

UNDERWRITING POLICIES AND PROCEDURES
FOR NEGOTIATED BOND SALES
CONDUCTED BY
THE TEXAS PUBLIC FINANCE AUTHORITY

November 3, 2005
Revised October 2008
Revised August 2011

A. Definitions: The following definitions shall apply:

Agreement Among Underwriters or AAU: The contract establishing the underwriting syndicate formed to market the bonds. The AAU will include or reference provisions covering the liability of each syndicate member, stated as a percentage, and if such percentage shall apply equally to any underwriting commitments, profits and losses. A description of order types, order priority, pricing of the bonds and requirements respecting a public offering. The AAU may contain a variety of other matters relating to trade practice and applicable rules of the Municipal Securities Rulemaking Board.

Authority: Texas Public Finance Authority, or any person authorized to act on its behalf, including the Executive Director or other staff designee, or the Pricing Committee.

Bond Purchase Agreement: The contract between the syndicate and issuer setting forth the final terms, prices and conditions upon which the syndicate purchases a new issue.

Board: The Board of Directors of the Texas Public Finance Authority.

Executive Director: The Executive Director of the Authority.

Good Faith Deposit: A sum of money required to be delivered to an issuer by the syndicate pursuant to the bond purchase agreement. The good faith deposit is generally provided in the form of a bank check, or a certified or cashier's check in an amount determined by the issuer, typically equal to a minimum of 1% of the par amount of bonds for a negotiated sale and 2 % for a competitive sale.

Group Order: An order for bonds that is confirmed at the public offering price without deducting the concession or takedown. A group order benefits all members of the syndicate according to their respective percentage liability commitments as detailed in the AAU.

HUB Firms: Historically Underutilized Businesses - Firms owned by minorities, or women as defined by State law.

Liability: The principal amount of securities to be underwritten by each member of the syndicate, expressed as a percentage of the total par amount of the underwriting.

Management Fee: An optional fee paid to the underwriters in addition to the underwriting takedown that compensates the senior book-runner for extra effort getting the deal sold. The lead underwriter usually splits the management fee with the other lead or co-managers, usually two or three other underwriters, but not with the entire syndicate.

Managers: The book-running senior manager and other members of the syndicate that are assigned a liability percentage and participate in the initial offering of the bonds. Senior

managers typically undertake larger liability commitments in the account than do other syndicate members.

Member Order: An order for bonds submitted by a syndicate member confirmed to that member at the takedown. (Typically, the takedown on a member order is not divided among other syndicate members.)

Minority-owned Business Enterprise (MBE) - (1) a corporation formed for the purpose of making a profit in which 51% or more of all classes of stock or other equitable securities are owned by Black, Hispanic, Asian, or Native Americans; (2) a sole proprietorship created for the purpose of making a profit completely owned by a Black, Hispanic, Asian, or Native American; or (3) a partnership formed for the purpose of making a profit in which 51% or more of the assets and interests in the partnership are owned by Black, Hispanic, Asian, or Native Americans.

Net Designated Order: An order for bonds submitted by a syndicate member on which all or a portion of the takedown is to be credited to firms designated by the purchaser of the bonds, according to the relative percentages designated by the said purchaser, within the parameters agreed upon by the Authority and the book-running senior manager and set forth in the pricing wire.

Pricing Committee: One or more members of the Board designated, under the authority of section 1371.053(c) of Texas Government Code, to act on behalf of the Board in selling bonds through a negotiated sale, including setting the price, interest rates, fees, and other terms and conditions, in accordance with a resolution adopted by the Board.

Priority Order: An order for bonds submitted by a syndicate member that is given preferential treatment over member orders because it is a group order, a net designated order, or a member order that is targeted toward a specific purchaser such as Texas retail.

Retention: A specified amount of bonds confirmed as a member order at the beginning of the order period to syndicate members.

Selling Group: One or more underwriting firms that can acquire bonds during the initial order period on the same terms as syndicate members, but do not participate in residual profits or losses of the syndicate and take no liability for unsold bonds.

State: The State of Texas.

Structuring Fee: An optional fee used to compensate an underwriter, consultant or advisor for developing an issue within the issuer's legal and financial constraints and making the issue marketable to investors. The payment of such a fee depends on the complexity of the issuance or other unique circumstances of the transaction that required greater effort on the part of the consultant than a like financing transaction without the complexity or unique circumstances.

