Texas Public Finance Authority

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MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY

December 7, 2006

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 11:00 A.M., Thursday, December 7, 2006, Capitol Extension Hearing Room E2.026, Austin, Texas. Present were: David Kelly, Chairman; Bert Mijares, Vice-Chairman; Mr. Vaughn Brock, Secretary; Ms. Ruth Schiermeyer, Member; Ms. Linda McKenna, Member; and Ms. Carin Barth, Member.

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

Present in their designated capacities were the following persons: Debi Jones, Morgan Keegan; Carmen T. Best, Siebert, Brandford Shank & Co.; John Daniel, Lehman Brothers; Steve Whiston, David Frank, Joseph Molis, Texas Parks & Wildlife; Nancy Hagquist, Winstead Sechrest & Minick; David Faris, Edward Jones; Lester Lennon, Stone & Youngberg; Richard Donoghue, Tom Spurgeon, McCall, Parkhurst & Horton; Jim Dong, Piper Jaffray; Desrye Morgan, Frank Farley, UBS; Rebecca Villasenor, Ramirez & Co., Inc.; Tim Kelley, Coastal Securities; Raul Villasenor, Tim Peterson, Steve Johnson, First Southwest; Terry Britton, Alan Clark, Cy Hutchison, Port of San Antonio; Tim Utter, City of Corpus Christi; and Al Casals, Julie Kopycinski, Texas Military Preparedness Commission.

Item 1. Call to Order.

Mr. Kelly called the meeting to order at 11:00 A.M.

Item 2. Confirm meeting posting compliance with the Open Meetings Act.

Mr. Kelly confirmed the meeting had been duly posted in compliance with the Open Meetings Act.

Item 3. Excuse board member absences.

No action required.

Item 4. Approve the minutes of the November 2, 2006 Board meeting.

Mr. Kelly asked if there were any corrections or additions to the minutes of the Board meeting of November 2. Mr. Mijares moved to approve the minutes. Ms. McKenna seconded. The motion passed unanimously.

Item 5. Select winning bid and adopt a resolution authorizing the issuance of $8,680,000 Texas Public Finance Authority Taxable Lease Revenue Bonds (Texas Historical Commission), Series 2006, the execution of documents in connection therewith, and other related actions to effect the sale and delivery of the bonds and resolve related matters.

Ms. Edwards reported on the competitive sale of $8.68 million of taxable lease revenue bonds conducted on the Parity website prior to the Board meeting. Thirteen bids were received ranging from a low of 5.20% to 5.99%. The winning bidder was submitted by Morgan Keegan & Company, Inc. with a true interest cost of 5.201281%. Ms. Edwards read the other bids: Southwest Securities, 5.364316%; Popular Securities, Inc., 5.3772575%; First Albany Capital Inc., 5.405985%; Piper Jaffray, 5.410854%; UBS Securities LLC, 5.446027%; JP Morgan Securities Inc., 5.455974%; Griffin, Kubik, Stephens & Thompson, Inc., 5.476511%; RBC Capital Markets, 5.509659%; Citigroup Global Markets Inc. 5.519918%; Stone & Youngberg LLC, 5.521433%; Bear Stearns & Co., Inc., 5.532803%; and Merrill Lynch & Co., 5.989767%.

Mr. Mijares moved to adopt the Resolution and award the bonds to Morgan Keegan. Mr. Brock seconded. The motion passed unanimously.

Ms. Edwards asked that the Board consider Item 8 next.

Item 6. Report on the sale of the TPFA General Obligation Refunding Bonds, Series 2006A and Series 2006B.

Ms. Edwards reported that the Authority priced fixed rate general obligation bonds on November 28 to refund $225,540,000 of commercial paper. The bonds had a true interest cost of 4.077%, well below the Board's target TIC of 4.25%. John Daniel and Patrick Scott of Lehman Brothers provided a post sale analysis. They noted that there was some discussion on the pricing date. Lehman had suggested pricing on Tuesday, November 20, since market conditions met the 4.25% target at that time; however the Authority and financial advisor felt that the shortened holiday week would not produce optimal investor interest and decided to delay pricing one week. Ultimately, the Authority benefitted from a very strong market on November 28. Ms. Edwards thanked the Lehman Brothers, the underwriting syndicate and financial advisor for a successful financing.

