

Texas Public Finance Authority

Board of Directors:

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

Dwight D. Burns
Executive Director



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

September 2, 2010

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., Thursday, September 2, 2010, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Ms. Ruth Schiermeyer, Vice Chair; Mr. Joseph Meister, Secretary; Mr. Gerald Alley, Member; Mr. Rodney K. Moore, Member; and Mr. Tom Roddy, Member.

Representing the Authority's staff was: Mr. Dwight D. Burns, Executive Director; Ms. Susan Durso, General Counsel; Mr. John Hernandez, Deputy Director; Ms. Pamela Scivicque, Business Manager; Ms. Gabriela Klein, Mr. Rick Horne, and Ms. Paula Hatfield.

Present in their designated capacities were the following persons: Mark Ellis, Jefferies & Co.; Jodie Jiles, Clarence Grier, RBC Capital Markets; Dalton Smith, Bank of America Merrill Lynch; Art Morales, Ramirez & Co., Inc.; Becky Villasenor, Cabrera Capital Markets; Tim Peterson, Chris Allen, Richard Ramirez, First Southwest Co.; Andy Bynam, Matt Johansen, Citi; Curtis V. Flowers, Loop Capital Markets; Dale Lehman, Piper Jaffray & Co.; Debi Jones, Morgan Keegan; Keith Richard, Morgan Stanley; Yava Scott, Siebert Brandford & Shank; Barron Wallace, Vinson & Elkins; Jerry Kyle, Andrews & Kurth; Paul Braden, Fulbright & Jaworski; Doug Hartman, JP Morgan; Patrick Scott, Barclays and Gene Crump, Texas Workforce Commission.

Ms. Schiermeyer called the meeting to order at 10:15 a.m.

Item 1. Confirm meeting posting compliance with the Open Meetings Act.

Ms. Schiermeyer confirmed the meeting had been duly posted in compliance with the Open Meetings Act.

Item 2. Excuse absences of board members.

Mr. Alley moved to excuse the absences of Dr. Wood and Mr. Villarreal. Mr. Meister seconded. The motion passed unanimously.

Item 3. Approve the minutes of the August 5, 2010, Board meeting.

Ms. Schiermeyer asked if there were any corrections or additions to the minutes of the Board meeting of August 5, 2010. Mr. Meister moved to approve the minutes as submitted. Mr. Roddy seconded. The motion passed unanimously.

Item 4. Consideration, discussion, and possible action to approve a request for financing from the Texas Workforce Commission to issue up to 3.5 billion dollars of Unemployment Obligation Assessment Revenue Bonds, Series 2010, and such other series and subseries as may be designated, and if authorized, to adopt a Resolution authorizing the issuance of such bonds pursuant to Texas Labor Code chapter 203, subchapter F, to select lead underwriting firms, to select a method of sale, and take other necessary related action.

Mr. Burns stated that on August 17 the Texas Workforce Commission passed a resolution requesting the Authority issue unemployment compensation bonds. The current estimate is that \$2.18 billion in bonds would be sold in two sales in November. Another sale may become necessary in the fall of November 2011.

In June, the Board approved a financing team to begin work on this anticipated transaction. The team approved was First Southwest Co. as the financial advisor, Vinson & Elkins LLP and Bickerstaff Heath Delgado & Acosta as co-bond counsel, Merrill Lynch, Bank of America, Loop Capital Markets, Estrada Hinojosa as senior managers with Goldman Sachs, Jefferies, JP Morgan, Morgan Stanley, Raymond James, RBC Capital Markets, Siebert Brandford Shank as co-managers.

Mr. Burns provided historical information about unemployment funds, federal advances, and trust fund replenishment. He stated the bonds were secured by a dedicated tax called an obligation assessment and the maximum term for the bonds is 10 years. In 2003, the Authority issued similar bonds which were paid off early. Since the debt is in the form of revenue bonds the bond market will require the obligation assessment to be set at a rate that generates excess coverage. In 2003, the bond covenant structure allowed TPFA to use excess cash to pay off the debt. Staff plans to work closely with the Workforce staff to determine the timing, structure and sizing of the bonds.

Mr. Gene Crump, Deputy Executive Director, Texas Workforce Commission, thanked the Authority's staff and all of the members of the financing team for their

assistance in taking the proactive approach to find the best solution for the employers in the State of Texas and the Workforce Commission. He provided background of the Commission's goals and asked for questions.

Mr. Meister asked about the mechanics of the incremental tax and whether it was something that happened automatically or does the Legislature act on it. Mr. Crump stated the obligation assessment is already established in statute. The Commission members discuss the average tax yield for an employer, the general tax and the replenishment tax. The general tax is an experience rated tax and the replenishment tax is called a socialized tax because some employers go out of business and the benefits paid to their former employees must be replenished and other employers pick up that burden. One other taxing feature is the obligation assessment tax. All of the components together, including the deficit assessment and the Employee Training Investment Assessment ("ETIA"), are called the average tax shield. The obligation assessment is set in statute and as the bond structure takes shape the bond debt service will be identified and it will be possible to back into the obligation assessment. The calculation goes through tax application and will be applied individually to each employer based on their experience.

Mr. Meister asked if the Workforce Commission would have the final determination of the calculation of that tax assessment and it will not need to be passed by the Legislature. Mr. Crump stated that was correct. Mr. Crump explained that when the structure is set up TWC staff will meet with its Commissioners and identify what the tax needs to be.

