

# Texas Public Finance Authority

## Board of Directors:

R. David Kelly, Chairman  
H.L. Bert Mijares, Jr., Vice-Chairman  
J. Vaughn Brock, Secretary  
Mark A. Ellis  
Helen Huey  
Ruth C. Schiermeyer  
Daniel T. Serna



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Kimberly K. Edwards  
Executive Director

## MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY December 2, 2004

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 1:30 P.M., Thursday, December 2, 2004, Capitol Extension Hearing Room E2.012, Austin, Texas. Present were: Mr. David Kelly, Chairman; Mr. Vaughn Brock, Secretary; Mr. Mark A. Ellis, Member and Mr. Dan Serna, Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director, Mr. John Hernandez, Deputy Director, Ms. Judith Porras, General Counsel, Ms. Gabriela Klein and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Andy Bynam, Citigroup; James Stewart, Banc of America Securities; Dale Lehman, Jim Dong, Piper Jaffray; Randy Bates, Bates & Coleman; Yava Scott, Siebert Brandford Shank; Laura Powell, UBS, John T. Daniel, Keith Richard, Lehman Brothers; Mark C. Kim, Vincent Matrone, First Albany Capital; Mark Nitcholas, RBC Dain Rauscher; David Potter, Michael Rosner, Curt Shelmire, Morgan Stanley; Lisa Vanderbeek, Mario Carrasco, AG Edwards; Traci Barnard, Sharon Rostovich, Tom Utter, Cindy O'Brien, Patricia Garcia, City of Corpus Christi; Al Speight, Port of Corpus Christi Authority; Richard Acosta, Ramirez & Co.; Richard Ramirez, Goldman Sachs; Jim Reaves, Representative Gene Seaman's Office; Jeff Leuschel, Carol Polumbo, McCall, Parkhurst & Horton, LLP; Nancy Hagquist, Winstead, Sechrest & Minick; Mike Bartolotta, Tim Peterson, Jennifer Douglas, First Southwest Co.; Jody Wright, Legislative Budget Board; Mike McElhaney, Office of the Governor; and Al Casals, Texas Military Preparedness Commission.

### Item 1. Call to order.

Mr. Kelly called the meeting to order at 1:57 P.M.

**Item 2. Approval of minutes of the October 25 and November 16, 2004 Board meetings.**

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of October 25. Mr. Ellis moved to approve the minutes. Mr. Brock seconded. The motion passed unanimously.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of November 16. Mr. Ellis moved to approve the minutes. Mr. Brock seconded. The motion passed unanimously.

**Item 3. Report on the sale of the Texas Public Finance Authority Revenue Refunding Bonds, Series 2004A, B, C and D.**

Ms. Edwards introduced Dale Lehman from Piper Jaffray who served as the senior managing underwriter on the revenue refunding bonds. Mr. Lehman thanked the Board for the opportunity to serve as the senior manager and also thanked the Board on behalf of the syndicate. He reviewed the post sale analysis report in detail. He reported that approximately \$193 million of refunding bonds were issued on October 26 at a true interest cost of 3.66%. The gross cash savings was over \$15 million and the net present value savings was over \$8 million, or 4.3% of the par amount of the refunded bonds. He reviewed the timing of the bond sale, the improvement of interest rates up to the sale date, and the market sell off during the order period for the bonds.

Ms. Edwards expressed her appreciation to the entire financing team. This transaction was completed in a very short time frame of about 4 weeks. It was complex in that it was divided into four series, had cash contributions and some tax issues. In addition to the underwriting syndicate, she complimented the Authority's financial advisor, Coastal Securities, for doing much of the financial analysis and subscribing for SLGs at the peak of the market. Ms. Edwards also thanked bond counsel and underwriter's counsel for their work. She noted that the deal structure and market sell off during the order period made the pricing very difficult and that the entire syndicate made a capital commitment on this refunding.

Mr. Serna stated that he was thankful and very impressed with the creativity demonstrated by this transaction and he hoped it was an indication for everyone in the audience that TPFPA wants to do business with firms and people bringing creative ideas to the Authority.

**Item 4. Report on the sale of the Authority's State of Texas General Obligation Park Development Refunding Bonds, Series 2004.**

Ms. Edwards introduced Vince Matrone, First Albany, to report on the general obligation bonds sold on October 25. Mr. Matrone noted that the relative small size of the bond issue suited itself to retail distribution. First Albany, along with the two co-managers, Southwest Securities and Estrada Hinojosa, were able to focus on that element. This transaction had gross savings of \$1.1 million and net present value savings of over \$800,000, representing savings of 6.12% of refunded par. Mr. Matrone thanked the financing team for their efforts, and thanked the Board for considering First Albany to run the books on this transaction.

