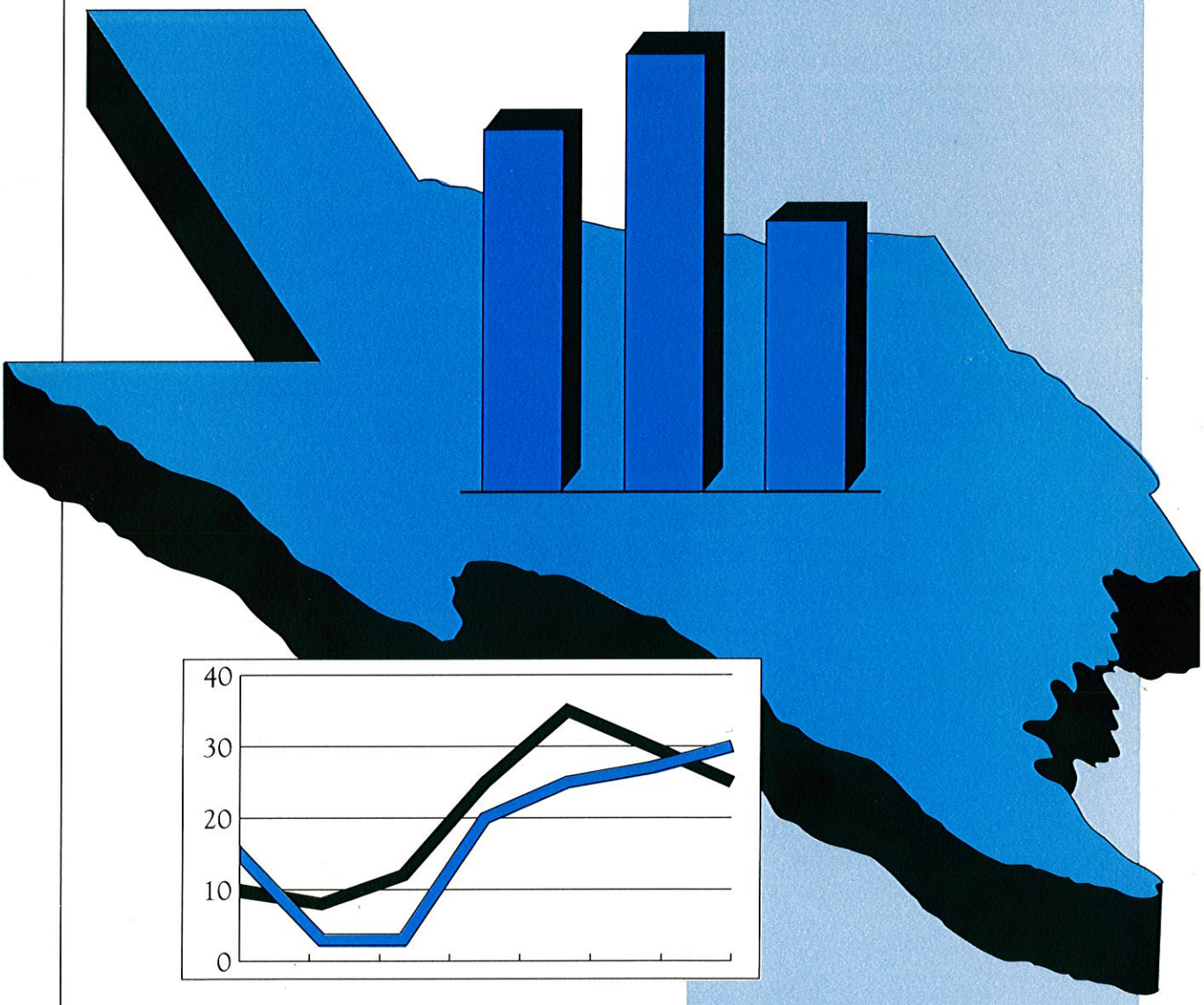
TEXAS

BOND

REVIEW

BOARD

1991 ANNUAL REPORT



TEXAS BOND REVIEW BOARD

Annual Report Fiscal Year 1991

Year Ended August 31, 1991

Ann W. Richards, Governor, Chairwoman

◆

Bob Bullock, Lieutenant Governor

◆

Gibson D. (Gib) Lewis, Speaker of the House of Representatives

◆

John Sharp, Comptroller of Public Accounts

◆

Kay Bailey Hutchison, State Treasurer

Tom K. Pollard, Ph.D.

Executive Director

November 1991

Introduction

The 1991 Annual Report of the Texas Bond Review Board presents an overview and analysis of Texas state debt.

During fiscal year 1991, the Board approved and Texas state agencies and universities issued $1.5 billion in bonds and executed $35 million in lease- or installment-purchases.

Texas state bonds, unless specifically exempted, may be issued only with the Board's approval. State agencies and universities also must obtain the Board's approval prior to executing lease- or installment-purchase agreements for acquisitions in excess of $250,000 or which are financed for more than five years.

The continuing improvement in Texas' creditworthiness, due to a growing economy, strong state finances and low state debt burden, is examined in Chapter 1.

A detailed assessment of Texas' debt burden is presented in Chapter 2.

Texas bond issuance during fiscal year 1991, including that for new prison construction, college student loans, and expansion of the state's university systems, is summarized in Chapter 3.

Chapter 4 reports total Texas bond debt outstanding at the end of fiscal year 1991 by source and type, along with the annual debt service requirements associated with this debt.

The various costs involved in the issuance of Texas bonds during 1991 are examined in Chapter 5. The chapter includes recent trends in average costs for negotiated and competitively sold bonds.

Appendix A includes a capsule summary of each bond issue approved by the Board and sold during fiscal year 1991. Appendix B provides a description of each program under which state bonds may be issued. Appendix C contains the current administrative rules of the Board. Appendix D provides a brief description of debt-related legislation passed by the 1991 Texas Legislature.

Texas Bond Review Board

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CHAPTER ONE

Texas in the Bond Market–1991

Texas' status in the bond market continued to improve during 1991. Over the last two to three years, the demand for Texas bonds has increased considerably as the state's economy recovers and the state's finances strengthen.

TEXAS ECONOMY OUTPACING U.S.

Statewide nonfarm employment is at record levels. The state is adding jobs at a faster rate than the U.S. average, and the state's unemployment rate is lower than that for the U.S.

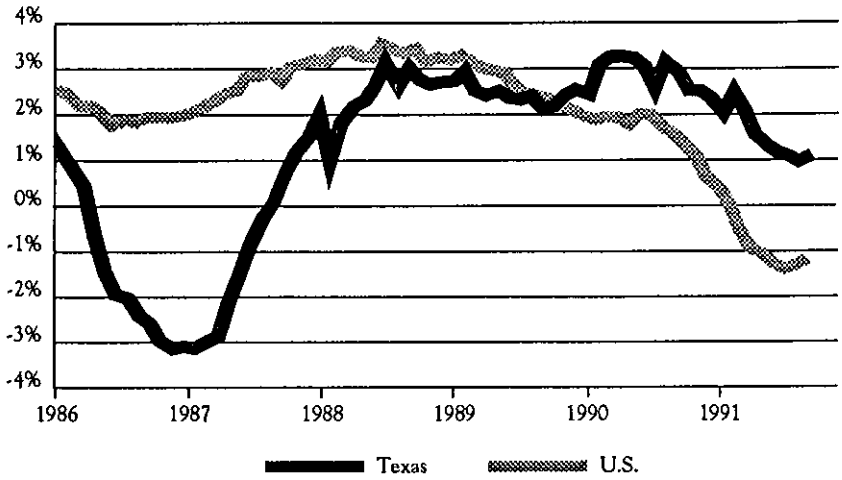
Texas nonfarm employment stood at about 7,130,000 in August, up by 1.1 percent over the previous year. Over the same period, U.S. employment fell by 1.2 percent *(Figure 1)*. For the first time since 1982, Texas ranks first among the top ten states in the rate of employment growth.

Because of the 1990-91 national recession, only three—Texas, Ohio and Illinois—of the ten most populous states have experienced increases in employment during the year prior to June 1991 *(Table 1)*. Texas has not fallen into recession, but the nation's faltering economy has slowed growth in the state. Texas' rather subdued growth of 1 percent during the past year, however, was enough for Texas to add more jobs than did any other state in the nation.

The general improvement in the Texas economy since 1986 has been accompanied by a steady decline in unemployment. The rate in August 1991 stood at 6.5 percent, down from a peak near 10 percent in mid-1986. And the latest figures show Texas' unemployment rate to be below that of the U.S. *(Figure 2)*.

FIGURE 1

EMPLOYMENT GROWTH, TEXAS VS U.S.
JANUARY 1986 THROUGH AUGUST 1991
(percent change from same month, previous year)



SOURCE: Texas Comptroller of Public Accounts & Texas Employment Commission.

Rising employment and falling joblessness have increased in-migration to Texas. For the first time since 1986, more people are moving into Texas than are moving out. In 1990, an estimated 8,000 more people moved into Texas than moved out. This compares with a peak net out-migration of 124,000 in 1988.

The Comptroller's summer 1991 economic forecast predicts slow to moderate growth to continue in Texas. Economic growth in Texas will continue to outpace growth in the U.S. by about .6 percent a year during the next few years *(Table 2)*.

TEXAS STATE FINANCES IMPROVE WITH ECONOMIC REBOUND

The cash condition of Texas state government improved significantly during fiscal 1991. The state closed its books on the fiscal year ending August 31, 1991, with a General Revenue Fund cash balance of $1.005 billion. Revenues for the year exceeded spending by $238 million. This is the largest ending cash balance since the $1.006 billion balance at the end of fiscal 1983. The cash balance at the end of fiscal 1990 was $767 million *(Figure 3)*.

The strong balance at the end of fiscal 1991, capping four years of steady improvement, is further evidence of the strengthening of the Texas economy and state finances in spite of the national recession.

Fiscal 1991 tax collections were up by 9.4 percent from the previous year, and total general revenues were up by 11.9 percent.

Among major revenue sources, state sales tax collections increased 8.8 percent during

TABLE 1

JOB GROWTH IN THE TEN MOST POPULOUS STATES

June 1990 to June 1991

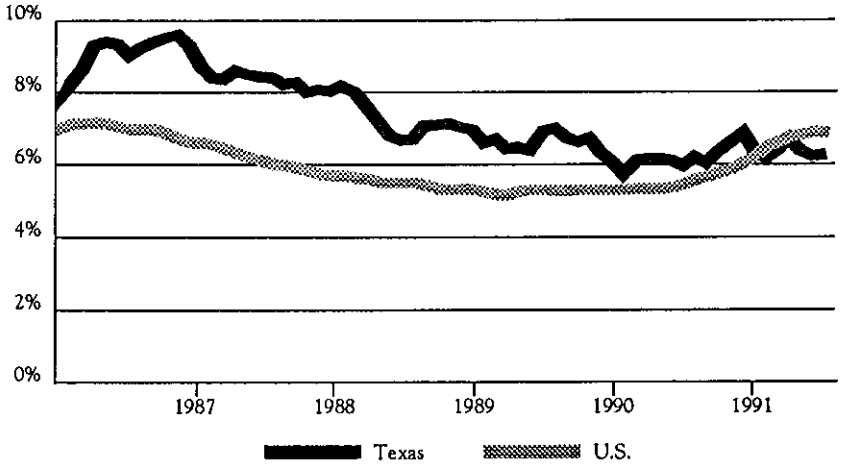
Rank	State	Job Growth	% Change	Rank[1]
1	Texas	87,400	1.2%	10
2	Ohio	13,900	0.5	19
3	Illinois	13,900	0.3	24
4	California	(84,100)	(0.6)	32
5	Pennsylvania	(47,000)	(0.9)	33
6	Florida	(61,800)	(1.1)	35
7	North Carolina	(46,200)	(1.5)	39
8	New York	(185,100)	(2.2)	42
9	Michigan	(98,000)	(2.5)	43
10	New Jersey	(98,800)	(2.7)	45

[1]Rank in percentage job growth among the 50 states.
NOTE: Figures are not seasonally adjusted.
SOURCE: U. S. Bureau of Labor Statistics.

FIGURE 2

UNEMPLOYMENT RATE FOR TEXAS AND THE U.S.
JANUARY 1986 THROUGH AUGUST 1991

(three month moving average)



SOURCE: Texas Comptroller of Public Accounts & Texas Employment Commission.

the year. About half of this increase is due to a rate increase from 6 to 6.25 percent in July 1990, but the remaining real growth of 4.6 percent compares favorably with the lagging sales tax collections in many other states.

Oil production taxes increased 33.5 percent during the year, largely in response to a sharp increase in oil prices during the first five months of the fiscal year as a result of the Persian Gulf crisis.

TEXAS LEGISLATURE PASSES A "SCRUBBED" AND BALANCED 1992-93 BUDGET

The Legislature appropriated $60.1 billion to support government programs in the 1992-93 biennium, including $34.5 billion in general revenue spending *(Tables 3 and 4)*. As required by the state Constitution, the Comptroller certified that this budget is balanced—appropriations for the budget period are within estimated available revenues.

The 1992-93 appropriations represent an increase of $9.4 billion, or more than 18 percent, over the all-funds 1990-91 budget, and a $5.2 billion, or 17.3 percent, increase in general revenue spending.

Before adopting a balanced state budget for 1992-93 in August, the Legislature began deliberations in January, facing a $4.8 billion "shortfall" between the official estimate of expected revenue during 1992-93 from existing sources and a "current services" budget.

The "current services" budget is the amount estimated by the Legislative Budget Board (LBB) to fund the expected growth in Texas' current programs—such as higher numbers of students, prison inmates, and clients for health and human services—without any new programs, pay raises, or inflation.

This budget pressure led the Legislature to call for a comprehensive review of state government operations to be completed before formal budget deliberations began. The Texas Performance Review (TPR), headed by Comptroller John Sharp, was intended to identify potential changes in existing government programs and policies that could save or make better use of state funds.

The TPR report, issued in late June, altered the budget battle significantly with nearly 200 proposals for sweeping reorganization and policy changes in state government operations. The Legislature adopted about 65 percent of the TPR recommendations, resulting in a total of $2.4 billion in

spending cuts, tax and fee hikes, and other revenue increases.

LEGISLATURE RAISES $2.1 BILLION IN NEW GENERAL REVENUE FOR 1992-93

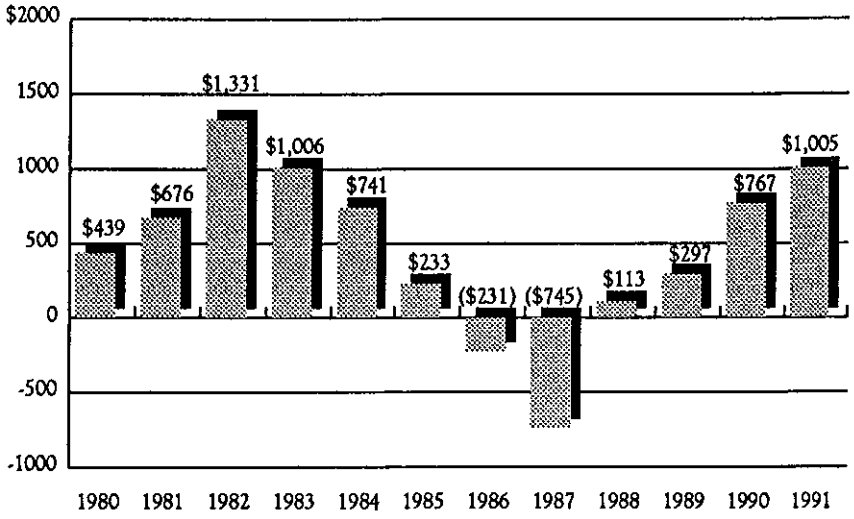
The 1991 Legislature's major revenue measure was House Bill 11, which incorporated twenty-nine separate tax and fee changes expected to raise nearly $2.1 billion in general revenue over the 1992-93 budget period *(Table 5)*. By far the largest tax change in the H.B. 11 package is the reform of Texas' corporate franchise tax, expected to raise an additional $789 million over the next two years.

