Minutes

Texas Bond Review Board

Planning Session

Thursday July 19, 2012, 10:15 a.m.

Capitol Extension, Room E2.026

1400 N. Congress Ave.

Austin, TX 78701

The Texas Bond Review Board (BRB) convened in a planning session at 10:15 a.m., Thursday July 19, 2012 in the Capitol Extension, Room E2.026 in Austin, Texas. Present were Ed Robertson, Chair and Alternate for Governor Rick Perry; Serena Kuvet, Alternate for Comptroller Susan Combs; David Duran, Alternate for Lieutenant Governor David Dewhurst; and Andrew Blifford, Alternate for Speaker Joe Straus. Also in attendance were Stephanie Leibe with the Office of the Attorney General, Bond Finance Office staff members and others.

1. **Call to Order**

Bob Kline, Executive Director of the BRB, called the meeting to order at 10:15 a.m. He announced that this was a planning meeting of Board staff to receive and discuss information relative to the applications before the Board. No votes would be taken. A quorum was present.

1. **EXEMPT – Texas Public Finance Authority Class 1 Revenue Notes (Texas Windstorm Insurance Association Program) Taxable Series 2012**

Representatives present were: Robert Coalter, Executive Director, TPFA; Susan Durso, General Counsel, TPFA; Richard Donoghue, Partner, McCall Parkhurst & Horton LLP, Paul Martin, Partner, Winstead; Dalton Smith, Director, Public Finance, Bank of America Merrill Lynch; Chris Allen, Senior Vice President, First Southwest; Michael Bartolotta, Vice Chairman, First Southwest; Jonathan Frels, Partner, Bracewell & Giuliani LLP; Barron Wallace, Partner, Bracewell & Giuliani LLP; Pete Gise, Controller, TWIA; Jim Murphy, Vice President – Actuary, TWIA; Mike Perkins, Partner, Sneed, Vine & Perry PC; Chris Harrigan, Attorney, TDI.

Texas Public Finance Authority (TPFA) seeks approval for the issuances of Class 1 Revenue Notes (TWIA Program) Taxable Series 2012 (the Notes) and Class 1 Revenue Refunding Bonds (TWIA Program) Taxable Series 2012 (the Bonds) in an aggregate maximum par and total proceeds amount of $500,000,000 and $600,000,000, respectively.

The proceeds of the Notes will be used to pay insurance claims for losses that exceed reserve amounts in the Catastrophe Reserve Trust Fund (CRTF) in a catastrophic area as designated by the Commissioner of Insurance. If issued, proceeds from the Bonds will be used to refund the Notes.

TPFA will issue the debt pursuant to Texas Insurance Code Chapter 2210, subchapters B-1 and M. On May 15, 2012 TWIA’s board adopted a resolution authorizing the issuance of up to $1 billion in Class 1 securities. On July 9, 2012 TPFA’s Board approved the TWIA Program and the request for the issuances of Notes and Bonds of up to $500,000,000 and $600,000,000, respectively.

The Notes will be sold as variable rate, taxable, self-supporting securities in a negotiated sale. The purchase and sale agreement with Merrill Lynch Pierce Fenner & Smith (MLPFS) requires TPFA to seek ratings on the Notes within 60 days of the delivery date. The initial interest rate is fixed at 1% unless the Notes do not receive a long-term rating of at least A by 2 rating agencies or the highest short-term ratings by at least two ratings agencies within 60 days of closing. If the Notes are unrated or do not receive the required ratings by the 60th day, the interest rate increases to 2.5% on the 61st day.

If no catastrophic event occurs, proceeds from the Notes issuance, including the net premium and other revenue of TWIA will be used to defease the Notes on January 31, 2013. MLPFS will be paid a $100,000 commitment fee at the closing for the Notes.

The security pledge for the Notes is net premium and other revenues of TWIA, per Insurance Code §2110.612. Net premium is defined as gross premium less unearned premium.

The Notes do not create or constitute in any way an obligation, a debt or a liability of the state of Texas or constitute a pledge, giving or lending of the faith or credit or taxing power of the state of Texas. The Notes will be issued to provide short-term financing for TWIA in the event of a catastrophic event in 2012. TWIA has purchased reinsurance at an attachment point of $2.3 billion, i.e., if losses exceed $2.3 billion.

The Tender Date (“soft put”) for the Notes is January 31, 2013. If no catastrophic event occurs requiring the use of Note proceeds for payment of loss claims, those proceeds will be used to repay the Notes on or before January 31, 2013. Notes not prepaid on the Tender Date will convert to Term Rate Notes. From the Tender Date through July 15, 2015, interest on the Term Rate Notes will be 8.00% if they are rated an equivalent to “A” or better by two nationally recognized rating agencies. If that rating requirement is not met, the interest rate will be 10%.

Mr. Coalter explained how TWIA and TPFA determined the issuance amount of $500,000,000 in notes for pre-event proceeds. Mr. Coalter stated that issuing pre-event notes and then refunding bonds, if necessary, was the most cost effective method of financing. Mr. Coalter stated that the $600,000,000 in refunding bonds would be necessary to pay cost of issuance, refund the outstanding notes and fund a reserve fund, if necessary.

1. **EXEMPT – Texas Public Finance Authority Class 1 Revenue Refunding Bonds (Texas Windstorm Insurance Association Program) Taxable Series 2012**

See item II above for details of this transaction.

1. **Public Comment**

There were no public comments.

1. **Adjourn**

There being no further business to discuss, the planning session adjourned at 10:33 a.m.