**Item 5. Consideration and possible action to approve a Request for Financing from the Texas Military Preparedness Commission to establish the Texas Military Value Revolving Loan Fund Program in the amount of \$250,000,000 and the immediate issuance of \$8,753,000 thereunder to provide financing for two defense communities through the Texas Military Value Revolving Loan Fund.**

Ms. Edwards introduced this new program. The 78<sup>th</sup> Legislature passed SB 652, which is broad reaching legislation to support the State's military bases. The economic development provisions of the statute included authorization for the Authority to issue up to \$250 million of general obligation debt to establish a loan program to assist defense dependent communities. She explained that the loan program is administered by the Texas Military Preparedness Commission, which is within the Office of the Governor. The Commission is responsible for accepting, reviewing and approving the loan applications. TPFA will provide funding through the issuance of general obligation debt. The GO debt is intended to be self supporting; that is, the debt service will be repaid from the loan payments, not general revenue. However, the loan payments are not pledged as security to the GO debt; the legal pledge is the general obligation of the State.

Al Casals, Texas Military Preparedness Commission, reviewed the program. There are 59 defense dependent communities eligible for this program. The Commission evaluates the loan applications and a Military Value Enhancement Statement to confirm the community is adjacent to a military establishment and that the request is for an eligible project of at least \$500,000. Staff in the Governor's Office of Economic Development review the financial analysis and creditworthiness of the community. The TMPC's Commissioners then review and approve the loan applications. Mr. Casals stated that the current applications from the City of Corpus Christi and the City of Temple were approved by the Commission in November and were now being submitted to the Authority for funding. Discussion ensued. Mr. Casals explained the basic eligibility requirements and Ms. Edwards noted that pursuant to the statute, TPFA had worked with TMPC and the Economic Development staff to develop the program rules, including the credit criteria.

Representatives from the City of Temple (Sharon Rostovich, Airport Manager; Traci Barnard, Finance Director, City of Temple; and Jennifer Douglas, First Southwest Company, financial advisor to the City) explained the City's loan application. The loan is for \$3,500,000 to construct a helicopter hanger to meet the needs of the US Army Aviation and Missile Command (AMCOM), which repairs helicopters and military vehicles. The City proposes to pledge rental payments from a lease with AMCOM to repay the loan. They explained that the lease is on a separate facility that the City built with cash and is already in use. Ms. Edwards pointed out that the lease is for one year, renewed annually, and contains a 90-day termination clause, which are all standard features on federal contracts. She said that staff would like to work with the City to identify a second source of pledged revenues in the event the lease is terminated prior to the loan repayment. Discussion ensued. It was noted that statutory amendments may be needed in order to pledge additional revenues and that the financing would most likely be done on a taxable basis, because the federal tax code does not recognize the U.S. government as a "governmental" user.

Tom Utter, special assistant to the City Manager, discussed the request from the City of Corpus Christi for \$5,253,000 for three major road improvement projects: Walden Road, Port Avenue, and Naval Air Station Air Installation Compatibility Use Zone (NAS AICUZ). There are three funding sources for the project: TMPC Revolving Loan (\$5.2 million), Texas Department of Transportation funds (\$6.4 million) and the City's Utility System Revenue Bonds/Commercial Paper (\$7 million). The City is pledging ad valorem taxes to repay the TMPC loan. Discussion ensued regarding the nature of the projects. It was noted that these bonds would be issued on a tax exempt basis.

Ms. Edwards explained that TPFA staff had met with its bond counsel, financial advisor, and the Commission staff to identify the best way to fund the program and these initial requests. She indicated that staff's recommendation was to establish a commercial paper program, due to the relatively small amount of the two initial requests and uncertainty regarding the timing and amount of future loan requests. CP would provide some flexibility and as more loan applications are received and there is a critical mass, the CP could be fixed out, if desired. She noted that this CP program would be more like a typical CP program used by a City, i.e., as interim construction financing, than TPFA's other CP programs, which are used for variable rate exposure. TPFA would work with each loan applicant to develop an amortization schedule that would meet their needs, and work out the other administrative aspects of the program. She noted that the CP could be set up with two sub-series, one taxable and one tax-exempt, to accommodate each loan request.