Another significant provision of the bill raised the state's motor fuels taxes on gasoline and diesel from 15 to 20 cents per gallon, for a gain of just under $238 million in general revenue and $665 million in rev-

FIGURE 3

ENDING CASH BALANCE IN TEXAS' GENERAL REVENUE FUND

(millions of dollars)



SOURCE: Texas Comptroller of Public Accounts.

TABLE 2

THE TEXAS ECONOMY, CALENDAR YEARS 1989 – 1993

Summer 1991 Forecast

	1989	1990	1991*	1992*	1993*
Gross State Product (Billions of 1982$)	$289.6	$298.1	$302.6	$311.2	$320.2
Annual Percent Change	2.5	2.9	1.5	2.9	2.9
Personal Income (Billions of Dollars)	$263.6	$284.7	$300.8	$319.1	$339.2
Annual Percent Change	7.3	8.0	5.6	6.1	6.3
Nonfarm Employment (Thousands)	6,839.4	7,032.6	7,130.5	7,245.3	7,370.1
Annual Percent Change	2.4	2.8	1.4	1.6	1.7
Resident Population (Thousands)	17,016.1	17,211.6	17,426.4	17,642.9	17,824.1
Annual Percent Change	0.9	1.1	1.2	1.2	1.0
Unemployment Rate (Percent)	6.7	6.2	6.5	6.4	6.2
Oil Price ($ per Barrel)	$17.88	$22.38	$20.38	$21.26	$21.92
Natural Gas Price ($ per MCF)	$1.46	$1.54	$1.59	$1.69	$1.79
Oil/Gas Drilling Rig Count	262	350	355	402	403
U. S. Economy					
Gross National Prod. (Billions of 1982$)	$4,117.7	$4,157.3	$4,161.9	$4,269.5	$4,384.1
Annual Percent Change	2.5	1.0	0.1	2.6	2.7
Consumer Price Index (1982-84 = 100)	124.0	130.7	136.2	141.1	146.6
Annual Percent Change	4.8	5.4	4.2	3.5	3.9
Prime Interest Rate (Percent)	10.9	10.0	8.9	9.3	8.7

*Projected

SOURCES: Texas Comptroller of Public Accounts, DRI/McGraw Hill and The WEFA Group, July 1991, U.S. Economic Forecasts.

TABLE 3

THE 1992-93 TEXAS BUDGET BY MAJOR FUNCTION — GENERAL REVENUE

(amounts in millions)

Function Area	1990-91 Budget Total	1992-93 Budget Total	Percent Change
Education	$16,903.1	$19,349.5	14.5%
Health and Human Services	5,556.2	7,488.5	34.8
Transportation	21.1	14.6	(30.8)
Employee Benefits	3,411.3	3,834.8	12.4
Public Safety and Corrections	1,822.9	2,354.5	29.2
General Government	1,121.1	1,155.5	3.1
Natural Resources	296.9	271.2	(8.6)
Regulatory Agencies	149.6	162.2	8.4
2-Percent Employee Pay Raise	0.0	163.8	N/A
Across-the-Board Cuts	N/A	(341.0)	N/A
Total	$29,282.2	$34,453.7	17.3%

NOTE: Totals may not add due to rounding.

SOURCE: Texas Comptroller of Public Accounts.

TABLE 4

THE 1992-93 TEXAS BUDGET BY MAJOR FUNCTION — ALL FUNDS

(amounts in millions)

Function Area	1990-91 Budget Total	1992-93 Budget Total	Percent Change
Education	$21,554.1	$23,837.3	10.6%
Health and Human Services	13,351.3	18,440.8	38.1
Transportation	5,002.5	5,491.6	9.8
Employee Benefits	4,155.2	4,691.7	12.9
Public Safety and Corrections	2,949.3	3,688.3	25.1
General Government	2,629.5	2,683.8	2.1
Natural Resources	719.5	863.4	20.0
Regulatory Agencies	387.2	354.9	(8.3)
Unallocated Rider Provisions	0.0	196.6	N/A
2-Percent Employee Pay Raise	0.0	257.0	N/A
Across-the-Board Cuts	0.0	(381.8)	N/A
Total	$50,748.6	$60,123.6	18.5%

NOTE: Totals may not add due to rounding.

SOURCE: Texas Comptroller of Public Accounts.

enue dedicated to highway construction during 1992-93.

The revenue bill also imposes a $200 annual fee on a variety of professionals, including accountants, architects, chiropractors, dentists, engineers, physicians, psychologists, optometrists, real estate brokers and salesmen, security dealers, and veterinarians. In addition, the bill levies an annual $200 occupation tax on attorneys. In all, the professional fees and the attorney tax are expected to increase general revenue by nearly $151 million in 1992-93.

VOTERS APPROVE LOTTERY AS NEW SOURCE OF REVENUE

The Legislature also ended years of debate by approving state lottery legislation. The bill establishes a state lottery as a division of the Comptroller's Office. A required constitutional amendment was approved by voters in November. The Comptroller estimates ticket sales will begin by July 1992 and will raise an additional $462 million for the state by the end of fiscal 1993.

OTHER STATES FACE FINANCIAL CHALLENGES

Although Texas' budget deliberations "went down to the wire," with a budget for the two-year period beginning September 1, 1991 not being completed until August, some states are having an even tougher time.

Eleven states were unable to complete their FY 1992 budgets on schedule, according to the National Conference of State Legislatures. While Texas' general fund balance increased by $238 million from 1990 to 1991, thirty-five of the fifty states saw their general fund balances decline between 1990 and 1991. Total state balances fell by 50 percent during 1991, from $8.6 billion to $4.4 billion, according to the National Conference of State Legislatures.

At the end of 1991, thirty-one states held less than the recommended 5 percent in general fund balances, and twenty-two

states held less than 1 percent. Texas ended fiscal 1991 with an ending general fund balance of about 6 percent *(Figure 4)*.

Factors cited for worsening state balance sheets include shrinking federal aid to states; increasing demand for state services—especially education, prisons, and human services; voter aversion to tax increases; and, of probably greatest importance, shrinking tax bases resulting from economic recession.

A so-called rolling recession has made its way around the U.S. during the 1980s. Through 1983, growth was faster in oil-producing states and the nation's midsection. For the following four to five years, the east and west coasts took the lead, adding jobs while Texas and other oil-producing states were muddling through recession prolonged by a tremendous real estate glut.

The tables have turned again, however, with eastern and far-western states experiencing the greatest economic slowdown over the last year, while Texas recovers *(Figure 5)*.

BOND RATING ACTIONS DURING FISCAL 1991 REFLECT REGIONAL DISPARITIES

Weakness in the economies and finances of northeastern states has led to a lowering of a number of state bond ratings in that area. Between September 1990 and August 1991, five states—Maine, New Hampshire, New Jersey, Rhode Island, and Vermont—saw their bond ratings lowered *(Table 6)*. Three additional northeastern states—Connecticut, Massachusetts, and New York—had their credit ratings reduced during the previous year.

In addition, on August 31, 1991, Standard and Poor's had the states of Connecticut and Pennsylvania on "Credit Watch," with negative implications. The bond ratings of these states will be lowered unless conditions improve.

Recovery in the midsection of the country contributed to rating upgrades in Arkansas and Louisiana during 1991.

TABLE 5

1992-93 TEXAS STATE REVENUE GAINS FROM HOUSE BILL 11, 72ND LEGISLATURE

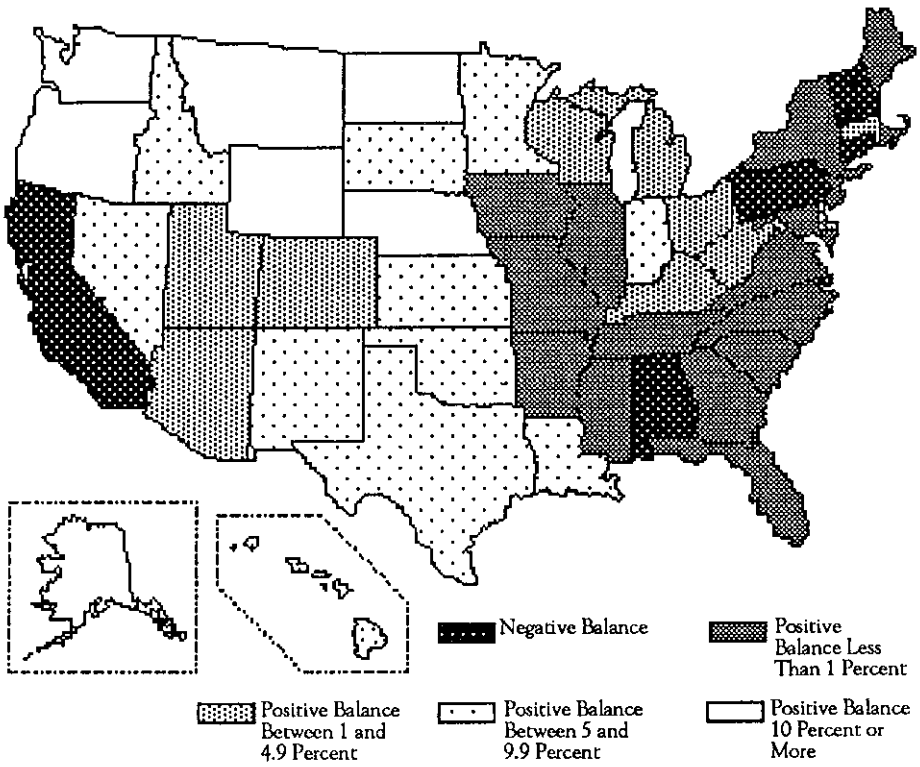
(amounts in millions)

Gain to Revenue Measure	Gain to General Revenue	Gain to Special Funds	Total Gains	Effective Date
Motor fuels tax from 15 to 20 cents	$237.9	$664.5	$902.4	10/1/91
Coin-op amusement machine tax from $30 to $60	6.5	0	6.5	1/1/92
Sales tax on packaging and wrapping	87.4	0	87.4	10/1/91
Delay manufacturing equipment sales tax exemption phase-in	368	0	368	10/1/91
Repeal sales tax permit fee	-26.5	0	-26.5	10/1/91
Motor vehicle sales tax from 6% to 6.25%	92.4	0	92.4	9/1/91
Motor vehicle rental (30 days or less) at 10%	47.7	0	47.7	9/1/91
Professional fees at $200	150.9	0	150.9	9/1/91
Bingo winnings tax at 3%	20.7	0	20.7	9/1/91
Bingo gross receipts tax from 2% to 5%	34.9	0	34.9	9/1/91
Bingo rental hall tax at 3%	2.6	0	2.6	9/1/91
Uniform boat sales tax at 6.25%	12.3	0	12.3	10/1/91
Reapportion motor fuels tax at 20 cents	39.1	-39.1	0	10/1/91
Fee for breath alcohol testing	2.7	0	2.7	9/1/91
Double driver's record fees	37.8	0	37.8	9/1/91
Increase general business filing fees	19.1	0	19.1	9/1/91
Increase fee for certain misdemeanors	20.3	0.1	20.3	9/1/91
Repeal sales tax exemption for tangible personal property used to improve realty of some exempt entities	91.5	0	91.5	10/1/91
Greyhound parimutuel sliding tax	-14.9	0	-14.9	12/1/91
Franchise tax reform	789.3	-62.8	726.5	1/1/92
Increase delinquent tax penalty	5.1	0	5.1	9/1/91
Fee for certificate of good standing	0.7	0	0.7	1/1/92
Fee for public agency response	0.7	-0.2	0.5	9/1/91
Department of Agriculture fees	0.7	0	0.7	9/1/91
Railroad Commission fees	1.1	6.6	7.7	9/1/91
Answering services subject to sales tax	6.8	0	6.8	10/1/91
Sales tax on non-profit country clubs' membership fees	5.9	0	5.9	10/1/91
Radioactive waste fee	15	0	15	9/1/91
Sales tax on amusement ticket sales by non-profit organizations	9.2	0	9.2	10/1/91
Total	$2,065.1	$568.9	$2,634.0	

SOURCE: Texas Comptroller of Public Accounts.

FIGURE 4

ENDING BALANCE IN STATE GENERAL FUND, 1991
AS A PERCENT OF TOTAL STATE GENERAL FUND SPENDING



SOURCE: National Conference of State Legislatures, *State Budget and Tax Actions, 1991*.

TABLE 6

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS

September 1990 - August 1991

UPGRADES	
State	Rating Change
Arkansas	A1 to Aa by Moody's
Louisiana	BBB+ to A by Standard & Poor's
DOWNGRADES	
State	Rating Change
Maine	AAA to AA+ by Standard & Poor's
New Hampshire	AA+ to AA by Standard & Poor's
New Jersey	AAA to AA+ by Standard & Poor's
Rhode Island	AA to AA- by Standard & Poor's
Vermont	AA to AA- by Standard & Poor's

SOURCE: Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors Service.

Although each rating agency has a unique classification system, bonds of the highest quality are rated AAA. Ratings of AA and A denote very sound investments, but of lower quality. Ratings below A, from BBB downward through C, indicate higher and higher levels of risk. Current state bond ratings are shown in Table 7.

Both Moody's and Standard & Poor's affirmed Texas' AA general obligation bond rating during 1991. Texas has been rated AA since 1987. The state's 1986-87 economic recession and the accompanying weakness in state finances caused the rating agencies to lower our long-held AAA rating.

Although reinstatement of the AAA rating that Texas enjoyed throughout its economic boom would be welcomed, the maintenance of an AA rating through very trying economic times is testimony to the state's underlying economic strength and fiscal conservatism.

Standard & Poor's reports that Texas' AA rating "...reflects a stable economic base, strong financial performance, and manageable debt burden.... Further, economic diversification has reduced the state's reliance on manufacturing and mining sectors."[1]

Bond rating moves are important because of the close relationship between bond ratings and borrowing costs. Increased risk, signified by lower ratings, pushes up the interest rates that investors demand on state bonds.

STRENGTHENING OF THE STATE ECONOMY AND FINANCES BUILDS CONFIDENCE IN TEXAS' BONDS

The final decision regarding the risk and interest rate on bonds is not made, however, at the rating agencies, but on the bond trading floor. Bond ratings are just a broad measure of credit quality. All but six of the forty-one states rated by Moody's and twelve of the forty-one states rated by Standard & Poor's have an AA rating or better.

Each bond purchaser assesses the risk involved within these broad categories and demands a commensurate interest rate.

The interest rates demanded on Texas bonds have declined as the state's economy and finances have gained strength. According to a June 1991 survey by the Chubb Corporation, investors are charging Texas an average .17 of a percentage point above the interest rate on benchmark AAA-rated bonds (*Figure 6*). This interest rate margin is a measure of the higher risk investors place on Texas' bonds relative to the most highly-rated bonds. In the summer of 1987, the interest rate penalty placed on Texas bonds peaked at .36 percentage points. The margin has been cut in half, due in large part to improvements in the state's economy and the ability of Texas' policymakers to keep state finances sound. And indications are that Texas bonds are trading better since the mid-summer survey, after the passage of a state budget and a steady stream of good economic news.