Syndicate: A group of underwriters formed to purchase and reoffer an issuer's bonds for sale to the public at a stated offering price. Each member of the syndicate has a percentage in the liability of the financing as detailed in the AAU.

Takedown: The discount from the list price allowed to a member of an underwriting account on member orders.

Texas Retail: A direct purchase by an individual resident of Texas or trust departments, investment advisors and money managers acting on behalf of residents of Texas, as demonstrated by a zip code. Orders by the other broker dealers or dealer banks are not considered retail accounts and may not be submitted as priority orders. These orders are usually subject to a maximum limit defined in writing prior to the release of the preliminary pricing. The Authority may request copies of all initial trade confirmations to verify retail orders.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received on the closing date of the issue.

Woman-owned Business Enterprise (WBE): (1) a corporation formed for the purpose of making a profit in which 51% or more of all classes of stock or other equitable securities are owned by one or more women; (2) a sole proprietorship formed for the purpose of making a profit completely owned by a woman; or (3) a partnership formed for the purpose of making a profit in which 51% or more of the assets and interests in the partnership are owned by one or more women.

B. Overview

1. All syndicate members will be expected to perform at a level that provides maximum benefit to the State. The Authority intends to conduct a post-sale evaluation of each syndicate member's performance. The results of the evaluation will be used in the selection process for book-running senior manager and other syndicate members for future Authority financings.
2. All syndicate members will be expected to participate in a meaningful way in the transaction. The book-running senior manager will be expected to actively involve syndicate members in the structuring, pricing and distribution of the issue to provide all syndicate members an opportunity to make a meaningful contribution.
3. The Authority is committed to making a good faith effort to achieve 33% HUB participation in each negotiated underwriting. If the Authority determines that there is not a sufficient number of qualified HUB firms available to meet this goal for a particular underwriting, the Authority may include MBE firms, WBE firms, or both, in the syndicate to demonstrate a good faith effort to achieve this goal. The inclusion of MBE or WBE firms in a syndicate is not intended to be a substitute for inclusion of HUB firms.

4. All syndicate members will be expected to help further the Authority's goals of including HUB, MBE, and WBE firms in all facets of the financing. All firms are expected to participate fully throughout the financing process.
5. All syndicate members will be expected to make themselves available to participate, when requested, in various aspects of the financing (e.g., meetings, document review, conference calls, post-sale reporting, etc.).
6. All syndicate members will be expected to perform assigned duties, as more fully outlined in Appendix A.
7. The book-running senior manager and all syndicate and selling group members are strongly encouraged to use an industry accepted electronic order system to place orders. The book-running senior manager will be expected to provide the Authority, Pricing Committee members and financial advisors reasonable access to an on-line platform to view orders on a real-time basis during the pricing, at no cost to the Authority.

C. Municipal Securities Rulemaking Board (MSRB) Rules: MSRB rules shall be followed at all times in the underwriting of the bonds.

1. In accordance with MSRB Rule G-11, the priority of orders for bonds for purposes of allocation must be established and disclosed in writing to the syndicate prior to the first offer of any bonds.
2. In placing an order with the book-running senior manager, all syndicate members shall state whether it is a group order, net designated order, member order or any other appropriate designation. Any change in the designation of order type after order placement must be communicated to the book-running senior manager during the order period.
3. Any bonds sold by the syndicate must be at the then applicable respective public offering prices. Each member of the syndicate agrees to make a bona fide public offering of all bonds allocated to it at the respective public offering prices. Syndicate members may re-allot the concessions agreed upon by the syndicate at a syndicate meeting or any part thereof on sales to: (a) dealers who are members of the National Association of Securities Dealers, Inc. (NASD); or (b) dealer banks or divisions or departments of banks. This provision applies until the book-running senior manager releases syndicate restrictions. Under no circumstance will any syndicate member re-allocate any portion of the takedown to any non syndicate account, broker dealer or dealer bank in the form of a concession unless the concession is stated on the pricing wire.)