Item 7. Consider a Request for Financing from the Texas Parks and Wildlife Department for the issuance of revenue bonds for a fish hatchery project, in an estimated amount of approximately $15,000,000, select method of sale, appoint outside consultants, and take other necessary related action.

Ms. Edwards explained that the 79th Legislature authorized the issuance of revenue bonds on behalf of the Parks and Wildlife Department for this project. The bonds will have the typical lease revenue security pledge, i.e., annual legislative appropriations of lease payments to the Department. However, the budgetary source of funds will be freshwater fish stamp revenues. In 2003, the Legislature authorized TPWD to collect the fish stamp to fund the stocking, repair, maintenance and replacement of freshwater fish hatcheries. The authorization lasts for 10 years, through 2014, and currently generates $5 to 6 million a year in revenue. TPFA staff met with TPWD staff to determine the most efficient structure of the bonds to allocate the revenues between debt service and other program costs. Based on those discussions, it was determined that a seven year amortization was the optimal structure.

Mr. Steve Whiston, Infrastructure Division Director, Parks and Wildlife Department, introduced Joseph Molis, infrastructure division head of finance, and David Frank, Project Manager for the East Texas Fish Hatchery Project. He explained that the new fish hatchery will replace a 70+ year old hatchery located in Jasper County. The new hatchery will be built on a 200 acre property already acquired and ready for construction providing for approximately 70 acres of fish production ponds, water intake structures from Lake Sam Rayburn into the hatchery, spawning and incubation facilities, wastewater treatment facilities, offices, maintenance buildings and two residences, access roads and parking.

The total project cost estimate is approximately $25 million. The first phase of the construction is funded by the issuance of revenue bonds to finance the water intake and water distribution systems from the lake. It will provide for the construction of those fish production ponds as well as the hatchery effluent and treatment systems as well as the development of the roads and utilities to the site. When the first phase is completed, a fully functional operational fish production facility will be operational even if the Legislature does not authorize additional revenue support. The design of this new facility is underway by an outside design consultant . Design is anticipated to be completed in early spring with construction following next summer. The completion of this first phase of development is scheduled for February 2009. Mr. Whiston also noted that the proposed seven year amortization coincides with the life of the fish stamp revenue program, which generates $5 to $6 million revenue annually. Ms. Edwards noted the pledge on the bonds is a Legislative appropriation; it is just a budget policy that the Legislature decided to use fish stamp revenues as their method of finance. Even if the fish stamp revenues were not sufficient for debt service, the Legislature could use general revenue or other legally available revenues for the lease payments.

In response Mr. Kelly 's further questions about the hatchery, Mssrs. Whiston and Frank explained that this project is to replace the East Texas hatchery, which is one of the 5 or 6 freshwater fish production facilities in the state, breeding stripers, catfish and large mouth Florida bass, in addition to stocking trout.

Ms. Edwards recommended that the method of sale be a competitive sale, via Parity, with Coastal Securities serving as financial advisor and Winstead Sechrest & Minick serving as bond counsel. She noted that this financing will be very similar to the competitive sale just completed, so both firms will be able to execute the transaction efficiently.

Ms. Schiermeyer moved to approve the Request for Financing. Ms. Barth seconded. The motion passed unanimously.

Mr. Mijares moved to approve staff's recommendation for the method of sale, financial advisor and bond counsel. Ms. McKenna seconded. The motion passed unanimously.

Item 8. Consider a Request for Financing from the Texas Military Preparedness Commission, Office of the Governor to issue general obligation bonds for the Texas Military Value Revolving Loan Fund to finance projects for the City of Corpus Christi and the Port of San Antonio, select a method of sale, appoint outside consultants, and take other necessary related action.

Ms. Edwards explained that this program was set up a few legislative sessions ago. Basically, the structure is that TPFA would issue GO bonds with State's credit, but unlike all TPFA's other general obligation bonds, the Legislature intends these bonds to be self-supporting. The bonds would be used by the Texas Military Preparedness Commission ("TMPC") to make loans to communities that have a significant defense presence. The loan repayments made by the borrowers would be used to repay the debt service on the bonds issued. Therefore review of the borrowers' credit is a key component to the financing.