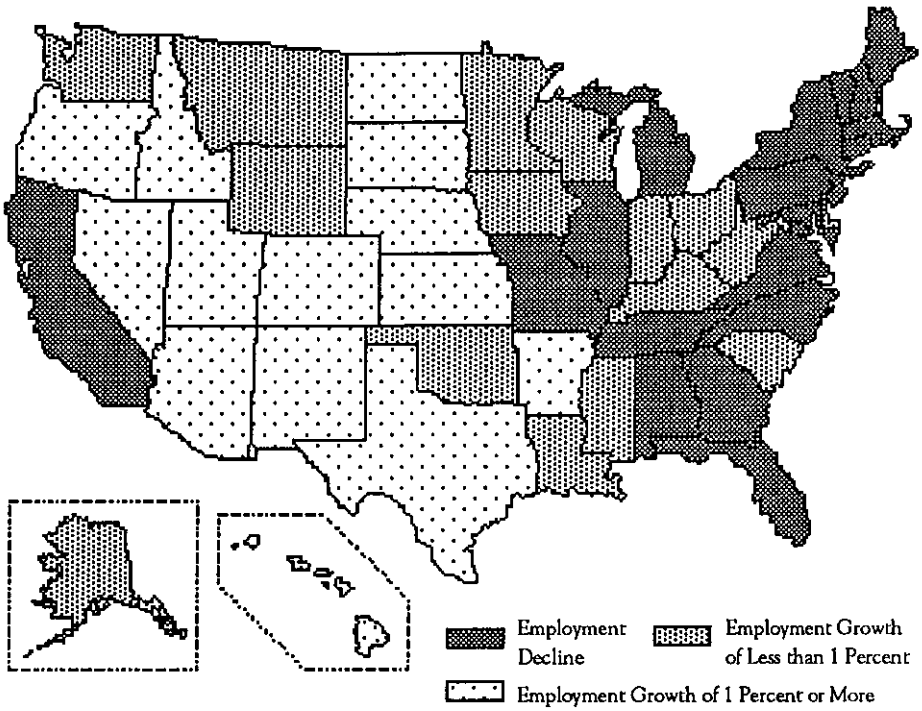
For comparison, Massachusetts' recent financial difficulties show up vividly in the increases in the rates that investors are demanding on that state's bonds. In December 1988, the rate on Massachusetts' bonds was just .17 of a percentage point above the AAA benchmark and .1 of a point below the rate on Texas bonds. By December 1990, Massachusetts' bonds carried rates averaging 1.02 percentage points above the AAA benchmark and more than .85 of a percentage point above Texas' rate. Massachusetts' bond interest rates have not been this much higher than Texas' since late 1981, when oil price increases brought a boom to Texas while the Northeast experienced a deep recession.

California's bonds remain among the most sought-after state bonds, with interest rates at or below the AAA benchmark since late 1986. But the advantage that the state has enjoyed is eroding due to a softening economy and state budgetary strains. California bonds were trading .03 percent-

FIGURE 5

EMPLOYMENT GROWTH BY STATE

(June 1990 through June 1991)

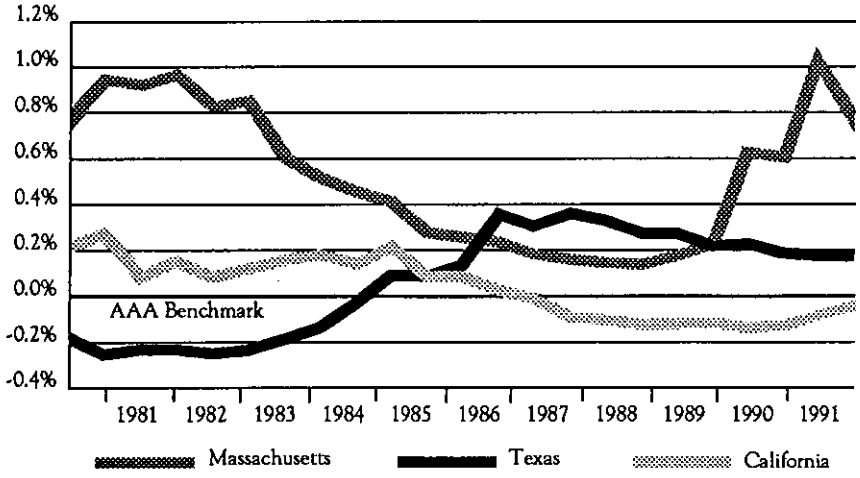


SOURCE: U.S. Bureau of Labor Statistics.

FIGURE 6

YIELD DIFFERENCES ON TEXAS, CALIFORNIA & MASSACHUSETTS GENERAL OBLIGATION BONDS

Relative to AAA Benchmark



SOURCE: The Chubb Corporation.

NOTE: Yield differences are compiled from a semiannual poll by the Chubb Corporation of major municipal bond dealers. Traders are asked to express the average yield they demand on the general obligation debt of a number of states relative to a benchmark state, New Jersey.

TABLE 7

STATE GENERAL OBLIGATION BOND RATINGS

August 31, 1991

	Moody's Investors Service	Standard & Poor's Corporation	Fitch Investors Service
Alabama	Aa	AA	AA
Alaska	Aa	AA-	*
Arkansas	Aa	AA	*
California	Aaa	AAA	AAA
Connecticut	Aa	AA	AA+
Delaware	Aa	AA+	*
Florida	Aa	AA	*
Georgia	Aaa	AA+	AAA
Hawaii	Aa	AA	*
Illinois	Aaa	AA	*
Kentucky	Aa	AA	*
Louisiana	Baa1	A	*
Maine	Aa1	AA+	*
Maryland	Aaa	AAA	AAA
Massachusetts	Baa	BBB	A
Michigan	A1	AA	AA
Minnesota	Aa	AA+	AA+
Mississippi	Aa	AA-	*
Missouri	Aaa	AAA	AAA
Montana	Aa	AA-	*
Nevada	Aa	AA	*
New Hampshire	Aa1	AA	AA+
New Jersey	Aaa	AA+	*
New Mexico	Aa	AA	*
New York	A	A	A+
North Carolina	Aaa	AAA	AAA
North Dakota	Aa	AA-	*
Ohio	Aa	AA	*
Oklahoma	Aa	AA	*
Oregon	Aa	AA-	AA
Pennsylvania	A1	AA-	AA-
Rhode Island	Aa	AA-	*
South Carolina	Aaa	AAA	*
Tennessee	Aaa	AA+	*
Texas	Aa	AA	*
Utah	Aaa	AAA	AAA
Vermont	Aa	AA-	AA
Virginia	Aaa	AAA	AAA
Washington	Aa	AA	AA
West Virginia	A1	A+	*
Wisconsin	Aa	AA	*

* Not Rated

SOURCE: Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors Service.

age points below the AAA benchmark in mid-1991.

California's economy and finances are still strong but sputtering. In February, Moody's Investors Service confirmed the state's Aaa rating citing "...economic size and diversity, low debt ratios, a demonstrated management response to maintain budget stability...."[2] The rating agency noted, however, that California is facing projected budget deficits "caused by structural imbalances and exacerbated by the cyclical downturn"[2] that will challenge this management record. Standard & Poor's placed California's general obligation debt on "Credit Watch," with negative implications, in January. In July, legislators passed a $55.7 billion annual budget to eliminate a record $14.3 billion projected budget shortfall. After the enactment of a budget, Standard & Poor's removed California from "Credit Watch."

California's interest rate advantage has steadily eroded since late 1989 when California bonds were trading at interest rates .18 of a percentage point below the benchmark. At that time California was selling bonds at lower rates than any other state. Today the twenty-year bonds of five states—North Carolina, South Carolina, Georgia, Missouri, and Virginia—are selling at lower rates than those of California, according to the Chubb Report.

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[1] Standard & Poor's, *Credit Week*, May 20, 1991.

[2] Muniweek, *Moody's Keeps California Aaa, Urges Reforming Budget Process*, February 25, 1991.

CHAPTER TWO

Texas Debt in Perspective

Texas' debt is currently well below levels that indicate fiscal stress.

Texas ranks 37th among all states and 9th among the ten largest states in "tax-supported" debt per capita, according to a 1991 report by Moody's Investors Service. Tax-supported debt includes all debt to be repaid from the tax revenue of the state.[1]

Texas had $186 in tax-supported debt per capita at the time of Moody's report, compared to a nationwide median of $345 per capita and a median of about $416 per capita among the ten most populous states.

Texas' tax-supported debt outstanding is about 1.2 percent of total state personal income, compared to a nationwide median of 2.2 percent and a median of 2.4 percent among the ten most populous states, according to the Moody's report. On this measure, Moody's ranks Texas 38th among the fifty states and 8th among the ten most populous states.

Moody's tax-supported debt measure for Texas should be considered an upper limit of possible debt service draws on the state's general revenue fund. Moody's tax-supported debt total combines what this report labels "not self-supporting" bonds and the self-supporting general obligation bonds of the Texas Water Development Board, Veterans Land Board, and Texas Parks and Wildlife Department. The possibility is remote that any of these self-supporting programs will ever draw on general revenue. (See Chapter 5 for a detailed accounting of Texas debt by type.)

TEXAS DEBT BURDEN LOWER THAN MOST AAA STATES

While Texas' bond rating is AA, based on its overall financial situation, the state's debt burden is lighter than most of the seven states possessing the highest rating of AAA *(Table 8)*.

In 1991, the AAA-rated states had debt ratios ranging from .5 percent of personal income for North Carolina to 3.4 percent for Maryland, with the median for all AAA states being 1.5 percent. Texas' tax-supported debt totalled 1.2 percent of personal income.

The state's ratio of debt to personal income has remained below the average for AAA states over the last decade in spite of the recent growth in Texas' tax-supported debt outstanding *(Figure 7)*.

TABLE 8

TAX-SUPPORTED DEBT AS A PERCENTAGE OF PERSONAL INCOME, 1991 FOR TEXAS AND STATES RATED AAA BY STANDARD & POOR'S AND MOODY'S

State	Rating	1991 Ratio
Maryland	AAA	3.4%
South Carolina	AAA	1.9%
California	AAA	1.5%
Utah	AAA	1.5%
Missouri	AAA	1.2%
Virginia	AAA	1.2%
Texas	**AA**	**1.2%**
North Carolina	AAA	0.5%

Median of AAA States 1.5%
Mean of AAA States 1.6%

SOURCE: Moody's Investors Service, *1991 Moody's Medians*.

DEBT SERVICE A RELATIVELY SMALL PORTION OF TEXAS' STATE BUDGET

Texas bears a very low burden relative to other states based on another measure—the ratio of annual debt service from general revenue to total annual general revenue collections—that focuses on the state's ability to meet the annual payments on its debt.

Bond debt service from general revenue during the 1992-93 budget period will average $163 million annually, or 1.07 percent of general revenue collections, well below the average of around 5 percent for all states and the 10 percent level considered dangerous by the bond rating agencies.

Although currently very low, the growth rate in the portion of general revenue going to debt service is cause for caution. Debt service from general revenue has grown by an average of 21.2 percent per year since 1986, while general revenue collections have increased by only 9 percent per year. During the 1986-87 budget period, debt service from general revenue averaged $42.5 million annually, just .4 percent of general revenue collections.

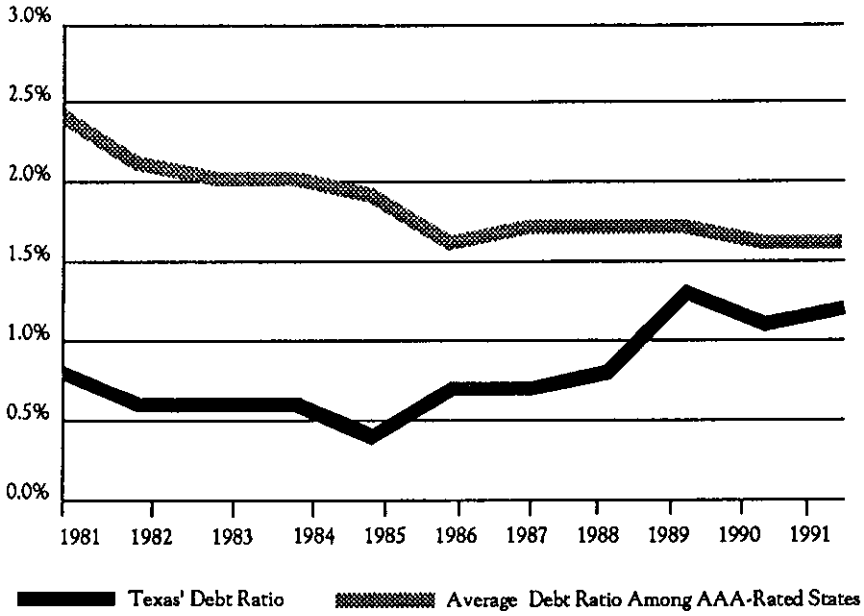
CURRENTLY AUTHORIZED BONDS COULD ADD SUBSTANTIALLY TO DEBT BURDEN

Texas has the potential to substantially increase its debt burden, considering just the unused bond authorization currently on the books.

The issuance of all bonds authorized as of August 31, 1991, for those programs that Moody's counts as tax-supported would add another $3.02 billion to Texas' tax-sup-

FIGURE 7

TREND IN TAX-SUPPORTED DEBT AS A PERCENT OF PERSONAL INCOME



SOURCE: Moody's Investors Service, *Moody's Medians*, Various Years.

ported debt outstanding—an increase of 101 percent.

The potential exists, therefore, for Texas' tax-supported debt outstanding to increase from 1.2 percent, reported by Moody's in 1991, to 2.4 percent of personal income, well above the median of 1.5 percent among the AAA-rated states and about equal to the median for the ten largest states.

With the issuance of all currently authorized bonds, debt service from general revenue would increase by 61 percent from the current $163 million annually to $263 million annually, or 1.7 percent of the 1992-93 estimated general revenue collections.

TEXAS' LOCAL DEBT BURDEN HIGH

Although Texas ranks last among the ten most populous states in state debt per capita, the state ranks 2nd in local debt per capita, according to the most recent data available

TABLE 9

TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES, 1989

	Total State and Local Debt			State				Local			
State	Per Capita Rank	Amount (millions)	Per Capita	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita
NY	1	$87,004	$4,847	1	$43,306	49.8 %	$2,413	5	$43,697	50.2 %	$2,434
MN	2	17,690	4,064	7	3,601	20.4	827	1	14,088	79.6	3,237
NJ	3	30,948	4,000	2	17,393	56.2	2,248	8	13,555	43.8	1,752
FL	4	48,090	3,795	8	8,967	18.6	708	3	39,123	81.4	3,088
TX	5	60,977	3,589	10	6,665	10.9	392	2	54,311	89.1	3,196
PA	6	40,241	3,342	6	10,540	26.2	875	4	29,701	73.8	2,467
CA	7	82,181	2,828	5	26,207	31.9	902	6	55,974	68.1	1,926
IL	8	29,792	2,555	3	14,158	47.5	1,214	9	15,634	52.5	1,341
NC	9	14,945	2,274	9	2,950	19.7	449	7	11,995	80.3	1,825
OH	10	22,115	2,028	4	10,513	47.5	964	10	11,602	52.5	1,064
Mean		$43,398	$3,332		$14,430	39.2 %	$1,099		$28,968	67.1 %	$2,233

SOURCES: U.S. Department of Commerce, Bureau of the Census: *Government Finances: 1988-1989*, Census Bureau, *State Government Finances in 1989*.