Ms. Schiermeyer asked what the high and low bounds of the tax are given the employers' history. The obligation assessment is not capped in statute. For example, the general tax is capped at 6%. The deficit assessment is capped at 2%. There is no cap on the obligation assessment. These requirements are included in the structure of the bonds and the repayment schedule. In 2003, there was a need to collect \$320 million to meet the 1-1/2 times coverage so it was possible to back into the obligation assessment that was assessed to each individual employer. Ms. Schiermeyer asked if it were possible to balance it out so this situation is not presented again. Given the current economic situation it is a concern to go to those who have the highest need to keep their money and hitting them the hardest. Mr. Crump stated the Commission could only deal with what is in the statute. The amount of money kept in the reserve unemployment trust fund rests solely with the Legislature and what is in statute.

Mr. Roddy asked if the 2003 issue was the last time this type of bond was issued. Mr. Crump said "yes." Mr. Roddy asked if the bonds had been paid back. Mr. Crump said the bonds were paid back early; the variable rate bonds were paid back in four years and the fixed rate bonds with a term of 5 years were defeased the last year of the bonds.

Mr. Alley asked what condition could be created for early payback of the bonds.

Mr. Crump said that if one and one-half times coverage was collected or if 50% more was collected than was actually needed for the bond debt service payment.

Mr. Meister asked if there was a limit to the amount of federal advance funds available to cover this negative balance in the trust account that makes it necessary to go out to sell bonds at this time. Mr. Crump said "yes." Even before enactment of the American Recovery and Reinvestment Act, the law included a cash flow loan provision for Title XII advances. A state can borrow interest free from January 1 through September 30 as long as advances are paid back by September 30. Congress extended the free interest borrowing for the whole period starting February 2009 through December 31, 2010. All of the dollars accessed under Title XII are interest free as long as the debt is paid back before December 31, 2010. After December 31, interest begins accruing at whatever the Department of Labor (DOL) establishes it to be. It is currently estimated to be about 4%. Once the recovery act provision ends the old rule resumes.

Staff recommends that the request for financing be approved. Mr. Alley moved to approve the request for financing. Mr. Roddy seconded. The motion passed unanimously.

Ms. Durso stated the Board was being asked to consider the request for financing to issue the unemployment obligation assessment revenue bonds. If that request is approved, the Board is asked to appoint the senior teams with the book-runners as described by Mr. Burns. In addition, when the bond counsel assignments were discussed in June, the option for disclosure counsel was being reviewed. In 2003, the TWC transaction required disclosure counsel. Given recent events regarding disclosure issues, staff recommends consideration of disclosure counsel for this transaction and recommends Fulbright & Jaworski.

Mr. Meister moved to accept staff's recommendation to appoint Fulbright & Jaworski as disclosure counsel. Mr. Roddy seconded. The motion passed unanimously.

The Texas Workforce Commission unemployment obligation assessment revenue bonds will be issued as two separate issues. Staff recommends that for one of the TWC financings that Merrill Lynch be the bookrunner paired with Estrada Hinojosa and that for the second TWC financing Citi to be the bookrunner paired with Loop Capital Markets.

Mr. Alley moved to accept staff's recommendation designating Merrill Lynch as bookrunner paired with Estrada Hinojosa. Mr. Roddy seconded. The motion passed unanimously.

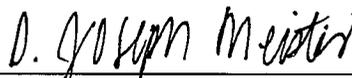
Mr. Alley moved to accept staff's recommendation designating Citi as bookrunner paired with Loop Capital Markets. Mr. Moore seconded. The motion passed unanimously.

Item 5. Executive Director's Report--Market Update

Mr. Burns directed the Board's attention to the TPFA market update materials located in the back of Board materials.

The meeting adjourned at 10:40 a.m.

The foregoing minutes were approved and passed by the Board of Directors on October 13, 2010.



D. Joseph Meister
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Open Meeting Submission

Success!
Row inserted

TRD: 2010006642
Date Posted: 08/25/2010
Status: Accepted
Agency Id: 0113
Date of Submission: 08/25/2010
Agency Name: Texas Public Finance Authority
Board: Texas Public Finance Authority
Liaison Id: 3
Date of Meeting: 09/02/2010
Time of Meeting: 10:00 AM (###:## AM Local Time)
Street Location: Capitol Extension Hearing Room E2.028
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.

TEXAS PUBLIC FINANCE AUTHORITY
 THURSDAY, SEPTEMBER 2, 2010, 10:00 A.M.
 Capitol Extension Hearing Room E2.028
 AUSTIN, TEXAS 78701

1. Confirm meeting posting compliance with the Open Meetings Act.

Agenda: 2. Excuse absences of board members.

3. Approve the minutes of the August 5, 2010, Board meeting.

4. Consideration, discussion, and possible action to approve a request for financing from the Texas Workforce Commission to issue up to 3.5 billion dollars of Unemployment Obligation Assessment Revenue Bonds, Series 2010, and such other series and subseries as may be designated, and if authorized, to adopt a Resolution

authorizing the issuance of such bonds pursuant to Texas Labor Code chapter 203, subchapter F, to select lead underwriting firms, to select a method of sale, and take other necessary related action.

5. Executive Director's Report--Market Update

Executive Session:

6. a. 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 conflicts with Texas Government Code, chapter 551.

b. Pursuant to Texas Government 551.074, the Board may convene in closed session at any time during this meeting to deliberate regarding the duties and performance of the Executive Director or General Counsel, including evaluation of performance.

Reconvene Open Meeting

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

8. 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. Susan K. Durso, General Counsel, Certifying Official; Paula Hatfield, Agency Liaison.

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