Texas Public Finance Authority

Board of Directors:

Gary E. Wood, Chair
Ruth C. Schiermeyer, Vice Chair
Linda McKenna, Secretary
Gerald Alley
D. Joseph Meister
Rodney K. Moore
Robert T. Roddy, Jr.

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

June 17, 2009

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 10:00 a.m., Wednesday, June 17, 2009, Capitol Extension Hearing Room E2.026, Austin, Texas. Present were: Dr. Gary Wood, Chair; Ms. Ruth Schiermeyer, Vice Chair; Ms. Linda McKenna, Secretary; Mr. Tom Roddy, Member; Mr. Gerald Alley, Member; and Mr. Rodney K. Moore, Member.

Representing the Authority's staff was: Mr. Dwight D. Burns, Executive Director; Ms. Judith Porras, General Counsel; Mr. John Hernandez, Deputy Director; Mr. Ricky Horne; and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Rebecca Foster, Terry Thornton, Goldman Sachs; Rick Fitzgerald, Raymond James; Robbi Jones, Kipling Jones & Co.; Paul Jack, Estrada Hinojosa; Mario Garrasco, Stifel Nicolaus; Dalton Smith, Keith Richard, Merrill Lynch; Mark Ellis, Jefferies & Co.; Lance Etcheverry, JP Morgan; Andy Bynam, Citigroup; Wes McGuffey, Hance Scarborough; Patrick Scott, Barclays Capital; Yava Scott, Siebert Brandford; Ajay Thomas, John Hall, Morgan Stanley; Art Morales, Ramirez & Co., Inc.; Curt Shelmire, Bank of America/Merrill Lynch; Charlotte Knight-Marshall, TKG & Associates; Danielle Bradford, Dale Lehman, Piper Jaffray; Debi Jones, Morgan Keegan; Michael R. Perkins, Sneed Vine & Posey, PC; Jerry Kyle, Andrews & Kurth; John Barganski, First Southwest Co.; Barron Wallace, Vinson & Elkins; Jim Oliver, Texas Windstorm Insurance Association; Bill Gimson, Heidi McConnell, Cancer Prevention and Research Institute of Texas; Marilyn Hamilton, Chris Harrigan, Texas Department of Insurance; Chris Allen, PFM; Susana Dawn, Justin Groll, Texas Bond Review Board; Liz Prado, Legislative Budget Board; and Tim Kelley, Coastal Securities.

Item 1. Call to order.

Dr. Wood called the meeting to order at 10:00 a.m.

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

Dr. Wood confirmed the meeting had been duly posted in compliance with the Open Meetings Act.

Dr. Wood thanked the TPFA staff for its extraordinary work during the legislative session this year. He noted that legislative work is always a complicated endeavor and helping to pass important new laws was a big challenge this year because the Authority's Board hired a new executive director in the middle of the session. Despite these challenges, staff maintained its strong reputation among state leaders and provided key support for passage of high profile bills such as the Texas Windstorm Insurance bill. He extended special thanks to Judith Porras, John Hernandez, Gabriela Klein and Paula Hatfield for helping Dwight Burns, our new executive director, work successfully with state leadership this year.

Dr. Wood also welcome new board member, Rodney K. Moore from Lufkin.

Item 3. Approve the minutes of the April 1, 2009 and April 2, 2009 Board meetings.

Dr. Wood asked if there were any corrections or additions to the minutes of the meetings held on April 1 and April 2. Mr. Alley moved to approve the minutes of April1 and April 2. Mr. Roddy seconded. The motion passed unanimously.

Item 4. Consideration, discussion, and possible action to approve a request for financing from the Cancer Prevention and Research Institute for the issuance of approximately $450,000,000 of general obligations to fund the operations and program of the Institute, determine a method of sale, select outside consultants, and take other necessary related action.

Mr. Burns stated the Board is being asked to approve the creation of a commercial paper program for the Cancer Prevention and Research Institute of Texas (the "Institute"). The Institute will need proceeds for basic operational purposes as soon as possible, as early as September, and beyond that, they will need to procure additional proceeds for project grants they intend to award for cancer prevention and research programs throughout the State. In addition to approving a $450 million program, the Board is being asked to select bond counsel and commercial paper dealers. Staff has relied on Tim Kelley, Coastal Securities, as the financial advisor. Bond Counsel may be designated from a list of approved firms that was established in 2008. Staff recommends McCall Parkhurst & Horton to serve as Bond Counsel and Adorno, Yost, White & Wiggins to serve as Co-Bond Counsel. For the commercial paper dealers, staff issued a limited request for proposals for underwriting services and a comprehensive evaluation matrix was completed. Mr. Burns acknowledged staff's work as being a thorough review of the excellent proposals received. As a result of that evaluation, staff recommends Barclays Capital and Jefferies & Co. to serve as co-dealers.