Detail may not add to total because of rounding.

from the Bureau of the Census *(Table 9)*. Local debt includes bonds issued by cities, counties, school districts, and special districts.

In 1989, local government accounted for 89.1 percent of the $61 billion in Texas' total state and local debt, according to the Census Bureau report; the average in that year for the ten most populous states was 67.1 percent.

Texas has local government debt per capita of $3,196 compared to an average of $2,233 per capita for the ten most populous states. The high local debt indicates the degree to which responsibility for local capital projects rests with local government and the minor role state government plays in local capital finance (e.g., schools, water and sewer services, local roads, etc.).

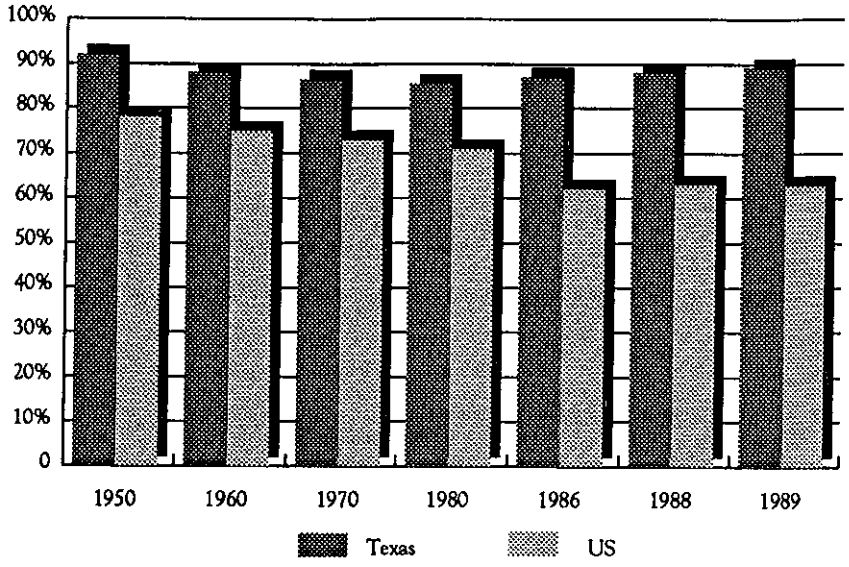
The heavy local debt burden pushed Texas' ranking to number five based on combined state and local debt. Texas recorded a per capita state and local debt combined of $3,589, compared to an average of $3,332 per capita among the ten most populous states.

Local government's portion of total state and local debt in Texas has remained stable, in the 85 to 90 percent range, since 1950 *(Figure 8)*. This is in contrast to the decline in the importance of local debt nationwide since 1950.

Texas' high local tax burden, together with the recent increase in state debt, has made necessary a more reasoned approach to state debt issuance.

FIGURE 8

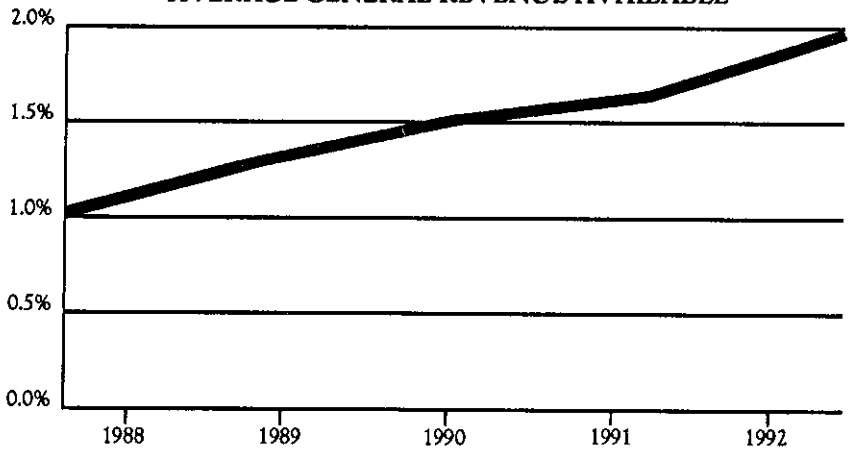
LOCAL DEBT AS A PERCENTAGE OF TOTAL STATE & LOCAL DEBT FOR TEXAS AND THE U.S.



SOURCE: U.S. Department of Commerce, Bureau of the Census.

FIGURE 9

MAXIMUM ANNUAL DEBT SERVICE ON OUTSTANDING TEXAS TAX-SUPPORTED DEBT AS A PERCENT OF AVERAGE GENERAL REVENUE AVAILABLE



SOURCE: Texas Bond Review Board, Office of the Executive Director.

LEGISLATURE PASSES NEW CONTROLS ON DEBT FINANCING

The 1991 Texas Legislature placed new restrictions on the use of debt to finance state capital expenditures.

The Legislature enacted a statutory limitation on the authorization of debt. While the limit may be overridden by future legislatures, it states the intent of the 1991 Legislature that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including lease-purchases greater than $250,000, exceeds 5 percent of the average annual general fund revenues for the previous three years.

The debt service ratio was 1.64 percent in 1991, considering only bonds outstanding on August 31, 1991. The ratio will rise to an estimated 1.97 percent in 1992 *(Figure 9)*.

The issuance of all bonds authorized by the Legislature but unissued as of August 31, 1991, would push the ratio to an estimated 2.32 percent in 1992.

Future debt authorization could also be limited by the passage of a constitutional amendment this November, referred to as the "truth in borrowing" amendment. The amendment requires greater disclosure regarding the amount and purpose for which additional state debt is to be created and the source of repayment, when the authorization of additional general obligation debt is placed on the ballot. With this additional information, voters may be less likely to approve additional state debt.

BOND REVIEW BOARD TO ADVISE LEGISLATURE ON STATE AND LOCAL DEBT BURDEN

In addition to passing a specific state debt-service limit, the Legislature directed the Bond Review Board to report, in advance of each regular legislative session, on the level of state and local debt.

The Board is directed to provide the Legislature with recent trends for a broad set of measures regarding state and local debt, including:

- total debt service as a percentage of total expenditures;
- tax-supported debt service as a percentage of general revenue expenditures;
- per-capita total debt and per-capita tax-supported debt;
- total debt and tax-supported debt as a percentage of personal income and real property valuation;
- average maturity of outstanding debt;
- utilization of short-term notes and capitalized interest;
- savings from refundings; and
- bond issuance costs.

These measures will provide the Legislature with the information necessary to refine state debt service limits.

NEW CAPITAL PLANNING AND BUDGETING SYSTEM FOR TEXAS

The Legislature also mandated the development of a capital planning and budgeting system to ensure that each capital finance decision is made in the most informed manner possible.

This new focus on capital finance was brought about by increased use of general obligation and other general revenue backed bonds for state capital investment. The amount of bonds attributable to state capital investment has more than tripled since 1986, to $1.4 billion outstanding at the end of fiscal 1991.

This new approach to capital finance is aimed at rationing debt capacity so that the entire capacity is not pledged in the short term for projects that, over time, would not be of the highest priority. A priority list of the top ten capital projects for bond financing today probably would not be the same list of ten projects considered highest priority five or ten years from now.

The capital finance system is based, therefore, on a six-year strategic capital improvement plan adopted by the Governor and the Legislative Budget Board in preparation for each Regular Session of the Legislature. The overall plan will take into consideration each state agency's strategic operating plan.

The Bond Review Board will make recommendations to the Legislature on the structure and timing of the debt financing of each capital improvement included in the six-year strategic capital improvement plan.

The Legislature will also develop a capital budget as part of its biennial budget writing process. Each capital improvement project included in the two-year budget must have been included in the six-year strategic plan, except in emergency situations. The two-year budget will specify which capital improvements are to be debt-financed and the method and timing of incurring this debt.

The Bond Review Board will recommend to the Legislature the method of finance for each asset included in the two-year capital budget and the structure and timing of any resulting debt issuance and the Board will report to the Legislature on the aggregate impact of recommended debt issuance on the state's debt burden.

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[1] Moody's Investors Service, *1991 Moody's Medians*.

CHAPTER THREE

Texas Bond Issuance During Fiscal 1991

Texas state agencies and universities issued $1.5 billion in bonds during fiscal 1991, up from $1.1 billion in 1990 *(Table 10)*.

Refunding bonds comprised $923 million (60 percent) of the bonds issued during the year *(Figure 10)*. Refunding bonds, for the most part, replace bonds issued previously, while new-money bond issues raise additional funds for new projects and add to the state's outstanding debt.

REFUNDINGS UP IN 1991

Refunding activity was up substantially during 1991, due in part to lower interest rates during the year. Many refundings were done, however, primarily to remove restrictive bond covenants and not for immediate interest cost savings.

The University of Texas System, Texas A&M University System, Lamar University System, and Stephen F. Austin State University each issued refunding bonds to consolidate revenue bonds issued by their system components under a systemwide repayment pledge of all available fees. The refundings enhance the credit quality of each university, resulting in lower interest costs.

The Texas Public Finance Authority (TPFA) was also a large issuer of refunding bonds, with a $174 million revenue bond issue sold last December to refund two prior bond issues.

The Texas Housing Agency sold $81.6 million in Single Family Mortgage Revenue Refunding Bonds to refund a 1980 issue. The refunding resulted in a lower cost of funds and, therefore, extra cash available for the housing program. The additional funds will be used to finance no-interest down-payment assistance and low-interest home improvement loans.

The Veterans Land Board (VLB) sold $45 million in current refunding bonds during 1991, extending debt service to ease a pro-

TABLE 10

TEXAS BONDS ISSUED DURING FISCAL YEAR 1991

	Refunding Bonds	New-Money Bonds	Total Bonds Issued
Texas Public Finance Authority, General Obligation*		$313,740,000	$313,740,000
Texas Public Finance Authority, Revenue	$174,060,181	37,840,000	211,900,181
The University of Texas System, Revenue	215,085,000	67,640,000	282,725,000
The University of Texas System, PUF Revenue	254,230,000	20,000,000	274,230,000
Texas A&M University System, Revenue	87,478,668	14,860,000	102,338,668
Texas A&M University System, PUF Revenue	20,630,000	45,000,000	65,630,000
Texas Housing Agency, Revenue	81,605,000		81,605,000
Texas Higher Education Coordinating Board, Revenue		74,988,561	74,988,561
Texas Higher Education Coordinating Board, General Obligation		25,010,315	25,010,315
Veterans Land Board, General Obligation	44,960,000		44,960,000
Stephen F. Austin State University, Revenue	24,620,000		24,620,000
Lamar University System, Revenue	19,990,000	3,000,000	22,990,000
Texas National Guard Armory Board, Revenue		4,000,000	4,000,000
Texas Agricultural Finance Authority, General Obligation		3,500,000	3,500,000
Total	$922,658,849	$609,578,876	$1,532,237,725

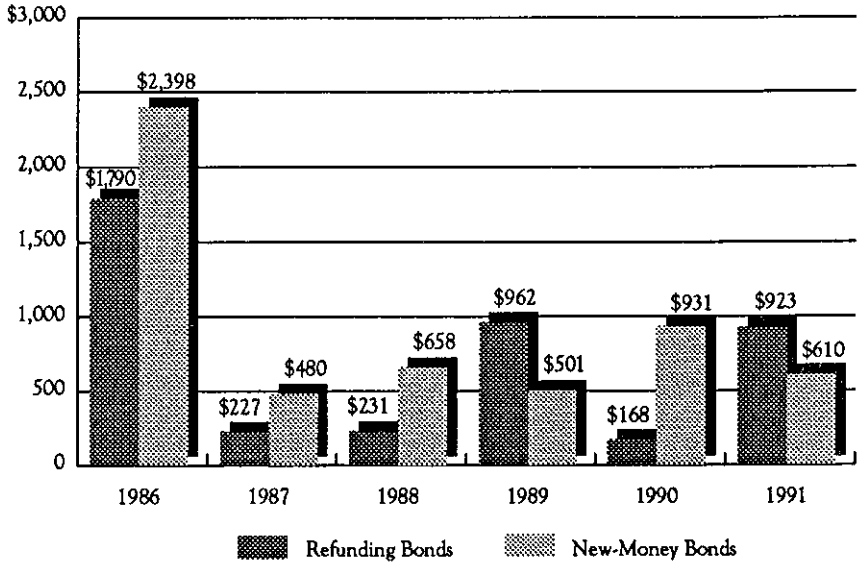
* See Chapter 5 for an explanation of the distinction between general obligation and revenue bonds.

SOURCE: Texas Bond Review Board, Office of the Executive Director.

FIGURE 10

TEXAS NEW-MONEY & REFUNDING BOND ISSUES

1986 through 1991
(millions of dollars)



SOURCE: Texas Bond Review Board, Office of the Executive Director.

TABLE 11

LEASE- AND INSTALLMENT-PURCHASE AGREEMENTS

Fiscal Year 1991

Interest	Amount	Purpose	Rate
Texas Workers' Compensation Commission	$6,824,714	Computer	7.44%
Secretary of State	986,509	Computer	8.08%
Texas Water Commission	967,658	Computer	6.86%
State Treasury	887,384	Computer	7.89%
Texas Department of Criminal Justice	25,420,000	Refinancing of Lease-Purchase of Pre-Release Centers	6.77%
Total	$35,086,265		6.97%

SOURCE: Texas Bond Review Board, Office of the Executive Director.

jected temporary strain on cash flows of the land loan program. The VLB issues bonds to purchase land that is then resold to eligible Texas veterans.

NEW-MONEY BOND ISSUANCE DOWN FROM HIGH 1990 VOLUME

Texas issued $610 million in new-money bonds during 1991, down about 34 percent from 1990 new-money bond issuance and more in line with previous annual issuance.

New-money bond issuance in 1990 was boosted by a number of very large financings: $250 million general obligation bond issuance as partial financing for the initial phase of the Superconducting Super Collider, $170 million in revenue bonds issued by the University of Texas System for construction projects throughout the System, and $133 million in revenue bonds issued by the Texas Turnpike Authority to finance extension of the Dallas North Tollway.

The TPFA, the largest issuer of new-money bonds during 1991, sold $351.6 million in new-money bonds: $313.7 million in general obligation bonds to finance projects for the Texas Department of Criminal Justice, the Texas Department of Mental Health and Mental Retardation, the Texas Youth Commission, and the Texas Department of Public Safety; and $37.8 million in lease-revenue bonds to purchase two office buildings in Austin.

Of the $313.7 million in new-money TPFA bonds, about $254 million was for prison design and construction. This is the largest annual issuance of bonds for prisons since bonds were first sold to finance correctional facilities in fiscal year 1988. Bonds issued on behalf of the prison system totalled $57 million in 1990, $171 million in 1989, and $239 million in 1988.

Two new state programs issued bonds during 1991. The Texas Higher Education Coordinating Board issued $75 million in revenue bonds for student loans under new authorization granted this year by the Texas Legislature. The Coordinating Board's student loan program had been financed previously by general obligation bonds. With the approval this November of an amendment authorizing the issuance of $300 million in general obligation bonds for student loans, by law, no additional bonds may be issued under the revenue bond program.

The Texas Agricultural Finance Authority (TAFA) issued commercial paper, backed by the state's general obligation pledge, under a new loan guaranty program approved by Texas voters in 1989. Proceeds are being used to provide guarantees to local lenders that make loans to small agribusinesses and to buy part of those loans. The program is designed so that the commercial paper will be repaid totally from repaid loans, and state revenue will be used to pay debt service only in the

case of widespread default. At the end of fiscal year 1991, TAFA had outstanding $3.5 million in commercial paper under this program.

