MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY
March 20, 2001

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 2:18 P.M.,Tuesday, March 20, 2001, William P. Clements Building, Committee Room 5, 300 W. 15th Street, Austin, Texas. Present were: Mr. Dan Branch, Chairman, Mr. Dan Serna, Vice-Chairman; Ms. Cynthia Meyer, Secretary; and Mr. John Kerr, Board Member.

Representing the Authority's staff were: Ms. Kimberly Edwards, Executive Director; Ms. Judith Porras, General Counsel; John Hernandez, Deputy Director, Ms. Jeanine Barron and Ms. Donna Richardson.

Present in their designated capacities were the following persons: Michael Bartolotta, First Southwest Company; Kay Watson, Walton Johnson & Company; J. Dale Lehman, U.S. Bancorp Piper Jaffray; Bob Kinney, UBS PaineWebber; Bob Estrada, Estrada Hinojosa & Co.; Tilghman Naylor, Bear Stearns; Chris Straub, Merrill Lynch; Curt Shelmire, Barry Adair, and Art Morales, Morgan Stanley Dean Witter; Jorge Garza, Salomon Smith Barney; Kelly Casto and Don Henderson, J.P. Morgan; Tom Oppenheim, Morgan Keegan; Mark Nitcholas, Dain Rauscher; Cheryl Allen, and Elice Browne, Southwest Securities; Curtis Flowers, Loop Capital Markets; Jim Buie, and Elva Rodriquez, Bond Review Board.

Item 1. Call to order.

Mr. Branch called the meeting to order at 2:18 P.M.

Item 2. Approval of minutes of the February 13, 2001 Board meeting.

Mr. Branch asked if there were any corrections or additions to the minutes of the Board meeting of February 13, 2001 . There being none, Mr. Kerr moved to approve the minutes. Ms. Meyer seconded the motion. The motion passed unanimously.

Item 3. Consider and adopt resolution authorizing the refunding of outstanding bonds and general obligation commercial paper, the execution of documents in connection therewith, approve the Preliminary Official Statement, select a pricing committee, and name underwriters.

Ms. Edwards stated that under advice of counsel the GO bonds and GO Parks bonds were posted as two separate issues because the refunding of the Parks bonds requires a separate bond resolution. However, most of the issues to be discussed apply to both series of Bonds.

Mr. Shelmire and Mr. Morales, Morgan Stanley, Dean Witter provided the Board with an update on the market conditions and the numbers. Mr. Shelmire stated that the transaction would be priced in approximately 2 weeks. In today's market, Mr. Shelmire anticipates refunding approximately $370 million of outstanding GO bonds. This size transaction would meet the parameters approved by the Board at its February meeting and result in about $11.5 to $12 million of Present Value savings. Staff is considering how the savings will be distributed throughout the life of the issue. Regarding the proposed structure, Mr. Shelmire commented that it is a current interest serial bond structure out through 2016, which corresponds to the final maturity of the refunding bonds on the 1996 Series C. TPFA does not have to rely on capital appreciation bonds ("CABs") in order to meet the par to par restriction. The current interest bonds price about 25 to 30 basis points better in yield than CABs.

Ms. Edwards called the Board's attention to the Bond Pricing Schedule which illustrates the use of current interest serial bonds. With a regular level savings structure TPFA does not need to include CABs. However, CABs are necessary to create an upfront savings structure. At the request of the state budget offices TPFA has run the numbers both ways to determine the impact on the State budget. Because of the structure of the old debt, all the savings can not be achieved in FY 2002 and FY 2003 without some use of CABs, so if TPFA goes with the upfront savings, TPFA will have to use a CAB structure. This structure reduces the savings between $400,000 and $600,000. Mr. Bartolotta noted that the spread between current interest bonds and CABs is 25 basis points. If that spread widens, the savings will change and most likely go down some.

Mr. Branch asked if the savings includes the $1.1 million TPFA has been asked to save. Ms. Edwards responded that it did. Mr. Kerr asked if there is a way to estimate at this point, whether at the end of the fiscal year, TPFA will have any unexpended appropriated debt service. Ms. Edwards said that has been discussed with the LLB and that at this point, the recommendation is to use those funds, ($10.5 million) to pay down commercial paper. The $10.5 million pay down means that the request for debt service for FY 2002 and FY 2003 can be reduced based on the fact that there is less commercial paper outstanding. That reduction is $600,000 a year or $1.3 million for the biennium.