Mr. Burns provided a summary of the history and explanation of the program itself. In 2007, the voters of Texas approved a constitutional amendment authorizing a total of $3 billion for cancer prevention and research, to be issued in the amount of not more than $300 million each year, in accordance with enabling legislation. The 81st Legislature has appropriated a total of $450 million of general obligation proceeds to the Institute for the 2010-2011 biennium, which is to be issued in amounts of not more than $225 million each year. Mr. Burns recognized Mr. Bill Gimson, Executive Director of the Institute, to provide additional information about the program and respond to questions.

Mr. Gimson stated that he, similar to Mr. Burns, was hired in mid-session and has been in his position for about 2-1/2 months. The Institute is authorized to make, and has made, grants for both research and prevention throughout the State of Texas. They are looking at the opportunities for groundbreaking research that may be initiated this year in the State. The Institute's recently hired chief scientific officer, a Nobel prize winner, will actually be leading the research component of the program. Additionally, Dr. Al Gilman who was at the University of Texas Southwestern as Dean and Provost has joined the Institute as of last Wednesday officially. Mr. Gimson added that they are in the process of selecting a chief prevention officer who will run the prevention side of the portfolio awarding grants in the area of early detection, screening, survivorship, and patient education. The Institute is in start-up and currently has about eight staff, including a new Chief Operatiing Officer, Heidi McConnell, who was also in attendance.

Ms. Schiermeyer asked where the research was going to be done. Mr. Gimson said all the research will be conducted in Texas. The entire peer review process will actually be external to Texas. In an effort to insure that the program is the best and avoid potential conflicts of interest, scientists from around the country will be asked to evaluate proposals from the Texas grant applicants. All the actual research will be done in the State of Texas and that is a requirement. However, an institution in the State may partner with an institution outside of the State, but the grants will be made to the institutions in Texas. Also, academic medical institutions, bio-tech firms, and small pharmaceutical firms will be considered so that innovative research is being looked at. On the prevention side, the operational prevention component will probably be awarded in a lot of cases to small community based organizations, such as small hospitals that do early detection and operate survivorship, provider education, and patient education programs. This is a Texas program. Mr. Gimson added he had visited C-Change, a cancer organization that was started by George H. W. Bush a number of years ago and everyone around the country is watching Texas because Texas is leading the nation with the Institute and the commitment Texas voters have made to cancer research. He articulated the program's goals, stating that ideally in ten years he will be able to report that the 345 women who will die from cervical cancer this year are no longer dying from cervical cancer. The prospect of what the Institute might be able to do is exciting.

Ms. McKenna commented the Institute is bringing on stellar staff, which is exciting for those of us in the medical field, and asked about the break-out of the $450 million, as to how much is being spent on operational and administrative expenses versus how much will go to the research and the people who are actually going to be doing the research. Ms. McKenna noted no budget was presented to the Board. Mr. Gimson responded that the Institute needs $7.9 million for its first full year of operations, as that is how the Legislature has decided to fund it.

Mr. Alley asked how much would be awarded for facilities. Mr. Gimson stated the Legislature and the oversight committee wanted to limit the building of research facilities and really focus on research and prevention, so the enabling legislation limits awards for facilities to 5%.

Dr. Wood asked if the money was needed soon. Mr. Gimson replied yes, and explained that the operational money was needed by September 1 or quickly thereafter. In addition to that, funds for sixteen current grants totaling about $3.6 million will be needed in early September also. These are continuation grants that will continue for FY 2010. In FY 2011, they will be re-competed against the entire prevention portfolio which means that the $3.6 million will actually compete against the $22 million that is allowed for prevention under the current funding level.

Dr. Wood asked Mr. Burns why commercial paper was being recommended for this financing. Mr. Burns stated commercial paper was needed to procure funds very quickly. Commercial paper allows an optimal timing in order draw funds; also, with a new program, it is not certain exactly how much the Institute will need, and at what times the funds will be needed over the next year. Commercial paper will provide the flexibility to draw down funds as necessary, to take advantage of short-term interest rates, and not have the proceeds out at a higher interest rate. At Dr. Wood's request, Mr. Burns restated the recommendations the Board is to act on.