MUNICIPAL BOND ISSUANCE UP SHARPLY NATIONWIDE

The 1991 increase in Texas bond issuance followed a national trend. In the eight months from January to August 1991, municipal bond issuance nationwide was $102.9 billion compared with $77.3 billion during the same period of 1990, for an increase of 33 percent. Refunding bond issuance through August has surpassed the total for all of 1990 *(Figure 11)*.

If recent trends hold, over $150 billion in municipal bonds will be sold by year-end. This volume of issuance has not been seen since before passage of the 1986 Tax Act, which put new restrictions on tax-exempt financing.

NEW LEASE- AND INSTALLMENT-PURCHASES

A total of $35.1 million in lease- and installment-purchases were approved by the Bond Review Board in 1991 *(Table 11)*. While it does not involve the issuance of state bonds, a lease- or installment-purchase is a method of paying for equipment over time and carries finance charges. The Bond Review Board is required to review all lease- or installment-purchases in excess of $250,000 in principal or with a term of five or more years.

The largest lease-purchase approved and executed was the renegotiation of a previous agreement between the Texas Correctional Facilities Financing Corporation and the Texas Department of Criminal Justice. Under the agreement, TDCJ is lease-purchasing pre-release facilities from TCFFC.

Other lease-purchases were used to buy computer equipment during fiscal year 1991, the largest being a $6.8 million lease-purchase by the Texas Workers' Compensation Commission. The purchase will allow the Commission to meet automation requirements necessary to implement legislation enacted in 1989.

BOND ISSUANCE OUTLOOK—1992

Texas state agencies expect to issue $1.4 billion in bonds during fiscal year 1992, according to the results of an annual survey by the Bond Review Board *(Table 12)*.

The largest issuer is expected to be TPFA, which plans to sell $535 million in bonds during the year. Approximately $155 million of this total will be general obligation bonds to finance projects on behalf of the Texas Department of Criminal Justice and the Texas Department of Mental Health and Mental Retardation. Most of TPFA's revenue bond issuance, $300 million, will be used to fund the Texas Workers' Compensation Insurance Fund. The bonds will be special obligations of the Fund, payable solely from pledged revenues, which include a maintenance tax surcharge assessed against each insurance company writing workers' compensation insurance in Texas and other lawful revenues. The balance of TPFA's revenue bond issuance, $80 million, will be for state office building renovation and construction in Travis County, and an equipment lease pool.

In November 1991, the Texas National Research Laboratory Commission sold $278 million in revenue bonds. Proceeds will be used for construction and improvements at the Superconducting Super Collider research facility in Ellis County. Debt service will be paid from legislative appropriations of general revenue.

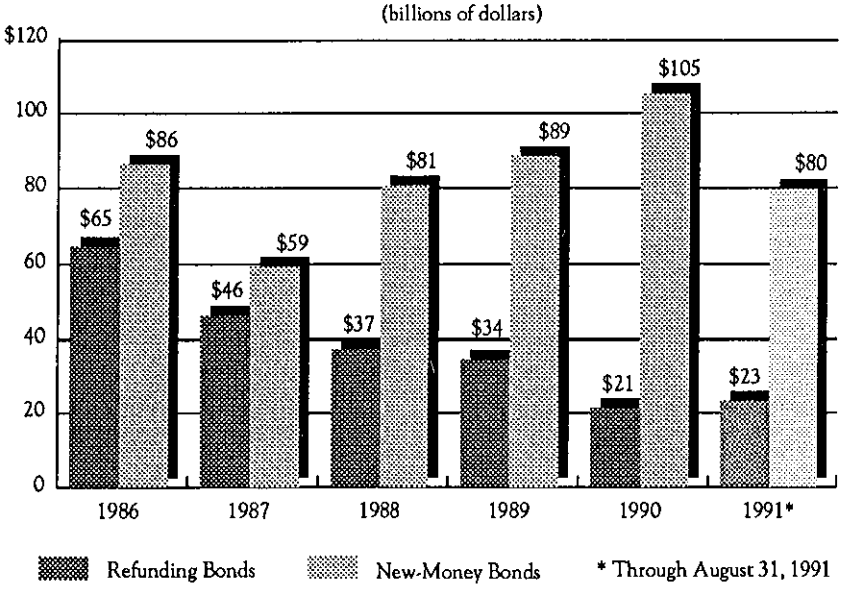
The Texas Higher Education Coordinating Board plans to sell $100 million in student loan bonds in early 1992, pursuant to a constitutional amendment approved by voters this November. The Texas Water Development Board plans to sell $100 million in revenue bonds late in 1991. Proceeds will be used for the State Revolving Fund. The bonds will be payable from program revenues and will not be backed by the state. (Note: This is only a preliminary schedule of bond issuance during the upcoming year. An update of this list may be obtained from the Bond Review Board.)

FIGURE 11

TOTAL U.S. LONG-TERM MUNICIPAL BOND ISSUANCE

1986 through 1991

(billions of dollars)



SOURCE: *Bond Buyer*.

TABLE 12

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL YEAR 1992

Issuer	Amount	Purpose	Approximate Issue Date
GENERAL OBLIGATION BONDS			
Texas Higher Education Coordinating Board	$100,000,000	College Student Loans	Jan-92
Veterans Land Board	33,685,000	Current Refunding	Oct-91
Texas Department of Commerce	7,000,000	Rural Guarantee; Exporters Guarantee	Dec-91
Texas Department of Commerce	10,000,000	Small Business Industrial Revenue Bonds	Feb-92
Texas Agricultural Finance Authority*	21,500,000	Agribusiness Development	Continuous
Texas Public Finance Authority	45,000,000	Correctional Facilities	Mar-92
Texas Public Finance Authority	110,000,000	Correctional Facilities	Aug-92
Texas Water Development Board	11,000,000	Water Supply	Nov-91
Texas Water Development Board	4,000,000	Water Supply and State Participation	Nov-91
Texas Water Development Board	20,000,000	Flood Control	Dec-91
Texas Water Development Board	8,000,000	Water Supply	May-92
Texas Water Development Board	7,000,000	Water Supply	May-92
TOTAL GENERAL OBLIGATION	$377,185,000		
NON-GENERAL OBLIGATION BONDS			
Texas A&M University System	35,000,000	Finance construction of new facilities	Apr-92
Texas National Guard Armory Board	1,300,000	Construction and renovation	Nov-91
The University of Texas System	6,100,000	Construction	Apr-92
The University of Texas System	3,000,000	Construction	Apr-92
The University of Texas System	3,805,000	Construction	Apr-92
The University of Texas System	3,445,000	Construction	Apr-92
The University of Texas System	11,772,000	Construction	Jul-92
The University of Texas System, PUF	50,000,000	Construction	May-92
Texas State University System (SWTSU)	7,200,000	Construction	Nov-91
Texas Department of Commerce	5,000,000	Product Development	Jan-92
Texas Department of Commerce	2,000,000	Small Business Incubator	Feb-92
Texas Department of Housing and Community Affairs	91,000,000	Collateralized Home Mortgage Revenue Bonds	Oct-91
Texas Public Finance Authority	300,000,000	Workers' Compensation Fund	Feb-92
Texas Public Finance Authority	20,000,000	Master Equipment Lease Pool	May-92
Texas Public Finance Authority	40,000,000	Building construction	June-92
Texas Public Finance Authority	20,000,000	Building construction	Aug-92
Texas Water Development Board	100,000,000	State Revolving Fund	Dec-91
Texas National Research Laboratory Commission	278,000,000	Superconducting Super Collider	Nov-91
TOTAL NON-GENERAL OBLIGATION	$977,622,000		
TOTAL	$1,354,807,000		

* Commercial Paper program. $25 million is most that may be outstanding.

SOURCE: Texas Bond Review Board, Office of the Executive Director, *Survey of Texas State Bond Issuers*.

CHAPTER FOUR

Texas Bond Issuance Costs

Texas state bond issuers paid an average of $784,609 per issue and $12.26 per $1,000 in issuance costs on the fifteen bond issues sold during 1991 *(Table 13)*. Appendix A includes an accounting of the issuance costs for each 1991 issue.

Bond issuance costs for 1991 continued their downward trend. The average issuance cost, $12.26 per $1,000 for all 1991 issues, is down from $17.25 in 1990 and a high of $18.13 in 1987, the first year for which data was collected.

TABLE 13

AVERAGE ISSUANCE COSTS FOR 1991 TEXAS BOND ISSUES*

	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Average Issue Size—$79 Million		
Underwriter's Spread	$650,067	$9.15
Other Issuance Costs:		
Legal Fees	48,449	0.95
Financial Advisor Fees	16,855	0.55
Rating Agency Fees	29,660	0.67
Printer Fees	12,857	0.35
Paying Agent/Registrar Fees	8,866	0.26
Other	17,856	0.32
Total	**$784,609**	**$12.26**

*The calculations regarding average issuance costs include only those bonds sold via competitive or negotiated sale for which complete data were available. Bond insurance premiums are not included for purposes of average cost calculations. The figures are simple averages of the dollar costs and costs per $1,000 associated with each 1991 state bond issue.

SOURCE: Texas Bond Review Board, Office of the Executive Director.

TYPES OF FEES

Issuance costs are composed of the fees and expenses paid to consultants to market Texas bonds to investors. Several types of professional services are commonly used in the marketing of all types of bond issues.

- Underwriter — The underwriter or underwriting team acts as a financial intermediary for the state, purchasing the state's bond issues for resale to investors. In a negotiated sale, the underwriter may also have a significant role in the structuring of the issue.

- Bond Counsel — Bond counsel prepares the necessary legal documents and ensures that a bond issue meets state and federal legal requirements. The legal and financial disclosure to bondholders regarding a bond issue is included in what is known as the "official statement." The bond counsel, in most cases, has primary responsibility for the official statement.

- Financial Advisor — The financial advisor assists in the structuring of a bond issue, preparing and distributing the official statement, securing a bond rating, advertising, and conducting a bond sale. A financial advisor may be employed by an issuer to negotiate with the underwriter regarding fees and other terms of the sale.

- Credit Rating Services — The credit rating services evaluate and assign a rating to the credit quality, or investor risk, associated with each state bond issue. These evaluations are the industry standard used by investors in their decisions about which bonds to purchase.

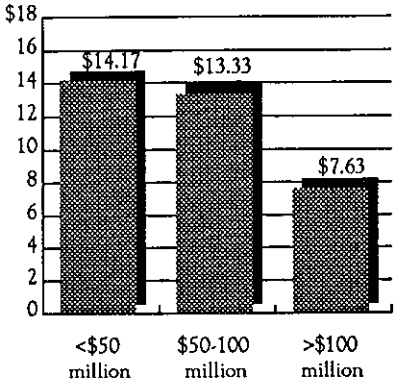
- Paying Agent/Registrar — The paying agent and registrar are responsible for maintaining a list of bondholders and ensuring that they receive principal and interest payments on appropriate dates.

- Printer — The printer produces the official statement, notice of sale, and any

FIGURE 12

AVERAGE 1991 ISSUANCE COSTS BY SIZE OF ISSUE

(costs per $1,000 of bonds issued)



SOURCE: Texas Bond Review Board, Office of the Executive Director.

bonds required to be transferred between the state issuer and purchasers of the bonds.

The underwriting fee, or spread, is the largest component of issuance costs, averaging $650,067 per issue and $9.15 per $1,000 of bonds sold during 1991. This single component accounted for, on average, about 83 percent of the total cost of issuance.

Legal counsel fees were next in importance, averaging $48,449 per issue and $0.95 per $1,000 of bonds sold. Financial advisory fees averaged $16,855 per issue and $0.55 per $1,000 of bonds sold.

TABLE 14

AVERAGE ISSUANCE COSTS FOR 1991 TEXAS BOND ISSUES GREATER THAN $5 MILLION BY NEGOTIATED AND COMPETITIVE SALE

	Negotiated ($/1,000)	Competitive ($/1,000)
Underwriter's Spread	$9.84	$6.25
Other Issuance Costs:		
Legal Fees	0.94	0.56
Financial Advisor Fees	0.54	0.07
Rating Agency Fees	0.57	0.39
Printing	0.34	0.16
Paying Agent/Registrar	0.36	0.00
Other	0.45	0.02
Total	**$13.03**	**$7.45**
Average Issue Size (in millions)	$83	$88

The calculations regarding average issuance costs include only those bond issues of greater than $5 million sold via competitive or negotiated sale for which complete data were available. Bond insurance premiums are not included for purposes of average cost calculations. The figures are the simple average of the costs per $1,000 associated with each 1991 state bond issue.

SOURCE: Texas Bond Review Board, Office of the Executive Director.

ECONOMIES OF SCALE

In general, the larger a bond issue, the greater the issuance cost, but the lower the issuance cost as a percentage of the size of the bond issue. This relationship is called economies of scale in bond issuance.

Economies of scale result because there are costs of issuance that do not vary proportionately with the size of a bond issue. Professional fees for legal and financial advisory services, document drafting and printing, travel, and other expenses must be paid no matter how small the issue. On the positive side, however, these costs do not increase proportionately with the size of an issue.

As a result, the smallest issues are by far the most costly in percentage terms (*Figure 12*). Total issuance costs for issues of less than $50 million averaged $326,952 per issue and $14.17 per $1,000 in bonds issued. Total costs for issues of between $50 and $100 million averaged $1,044,853 per issue, or $13.33 per $1,000. Bond issues over $100 million had total costs averaging $1.5 million per issue and $7.63 per $1,000.

Although issuance costs per $1,000 decrease with issue size, costs increase with the complexity of the financing. Greater complexity translates into greater expenditures for financial advice and legal counsel and greater commissions and fees to the underwriters who are paid to sell Texas bonds on the state's behalf.

NEGOTIATED VS. COMPETITIVE SALES

The more complicated financings during 1991 were marketed by negotiated sale.

In a negotiated sale, an underwriter is chosen by the issuer in advance of the sale date and agrees to buy the state's bonds at some future date and to resell them to investors.

With the knowledge that they have the bonds to sell, the underwriter can do whatever presale marketing is necessary to accomplish a successful sale. And in the more complicated financings, the presale mar-

keting can be crucial to obtaining the lowest possible interest cost.

In a competitive sale, sealed bids from a number of underwriters are opened on a predetermined sale date, with the state's bonds being sold to the underwriter submitting the lowest bid.

Underwriters bidding competitively usually do less presale marketing to investors, since in a competitive sale, underwriters cannot be sure they own the state's bonds until the day the bids are opened.

To more accurately compare the average issuance costs per bond on negotiated and competitively sold bonds, it is necessary to correct for size differences between negotiated and competitively sold bond issues—the smallest issues are much more likely to be sold competitively. And smaller issues, as described above, tend to have much higher issuance costs per $1,000, regardless of their complexity.

Comparisons of average costs on negotiated and competitive financings for 1991 and past years are, therefore, based only on those issues over $5 million.

Among bond issues greater than $5 million, issuance costs for bonds sold via negotiated sale during fiscal year 1991 averaged $13.03 per $1,000, compared to an average cost of $7.45 per $1,000 for those bonds sold by competitive sale *(Table 14)*.

Most of the difference is due to a higher average underwriting spread on negotiated sales. The average underwriting spread on issues sold by negotiated sale was $9.84 per $1,000, while the average spread on competitively sold issues was $6.25.

Legal fees on negotiated financings were also greater than those on competitive financings, reflecting in part the greater complexity of these financings. The average legal fee was $0.94 per $1,000 on the bond issues sold by negotiated sale, compared to $0.56 per $1,000 on bonds competitively sold.

Financial advisory fees on negotiated sales averaged $0.54 per $1,000, while the financial advisory fee on competitive sales averaged just $0.07 per $1,000. The financial advisory fee on competitive sales is low in part because of the simplicity and repetitive nature of these financings.