Ms. Edwards has recommended that the additional $10.3 million savings from the appropriation for the Superconductor Super Collider defeasance also be used to pay down commercial paper. Ms. Edwards anticipates that this matter will come up for discussion in conference committee for the appropriations bill.

Mr. Morales stated that the overall market is positive and has been since November. He anticipates pricing around April 2. From a supply standpoint, the calendar indicates about $5 billion to $6 billion per week over the next two weeks. Municipal bonds are better by about 2 basis points as a result of the Federal Reserve's cut of 50 basis points today. Mr. Bartolotta stated that 2 basis points calculates to be about $200,000 on a present value basis.

Mr. Shelmire discussed the CP fix out and the refunding of the Parks bonds. At this time refunding approximately $10 million of the Parks bonds is more realistic than fixing out the CP. Analysis of the CP fix out has confirmed the decision not to include the CP as a part of this financing.

Mr. Kerr asked if the Parks refunding would be a part of the same transaction, under the same Official Statement. Ms. Edwards responded that the Parks bonds will require a separate series of bonds with a separate resolution, because they have a different pledge from the straight GO bonds, the Park entrance fees. However, only one official statement will be used. Ms. Edwards added that because of the effect of the Parks bonds on the transaction, the savings parameters for the Parks bonds should be more specific and the Board is requested to consider and incorporate these parameters along with more specific parameters for the CP fix out as part of the resolution.

Mr. Bartolotta added that the Authority had filed an initial subscription for SLGS before the Federal interest rate cut, so the SLGS table is locked in. That gives a higher SLGS rate for a period of time.

The Board reviewed changes to the Resolution presented by bond counsel, Mr. Barron Wallace and Ms. Suewan Johnson of Vinson & Elkins. Mr. Wallace reviewed Article II, Section 2.02 (3) (d) and (e) of the Resolution for Series 2001A and 2001C which set out the Board's decision on savings parameters and its delegation to the pricing committee. The Office of the Attorney General (OAG) is comfortable that the parameters do not allow for the unauthorized delegation to a pricing committee. With respect to commercial paper Subsection (e) provides for two options: 1) to refund all of the CP if the TIC is 4.25% or less; or 2) if only a portion is to be refunded, the debt service on the new bonds would be less than the debt service that would have been payable on the refunded notes. Mr. Branch inquired about the 95.0% minimum discount rate and the 6.0% maximum interest rates shown in brackets. Ms. Edwards stated that these are standard parameters. Mr. Kerr asked if the purpose is to meet the concern of the OAG with respect to no delegation to the pricing committee. Mr. Wallace affirmed that to be the case.

In addition, to fix-out any commercial paper, subsection (e) and two new paragraphs in the preamble are added to the resolution to comply with section 1207.008, Government Code, which requires that if a savings would not result from a refunding, the Board must make a finding that the refunding is nonetheless in the best interests of the state, and specify the maximum amount of additional debt service. Mr. Bartolotta estimated that fixing out $400 million of commercial paper at 4.25%, assuming the CP had been issued at an average of 3.80%, would result in about $60 million additional debt service. To provide some cushion, Mr. Bartolotta felt comfortable that the maximum amount of debt service could be specified at $100 million.

Ms. Johnson reviewed the Resolution for the Series 2001B bonds (Parks bonds), Section 2.02 (3). The Board was asked to consider limiting a refunding of the Parks bonds, if, in conjunction with the savings parameters set forth for the Series A bonds, the Parks bonds would generate an additional $200,000 in Net Present Value savings.

Mr. Serna asked if the Board is comfortable with the analysis and criteria it is establishing regarding the Series A and B issuance, not knowing exactly what the market is going to be when they are marketed as it relates to the commercial paper, and if there is adequate flexibility for the pricing committee, staff and financial advisors to make that decision. Mr. Kerr asked what the TIC was on the commercial paper the last time it was fixed out. Ms. Edwards answered that she did not know the exact number, but that it was higher. Mr. Serna observed that from an efficiency and cost of issuance perspective, the inefficiency of a later issuance versus this issue would be significant on a CP refunding at a later date. Ms. Edwards stated that if the CP is not fixed out in conjunction with this refunding, TPFA could watch the rates over the next few months and could possibly convert the CP to another form of variable rate debt. This would provide the advantage of knowing what the legislature is going to do as far as authorizing new GO bonds and the need for CP capacity is concerned. Furthermore, the additional cost of issuance incurred as a result of a separate transaction later would be more than offset by the lower interest cost paid on variable rate debt, even for only a few months. Mr. Bartolotta stated that $395.3 million of CP is currently outstanding, in reply to Mr. Kerr's question.