D. Marketing Plan

Five to seven business days prior to the day of pricing, the book-running senior manager must provide to the Authority a marketing plan. The marketing plan should be developed in

collaboration with the banker and underwriting desk of the Senior Manager as well as all syndicate members to ensure meaningful participation of the entire syndicate. It should include the following components:

1. Identify target investors (e.g. casualty companies, trust departments, bond funds, retail) for each maturity range, discuss possible structuring and couponing scenarios and other ideas geared toward obtaining the best price
2. Marketing Strategy: methods to communicate the sale to potential investors, such as internal sales memos, publications, and investor conference calls
3. Structuring features such as use of term bonds, call features
4. Proposed use of Retention, if any
5. Proposed designation rules, including priority of orders
6. Proposed liability assignments for each Syndicate member
7. Include provisions consistent with the Authority HUB goals and generally assign no more than 50% of liability or allocations to any one firm.
8. Proposed use of a selling group and if available, the list of firms proposed to be included in the selling group. The Authority must approve of the use of a selling group and which firms will be included in the selling group prior to the opening of the order period.

Liability

1. All liability assignments are subject to the approval of the Authority. The book-running senior manager must provide a proposed liability assignment for each syndicate member to the Authority for approval prior to pricing. The Authority reserves the right to recommend liability assignments to the book-running senior manager.
2. In general, the Authority expects that the book-running senior manager will recommend that it receive 30% - 50% of the liability.
3. As a general rule, liability assignments should be commensurate with the underwriting capabilities of the syndicate members to which they are assigned, including HUB, MBE, or WBE firms.
4. The allocation of bonds should be based on the amount, type and quality of orders and should not be limited to a co-manager's liability, if the orders warrant a different amount.

F. Retention and Takedown Designation Policies

1. If applicable, the book-running senior manager will discuss the use of retention with the Authority prior to developing the marketing plan. During this discussion, the book-running senior manager will provide to the Authority a proposed retention worksheet showing retention amounts for each syndicate member. It should be noted that retention should not necessarily be limited to term bonds and is not necessarily required to reflect the liability commitments undertaken by the syndicate.
2. If the use of retention is advised and agreed upon by the Authority, the book-running senior manager will make retention available to the syndicate at least one day prior to the day of pricing.
3. Any change in retention to any syndicate member at any time must be approved by the Authority prior to its release.
4. In the Marketing Plan, the book-running senior manager must propose a priority of orders for allocation and a proposed policy for the designation of takedown on net designated orders. The policy must include a minimum and maximum percentage of takedown to be designated to any one firm, as well as a minimum number of firms, if applicable, to be designated on any one order. Upon the approval of the Authority, the priority of orders and the designation policy must be communicated to all syndicate members and should be included in the AAU.
5. Changes to the takedown designation policy must be approved by the Authority and communicated by wire to syndicate members.
6. Any takedown not designated on net designated orders within 10 business days of the signing of the Bond Purchase Agreement will be distributed among the syndicate members according to their respective liability assignments. The book-running senior manager must provide the Authority with the amount of final designations paid to each syndicate member.
7. The book-running senior manager must report orders and allotments, by firm, by maturity, and by type of order (member, group net, net designated). A breakdown of total payouts to each syndicate member, including takedown designations on group net and net designated orders, and takedowns on member orders must also be reported to the Authority. This report should also include any management fee or structuring fee paid to each firm. If this information is not final when the post sale analysis is presented to the Board, the underwriter must provide as complete information as possible in the post sale analysis and final information must be provided to the Authority no later than 30 days after closing.