RECENT TRENDS IN ISSUANCE COSTS

The costs associated with both competitive and negotiated financings have declined substantially over the last four years *(Figure 13)*.

The cost of selling bonds through negotiated sale fell to $13.03 per $1,000 in 1991, a 35 percent drop from $20.16 per $1,000 in 1987. Issuance costs on competitive financings averaged $7.45 per $1,000 in 1991, a decline of 42 percent from the 1987 average of $12.90 per $1,000.

Underwriting spreads—the largest component of issuance costs—have declined substantially over the last three years on both negotiated and competitive financings primarily because of increased competition among underwriters. The spreads remain higher on negotiated sales.

Spreads on negotiated sales have fallen from $13.70 per $1,000 to $9.84 per $1,000 in the period from 1987 to 1991.

Spreads on competitive financings have declined from $9.01 per $1,000 in 1988 to $6.25 per $1,000 in 1991.

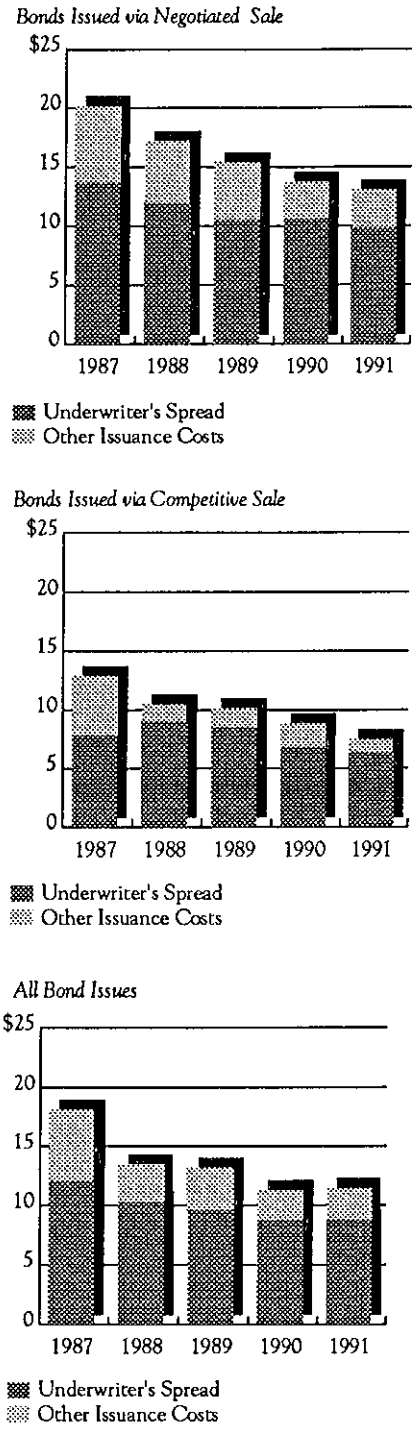
This discussion is not meant to imply that the cost differences between negotiated and competitive financings are unreasonable. A negotiated sale tends to be used on those bond issues which are more difficult and, therefore, more costly to structure and market.

It is the responsibility of state bond issuers to determine the type of sale and level of services necessary to issue state bonds in the most cost-effective manner possible. And it is the goal of the Bond Review Board to ensure that this happens.

FIGURE 13

RECENT TRENDS IN ISSUANCE COSTS FOR TEXAS BONDS

AVERAGE COST PER $1,000 FOR ISSUES GREATER THAN $5 MILLION



SOURCE: Texas Bond Review Board, Office of the Executive Director.

CHAPTER FIVE

Texas Bonds Outstanding

Texas had a total of $7.8 billion in state bonds outstanding on August 31, 1991—up from $7.4 billion outstanding on August 31, 1990, and $6.7 billion outstanding on August 31, 1989 *(Table 15)*.

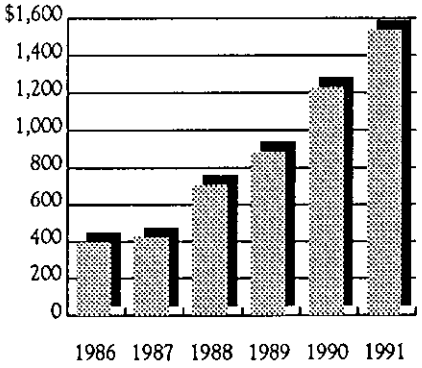
Approximately $2.9 billion of Texas' $7.8 billion in total state bond debt carries the general obligation (G.O.) pledge of the state, up from $2.7 billion in G.O. debt outstanding at the end of fiscal 1990 and $2.3 billion outstanding at the end of fiscal 1989.

G.O. debt carries a constitutional pledge of the full faith and credit of the state to pay off the bonds if necessary. G.O. debt is the only legally binding debt of the state. The issuance of G.O. bonds requires passage of a proposition by two-thirds of both houses of the Texas Legislature and by a majority of Texas voters.

FIGURE 14

TEXAS STATE BONDS OUTSTANDING BACKED ONLY BY GENERAL REVENUE

(millions of dollars)



SOURCE: Texas Bond Review Board, Office of the Executive Director.

The repayment of non-G.O. debt is dependent only on the revenue stream of some program or an appropriation from the Legislature. Any pledge of state funds beyond the current budget period is contingent upon an appropriation by a future legislature—an appropriation that cannot be guaranteed under state statute.

Investors are willing to assume the added risk of non-G.O. bonds for a price—by charging the state a higher interest rate on such bonds. The rate of interest on a non-G.O. bond issue ranges from .1 to .5 of a percentage point higher than for a comparable G.O. issue.

DEBT SUPPORTED FROM GENERAL REVENUE CONTINUES RAPID GROWTH

All bonds do not have the same financial impact on the state. Many bond-financed programs (G.O. and non-G.O. alike) are designed so that debt service is paid from sources outside the state's general revenue fund or from outside state government entirely. These self-supporting bonds do not put direct pressure on state finances. Bonds that are not self-supporting depend solely on the state's general revenue fund for debt service, drawing funds from the same source used by the Legislature to finance the operation of state government.

Bond issuance during fiscal 1991 continued a trend toward increased issuance of non-self-supporting Texas bonds *(Figure 14)*.

On August 31, 1991, Texas had about $1.5 billion in bonds outstanding which must be paid back from the state's general revenue fund. This is up from $1.2 billion in such bonds outstanding at the end of fiscal 1990 and $883 million in such bonds outstanding at the end of 1989.

The amount of general revenue that must go to pay debt service is, as expected, increasing along with the amount of bonds outstanding that are not self-supporting *(Table 16)*.

During the upcoming 1992-93 two-year budget period, the state will pay $163 million annually from general revenue for debt service on state bonds outstanding on August 31, 1991, up from $114 million annually during 1990-91, $62 million annually during 1988-89, and $43 million annually during 1986-87 *(Figure 15)*.

The primary force behind growth in debt service payments from general revenue is the issuance over the last three years of bonds to finance construction of corrections facilities and the 1990 bond issue to finance the initial phase of the Superconducting Super Collider (SSC). These bonds alone will require about $100 million annually in general revenue for debt service during 1992-93.

The increase in debt service from general revenue has not been so abrupt when measured against the increase in the amount of general revenue available to pay debt service.

In 1992-93 the state will pay an estimated 1.07 percent of its general revenue budget for debt service on bonds outstanding on August 31, 1991.

During the 1990-91 budget period, .9 percent of general revenue went to pay debt service; in 1988-89, debt service payments made up about .6 percent of general revenue.

The percentage of general revenue going

to debt service remains well below the 5 percent average for all states and the 10 percent considered a fiscal danger sign. (A more detailed examination of Texas' debt burden is presented in Chapter 2.)

TEXAS BONDS AUTHORIZED BUT UNISSUED

As of August 31, 1991, Texas had $5.2 billion in authorized but unissued bonds *(Table 17)*. If these bonds were issued, total outstanding debt would reach $13 billion.

Approximately 58 percent of the bonds authorized but unissued at the end of 1990 are G.O., and 90 percent of this G.O. debt would be self-supporting.

About $1 billion (20 percent) of the bonds authorized but unissued at the end of fiscal year 1991 would require the payment of debt service from general revenue. The issuance of all these bonds would require another $90 - $100 million in debt service annually.

The schedule of issuance of these authorized bonds is impossible to predict, but if current trends persist, it will be a number of years before most of these bonds are sold.

The Texas Water Development Board (TWDB), for example, has the authority to issue $1.75 billion in general obligation bonds—over half the authorized but unissued state general obligation bonds—to finance various water supply, treatment, and conservation projects. The TWDB has issued an average of only $60.5 million annually in new-money general obligation bonds over the last three years.

NEW G.O. BOND AUTHORIZATION: NOVEMBER 1991

Texans approved two constitutional amendments in November 1991 that authorized another $1.4 billion in G.O. bond issuance.

One amendment authorized the issuance of $1.1 billion in bonds to finance correctional facilities construction at the Texas Department of Criminal Justice and the Texas Youth Commission and to finance facilities for the Texas Department of Mental Health and Mental Retardation.

The passage of a second amendment authorized $300 million in college student loan bonds, backed by the state's full faith and credit. The Texas Higher Education Coordinating Board will sell these bonds and make loans to students attending institutions of higher education in Texas.

Bonds issued for construction of correctional facilities will rely on the state's general revenue fund for debt service, and the state will be legally bound to repay the bonds. Debt service on $1.1 billion in tax-exempt bonds, which mature in twenty years, would be about $100 million annually until maturity.

Though the college student loan bonds carry the G.O. pledge of the state, the likelihood that these bonds will draw on general revenue for debt service is remote. Program revenues, primarily loan repayments by college students, have been sufficient to pay debt service in the past, and it is expected that this will continue.

LONG-TERM CONTRACTS AND LEASE-PURCHASES OUTSTANDING

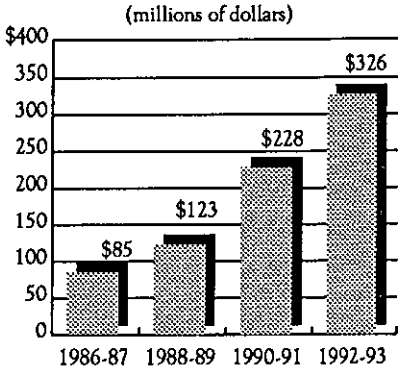
Long-term contracts and lease- or installment-purchase agreements can serve as alternatives to bonds when the issuance of bonds is not feasible or practical. These agreements are, like bonds, a method of financing capital purchases over time. Payments on these contracts or agreements can be either general obligations of the state or subject to biennial appropriations by the legislature. These contracts and agreements are not, however, classified as state bonds and must be added to bonds outstanding to get a complete picture of state debt.

The Texas Water Development Board has entered into a long-term contract with the federal government to gain storage rights at two reservoirs under construction by the Federal Bureau of Reclamation. The balance due on the contract at the end of fiscal year 1991 was $43.2 million. This contract is a general obligation of the state, but the TWDB does not anticipate a draw on general revenue for contract payments.

FIGURE 15

DEBT SERVICE PAID FROM GENERAL REVENUE DURING TWO-YEAR BUDGET PERIODS

(millions of dollars)



SOURCE: Texas Bond Review Board, Office of the Executive Director.

Until recently, lease-purchase agreements represented a relatively small part of Texas debt and were used exclusively for the short-term financing of furniture and equipment.

As of August 31, 1990, capital leases outstanding for furniture and equipment totalled approximately $58.3 million, 98 percent to be paid off within four years.

Lease-purchase agreements for prison facilities have greatly increased the significance of this type of debt.

The Texas Department of Criminal Justice is party to four long-term lease-purchase agreements, totalling $142.6 million, for the purchase or construction of prison facilities. The lease-purchase payments for the prisons will come totally from appropriations of general revenue by the legislature to the Texas Department of Criminal Justice.

Lease-purchases as of August 31, 1990, including furniture, equipment and prison facilities, totalled $189.1 million.

Inclusion of just the lease-purchases approved by the Bond Review Board during 1991 would add another $9.7 million to the total amount of lease-purchases outstanding.

TABLE 15

TEXAS BONDS OUTSTANDING

(amounts in thousands)

	8/31/89	8/31/90	8/31/91
GENERAL OBLIGATION BONDS			
Self-Supporting			
Veterans' Land and Housing Bonds	$1,365,030	$1,340,171	$1,311,222
Water Development Bonds	85,500	126,430	125,310
Park Development Bonds	29,300	28,800	27,800
College Student Loan Bonds	167,885	208,109	223,541
Farm and Ranch Security Bonds	10,000	10,000	10,000
Texas Agricultural Finance Authority Bonds	0	0	3,500
Total, Self-Supporting	**$1,657,715**	**$1,713,510**	**$1,701,373**
Not Self-Supporting [1]			
Higher Education Constitutional Bonds[2]	181,420	155,740	128,035
Texas Public Finance Authority Bonds	474,510	554,810	856,950
Texas National Research Laboratory Commission Bonds	0	250,000	250,000
Total, Not Self-Supporting	**$655,930**	**$960,550**	**$1,234,985**
GENERAL OBLIGATION BONDS, TOTAL	$2,313,645	$2,674,060	$2,936,358
NON-GENERAL OBLIGATION BONDS			
Self-Supporting			
Permanent University Fund Bonds			
A&M	$248,050	$255,685	$308,300
UT	477,205	542,155	551,465
College and University Revenue Bonds	950,374	915,760	944,372
Texas Hospital Equip. Finance Council Bonds	37,400	36,150	12,750
Texas Housing Agency Bonds	1,434,098	1,543,546	1,515,271
Texas Small Business I.D.C. Bonds	100,400	99,335	99,335
Texas Turnpike Authority Bonds	384,444	520,619	524,294
Texas Water Resources Finance Authority Bonds	508,035	498,470	486,645
College Student Loan Bonds	0	0	74,989
Total, Self Supporting	**$4,140,006**	**$4,411,720**	**$4,517,421**
Not Self-Supporting [1]			
Texas Public Finance Authority Bonds	206,148	246,243	275,126
National Guard Armory Board Bonds	20,915	20,950	23,905
Total, Not Self-Supporting	**$227,063**	**$267,193**	**$299,031**
NON-GENERAL OBLIGATION BONDS, TOTAL	$4,367,069	$4,678,913	$4,816,452
GRAND TOTAL	$6,680,714	$7,352,973	$7,752,810

[1]Bonds which are not self-supporting depend solely on the state's general revenue for debt service. Not self-supporting bonds totalled $1.5 billion outstanding on August 31,1991, $1.2 billion outstanding on August 31, 1990, and $883 million outstanding on August 31, 1989.

[2]While not explicitly a general obligation or full faith and credit bond, the revenue pledge has the same effect. Debt service is paid from an annual constitutional appropriation to qualified institutions of higher education from first monies coming into the state treasury not otherwise dedicated by the Constitution.

SOURCES: Texas Bond Review Board and Texas Comptroller of Public Accounts.

