to take into account whether companies participated in competitive sales when selecting underwriters on negotiated sales.

Mr. Kelly questioned whether there are disadvantages to a competitive sale. Ms. Edwards explained there is less control of who is underwriting the bonds because the bidders are deciding who they want in their syndicate. She also noted that a competitive sale provides less flexibility in market timing and in structuring the bond issue. However, she explained that much of this could be mitigated through careful wording of the bid requirement. In response to Mr. Kelly's question as to procedures if the bids exceed available resources to pay debt service, Ms. Porras stated that the Authority would have the right to reject all bids, as permitted by the bid documents.

Staff recommended that First Southwest Co. and CKW Financial Group, Inc. serve as co-financial advisors and that McCall, Parkhurst & Horton, LLP serve as bond counsel. These firms worked on the transaction in 1998, and are familiar with the documents and the University.

Mr. Mijares moved to accept staff's recommendation to proceed with a competitive sale, accept their recommendation for financial advisors and bond counsel. Mr. Brock seconded. The motion passed unanimously.

Item 6. Consider a Request for Financing from Stephen F. Austin State University for the issuance of tuition revenue bonds in the amount of approximately \$14 million, select a method of sale, consultants, and take other necessary related action.

Ms. Edwards stated this request was similar to the one requested by Midwestern State University and had also been done earlier in 1998. Mr. Kerr inquired about the Higher Education Assistance Fund. Ms. Edwards explained the HEAF money is available to all universities except The University of Texas and Texas A&M, and the University would be using some of these funds for the projects in addition to the tuition revenue bond money.

Mr. Danny R. Gallant, Stephen F. Austin State University, explained the project was a series of several smaller projects that are all contingent upon each other. The first section is the demolition of a building built in about 1958 that does not meet fire codes or requirements for ADA accessibility. An architect reviewed the existing building and evaluated renovation versus new building. As the cost of renovation was 90% of the cost of a new building, the University decided to demolish and replace the building. The second part of the program involves doing a small addition to the human services building that holds the telecommunications and switch. The current switch is 15 years old and is housed in the power plant. Mr. Mijares questioned the draw schedule showing that in November 2003, 20% of the funds would be used. Mr. Gallant indicated this was the expected time to purchase the new switch.

Staff's recommendation is to use First Southwest Co. and CKW Financial Group, Inc. as co-financial advisors, McCall, Parkhurst & Horton, LLP as bond counsel, and for the sale to be competitive. Mr. Kelly moved to accept staff's recommendation. Mr. Mijares seconded. The motion passed unanimously.

Item 7. Other Business/Staff Report.

Ms. Edwards updated the Board about the Master Lease Purchase Program. The Board recently authorized staff to start work on increasing the capacity in the program. The law firm of Winstead Sechrest was going to be hired to review the documents, utilizing the services of Mr. Todd Brewer who previously worked on the program. Since that time, two of the partners have left the firm, including one who does the tax practice. Bob Griffo and Dave Petruska have joined Andrews & Kurth. Mr. Brewer will most likely have to contract out the tax services. Ms. Porras reported she had spoken with the attorneys and they were amenable to any arrangement that would best serve the Board.

Mr. Brock asked staff if they had obtained more information about the possibility of utilizing depreciation benefits in some of the capital transactions. Ms. Porras indicated she had spoken preliminarily with Mike Bartolotta of First Southwest Co. Mr. Kerr requested Mr. Bartolotta to brief the Board on this issue at the next meeting.

Item 8. Adjourn.

The meeting adjourned at 11:46 A.M.

The foregoing minutes were approved and passed by the Board of Directors on May 21, 2002.

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT
Posting Notice - Exhibit "A"