Texas Public Finance Authority

Mailing Address:
Post Office Box 12906
Austin, Texas 78711-2906

Physical Address:
300 West 15th Street, Suite 411
Austin, Texas 78701

Telephone: (512) 463-5544
Facsimile: (512) 463-5501
www.tpfa.state.tx.us

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

January 6, 2011

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, January 6, 2011, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Dr. Gary Wood, Chair; Ms. Ruth Schiermeyer, Vice Chair; Mr. Tom Roddy, Member; and Mr. Gerald Alley, 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; and Ms. Paula Hatfield.

Present in their designated capacities were the following persons:

Dr. Wood called the meeting to order at 10:12 a.m.

Item 1. 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.

Item 2. Excuse absences of board members.

Mr. Roddy moved to excuse the absence of Messrs. Villarreal, Meister and Moore. Ms. Schiermeyer seconded. The motion passed unanimously.

Item 3. Approve the minutes of the December 2, 2010, Board meeting.

Dr. Wood asked if there were any corrections or additions to the minutes of the Board meeting of December 2, 2010. Ms. Schiermeyer moved to approve the minutes as submitted. Mr. Roddy seconded. The motion passed unanimously.

Item 4. Consideration, discussion, and possible action to adopt a Resolution, approve the Preliminary Official Statement, appoint a pricing committee for sale of the Texas Southern University Revenue Financing System Revenue Bonds, Series 2011, and take other necessary action.

Mr. Burns stated representatives from the University were present to answer questions about the financing, but that the financial advisor, Drew Masterson, First Southwest Co. would speak first about the issue. Mr. Masterson, on behalf of TSU, said this offering was a long road for TSU. It has been making great strides financially, administratively and academically since its financial and management problems of the past. Those efforts have culminated in the ratings being restored to investment grade. which has allowed the school to proceed in issuing these bonds in a cost-effective manner for the University and the State. If the Board approves the documents, the offering document will be printed tomorrow and will be in the market for a little over a week. The underwriters are present to discuss market conditions.

Cheryl Allen, Southwest Securities, indicated the syndicate was excited about this opportunity. She thanked the TPFA staff and its consultants for their work with the rating agencies. The bonds will be sold without insurance on January 19. In the meantime, Southwest Securities will work with the other syndicate members to boost participation in this sale. Interest rates are expected in the mid-5 level, but the syndicate hopes to fare better than that. The market is probably going to be retail, money managers, funds and those sorts of things. She anticipates the transaction to be very good.

Mr. Roddy asked how the bonds are rated. Ms. Alley stated that Moody's rating is Baa3 and Standard and Poor's is BBB. Mr. Roddy asked if she thought the market would require insurance and Ms. Allen answered 'no." She stated the cost of insurance was very high and given the fact that many of the insurance companies have been downgraded there is for all intents and purposes only one insurance company. In her opinion, buyers are not enamored with the insurance option.

The board discussed a pricing committee consisting of Mr. Meister to appear in person at the sale with Mr. Roddy and Dr. Wood participating by telephone. The remaining board members would serve as alternates with the exception of Mr. Alley.

Staff recommended that the Board adopt the Resolution, approve the Preliminary Official Statement and appoint the members of the pricing committee as discussed. Ms. Schiermeyer moved to accept staff's recommendations. Mr. Roddy seconded. Mr. Alley abstained from the vote. The motion passed.

Item 5. Post Sale Analysis for Texas Workforce Commission Unemployment Obligation Assessment Revenue Bonds, Series 2010A, B and C.

Mr. Burns said that the market was less than optimal for both of the sales of bonds for the Texas Workforce Commission to repay the federal government for borrowed funds for unemployment insurance. He introduced Tim Peterson, First Southwest Co., to report on the sales.

Mr. Peterson thanked the Board for the opportunity to work on this transaction on behalf of Chris Allen, Mike Bartolotta and the First Southwest team. He said the transactions were very successful. Everything in the post sale analysis is consistent with the advance pricing expectations. Structure-wise, complexity, bond coverage, ratings were covered in previous meetings, so the only item left to discuss is the pricing.