TABLE 16

DEBT SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR

(amounts in thousands)

GENERAL OBLIGATION BONDS	1991	1992	1993	1994	1995	1996 plus
Self-Supporting						
Veterans' Land and Housing Bonds	$179,662	$171,834	$167,338	$163,617	$157,774	$1,677,937
Water Development Bonds	10,970	12,196	12,242	12,882	12,932	198,276
Park Development Bonds	3,264	3,172	3,556	3,417	3,281	29,279
College Student Loan Bonds	23,265	24,674	27,821	28,217	28,121	259,688
Farm and Ranch Security Bonds	900	900	900	900	900	10,450
Texas Agricultural Finance Auth. Bonds*	350	350	350	350	350	5,250
Total, Self-Supporting	$218,412	$213,126	$212,206	$209,383	$203,357	$2,180,881
Not Self-Supporting[1]						
Higher Education Constitutional Bonds[2]	37,638	37,238	36,555	36,582	36,609	0
Texas Public Finance Authority Bonds	56,026	77,281	81,867	81,759	81,362	1,234,797
Texas National Research Laboratory Commission Bonds	16,229	17,705	20,795	20,781	20,769	521,403
Total, Not Self-Supporting	$109,894	$132,223	$139,217	$139,122	$138,740	$1,756,201
GENERAL OBLIGATION BONDS, TOTAL	$328,306	$345,348	$351,423	$348,505	$342,097	$3,937,082
NON-GENERAL OBLIGATION BONDS						
Self-Supporting						
Permanent University Fund Bonds						
A&M	23,332	52,191	26,179	26,662	27,157	392,798
UT	49,412	73,565	62,368	61,785	61,251	685,831
College and University Revenue Bonds	88,548	120,235	119,415	121,512	116,283	1,108,769
Texas Hospital Equip. Finance Council Bonds	24,994	1,386	1,386	1,386	1,386	15,251
Texas Housing Agency Bonds	186,015	134,713	140,191	191,614	137,071	3,350,144
Texas Small Business I.D.C. Bonds	7,202	7,202	7,202	7,202	7,202	322,590
Texas Turnpike Authority Bonds	31,538	34,873	34,860	34,859	40,357	1,227,914
Texas Water Resources Finance Auth. Bonds	48,282	49,071	50,155	53,946	55,558	683,992
College Student Loan Bonds	0	3,369	4,493	4,493	4,683	149,924
Total, Self Supporting	$459,322	$476,606	$446,250	$503,458	$450,949	$7,937,213
Not Self-Supporting[1]						
Texas Public Finance Authority Bonds	14,973	24,768	24,761	24,723	24,752	434,688
National Guard Armory Board Bonds	2,433	2,622	2,832	2,832	2,826	24,533
Total, Not Self-Supporting	$17,406	$27,390	$27,593	$27,554	$27,577	$459,220
NON-GENERAL OBLIGATION BONDS, TOTAL	$476,728	$503,996	$473,842	$531,012	$478,526	$8,396,433
GRAND TOTAL	$805,038	$849,344	$825,265	$879,517	$820,623	$12,333,515

[1]Bonds which are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totalled $127 million during fiscal 1991, and will reach $160 million in fiscal 1992.

[2]While not explicitly a general obligation or full faith and credit bond, the revenue pledge has the same effect. Debt service is paid from an annual constitutional appropriation to qualified institutions of higher education from first monies coming into the state treasury not otherwise dedicated by the Constitution.

* Estimated.

SOURCES: Texas Bond Review Board, Office of the Executive Director, and Texas Comptroller of Public Accounts.

TABLE 17

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

GENERAL OBLIGATION BONDS	8/31/90	8/31/91
Self-Supporting		
Veterans' Land and Housing Bonds	$405,000	$405,000
Water Development Bonds	1,548,570	1,548,570
Farm and Ranch Loan Bonds	500,000	500,000
Park Development Bonds	29,250	29,250
College Student Loan Bonds	25,011	1
Farm and Ranch Loan Security Bonds	0	0
Texas Department of Commerce Bonds	45,000	45,000
Texas Agricultural Finance Authority Bonds	30,000	26,500
Agriculture Water Conservation Bonds	200,000	200,000
Total, Self-Supporting	$2,782,831	$2,754,321
Not Self-Supporting [1]		
Higher Education Constitutional Bonds	*	*
Texas Public Finance Authority Bonds[2]	$337,390	$23,650
Texas National Research Laboratory Comm. Bonds	250,000	250,000
Total, Not Self-Supporting	$587,390	$273,650
GENERAL OBLIGATION BONDS, TOTAL	$3,370,221	$3,027,971
NON-GENERAL OBLIGATION BONDS		
Self-Supporting		
Permanent University Fund Bonds[3]		
A&M	$87,809	$45,229
UT	145,194	155,592
College and University Revenue Bonds	**	**
Texas Housing Agency Bonds	**	**
Texas Turnpike Authority Bonds	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000
Texas Department of Commerce Bonds	**	**
Texas Water Resources Finance Authority Bonds	**	**
Texas School Facilities Finance Program	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**
College Student Loan Bonds	0	0
Total, Self-Supporting	$1,483,003	$1,450,821
Not Self-Supporting [1]		
Texas Public Finance Authority Bonds	$322,781	$266,021
National Guard Armory Board Bonds	**	**
Texas National Research Laboratory Comm. Bonds	500,000	500,000
Total, Not Self-Supporting	$822,781	$766,021
NON-GENERAL OBLIGATION BONDS, TOTAL	$2,305,784	$2,216,842
TOTAL	$5,676,005	$5,244,813

* No limit on bond issuance, but debt service may not exceed $50 million per year.

** No issuance limit has been set by the Texas Constitution. Bonds may be issued by the agency without further authorization by the Legislature. Bonds may not be issued, however, without the approval of the Bond Review Board and the Attorney General.

[1]Bonds which are not self-supporting depend solely on the state's general revenue for debt service.

[2]This figure represents the dollar amount of projects authorized by the Legislature for which bonds have not been issued.

[3]Issuance of PUF bonds by A&M is limited to 10 percent, and issuance by UT is limited to 20 percent of the cost value of investments and other assets of the PUF, except real estate.

SOURCES: Texas Bond Review Board and Texas Comptroller of Public Accounts.

APPENDIX A

Texas Bonds Issued During 1991

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of the Texas A&M University System Revenue Financing System Refunding Bonds Series 1990A - $13,198,668, Series 1990B - $20,940,000 and Series 1990C - $44,510,000.

Purpose: Series A, B and C refunded $14,159,000, $15,525,000 and $45,240,000, respectively in outstanding fee revenue bonds of Texas A&M and its components.

Dates: Board Approval - November 20, 1990
Negotiated Sale - December 4, 1990

Structure: Series A was sold as serial current interest bonds maturing from 1991 through 2000 and serial capital appreciation bonds maturing from 2001 through 2009. Series B was structured as serial current interest bonds maturing from 1991 through 2010. Series C is a combination of current interest bonds maturing serially from 1991 through 2009 and a term bond with mandatory redemption provisions from 2002 through 2007. Series B and C bonds maturing from 2002 through 2010 are callable at par beginning in 2001. Series A bonds are not callable. The bonds are special obligations of the Board of Regents of the Texas A&M University System payable from pledged revenues.

Bond Ratings: Fitch - AA
Standard & Poor's - AA

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - First Southwest
Senior Underwriter - J.P. Morgan Securities

Effective Interest Rate: Series A - 6.55%
Series B - 6.85%
Series C - 6.99%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 110,481	$ 1.40
Financial Advisor	89,358	1.14
Rating Agencies	13,000	.17
Printing	27,022	.34
Paying Agent/Registrar	32,851	.42
Escrow Agent	4,500	.06
Miscellaneous	13,360	.17
	$ 290,572	$ 3.69
Underwriter's Spread	$ 688,176	$ 8.75

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of the Texas A&M University System Revenue Financing System Refunding Improvement Bonds Series 1991A - $14,860,000, Series 1991B - $3,380,000 and Series 1991C - $5,450,000.

Purpose: Series A proceeds were used to refund outstanding variable rate notes, and to provide new money for equipment acquisition. Series B bonds were used to refund West Texas State University revenue bonds. Series C proceeds refunded West Texas State University revenue bonds. The Series B and C bonds brought West Texas State under the Texas A&M University System Revenue Financing System.

Dates: Board Approval - April 18, 1991
Negotiated Sale - April 23, 1991

Structure: Series A and B mature serially with final maturity in 1996 and 2002, respectively, and are non-callable. Series C matures in 2010. Bonds maturing in 2002 and after are callable at par beginning in 2001. The bonds are special obligations of the Board of Regents of the Texas A&M University System payable from pledged revenues.

Bond Ratings: Fitch - AA
Standard & Poor's - AA

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - First Southwest
Senior Underwriter - J.P. Morgan Securities

Effective Interest Rate: Series A - 5.47%
Series B - 6.19%
Series C - 6.56%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 28,480	$ 1.20
Financial Advisor	27,862	1.18
Rating Agencies	22,600	.95
Printing	10,014	.42
Paying Agent/Registrar	5,950	.25
Escrow Agent	9,250	.39
Verification	9,000	.38
	$ 113,156	$ 4.77
Underwriter's Spread	$ 148,495	$ 6.27

STEPHEN F. AUSTIN STATE UNIVERSITY

Issue: Board of Regents of Stephen F. Austin State University Consolidated University Revenue Refunding Bonds, Series 1991A - $18,630,000 and Series 1991B - $5,990,000.

Purpose: Proceeds were used to refund outstanding revenue bonds and remove restrictive bond covenants. As a result, all revenue bonds are on parity and new money bonds, when issued, will be secured by a new unified pledge of all legally pledged revenues.

Dates: Board Approval - March 21, 1991
Negotiated Sale - April 23, 1991

Structure: The Series A bonds were sold as serial current interest bonds maturing from 1991 through 2002 and a term bond with mandatory redemption from 2003 through 2012. Series B was sold in serials maturing from 1991 through 2002 and a term bond with mandatory redemption in 2003 and 2004. Bonds maturing in 2001 and thereafter are callable at par beginning in 2000.

Bond Ratings: Moody's - Aaa
Standard & Poor's - AAA
Insured by MBIA

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Pricing Consultant - The Principal/Eppler, Guerin & Turner
Senior Underwriter - Rauscher Pierce Refsnes

Effective Interest Rate: Series A - 6.37%
Series B - 6.28%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 31,850	$ 1.29
Pricing Consultant	4,924	.20
Rating Agencies	27,600	1.12
Printing	4,500	.18
Paying Agent/Registrar	56,558	2.30
Verification Agent	13,000	.53
Miscellaneous	1,291	.05
	$ 139,723	$ 5.68
Underwriter's Spread	$ 221,580	$ 9.00

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: The State of Texas College Student Loan Bonds, Series 1991 - $25,010,315.

Purpose: Proceeds will be used to make low interest loans available for the Hinson-Hazlewood loan program. The program provides loans to students seeking undergraduate, graduate and professional degrees at institutions of higher education in Texas.

Dates: Board Approval - December 18, 1990
Negotiated Sale - January 24, 1991

Structure: The issue was sold as tax-exempt capital appreciation bonds maturing from 1992 through 2009. These bonds were marketed as college savings bonds. In order to attract small investors, the bonds were sold in integrals of $1,000 instead of the standard $5,000 and are noncallable.

Though the bonds are backed by a general obligation pledge of the state, income from repaid student loans is expected to be sufficient to pay debt service on the bonds.

Bond Ratings: Moody's - Aa
Standard & Poor's - AA

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - First Southwest
Senior Underwriter - Merrill Lynch Capital Markets

Effective Interest Rate: 6.99%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 16,118	$ .64
Financial Advisor	12,500	.50
Rating Agencies	16,800	.67
Printing/Advertising	47,205	1.89
Paying Agent Registrar	1,750	.07
Miscellaneous	8,996	.36
	$ 103,369	$ 4.13
Underwriter's Spread	$ 349,644	$ 13.98

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: Texas College Student Loan Senior Lien Revenue Bonds Series 1991 -$72,988,561 and Texas College Student Loan Junior Lien Revenue Bonds Series 1991 - $2,000,000.

Purpose: Proceeds will be used to make loans under the Coordinating Board's student loan program. The program provides loans to students seeking undergraduate, graduate and professional degrees at institutions of higher education in Texas.

Dates: Board Approval - June 27, 1991
Negotiated Sale - July 29, 1991

Structure: This is the first non-general obligation bond issue sold by the Coordinating Board. In order to secure a higher bond rating, two series were sold. The senior lien bonds were issued to fund the loan program and junior lien bonds were issued to pay issuance costs and provide a capitalized interest fund during the loan origination period.

The bonds were sold as fixed rate tax exempt securities. The senior issue is comprised of serial bonds maturing in 1995 through 2003, capital appreciation bonds maturing from 1995 through 2006, a term bond with mandatory redemption from 2004 through 2006, a term bond with mandatory redemption from 2007 through 2025 and convertible compound interest bonds maturing from 2007 through 2025. The junior bonds mature in 2001.

Bond Ratings: Senior Lien - A by Moody's
Junior Lien - Unrated

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - First Southwest
Senior Underwriter - Merrill Lynch Capital Markets

Effective Interest Rate: 7.42%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 80,277	$ 1.07
Financial Advisor	37,511	.50
Rating Agencies	18,000	.24
Printing	27,585	.37
Paying Agent/Registrar	2,000	.03
	$ 165,373	$ 2.20
Underwriter's Spread	$ 871,367	$ 11.62

TEXAS HOUSING AGENCY

Issue: Texas Housing Agency Single Family Mortgage Revenue Refunding Bonds Series 1991A - $81,605,000.

Purpose: Proceeds were used to refund outstanding Texas Housing Agency Single Family Mortgage Revenue Bonds Series 1980A. The refunding bonds have a lower yield while the loans that have been made will keep the same interest rate, allowing THA to earn a greater spread. The additional cash flow will be used for no interest down payment assistance loans and low interest home improvement loans.

Dates: Board Approval - May 23, 1991
Negotiated Sale - August 20, 1991

Structure: The issue was sold as fixed-rate tax-exempt securities. The bonds are callable and will be subject to mandatory redemption from loan prepayments and other sources with final maturity in 2012.

The bonds are secured by the pledged revenues, consisting primarily of the existing mortgage loans and investments. The bonds are not general obligations of the state.

Bond Ratings: Moody's - AA
Standard & Poor's - A+

Consultants: Bond Counsel - Vinson & Elkins
Senior Underwriters - Goldman, Sachs
Donaldson, Lufkin & Jenrette

Effective Interest Rate: 7.00%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 109,787	$ 1.35
Rating Agencies	45,000	.55
Printing	10,747	.13
Agency Financing Expenses	17,242	.21
Trustee/Comfort Letter	46,800	.57
	$ 229,575	$ 2.81
Underwriter's Spread	$ 889,495	$ 10.90

LAMAR UNIVERSITY SYSTEM

Issue: Board of Regents of the Lamar University System Combined Fee and Revenue System Refunding and Improvement Bonds Series 1990A - $17,895,000 and Series 1990B - $5,005,000.

Purpose: Proceeds were used to finance repair and upgrading projects and to refund five outstanding bond issues totalling $18,825,000 in principal. The issuance of the refunding bonds eliminated restrictive bond covenants and established a stronger pledge.

Dates: Board Approval - June 21, 1990
Negotiated Sale - November 2, 1990

Structure: Series A was sold as a combination of serial bonds maturing from 1991 through 2005 and a term bond with mandatory redemption from 2006 through 2010. Series B was sold in serials maturing from 1991 through 2002. Bonds maturing from 2001 through 2010 are callable at par beginning in 2000.

The bonds are special obligations of the Board of Regents of Lamar University and are payable only from pledged revenues of the System.

Bond Ratings: Moody's - Aaa
Standard & Poor's - AAA
Insured by MBIA

Consultants: Bond Counsel - Orgain, Bell & Tucker
Financial Advisor - First Southwest
Senior Underwriter - Dillon Read

Effective Interest Rate: Series A - 7.26%
Series B - 6.89%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 20,000	$ .87
Financial Advisor	36,650	1.60
Rating Agencies	23,500	1.03
Printing	8,997	.39
Verification/Escrow Agent	4,700	.21
Miscellaneous	4,689	.20
	$ 98,536	$ 4.30
Underwriter's Spread	$ 253,825	$ 11.08

TEXAS NATIONAL GUARD ARMORY BOARD

Issue: Texas National Guard Armory Board Armory Improvement Revenue Bonds Series 1991 - $4,000,000.