- G. Agreement Among Underwriters: The AAU must include the liability assignments, the priority of orders for purposes of allocation and the takedown designation policy. The book-running senior manager must provide a copy of the AAU to each syndicate member and the Authority. Each syndicate member must review the terms and conditions set forth in the AAU and return a signed copy to the book-running senior manager two business days prior to the day of pricing.
- H. Fees and Expenses: The Authority will review and approve all fees and expenses and may request their substantiation. Further, any travel incurred in connection with the sale of bonds must be approved by the Authority in advance. It is expected that any excess funds raised beyond those required to meet issue expenses will be returned to the Authority.
1. The book-running senior manager must provide a final estimate of the expense component to the Authority prior to the day of pricing. The expense component of the underwriting spread must be finalized by the book-running senior manager and approved by the Authority the day of pricing. Computer expenses and syndicate member expenses will only be permitted subject to prior approval by the Authority. In addition, computer expenses and syndicate member expenses must be supported with documentation. Charges to other syndicate members for clearance or other administrative expenses must be approved in advance by the Authority.
 2. In general, the Authority does not reimburse the book-running senior manager for clearance fees except for the Depository Trust Company (DTC) fees on issues that are registered in book-entry-only form.
 3. Any underwriters' risk component must be approved by the Authority. There will be no negotiation of underwriting risk after the verbal award has been given by the Authority to the syndicate.
 4. Prior to or on the day of Pricing, as appropriate, the Authority will determine whether the work required to structure the financing or manage the pricing warrants payment of a management fee or structuring fee, based on the work performed by each syndicate member or consultant and any unique circumstances or the complexity of the transaction. Staff will provide a recommendation to the Authority for its consideration. Staff's recommendation should address all relevant factors, including, but not limited to, the following:
 - Is the transaction unique?
 - Are market conditions unexpected or reasonably unanticipated?
 - Does the structure of the financing require an explanation to investors?
 - Is the legal authorization for the financing novel?
 - Is the structure novel?
 - Is the revenue stream untested?
 - Was it evident that extraordinary efforts of the bookrunner helped the transaction go more smoothly?

- Do the totality of circumstances surrounding the transaction reasonably lead one to conclude that this transaction has been more complex than a routine sale of serial bonds supported by the State's general obligation full faith and credit or state-backed revenue?

If such a fee is to be paid, the Authority will determine the amount and to whom it will be paid. The Authority may consult the matrix of proposed structuring fees as a guide in determining an appropriate fee. The matrix is attached hereto as Exhibit A.

5. Proposed takedowns for all maturities must be included as part of the proposed pricing terms received by the Authority at least two hours prior to the first pre-pricing conference call. All changes to takedowns are subject to review and approval by the Authority.

I. Pricing Procedures

1. At least two business days prior to pricing, the book-running senior manager will confirm logistics for the participation of pricing committee members with the executive director and instructions to access an on-line platform to view orders on a real-time basis during the pricing.
2. At least two business days prior to pricing, the book-running senior manager will hold a conference call with the Authority staff, financial advisor, senior banker and the individual on the underwriting desk that will be pricing the transaction. Other syndicate members may be included if requested by the Authority. The purpose of the call will be to update the Authority on market conditions and any necessary modifications to the marketing plan, including the use of a selling group, review the pricing schedule, and the proposed pricing terms. The call will confirm plans to structure the bonds to achieve the Authority's goals of obtaining the best price for the issue, allocate bonds on the basis of work performed, provide opportunity for meaningful participation of all syndicate and selling group members, including HUB, MBE and WBE firms, and maintain favorable long-term market access.
3. A pre-pricing call will be scheduled with the Authority, financial advisor, and entire underwriting syndicate¹ one business day before pricing. At least two hours prior to the call, each syndicate member must submit price views and final recommendations on structure, call features, etc., to the senior manager. At least thirty minutes prior to the pre-pricing conference call, the senior manager will develop a consensus scale and circulate it with each manager's price views to the Authority, financial advisors and other syndicate members. The preliminary pricing wire should also be circulated if available.

¹ The following representatives are expected to participate in the pre-pricing calls on the day before and morning of pricing: Book-running Senior Manager and Co-Senior Manager: lead banker and underwriter; Co-managers and Selling group members: only underwriters are required, lead banker participation is optional.