Staff recommends that the Board approve the Institute's Request for Financing, and financing it through a new commercial paper program, and approve consultants including McCall Parkhurst & Horton to serve as Bond Counsel; Adorno, Yost, White & Wiggins to serve as Co-Bond Counsel, and Barclays Capital and Jefferies & Co. to serve as commercial paper dealers.

Ms. McKenna moved to approve the request for financing and to accept staff's recommendations. Ms. Schiermeyer seconded. The motion passed unanimously.

Item 5. Consideration, discussion, and possible action to approve a Request for Financing for the issuance of revenue obligation to finance excess losses of the Texas Windstorm Insurance Association, determine a method of sale, select outside consultants, and take other necessary related action.

Mr. Burns stated legislation authorizing bond financing for the Texas Windstorm Insurance Association ("TWIA") had taken six years to pass. The legislation makes preparation for storm events that may happen in the future. The Legislature saw the need TWIA has to prepare for catastrophes and have additional resources to deal with losses that would occur after storm events. The Legislature passed a pretty comprehensive and complicated bill to provide some financing through bond issues. Today, the Board is being asked to authorize the creation of a commercial paper program, in the maximum authorized amount of $1 billion, which would be activated after a major storm event, in accordance with the provisions of H.B. 4409. In addition, to authorizing the program, the Board will be required to select Bond Counsel and the commercial paper dealers.

Mr. Burns stated the Authority had received a verbal indication from the State Comptroller's Office that liquidity will be provided up to $300 million from the state treasury. This is substantially less than the $1 billion maximum amount and is a <u>defacto</u> cap on the amount of commercial paper the Authority can issue at any one time. Dr. Wood asked if the need was greater than the $300 million what would be done. Mr. Burns stated that if the need was greater than $300 million, the Authority would have to refund the commercial paper with a long term fixed-rate bond issue and free up the available liquidity.

Ms. McKenna asked if the TWIA funds were depleted at the moment. Mr. Jim Oliver, General Manager of TWIA, was recognized to provide further explanation of the bond financing proposal and TWIA's financing needs. Mr. Oliver stated TWIA's existing premiums will provide around $150 to $200 million to pay claims, outside of expenses. Funds required to pay remaining claims from Hurricanes Dolly and Ike and other storms from last year have already been reserved. Ms. McKenna explained it was her understanding that part of the reason for getting TWIA bonds passed was all of its funds were obligated and depleted.

Mr. Oliver explained that the funding mechanism in place prior to the current legislative session, which changed it dramatically, involved using premiums first, and then drawing on the reserve trust fund, consisting of TWIA's profits. TWIA had about $470 million at the beginning of the 2008 hurricane season. That was used up completely. In addition, TWIA has re-insurance and the ability to assess the TWIA members, who are property and casualty insurance companies, virtually on an unlimited basis. TWIA has used up the premiums on hand, having reserved the needed amount for administrative and other expenses. The insurance companies were assessed $530 million for the two storms, and re-insurance was drawn upon. The remaining re-insurance is about $700 million. Last year's losses are covered, but all the reserves, of about $470 million are gone. So, TWIA needs some ability to get short-term cash to pay immediate claims right after a storm, which would be from the commercial paper proceeds, as Mr. Burns stated. Then, in accordance with the new legislation, funding on a long-term basis would have to be provided from a bond issue, replacing the commercial paper.

Mr. Oliver also explained that TWIA has not been re-approved for a line of credit of $150 million from Chase Bank. Because of the legislative change, Chase is reviewing the line of credit, and it is not certain the line will be continued. Commercial paper will serve as a short-term cash fix until long-term bond proceeds are available.

Dr. Wood asked if changes were made during this legislative session on the way repayment of bonds would be done. Mr. Oliver said "yes" and that TWIA did not issue bonds prior to this session. The first layer of $1 billion of bonds is to be repaid by TWIA premiums. The second layer of a $1 billion in bonds would be paid by insurance companies, with 30% paid from assessments on members of TWIA , and 70% paid by property and casualty policyholders along the coast of Texas. A third layer of up to $500 million of bonds would be paid by further assessments on the TWIA member companies.

