

Minutes of the
TEXAS WATER RESOURCES FINANCE AUTHORITY
August 17, 2004

Chairman D. V. Guerra, Jr. called to order the meeting of the Texas Water Resources Finance Authority at approximately 2:05 p.m. in Room 1-100 of the William B. Travis Building, Austin, Texas. The following Board members were present, constituting a quorum:

D. V. Guerra, Jr., Chairman
Bill Meadows, Vice Chairman
Thomas Weir Labatt III, Secretary/Treasurer
Jack Hunt, Member

Members E.G. Rod Pittman and James Herring were not present.

Persons attending were among those present at the Texas Water Development Board meeting of the same date.

The Authority then considered items on the formal agenda in the following order.

1. CONSIDER APPROVAL OF THE MINUTES OF THE JULY 2004 MEETING.

Mr. Labatt moved to approve the minutes as submitted; Mr. Meadows seconded the motion; it passed unanimously 4-0.

2. CONSIDER AUTHORIZING THE TRANSFER OF \$178,763 AS A FUTURE PAYMENT FROM THE TEXAS WATER RESOURCES FINANCE AUTHORITY TO THE TEXAS WATER DEVELOPMENT BOARD TO BE USED FOR ADMINISTRATIVE EXPENSES RELATED TO WATER PLANNING.

Portfolio Manager Gerald Slater stated that, in 1989, the Texas Water Resources Finance Authority (Authority) issued its Series 1989 Revenue Bonds to obtain funds to acquire from the Board its portfolio of political subdivision bonds (Portfolio) and entered into a Sale and Servicing Agreement with the Board. In 1999, in conjunction with the Authority's refunding of the Series 1989 Bonds, the Board and the Authority entered into an Amended Sale and Servicing Agreement (Amended Agreement) which sets forth the terms and conditions related to the continued servicing of the Authority's Portfolio. He stated that the Amended Agreement provides that the Authority will pay to the Board an Initial Payment and in addition will make Future Payments as additional consideration for acquisition of the Portfolio. A Future Payment is made from surplus cash flows after the requirements for the Coverage Margin of 1.06 have been met.

Mr. Slater said that for Fiscal Year 2005, Rider 10 of the Board's appropriation in the General Appropriations Act provides that \$178,763 of the Board's appropriation is to be derived from the proceeds of the sale of the Portfolio. The Board has provided a written request that the Authority transfer \$178,763 from the Authority's Revenue Fund to the Board's Administrative Fund to pay

a portion of the Board's administrative expenses related to water planning to be incurred in Fiscal Year 2005. Mr. Slater recommended the Authority authorize this Future Payment.

Mr. Meadows moved to approve the staff recommendation; Mr. Labatt seconded the motion; it passed unanimously 4-0.

3. CONSIDER AUTHORIZING THE TRANSFER OF \$1,875,047 AS A FUTURE PAYMENT FROM THE TEXAS WATER RESOURCES FINANCE AUTHORITY TO THE TEXAS WATER DEVELOPMENT BOARD.

Portfolio Manager Gerald Slater gave a brief background on this transaction. He stated that staff constructed a prepayment and default analysis model to look at the effects of call exposures on the Texas Water Resources Finance Authority's cash flows, calculated default reserve requirements and made projections for the amounts required to assure that coverage requirements could be met in future years. Staff also considered other Future Payments to be made to the Board in the same fiscal year. He said that staff evaluated numerous scenarios for prepayment and default exposures. The model used for the evaluation, runs both of the scenarios parallel to each other to determine which scenario had the greater risk. Staff concluded the greatest default exposure would be under the Standard and Poor's Rating Agency default exposure test. The cash flow under this scenario shows an ending balance of \$15,423,837 with a default reserve calculation of \$13,548,790. This leaves \$1,875,047 in excess cash that could be used for other programs or projects at the end of Fiscal Year 2004. Mr. Slater recommended the Authority authorize this Future Payment.

Mr. Labatt moved to approve the staff recommendation; Mr. Hunt seconded the motion; it passed unanimously 4-0.

The meeting adjourned at 2:15 p.m.

APPROVED and ordered of record this the 16th day of November, 2004.

TEXAS WATER RESOURCES FINANCE AUTHORITY

D.V. Guerra, Jr., Chairman

ATTEST:

Thomas Weir Labatt III, Secretary/Treasurer