Ms. Edwards also explained that to established a CP program, TPFA would need to issue RFPs for dealer, paying agent and possibly, the liquidity facility. She has requested the Comptroller to provide self-liquidity, but in the event it was not available, TPFA would issue an RFP to commercial banks for liquidity. Staff would like to issue these RFPs in December in order to make a recommendation to the Board in January. The Bond Review Board approval would be requested in January and the CP documents would be approved by the Board in February, so that the program could be established by March at the latest.

Mr. Serna moved to establish a \$250 million Texas Military Value Revolving Loan Program, Mr. Ellis seconded. The motion passed unanimously.

Mr. Serna moved to establish a \$50 million commercial paper program to fund the initial loan requests, and to instruct staff to issue Requests for Proposals for Commercial Paper Dealer, Paying Agent, and, if necessary, a liquidity provider. Mr. Ellis seconded. The motion passed unanimously.

Mr. Serna moved to approve a Request for Financing from the Texas Military Preparedness Commission on behalf of the City of Corpus Christi for a loan of \$5,253,000. Mr. Ellis seconded. The motion passed unanimously.

Mr. Brock moved to approve a Request for Financing from the Texas Military Preparedness Commission on behalf of the City of Temple for a loan of \$3.5 million through the Texas Military Revolving Loan Fund, subject to the loan documents containing an additional revenue pledge to take effect in the event the lease is terminated, or requiring the term of the loan to not exceed the term of the lease. Mr. Ellis seconded. The motion passed unanimously.

**Item 6. Other Business/Staff Report**

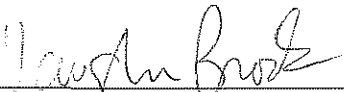
Ms. Edwards called the Board's attention to the letter from the State Auditor reminding agencies that the annual internal audit and risk assessment requirements must be completed by March 30. She explained that in 2001 state statute was amended to require all agencies to conduct an internal audit, but in 2003 the statute was amended again to allow certain agencies to perform their own risk assessment internally and to submit the results to the State Auditor's office. John Hernandez was primarily responsible for completing the risk assessment last year, and at that time the Board discussed having an outside audit firm review the risk assessment every other year. Mr. Serna said the drawback to the traditional outside review was that the Authority does not have the traditional debits and credits typical of most other state agencies, and therefore, an outside audit did not provide a lot of benefit. He stated he favored an internal review. He volunteered to work with staff to review the report before its presented to the Board.

Ms. Edwards directed the Board's attention to the copy of the Authority's Annual Financial Report provided.

**Item 7. Adjourn.**

The meeting adjourned at 3:28 P.M.

The foregoing minutes were approved and passed by the Board of Directors on January 6, 2004.

  
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Vaughn Brock  
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"



## Open Meeting Submission

*Success!*

Row inserted

**TRD:** 2004010223  
**Date Posted:** 11/23/2004  
**Status:** Accepted  
**Agency Id:** 0113  
**Date of Submission:** 11/23/2004  
**Agency Name:** Texas Public Finance Authority  
**Board:** Texas Public Finance Authority  
**Liaison Id:** 3  
**Date of Meeting:** 12/02/2004  
**Time of Meeting:** 01:30 PM ( ##:## AM Local Time)  
**Street Location:** Capitol Extension Hearing Room E2.012  
**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, Texas 78701.

TEXAS PUBLIC FINANCE AUTHORITY  
 THURSDAY, DECEMBER 2, 2004 1:30 P.M.  
 CAPITOL EXTENSION HEARING ROOM E2.012  
 AUSTIN, TEXAS 78701

1. Call to order.
2. Approval of minutes of the October 25 and November 16, 2004 Board meetings.
3. Report on the sale of the Texas Public Finance Authority Revenue Refunding Bonds, Series 2004A, B, C and D.
4. Report on the sale of the Authority's State of Texas General Obligation Park Development Refunding Bonds, Series 2004.
5. Consideration and possible action to approve a Request for Financing from the Texas Military Preparedness Commission to establish the Texas Military Value Revolving Loan Fund Program in the amount of \$250,000,000 and the immediate issuance of \$8,753,000 thereunder to provide financing for two defense communities through the Texas Military Value Revolving Loan Fund.

6. Other Business/Staff Report

Closed Meeting

7. Pursuant to Texas Government Code, Section 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 conflict with Texas Government Code, chapter 551.

Reconvene Open Meeting

**Agenda:**

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

9. 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. Kimberly K. Edwards, Executive Director, Certifying Official; Paula Hatfield, Agency Liaison.

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