4. On the morning of the day of pricing, prior to the start of the order period, the book-running senior manager will initiate a conference call with the Authority, including staff and Pricing Committee members and, if necessary, the syndicate, to discuss any proposed changes to any of the pricing terms approved on the pre-pricing conference call (such as interest rates, yields, prices, optional redemption features, concessions and additional takedowns per maturity), the order period, and takedowns. (The time of the call should be communicated at least 24 hours in advance of the call, whenever possible.) At the conclusion of the conference call, the book-running senior manager will send out a consensus scale to each co-manager via Dalnet.
5. The preliminary pricing wire is subject to the approval of the Authority, prior to its release. The wire must include, among other things, all pricing terms agreed upon by the Authority, book-running senior manager and syndicate during the pre-pricing conference call, and the priority of orders for bonds for purposes of allocation.
6. If a selling group is used, the Authority must approve the use of a selling group and be provided with a list of selling group members in writing prior to accepting any orders from selling group members.
7. Any change in the initial pricing terms on any maturity during the order period must be approved by the Authority.
8. The book-running senior manager must track the receipt of orders broken down by maturity, amount, type and firm. A status report on the pricing, including total orders received, broken down by maturity, amount, type and firm, may be requested by the Authority at any time during the order period and at a minimum should be provided in writing or via an on-line platform midway through the order period. The Dalnet Orders and Allotments by Maturity” report is an acceptable report for these purposes. (Should the Authority request it, the book-running senior manager must also provide submittal times and copies of confirmations for all orders.)
9. If the book-running senior manager feels a co-manager has incorrectly entered an order, the book-running senior manager will immediately bring it to the attention of the Authority for resolution. Under no circumstances will the book-running senior manager make a unilateral decision pertaining to any order entered by a co-manager.
10. The book-running senior manager must receive approval from the Authority before terminating any order period on any maturity before the previously determined close of the order period. Any such termination will usually require a price increase (lower yield) for that maturity.
11. At the close of the order period, the book-running senior manager must provide in writing and in a format acceptable to the Authority, a listing of total orders received broken down by maturity, amount, type and firm, through the end of the order period. (The Dalnet “Orders and Allotments by Maturity” report is an acceptable report for this purpose.)

12. Within 30 minutes after the end of the order period the book-running senior manager will confirm via Dalnet or other mechanism acceptable to the Authority with all co-managers the orders received by that firm.
13. Within one hour after the close of the order period, the book-running senior manager must review the book of orders with the Authority and Pricing Committee and make a proposal to underwrite the bonds. Such proposal must detail any change in pricing terms (e.g., interest rates, yields, prices, optional redemption features, takedown per maturity) or other components of the underwriting spread. If any changes to the pricing terms are proposed, the book-running senior manager will provide the Authority with the impact of such changes on the true interest cost of the issue, if possible.
14. After negotiating the final terms of the pricing, the Pricing Committee will adopt the pricing certificate. Any changes in the pricing terms negotiated between the Authority, book-running senior manager and syndicate prior to receiving the award of the bonds must be confirmed to the syndicate via a final pricing wire, subject to the approval of the Authority. The book-running senior manager must also ensure that the Authority receives a copy of the final pricing wire for its records.
15. The Authority may obtain the signatures of members of the Pricing Committee for the pricing certificate in advance of the pricing to hold in escrow and be released upon adoption of the certificate by the Pricing Committee members and their authorization to release their signature pages.
15. A complete set of final financial analysis must be provided to the Authority before a representative of the Authority signs the Bond Purchase Agreement.
16. The book-running senior manager and underwriters' counsel are responsible for coordinating the execution of the Bond Purchase Agreement and the delivery of the good faith deposit to the Authority.
17. The Authority reserves the right to postpone the pricing if the above pricing procedures are not followed.

J. Allocation of Bonds

1. The book-running senior manager will be responsible for ensuring that the overall allocation of bonds meets the Authority's goals of: (a) obtaining the best price for the issue; (b) providing firms with allocations that are commensurate with work performed (the type and amount of orders submitted); and (c) providing opportunity for meaningful participation from all syndicate members, including HUB, MBE and WBE firms.
2. Before allocating any Bonds, the book-running senior manager must provide in writing to the Authority a final listing of orders by maturity, amount and type for each of the

syndicate and selling group members. The Authority must approve the proposed allocation of bonds before the book-running senior manager can release the allocation. This approval shall be given by the Authority in a timely manner.

K. Post-Sale Support

1. In accordance with MSRB rule G-12 (k), sales credits designated by a customer must be distributed within 30 days after the delivery of the bonds to the customer.
2. In accordance with MSRB rule G-12 (j), final settlement of a syndicate account and distribution of any profit due to members must be made within 60 days of delivery of the syndicate's bonds.
3. The syndicate agrees to comply with any syndicate rules prohibiting the selling of bonds below the public offering price (less the full takedown) prior to the release of syndicate restrictions. In addition, each syndicate member agrees to inform the Authority of any firm not complying with such syndicate rules. Violations of syndicate restrictions by members, other dealers or purchasers could result in unfavorable consideration by the Authority on future bond sales and the forfeiture of any takedown associated with such orders.
4. The book-running senior manager must be prepared to provide the Authority on an ongoing basis for at least seven business days following the release of syndicate restrictions secondary market price levels, unsold balance, and level of trading activity of the bonds.
5. The Authority expects the syndicate to provide liquidity in the secondary market for the issue on an ongoing basis.