Mr. Roddy asked for clarification about approving the commercial paper program, but not activating it until there is a major storm. Mr. Oliver stated the legislative intent was to have us put everything together because we are going to need immediate cash obviously right after a storm, but set it on a shelf and then draw down funds as quickly as possible after a storm as opposed to prefunding. Mr. Roddy asked if reserves would be used first and other assets later. Mr. Oliver responded that is correct and explained that TWIA is required by law to keep unearned premium reserves. About $150 million to $200 million would be available to cover those losses, but, to provide an idea of the range of possible expenses, Mr. Oliver stated that Hurricane Dolly will probably cost about $280-285 million ultimately, and Hurricane Ike will cost somewhere between $1.8 and $2 billion. TWIA's cash needs would be considerable. With a storm the size of Ike, TWIA would need in the neighborhood of $500 million to pay out within 60 days. With a smaller storm like Hurricane Dolly, it would probably have to pay out $50-100 million within 60 days. Mr. Roddy asked how long TWIA had been in existence. Mr. Oliver responded it was established 1971. Mr. Roddy also asked if this was the first public funding, and Mr. Oliver answered that it is.

Ms. Schiermeyer asked if this was strictly for hurricanes or does it also cover tornadoes. Mr. Oliver said TWIA pays losses every day for thunderstorms, tornadoes, and straight-line wind; it covers wind and hail, and in several years, has had to pay claims on 10--14 hail storms right along the coast where you could get straight-line winds and a very few tornados.

Dr. Wood asked Mr. Burns for his recommendations.

Mr. Burns stated staff recommends that the Board approve the TWIA financing request and its funding through a commercial paper program. Staff further recommends Winstead to serve as Bond Counsel; Shelton & Valadez, to serve as Co-Bond Counsel; and Bank of America/Merrill Lynch & Co. and Goldman Sachs to serve as commercial paper dealers.

Mr. Alley said he noticed that on the last agenda item, co-bond counsel was also recommended and appreciates staff's work in this respect.

Ms. Schiermeyer moved to accept staff's recommendation. Mr. Alley seconded. The motion passed unanimously.

Item 6. Consideration, discussion, and possible action to approve a general obligation issue to refund and fix-out a portion of the Authority's outstanding general obligation commercial paper notes, issued under the Series 2002A, 2002B, or Series 2008 programs, and finance various construction projects, previously approved for commercial paper, determine a method of sale, select outside consultants, and take other necessary related action.

Staff is asking the Board to approve a general obligation issuance to refund and fix-out commercial paper in the three general obligation programs and include up to about $181 million of new money to finance client agencies' pending projects. The Comptroller's Office has given verbal indication that the Authority will receive new liquidity of $300 million for the windstorm program and $225 million for the cancer program, but it will have to reduce the liquidity requirements for the existing commercial paper programs by about $95 million. In addition to the Authority's new programs, the Comptroller has received more requests for liquidity than it can satisfy. Now is a good time to fix-out some commercial paper and free up some liquidity to be able to finance new requests from client agencies. To summarize, staff is recommending fixing out the outstanding commercial paper in the Series 2002A program of about $211 million, $48 million outstanding in the Series 2002B program, and $39 million outstanding in the Series 2008 program, for a total refunding par amount of approximately $298 million, and approximately $181 million of new money. The new money portion could be reduced depending upon the amount of commercial paper proceeds client agencies may need before this fixed rate issue can be sold and closed.

Ms. Schiermeyer asked for clarification of the $181 million new money projects. Ms. Porras said all of the new money projects have been approved by the Board for financing with commercial paper proceeds. She referred the Board to two sheets included in TAB D of the Board's books which provide the client agencies' updated expenditure schedules and a spread sheet that lists the legislative appropriations for the projects, the dates the Board approved them, the dates of the Bond Review Board approval, and where required, the dates of the Legislative Budget Board approval. Including the projects in the proposed fix-rate issue would simply change the method of funding from previously approved commercial paper to fixed-rate bonds. Ms. Schiermeyer indicated this was satisfactory.

Ms. McKenna asked what the Authority's work might include for the next year or from the current legislature, and Mr. Burns said that Mr. Hernandez would provide an update under Other Business and Staff Report.

Ms. McKenna also asked whether the Board should set a parameter for the fix-out, as it typically has done. Mr. Burns noted his understanding that the Board has set a target of 4.25% true interest cost in past fix-out transactions and recognized Mr. Kelley, Coastal Securities, the Authority's assigned Financial Advisor for further comment and explanation.

Mr. Kelley said there are two reasons to fix- out the outstanding commercial paper: (1) the extreme or larger liquidity needs that are put on the State; and (2) it is a good time to issue fixed rate debt. When the numbers included in the Board books were run, the true interest cost was about 3.80 %, which is extremely low. Now, the market has backed up some, and it is probably closer to 4.00%. This will have to be monitored to try to hit a market that works for the Authority. In the past, the target for a fix-out has been set hovering around 4.25%. This will be discussed when the bond documents are before the Board and it will be asked to authorize a parameter sale. When the documents are presented, the Board will be provided a market update and asked to set the threshold at that time. Ms. McKenna said that was perfect.

