

TEXAS PUBLIC FINANCE AUTHORITY

BOARD OF DIRECTORS:

Billy M. Atkinson, Jr., Chair
Ruth C. Schiermeyer, Vice Chair
Gerald B. Alley, Secretary
Mark W. Eidman
Walker N. Moody
Rodney K. Moore
Robert T. Roddy, Jr.



EXECUTIVE DIRECTOR
Lee Deviney

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

August 7, 2014

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 11:00 a.m., Thursday, August 7, 2014, State Capitol, Capitol Extension Hearing Room, E2.028, 1400 N. Congress Ave., Austin, Texas 78701. Present were: Mr. Billy Atkinson, Chair; Ms. Ruth Schiermeyer, Vice Chair; Mr. Gerald Alley, Secretary; Mr. Walker Moody, Member; and Mr. Rodney Moore, Member.

Representing the Authority's staff were: Mr. Lee Deviney, Executive Director; Mr. John Hernandez, Deputy Director; and Ms. Pamela Scivicque, Director of Business Administration.

Present in their designated capacities were the following persons: Art Morales, BOSC Inc.; Chris Allen, FSC; Dalton Smith, BOA Merrill Lynch; Jim Niederle, HS&E; Robert Collins, FTN Financial; Jorge Rodriguez, Coastal Securities; Daniel Rodriguez, Coastal Securities; Lara Bell, Legislative Budget Board; Patrick Scott, Barclays Capital; Paul Martin, Winstead; Ben Howell, Winstead; Brandon Walker, BOA Merrill Lynch; Rick Menchaca, BOSC Inc.; Pete Gise, TWIA; David Durden, TWIA; Lorraine Palacios, Ramirez & Co.; Carol Polumbo, McCall Parkhurst; Donnelle Atkinson; Reagan Barbe; Debi Jones, Raymond James; Julie Houston, Andrews Kurth; and Tim Peterson, J.P. Morgan.

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

Mr. Atkinson called the meeting to order at 11:16 AM and noted that a quorum was present.

Item 2. Excuse absences of board members, if necessary.

Ms. Schiermeyer motioned to excuse the absences of Mr. Eidman and Mr. Roddy. Mr. Alley seconded the motion.

The motion passed unanimously.

Item 3. Approve the minutes of the July 10, 2014, Board meeting.

Ms. Schiermeyer motioned to approve the July 10, 2014 minutes as presented. Mr. Alley seconded the motion.

The motion passed unanimously.

Item 4. Consideration, discussion, and possible action related to the adoption of a resolution related to Texas Windstorm Insurance Association and other related matters thereto, approving the following:

a. (i) the form of a master resolution relating to class 1 public securities to be issued by Texas Public Finance Authority on behalf of Texas Windstorm Insurance Association entitled *Master Resolution Authorizing the Issuance of Class 1 Public Securities on behalf of the Texas Windstorm Insurance Association; establishing and Pledging the Security therefor; authorizing the execution and delivery of a Financing and Pledge Agreement, a Funds Management Agreement, a Deposit Account Control Agreement, and other documents in connection therewith; and accepting a Department of Insurance Representation Letter;* and (ii) the forms of the related transaction documents, to be finally approved in conjunction with the approval of a Purchase Contract at a subsequent meeting of the Board.

b. (i) the form of a first supplemental resolution relating to the Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014 to be issued as class 1 public securities by Texas Public Finance Authority on behalf of Texas Windstorm Insurance Association entitled *First Supplemental Resolution authorizing the issuance of Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014 as Class 1 Public Securities in the aggregate principal amount of \$500,000,000; authorizing the execution and delivery of a Purchase Contract and other documents in connection therewith; approving the form of an Official Statement, and the taking of action to effect the sale and delivery of such bonds;* (ii) the forms of the related transaction documents (including a Dissemination Agent Agreement), to be finally approved in conjunction with the approval of a Purchase Contract at a subsequent meeting of the Board.

c. a *Preliminary Official Statement* for the Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014 and take other necessary and related action thereto, including the delegation to the Executive Director to deem final the Preliminary Official Statement for the use and distribution thereof by the underwriters in connection the public offering and sale of the Texas Public Finance Authority Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014.