L. Post-Sale Evaluation: In keeping with the Authority's policy of acknowledging good performance and building accountability into syndicate participation, the Authority may conduct post-sale evaluations of the syndicate from time to time to ensure policies are adhered to and strong performance is noted. The evaluations will consider whether the Authority obtained the best price for the issue, whether each syndicate member participated meaningfully in the transaction and whether progress was made towards the Authority's HUB participation goals.

1. The entire syndicate, including the book-running senior manager, must provide to the Authority in a timely manner all necessary information required to carry out the post-sale evaluation. The evaluation may include, but not be limited to, syndicate communication, structuring and marketing of the issue, the order and allocation process, willingness and ability to underwrite unsold balances, retention, pre-marketing and secondary market support, or other areas unique to a particular bond transaction.
2. The book-running senior manager must also provide the Authority a final post-sale analysis (pricing book) and present the analysis to the Board of Directors at the TPFA

Board meeting immediately following the sale. Ten copies of the pricing book must be delivered to the Executor Director by not later than eight days before said board meeting, and an additional copy must be delivered to each Financial Advisor. An electronic copy of the pricing book must also be delivered to the Authority. The pricing book should include, but not necessarily be limited to: a brief Executive Summary that provides a discussion of market conditions leading up to and during the pricing and where relevant, following the sale; spread analysis to comparable issues in the market and various scale indexes such as MMD, Delphis or Municipal Market Advisors; analysis of orders and allotments by type of order and by firm by maturity; analysis of total payouts to each firm; analysis of sales by investor type, by maturity range (retail, institutional, mutual funds, property & casualty, etc) and, if applicable, major investors; a complete set of the final numerical analysis; and if appropriate, any media coverage or marketing materials.

Exhibit A

Par Amount	Proposed Cap per \$1,000 of bonds	Proposed minimum (if awarded)
\$ 25,000,000 - \$49,999,000	0.50	0.30
\$ 50,000,000 - \$99,999,000	0.60	0.30
\$100,000,000 - \$249,999,000	0.50	0.25
\$250,000,000 or higher	0.30	0.15

Example of Optional Structuring Fee Levels

Par Amount	up to .15 per \$1000	up to .25 per \$1,000	up to .30 per \$1,000	up to .40 per \$1,000	up to .50 per \$1,000
\$ 25,000,000	\$ 3,750	\$ 6,250	\$ 7,500	\$ 10,000	\$ 12,500
\$ 50,000,000	\$ 7,500	\$ 12,500	\$ 15,000	\$ 20,000	\$ 25,000
\$ 100,000,000	\$ 15,000	\$ 25,000	\$ 30,000	\$ 40,000	\$ 50,000
\$ 250,000,000	\$ 37,500	\$ 62,500	\$ 75,000	\$ 100,000	\$ 125,000
\$ 500,000,000	\$ 75,000	\$ 125,000	\$ 150,000	\$ 200,000	\$ 250,000
\$ 1,000,000,000	\$ 150,000	\$ 250,000	\$ 300,000	\$ 400,000	\$ 500,000

Par Amount	up to .60 per \$1,000	up to .75 per \$1,000
\$ 25,000,000	\$15,000	\$18,750
\$ 50,000,000	\$30,000	\$37,500
\$100,000,000	\$60,000	\$75,000
\$250,000,000	\$150,000	\$187,500
\$500,000,000	\$300,000	\$375,000
\$1,000,000,000	\$600,000	\$750,000

TEXAS PUBLIC FINANCE AUTHORITY

Underwriting Policies and Procedures

The firm of _____ has read and understands the Underwriting Policies and Procedures that were adopted by the Texas Public Finance Authority on _____, 2011. Should our firm be selected to serve in the underwriting syndicate to the Authority the firm agrees to adhere to the guidelines and procedures as established in the policies.

Firm Name _____

Investment Banker _____

Senior Underwriter _____

Date _____

Please sign this page and return it to TPFA.
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