Regarding the pricing committee, Ms. Edwards reported that Ms. Huey is available to attend pricing as is Mr. Mijares. Because of the complexity of the issue of the CP, Mr. Kerr felt it would be beneficial to have someone at pricing who has been present for the discussions. The Board determined that the Pricing Committee will consist of Ms. Huey, Mr. Serna, Mr. Branch, with Mr. Kerr serving as alternate.

Mr. Kerr moved to approve the Resolution for Series 2001A and C. Ms. Meyer seconded the motion. The motion passed by unanimous vote.

Item 4. Consider and adopt resolution authorizing the refunding of outstanding general obligation Park Development Bonds, the execution of documents in connection therewith, approve the Preliminary Official Statement, select a pricing committee, and name underwriters.

Ms. Meyer moved to approve the Resolution for Series 2001B. Mr. Kerr seconded the motion. The motion passed unanimously.

Ms. Edwards recommended the following underwriters for the syndicate: Morgan Stanley Dean Witter and U.S. Bancorp Piper Jaffray as co-senior managers, Bear Stearns & Co., Estrada Hinojosa & Co., J.P. Morgan, Loop Capital Markets, Morgan Keegan & Co., Solomon Smith Barney, Inc. and SBK-Brooks Investment Corporation. The financial advisors agreed with the recommendation.
Mr. Kerr commented on the difficulty in selecting firms from a pool for a syndicate. Not only is TPFA making an attempt to award firms for presenting good ideas and proposals but also to allow each firm within the pool an opportunity to serve which requires time and frequency of bond issues. Ms. Edwards expressed her appreciation to the firms for the quality of their proposals and ideas as well.

Mr. Serna moved approval of the underwriting syndicate as recommended by staff. Ms. Meyer seconded the motion. The motion passed by unanimous vote.

Mr. Kerr asked if the HUB participation goal rules have been modified with respect to the definition of HUBs and how that relates to the composition of the pool and of the syndicate. Ms. Edwards responded that the definition of a HUB firm changed to require the minority owner to reside in the state of Texas. Only one firm in the underwriter pool currently qualifies, Estrada Hinojosa. The syndicate includes that firm and two other formerly HUB certified firms, SBK-Brooks and Loop Capital. Mr. Kerr raised the question about the policy adopted by the Board for inclusion of minority firms even though they might not meet the specific definition of a HUB for state purposes. Ms. Edwards responded that the language was to the effect that the Authority can further demonstrate a good faith effort by including minority firms that are not HUB certified.

Ms. Edwards continued with a discussion regarding the designation policies. Taking into consideration the investors' tendency to place orders through the book runner and the liability to the smaller capitalized firms given the size of the transaction, Ms. Edwards recommended that when the liability is established, firms with capital of less than $100 million should have a lower liability than co-managers with higher capitalization. In addition, Ms. Edwards recommended that TPFA use its management fee as incentive for performance. Mr. Bartolotta and Ms. Watson concurred with the recommendation. Negotiation of the management fee will take place the day that the bonds are priced.

Item 5. Review of legislation of interest to TPFA.

Ms. Edwards reported that HB2153 by Representative Averitt passed out of committee March 19 with TPFA's requested changes and will go to the full House and then to the Senate. There is some inconsistency with HB11 by Representative Gallego in that HB2153 provides for 7 board members, while HB11 provides for 5. Representative Gallego's staff has recommended waiting to see how the two bills proceed and resolving differences as necessary.

Ms. Porras called the Board's attention to a list of bills filed authorizing new bond issuances through TPFA: SB1296 authorizes $175 million in GO bonds for road projects along the Mexico border; SB1173 authorizes $9 million of revenue bonds to renovate the Nimitz Museum, HB3064 is a place holder bill for GO bonds, and SB 1485 authorizes $10 million in GO bonds for the development of Texas biotechnological and biomedical.

Item 6. Other Business/Staff Report.

Item 7. Adjourn.

The meeting adjourned at 3:26 P.M.

The foregoing minutes were approved and passed by the Board of Directors on July 17, 2001.

Cynthia L. Meyer
Secretary, Board of Directors

ATTACHMENT
Posting Notice - Exhibit “A”