Mr. Deviney introduced the agenda item, noting that the Texas Windstorm Insurance Association (TWIA) is an instrumentality of the state and has requested that the Authority issue \$500 million in premium revenue taxable pre-event class 1 bonds. The issuance of bonds will be for the payment of the cost of TWIA's program including insured losses of a catastrophic event. These bonds are authorized in the Texas Insurance Code under subchapters B-1 and M. In addition to

the requested pre-event Bonds, TWIA can request the issuance of Class 2 and Class 3 post event bonds as needed. Mr. Deviney also noted that TWIA purchased re-insurance at an attachment point of \$1.9 billion in claims.

Mr. Deviney added that the Authority is acting as a conduit issuer for TWIA and the payments of the bonds are not appropriated or guaranteed by the State of Texas. The bonds will be repaid through premium revenue collected by TWIA from its policy holders. The Texas Department of Insurance (TDI or Department) has reviewed TWIA's cost benefit analysis and the Commissioner of Insurance has approved the issuance of bonds based on information that was provided by TWIA. The Authority and TWIA continue to keep open the lines of communication with the Department during the drafting of the transaction documents along with TWIA, the Authority and all the associated underwriters and our service providers. Proceeds of the bonds will provide approximately \$442 million to pay claims, approximately \$8 million for underwriter expenses and establish \$50 million in reserves. TWIA's provided projection indicates the ability to generate an annual net of premium revenue amounting to not less than 1.25 times debt service coverage requirements. Mr. Deviney mentioned that the costs of issuance will be paid by TWIA and not from bond proceeds as is typical, but the underwriters discount will be paid out of bond proceeds. He added that the Bank of America Merrill Lynch (BAML) proposal would result in the issuance of unrated taxable bonds that are estimated to trade at coupons between 7% and 9%. The proposed bonds will mature in no more than 10 years and are subject to an optional redemption at any time and subject to a make-whole call provision which will be determined at pricing. Upon Board approval, the application will be submitted to the Texas Bond Review Board. This transaction differs from a typical Authority financing because the borrower is a not for profit corporation created by the State and subject to State oversight. Also, neither the bond proceeds nor the payment of debt service is appropriated by the State. The State and the Authority will not be obligated to repay the bond-holders and these bonds will not be issued with a credit rating.

Ms. Schiermeyer asked for clarification on the authorized signees requesting transfer of funds. Julie Houston said the documents do have an authorized representative that is appointed under the documents and it would just be that authorized representative that would be able to sign. Ms. Scivicque reassured Ms. Schiermeyer that staff would work with counsel to ensure that the documents would only permit signatory from authorized representatives.

Mr. Pete Gise said that TWIA has approximately \$3.35 billion in available funding for this coming storm season excluding the \$500 million Class 1 issuance. The amount is made up of a combination of the CRTF balance, current year earnings as well as the issuance of potential Post Event Class 2 and 3 bonds. Mr. Gise added that if \$500 million of Class 1 bonds was issued, this would enable TWIA to sustain a one in seventy year storm. Mr. Gise added that as a comparison, a 1 in 100 year storm would be a \$4.7 billion event. Mr. Atkinson asked for clarification on what would happen to the funds if they were not needed. Mr. Deviney replied that if the funds were not needed, ultimately they would just go back to the bondholders. Mr. Deviney, asked Mr. Dalton Smith to address the marketing of the bonds. Mr. Smith thanked the Board for their participation and prior approval and pointed out that this offering is a long-term solution. He added that BAML thinks there is a good market for the bonds as structured. He continued by saying that investors should recognize that TWIA's financial condition is better than what it has been in the past several years and he thought the market would clearly understand that. Mr. Deviney reminded the Board that if they approved the issuance of these

bonds, they would also need to name a pricing committee and alternates. Mr. Deviney added that the pricing is anticipated in September and then a board meeting would be required to approve the pricing. The location of the pricing could be in New York City or Texas.