Originally this program was set up in preparation for the Base Realignment and Closure ("BRAC") Commission. In 2004, the program was initiated and the Commission received two loan requests from the City of Corpus Christi and the City of Temple, for a total of less than $10 million. At that time, it was determined that a commercial paper program would be used to fund loans as requests were presented. However, no additional borrowers came forward. Upon evaluation of the interest rate environment at the time, the fact that the cost of issuance were only spread over the two small loans, and the variable rate structure of the program, the cities of Corpus Christi and Temple determined it was not cost effective for those communities to participate at that time. The loans were never executed. Subsequently, in 2005 the authorizing legislation broadened the number of communities that could participate in the program

Under the expanded program, the City of Corpus Christi ("City" or "Corpus Christi") and the Port Authority of San Antonio ("Port") have applied for loans earlier this year. The loans were approved by the TMPC. Corpus Christi has requested $10.5 million for two road projects and a runway extension. $6 million of the loan will be backed by the City's General Obligation pledge and $4.5 million will be backed by a pledge of the Utility System Revenues. The City is also using $10.9 million of TxDoT funds for the projects. The Port (formerly the Greater Kelly Development Authority) is requesting $34,000,000 for two new projects and to retire construction loans on two other projects.

Mr. Tom Utter, Special Assistant to the City Manager for Corpus Christi, provided an overview of the projects to be financed with the loan request. Discussion ensued.

Mr. Al Clark, CFO,of the Port, provided an overview of the projects to be financed with their loan. He introduced Board member Cy Hutchison, Terry Brittain, Director of Real Estate development, Raul Villasenor and Steve Johnson, First Southwest Company, serving as financial advisor, and Tom Spurgeon, McCall Parkhurst, bond counsel. Mr. Clark explained that in January 2006 the Port changed its name from the Greater Kelly Redevelopment Authority to the Port of San Antonio to better reflect its business strategy as a land port focusing on rail, truck and air cargo. The Port has substantial revenues from aerospace industry tenants such as Boeing and Lockheed Martin, and has been engaged in real estate development and re-development for the last 7-8 years.

In response to Mr. Kelly's question, Mr. Clark explained that the Port is a redevelopment authority, which is a political subdivision created by the Legislature; he stated there are three or four such entities in the state. He described the three projects to be financed with the loan: new construction of an Air Cargo Terminal adjacent to the Gore Design Hanger; refinance the construction loan for the Gore Design Hanger, and the Office Flex project, which consists of refinancing the construction loan on two office/flex buildings and a warehouse and new construction of another office flex building and another warehouse. Discussion ensued regarding competing facilities and airports, property tax structure, existing tenants, prior review by the TMPC, and the revenues pledged under the bond indenture.

Mr. Clark explained that the Port does not levy any ad valorem property taxes, but does charge a tax equivalent through each lease. Ms. Edwards explained that the bond resolution securing the loan would pledge the gross revenues of the Port; it requires 1.25 coverage for the issuance of additional bonds, and an average annual debt service reserve fund. There is no security interest or lien on the property. The Port does have one prior bond issue which is secured by the Boeing lease, so those revenues are excluded from the gross revenues pledge until the prior bonds are retired. Since the proposed term of the bonds exceeds the life of most of the leases, TPFA staff requested the Port to procure municipal bond insurance on the loan. The Port solicited and received bids from two bond insurers: a "AA" rated provider, who required a cash funded reserve fund, and a "A" rated provider, who was willing to provide a surety policy to fund the reserve fund. The Port determined the "A" rated insurance was most cost effective. Discussion ensued and several Board members noted that although the Port's revenue stream is somewhat speculative, the bond insurance policy would ensure that the loan payments would be sufficient to cover the state's debt service.