Mr. Burns restated his recommendations for outside consultants: Bond Counsel, Vinson & Elkins; Co-Bond Counsel, Bickerstaff, Heath, Delgado & Acosta; and the underwriting syndicate composed of Bank of America/ Merrill Lynch, Co-Senior and Book Running Manager; Siebert Brandford Shank & Co., Co-Senior Manager, and Morgan Stanley, Estrada Hinojosa, RBC Capital Markets, Morgan Keegan, Loop Capital Markets, Ramirez & Co., Piper Jaffray and Southwest Securities, Co-Managers.

Mr. Alley recused himself from voting on this issue (due to his affiliation with Southwest Securities). Ms. Schiermeyer moved to approve the request and staff's recommendation. McKenna seconded. The motion passed with one abstention.

Item 7. Consideration, discussion and possible action to adopt amendments to rules 34 TAC Chapters 221, 223, and 225.

Ms. Porras stated these rules were adopted by the Board in March, as proposed rules. They were published in the Texas Register, for public comment more than the required thirty days and no public comment was received. Therefore, the Board is asked to adopt the amendments as final rule changes.

Ms. McKenna moved to adopt the rules as final amendments. Mr. Roddy seconded. The motion passed unanimously.

Item 8. Other Business/Staff Report.

Mr. Hernandez reported on the impact of the 81st legislative session on the Authority's workload for the upcoming biennium. He stated that in addition to the $450 from Cancer and the TWIA authorization, the Authority received approximately $332 million of authorizations for new general obligation projects, which will most likely be recommended for financing with the commercial paper programs. In addition, approximately $289 million of previous authorizations were reauthorized as unexpended balance carryovers, which totals $782 million of authorized new general obligation debt. Mr. Hernandez said this demand for new project financings is part of our recommendation for the fix-out.

Mr. Burns also noted that debt issuance authority for the Texas Agriculture Finance Authority had been transferred to TPFA. The transfer was a result of the Sunset Commission's recommendation.

Ms. Schiermeyer asked if anything is expected from the special session. Mr. Burns indicated he did not anticipate any legislative action that would impact the Authority.

Item 9. Adjourn.

Dr. Wood adjourned the meeting at 11:47 a.m.

The foregoing minutes were approved and passed by the Board of Directors on July 9, 2009.

Linda McKenna
Secretary

Attachment: Posting Notice - "Exhibit A"

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Open Meeting Submission

Success!

Row inserted

TRD:	2009004281
Date Posted:	06/09/2009
Status:	Accepted
Agency Id:	0113
Date of Submission:	06/09/2009
Agency Name:	Texas Public Finance Authority
Board:	Texas Public Finance Authority
Liaison Id:	3
Date of Meeting:	06/17/2009
Time of Meeting:	10:00 AM (**##:## AM Local Time)**
Street Location:	Capitol Extension Hearing Room
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, TX 78701.
Agenda:	TEXAS PUBLIC FINANCE AUTHORITY WEDNESDAY, JUNE 17, 2009 10:00 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. Approve the minutes of the April 1, 2009 and April 2, 2009 Board meetings. 4. Consideration, discussion, and possible action to approve a request for financing from the Cancer Prevention and Research Institute for the issuance of approximately $450,000,000 of general obligations to fund the operations and program of the Institute, determine a method of sale, select outside consultants, and take other necessary related action.

5. Consideration, discussion, and possible action to approve a Request for Financing for the issuance of revenue obligation to finance excess losses of the Texas Windstorm Association, determine a method of sale, select outside consultants, and take other necessary related action.

6. Consideration, discussion, and possible action to approve a general obligation issue to refund and fix-out a portion of the Authority's outstanding general obligation commercial paper notes, issued under the Series 2002A, 2002B, or Series 2008 programs, and finance various construction projects, previously approved for commercial paper, determine a method of sale, select outside consultants, and take other necessary related action.

7. Consideration, discussion and possible action to adopt amendments to rules 34 TAC Chapters 221, 223, and 225.

8. Other Business/Staff Report

Closed Meeting
9. 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
10. The open meeting will be reconvened for final action of the Board concerning matters deliberated in the Closed Meeting, if such action is required.

11. 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. Dwight D. Burns, Executive Director, Certifying Official; Paula Hatfield, Agency Liaison.

New