The sale was for approximately $2.1 billion of net deposits to the trust fund. A portion of those funds were used to pay off the federal advances and a portion to fund working capital needs over the next six months. The Workforce Commission has a shortfall during the first quarter of each year before the first quarterly payments from employers are received in April. The financing satisfied those needs and the tax requirements on spending the proceeds. The overall transaction was exactly as discussed originally which a seven year targeted level assessment. The Commission set the initial year assessment in advance of the pricing. The first year assessment is $370 million, but it drops down to $334 million for each of the following six years. If that schedule is met, the payoff will be in seven years with a ten year final maturity. However, if the assessment is kept at the $370 million level or higher than the $334 million needed, the structure provides an option for the bonds to be paid off early in five years. There is real benefit to the employers and the Commission to get that paid off early in the event the wage base expands faster than expected. On the flip side, there is an opportunity to actually extend the redemption to the full ten years in the event that revenues drop below the projections.

The federal borrowing rate for 2010 was a 4.36%. The target pricing was to get a better rate than the feds. The federal rate came out this week for 2011 and it is slightly over 4% or 4.08%. This transaction, if paid off as projected, is 2.76%. This is a substantial savings to the State under that scenario. Under a worst case scenario, if paid off as scheduled, as opposed to early redemptions, it is only 3.02%.

The markets were different for each of the pricings. The two separate pricings were driven by the statutory limitation of $2 billion for any particular bond issue. In October the overall market interest rates were low, and then the market started to sell off. By mid-December the market had sold off about 130 basis points. Both of these transactions were priced during that time.

Mr. Burns asked Dalton Smith, Merrill Lynch, to report on the sale. Mr. Smith thanked the Board for the opportunity to provide a post sale analysis for the Series 2010A transaction. About a year ago, the determination was made to separate this bond sale into three separate tranches. The idea was to work within the statutory limit of the ten year maximum maturity that the legislation requires and also to be able to give flexibility to the Workforce Commission to retire or pay off the bonds early either through the normal serials or through the call provisions that were placed in all three series. All obligations were sold as fixed rate, tax exempt obligations as opposed to the issue that was completed in 2003. At the request of the financial advisors, a seal bid was done on the first maturity and a dutch auction on the second maturity.

In setting up the pre-marketing activities for the sale, the size of this sale attracted respect from the entire municipal finance industry. The POS was disseminated early. Then Merrill Lynch put together a very substantial internal marketing effort including reviews and write-ups and putting the sale on Merrill Lynch's internal electronic website and holding internal conference calls including Chicago office and the retail force. There were additional efforts with the other senior and co-managers. Additionally, Merrill Lynch had an internet road show that was presented and recorded for future use.

Merrill Lynch targeted institutional investors. As a follow-up to its internet road show, quite a number of personal contacts were received from some of the largest buyers in the market. The targeted plan for retail investors was a maximum of a $1 million. The syndicate policy was set up and liabilities structured with the advice of the Authority's staff and financial advisors.

The bonds were oversubscribed by three times. The orders and allotment reflects the good participation by the senior managers and members of the syndicate. The all-in TIC was 2.37% on 2010A bonds, which is a historically low rate.

Mr. Burns invited Andy Bynam, Citigroup, to discuss the 2010B and 2010C bonds. Mr. Bynam commended the Authority's staff and financial advisors for providing everything that was needed to coordinate two separate pricings well. The transaction piggy-backed on the first sale and attracted the same type of buyers. The transaction had unique call features and the super sinker bonds were more institutional friendly than retail.

Mr. Bynam thanked each of the syndicate participants for a successful sale.

Mr. Burns said the most significant challenge with this transaction beyond meeting the needs of the Texas Workforce Commission was replicating the success the Authority achieved in the similar 2003 transaction.

Item 6. Executive Director's Report—TPFA Market Update

Mr. Burns provided the Board with a copy of the proposed rule from the Securities and Exchange Commission that would define appointed board members as municipal advisors. Ms. Durso stated staff would be discussing this matter with financial advisors and bond counsel the impact of this rule if passed in its current form would have on Board members. She anticipated that the 45 day comment period might be extended, but if not, a timely response, if determined to be in the best interest of the Board, would be done in a timely fashion. Staff would prepare a response and share it with the Board at its next meeting. Mr. Burns also provided the Board with some information gathered from other agencies about the management structuring fee issue for review.

Item 9. Discuss upcoming meeting dates.

The next Board meeting date was scheduled to be March 3, 2011.

Item 10. Adjourn.

The meeting adjourned at 11:02 a.m.

The foregoing minutes were approved and adopted by the Board of Directors on April 7, 2011.

Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A