Ms. Edwards stated that the bond issue would be $45 to $50 million, with approximately $25 million taxable and the rest tax exempt. Mr. Spurgeon, the Port's Bond Counsel, explained that the intended private use of a portion of the financed facilities requires that such bonds be taxable. bonds. Ms. Edwards recommended a negotiated sale, so that the bonds can be structured to reflect the underlying loan agreements, using First Southwest Company and as financial advisor and McCall Parkhurst as bond counsel. These two firms were selected by the Board on the original TMPC request in November 2004 and are most familiar with the transaction. She recommended the following underwriting syndicate: Morgan Keegan - Senior Manager; Co managers: Loop Capital Markets, Morgan Stanley, RBC Capital Markets, and Siebert Brandford Shank.

Mr. Mijares questioned TPFA using the same firm as financial advisor and bond counsel as the borrowers. Ms. Barth concurred that she had the same concerns. Extensive discussion ensued. Richard Donoghue, McCall Parkhurst, stated that the firm reviewed the issue when it was first selected in 2004 and determined that there was no conflict. Ms. Porras reiterated that bond counsel's duty is to ensure the bonds are issued under applicable law for the ultimate benefit of the investor, so in that respect TPFA's and the borrower's interests are aligned , and there should be no conflict. Mr. Brock asked if TPFA was asked to sign a waiver of conflict. Ms. Porras and Mr. Donoghue confirmed that TPFA has not waived a potential conflict. Tim Peterson, First Southwest Company noted that he had also reviewed the issue when his firm was selected in 2004. He noted that the question is frequently raised on pooled loan programs, such as the Water Development Board, where the issuers and borrowers use the same firms. In this instance, his firm planned to have separate offices and personnel assignments for each client and exercise the same professional standards as they do on any transaction.

Ms. Schiermeyer moved to approve the request for financing from the TMPC to finance loans to Corpus Christi and the Port Authority of San Antonio. Mr. Brock seconded. The motion passed unanimously.

Mr. Brock moved to approve staff's recommendation for a negotiated sale. Mr. Mijares seconded. The motion passed unanimously.

Mr. Brock moved to adopt staff's recommendation to approve the proposed financing team, provided no waiver of conflict is requested. Mr. Mijares seconded. The motion passed unanimously.

Item 9. Other Business/Staff Report.

No other business was discussed.

Item 10. Adjourn.

The meeting adjourned at 1:03 P.M.

The foregoing minutes were approved and passed by the Board of Directors on January 4, 2007.

Vaughn Brock
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit "A"

Open Meeting Submission

Success!

Row inserted

TRD:	2006010346
Date Posted:	11/29/2006
Status:	Accepted
Agency Id:	0113
Date of Submission:	11/29/2006
Agency Name:	Texas Public Finance Authority
Board:	Texas Public Finance Authority
Liaison Id:	3
Date of Meeting:	12/07/2006
Time of Meeting:	11:00 AM (**##:## AM Local Time)**
Street Location:	Capitol Hearing Extension Room E2.026
City Location:	Austin
State Location:	TX
Original Meeting TRD#:	2006010332
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.
Agenda:	TEXAS PUBLIC FINANCE AUTHORITY THURSDAY, DECEMBER 7, 2006 11:00 A.M. CAPITOL EXTENSION HEARING ROOM E2.026 AUSTIN, TEXAS 78701 1. Call to order. 2. Confirm meeting posting compliance with the Open Meetings Act. 3. Excuse board member absences. 4. Approve the minutes of the November 2, 2006 Board meeting. 5. Select winning bid and adopt a resolution authorizing the issuance of $8,680,000 Texas Public Finance Authority Taxable Lease Revenue Bonds

(Texas Historical Commission), Series 2006, the execution of documents in connection therewith, and other related actions to effect the sale and delivery of the bonds and resolve related matters.

6. Report on the sale of the TPFA General Obligation Refunding Bonds, Series 2006A and Series 2006B.

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8. Consider a Request for Financing from the Texas Military Preparedness Commission, Office of the Governor to issue general obligation bonds for the Texas Military Value Revolving Loan Fund to finance projects for the City of Corpus Christi and the Port of San Antonio, select a method of sale, appoint outside consultants, and take other necessary related action.
9. Other Business/Staff Report.
Closed Meeting
10. Pursuant to Texas Government 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
11. The open meeting will be reconvened for final action of the Board concerning matters deliberated in the Closed Meeting, if such action is required.

12. 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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