Mr. Deviney recommended that agenda items 4.a. (i) the form of the master resolution relating to class 1 public securities be issued by the Authority on behalf of TWIA including a security pledge authorization of a Financing and Pledge Agreement, a Funds Management Agreement and a Deposit Account Control Agreement and other documents in connection therewith; and accepting the Department of Insurance Representation Letter; and (ii) the forms of the related to the transaction documents, be finally approved in conjunction with the approval of a Purchase Contract at a subsequent meeting of the Board. Further, Mr. Deviney recommended the approval of agenda items 4.b. (i) the form of a first supplemental resolution relating to the TPFA/TWIA Premium Revenue Taxable Revenue Bonds, Series 2014 to be issued as class 1 public securities in the aggregate principal amount of \$500 million; authorizing the execution and delivery of a Purchase Contract and other documents in connection therewith; approving the form of an Official Statement and the taking of action to effect the sale of deliveries of such bond; and (ii) the forms of the related transactions documents (including a Dissemination Agent Agreement), be finally approved in conjunction with the approval of a Purchase Contract at a subsequent meeting of the board. Finally the Board is being asked to consider the approval of agenda item 4.c. a Preliminary Official Statement for the bonds and to take other necessary and related actions thereto, including the delegation to the Executive Director to deem final the Preliminary Official Statement for the use and distribution thereof by the underwriters in connection with the public offering and sale of the bonds.

Ms. Schiermeyer moved to accept staff's recommendation and Mr. Moore seconded.

The motion passed unanimously.

Ms. Schiermeyer moved to approve Mr. Moody as chair of the pricing committee as well as Mr. Alley and Mr. Moore as pricing committee members. The remaining Board members are to serve as alternates. The motion passed unanimously.

Item 5. Relating to the Texas Public Finance Authority Charter School Finance Corporation, including orders and resolutions related to the Corporation; the Corporation's Articles of Incorporation; Bylaws; contracts for administrative services; and possible appointment of members to the Corporation's Board of Directors.

Mr. Deviney said TPFA staff recognizes the changes to the Charter School Finance Corporation (the "Corporation") articles of incorporation will provide clarification between perceived inconsistencies between the enabling statute, the articles of incorporation, and by-laws. Changes may also include increasing the number of Corporation directors to seven to ensure the availability of a quorum to address Corporation business timely. Changes may also address the term of members to provide clarity and continuity among the Corporation membership, and changes to update the registered agent for the Corporation. The recommendation would extend the Corporation to 7 voting directors and all would have two-year terms as appointed by the TPFA Board. Staff recommends approval of the order ratifying the 2003 resolution related to the TPFA Charter School Finance Corporation, the adoption of the resolution changing the articles of incorporation and proposed changes to the Corporation's by-laws, and the adoption of the

amended and restated administrative services contract between the Authority and the Corporation.

Mr. Alley moved to accept staff's recommendation. Mr. Moody seconded the motion.

The motion passed unanimously.

Mr. Deviney stated that by the Board's action, there are now seven available seats on the Corporation, of which five are currently filled. Staff, in consultation with the Vice Chair of the Corporation, the staff of the Texas Education Agency and also with the Office of the Governor, identified people willing to serve on the Corporation. Jim Thompson, was a long time Austin, Texas attorney at the Texas Education Agency, the General Counsel at the State Board of Education and has worked on charter school matters for many years. The other is Dr. Nancy Grayson who is a career public educator. Dr. Grayson is a founder and former superintendent of a charter school in Waco, Texas. Dr. Grayson is still an active member of the Texas Charter School Association and is a very active educator. Both of the applicants have indicated their willingness to serve on the Corporation, if appointed. Mr. Deviney pointed out that statute requires that the Authority consult with the Commissioner of Education on appointments to the Corporation and a notice was submitted to the Commissioner of Education and discussions were held with staff but no comment was received.

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

Item 6. Staff Update with Market update and staff vacancies.

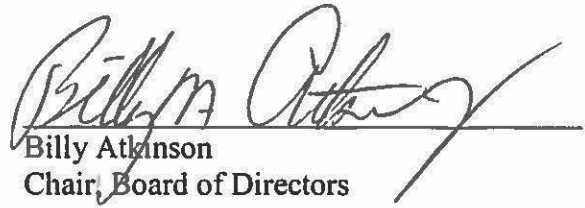
Mr. Deviney discussed the impact of the recent refunding transaction on the outstanding commercial paper.

Mr. Deviney mentioned that he had extended an offer for a senior level portfolio manager that may be available during the first week in September. He also mentioned that he was actively working on hiring additional staff.

Item 7. Adjourn

The meeting adjourned at 11:54 p.m.

The foregoing minutes were approved and passed by the Board of Directors on September 24, 2014.



Billy Atkinson
Chair, Board of Directors

ATTACHMENT: Posting Notice – Exhibit A