Purpose: Proceeds will be used to fund an ongoing construction and improvement program at Armory locations across the state.

Dates: Board Approval - June 20, 1991
Competitive Sale - July 16, 1991

Structure: The bonds were sold as fixed-rate tax-exempt securities maturing serially from 1992 through 2006. Bonds maturing on and after 2001 are callable at par beginning in 2001.

The bonds are special obligations of Texas National Guard Armory Board and are payable solely from pledged revenues of the Board. Pledged revenues are primarily lease payments from the Office of the Adjutant General. The lease payments are subject to general revenue appropriation by the Texas Legislature.

Bond Ratings: Moody's - A
Standard & Poor's - AA-

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - First Southwest

Effective Interest Rate: 6.64%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 10,308	$ 2.58
Financial Advisor	10,190	2.55
Rating Agencies	11,200	2.80
Printing	4,862	1.22
Paying Agent/Registrar	1,400	.35
Miscellaneous	1,050	.26
	$ 39,010	$ 9.75
Underwriter's Spread	$ 55,843	$ 13.96

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority State of Texas General Obligation Bonds, Series 1990C - $138,365,000.

Purpose: The bonds were sold to fund construction and renovation projects for the Texas Department of Criminal Justice, Texas Department of Mental Health and Mental Retardation, Texas Department of Public Safety and Texas Youth Commission.

Dates: Board Approval - October 12, 1990
Competitive Sale - October 24, 1990

Structure: The bonds were sold as fixed-rate tax-exempt securities maturing in serials from 1991 through 2010. Bonds maturing from 2000 through 2010 are callable at par beginning in 1999.

The bonds are general obligations of the State of Texas. All debt service will be paid from general revenue of the state.

Bond Ratings: Moody's - Aa
Standard & Poor's - AA

Consultants: Co-Bond Counsel - Thompson & Knight
Garza & Staples
Financial Advisor - Eppler, Guerin & Turner

Effective Interest Rate: 7.12%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 27,683	$ .20
Financial Advisor	6,528	.05
Rating Agencies	36,000	.26
Printing	7,218	.05
Miscellaneous	821	.01
	$ 78,250	$ .57
Underwriter's Spread	$ 603,734	$ 4.36

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority State of Texas General Obligation Bonds Series 1990D - $18,725,000.

Purpose: Proceeds were used to fund construction and renovation projects for the Texas Department of Mental Health and Mental Retardation.

Dates: Board Approval - November 20, 1990
Competitive Sale - December 5, 1990

Structure: The issue was sold as fixed-rate tax-exempt securities maturing in serials from 1991 through 2010. Bonds maturing from 2000 through 2010 are callable at par beginning in 1999.

The bonds are general obligations of the State of Texas. All debt service will be paid from general revenue of the state.

Bond Ratings: Moody's - Aa
Standard & Poor's - AA

Consultants: Co-Bond Counsel - Thompson & Knight
Garza & Staples
Financial Advisor - Eppler, Guerin & Turner

Effective Interest Rate: 6.76%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 18,096	$ .97
Financial Advisor	2,966	.16
Rating Agencies	11,500	.61
Printing	4,729	.25
Miscellaneous	931	.05
	$ 38,222	$ 2.04
Underwriter's Spread	$ 111,406	$ 5.95

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority Building Revenue Bonds Series 1990B - $37,840,000.

Purpose: Proceeds were used to fund the acquisition and initial renovation of two buildings in Travis County and to buy land for future expansion.

Dates: Board Approval - November 30, 1990
Negotiated Sale - December 11, 1990

Structure: The issue was sold as a combination of serial bonds, maturing from 1992 through 2003, and two term bonds with mandatory redemption provisions from 2004 through 2010.

The bonds are special limited obligations of the Texas Public Finance Authority payable only from certain pledged revenues consisting primarily of lease payments made by the State Purchasing and General Services Commission on behalf of the using agencies. Lease payments are subject to general revenue appropriation by the Texas Legislature.

Bond Ratings: Moody's - Aaa
Standard & Poor's - AAA
Insured by MBIA

Consultants: Co-Bond Counsel - Thompson & Knight
Garza & Staples
Financial Advisor - Eppler, Guerin & Turner
Senior Underwriter - Smith Barney, Harris Upham & Co.

Effective Interest Rate: 6.96%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 36,074	$ .95
Financial Advisor	1,587	.04
Rating Agencies	14,760	.39
Printing	10,602	.28
Miscellaneous	750	.02
	$ 63,773	$ 1.68
Underwriter's Spread	$ 287,343	$ 7.59

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority Building Revenue Refunding Bonds Series 1990 - $174,060,181.

Purpose: Proceeds were used to refund Texas Public Building Authority Revenue Bonds Series 1985A and Texas Public Building Authority Revenue Refunding Bonds Series 1986.

Dates: Board Approval - November 30, 1990
Negotiated Sale - December 5, 1990

Structure: The issue was sold as a combination of current interest serial bonds maturing from 1991 through 2003, and serial capital appreciation bonds maturing from 2004 through 2014. The current interest bonds are callable beginning in 2001 at par. The CABs are not callable.

The bonds are special limited obligations of the Texas Public Finance Authority payable only from certain pledged revenues, consisting primarily of lease payments made by the State Purchasing and General Services Commission covering projects acquired and constructed with proceeds of the refunded bonds. Lease payments are subject to general revenue appropriation by the Texas Legislature.

Bond Ratings: Moody's - Aaa
Standard & Poor's - AAA
Insured by MBIA

Consultants: Bond Counsel - Garza & Staples
Financial Advisor - Eppler, Guerin & Turner
Senior Underwriter - Smith Barney, Harris Upham & Co.

Effective Interest Rate: 7.04%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 30,862	$ .18
Financial Advisor	7,228	.04
Rating Agencies	48,240	.28
Printing	10,898	.06
Escrow Verification	15,000	.09
Miscellaneous	204	nm
	$ 112,432	$ .65
Underwriter's Spread	$1,392,481	$ 8.00

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority State of Texas General Obligation Bonds Series 1991A - $156,650,000.

Purpose: Proceeds were used to fund construction projects for the Texas Department of Criminal Justice.

Dates: Board Approval - April 18, 1991
Competitive Sale - May 9, 1991

Structure: The issue was sold as fixed-rate tax-exempt securities maturing in serials from 1992 through 2011. Bonds maturing from 2001 through 2011 are callable at par beginning in 2000.

The bonds are general obligations of the State of Texas. All debt service will be paid from general revenue of the state.

Bond Ratings: Moody's - Aa
Standard & Poor's - AA

Consultants: Co-Bond Counsel - Thompson & Knight
Garza & Staples
Financial Advisor - The Principal/Eppler, Guerin & Turner

Effective Interest Rate: 6.54%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 20,819	$ .13
Financial Advisor	4,277	.03
Rating Agencies	47,200	.30
Printing	8,383	.05
Miscellaneous	180	nm
	$ 80,859	$ .52
Underwriter's Spread	$1,112,215	$ 7.10

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of the University of Texas System Revenue Financing System Refunding Bonds Series 1991A - $187,535,000, Series 1991B -$ 91,045,000 and Series 1991C - $4,145,000.

Purpose: Series A proceeds were used to refund $191 million in outstanding revenue bonds. Series B was composed of $66,285,000 in new-money bonds and $24,760,000 in refunding bonds. Series C refunded nine Pan American University bond issues. By refunding outstanding revenue bonds, prior liens are eliminated and a stronger pledge composed of all legally available University of Texas System revenues is established.

Dates: Board Approval - February 21, 1991
Negotiated Sale - March 8, 1991

Structure: Series A was sold as serial bonds maturing from 1992 through 2002 and term bonds with mandatory redemption from 2003 through 2007. Series B is comprised of serial bonds maturing from 1992 through 2005 and term bonds with mandatory redemption provisions from 2006 through 2013. Series C matures in serials from 1992 through 2001. Bonds maturing in 2002 and after are callable beginning in 2001 at 102%, reducing by 1% per year to par in 2003. The bonds are special obligations of the Board of Regents of the University of Texas, payable from pledged revenues of the System.

Bond Ratings: Fitch - AA
Moody's - Aa
Standard & Poor's - AA

Consultants: Co-Bond Counsel - McCall, Parkhurst & Horton
Baeza, Lannen & Moye
Senior Underwriter - Goldman, Sachs

Effective Interest Rate: Series A - 6.67%
Series B - 6.67%
Series C - 6.23%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 147,359	$ .52
Rating Agencies	92,500	.33
Printing	17,026	.06
Escrow Agent/Verification	43,850	.16
Miscellaneous	52,303	.19
	$ 353,038	$ 1.25
Underwriter's Spread	$ 2,285,698	$ 8.08

VETERANS LAND BOARD

Issue: State of Texas Veterans' Land Refunding Bonds Series 1990 - $44,959,345.

Purpose: Proceeds were used to refund principal payments of Veterans' Land Refunding Bonds, Series 1985 and 1986, maturing December 31, 1990.

Dates: Board Approval - July 19, 1990
Negotiated Sale - September 6, 1990

Structure: The issue was sold as a combination of current interest term bonds with mandatory redemption from 2010 through 2020 and capital appreciation bonds maturing from 2004 through 2010. The CABs were sold as noncallable College Savings Bonds in $1,000 integrals. The current interest bonds are callable beginning in 2000 at 2%, reducing by 1% each year to par in 2002.

The bonds are general obligations of the State of Texas. Principal and interest payments on the loans to veterans are also pledged to pay debt service on the bonds. The program is designed to be self-supporting and has never had to rely on general revenue.

Bond Ratings: Moody's - Aa
Standard & Poor's - AA

Consultants: Bond Counsel - Johnson & Gibbs
Financial Advisor - Donaldson, Lufkin & Jenrette
Senior Underwriter - Dean Witter Reynolds

Effective Interest Rate: 8.02%

Issuance Costs:

	Fees	Per $1,000
Bond Counsel	$ 38,533	$ .86
Financial Advisor	11,240	.25
Rating Agencies	17,000	.38
Printing	10,584	.24
Paying Agent/Registrar	350	.01
Miscellaneous	34,283	.76
	$ 111,990	$ 2.50
Underwriter's Spread	$ 479,701	$ 10.67

TEXAS AGRICULTURAL FINANCE AUTHORITY

Issue: State of Texas Agricultural Finance Authority Taxable Commercial Paper

Purpose: The Texas Agricultural Finance Authority was created to develop programs which will provide financial assistance for the expansion, development and diversification of production, processing, marketing and export of Texas agricultural products. Proceeds are used to fund loan guarantees and make loans to qualified applicants.

Dates: Board Approval - May 23, 1991
Sale - July 22, 1991

Structure: The paper will be sold on an as needed basis to fund the program. On May 23, the TAFA received Bond Review Board approval to have outstanding no more than $10 million in paper at any time. The approval has been increased to an amount not to exceed $25 million outstanding at any one time. On July 22, the Authority sold $3.5 million in commercial paper.

The program is designed to be self-supporting and it is expected that loan repayments and guaranty fees will be sufficient to pay debt service. The program is backed by the full faith and credit of the State of Texas.

Bond Ratings: Moody's - P-1
Standard & Poor's - A-1

Consultants: Bond Counsel - Vinson & Elkins
Financial Advisor - Masterson Moreland Sauer & Whisman
Structuring Agent - Walton Johnson & Co.
Dealer - J.P. Morgan Securities

Effective Interest Rate: 6.08% ($3.5 million sold on July 22)

Issuance Costs:

	Fees	Per $1,000*
Bond Counsel	$ 50,000	$ 2.00
Financial Advisor	42,500	1.70
Rating Agencies	22,000	.88
Credit Facility	15,625	.63
Credit Counsel	12,000	.48
Trustee	10,000	.40
Miscellaneous	10,000	.40
	$ 162,125	$ 6.49

* Startup costs, based on $25 million program size.

APPENDIX B

Texas State Bond Programs

COLLEGE STUDENT LOAN BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:
Article III, Sections 50b and 50b-1 of the Texas Constitution, adopted in 1965 and 1969, authorize the issuance of general obligation bonds by the Texas Higher Education Coordinating Board. In 1991, legislation was enacted giving the Coordinating Board authority to issue revenue bonds.

PURPOSE:
Proceeds from the sale of bonds are used to make loans to eligible students attending public or private colleges and universities in Texas.

SECURITY:
The first monies coming into the state treasury, not otherwise dedicated by the Constitution, are pledged to pay debt service on the general obligation bonds. Revenue bonds will be repaid solely from program revenues.

DEDICATED/PROJECT REVENUE:
Principal and interest payments on the loans are pledged to pay debt service on the bonds issued by the Coordinating Board. All loans made through the Texas College Student Loan Program are guaranteed either by the Federal Insured Student Loan Program or the Guaranteed Student Loan Program. No draw on general revenue is anticipated.

CONTACT:
Mack Adams, Assistant Commissioner for Student Services
Texas Higher Education Coordinating Board
(512) 483-6340

COLLEGE AND UNIVERSITY REVENUE BONDS

STATUTORY AUTHORITY:
Section 55.13 of the Education Code authorizes the governing boards of institutions of higher education to issue revenue bonds. The statute that provides this authority (Art. 2909c-3, V.A.T.C.S.) was enacted in 1969 by the 61st Legislature and was designed to supplement or supersede numerous similar statutes which contained restrictions that often made it difficult or impossible to issue bonds under prevailing market conditions. Legislative approval is not required for specific projects or for each bond issue. The governing boards are required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuing bonds and are required to register their bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds are to be used to acquire, construct, improve, enlarge, and/or equip any property, buildings, structures, activities, services, operations, or other facilities.

SECURITY:
The revenue bonds issued by the governing boards are pledged against the income of the institutions and are in no way an obligation of the State of Texas. Neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds.

DEDICATED/PROJECT REVENUE:
Bonds are to be repaid from income from special fees of the institutions, including student use fees, a portion of tuition, dormitory fees, etc.

CONTACT:
Individual colleges and universities.

FARM AND RANCH LOAN BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:
Article III, Section 49f of the Texas Constitution, adopted in 1985, authorizes the Veterans' Land Board to issue general obligation bonds for the purposes described below.

PURPOSE:
Proceeds from the sale of the general obligation bonds are used to make loans of up to $100,000 to eligible Texans for the purchase of farms and ranches.

SECURITY:
The bonds are general obligations of the State of Texas. The first monies coming into the state treasury, not otherwise dedicated by the Constitution, are pledged to pay debt service on the bonds.

DEDICATED/PROJECT REVENUE:
Principal and interest payments on the farm and ranch loans are pledged to pay debt service on the bonds issued by the Veterans' Land Board. The program is designed to be self-supporting. No draw on general revenue is anticipated.

CONTACT:
Bruce Salzer, Director of Funds Management
General Land Office
(512) 463-5198

FARM AND RANCH LOAN SECURITY BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:
Article III, Section 50c of the Texas Constitution, adopted in 1967, authorizes the Commissioner of Agriculture to issue general obligation bonds for the purposes described below.

PURPOSE:
Proceeds from the sale of the general obligation bonds are used to guarantee loans for purchases of farms and ranches, to acquire real estate mortgages or deeds, and to advance a borrower a percentage of principal and interest due on guaranteed loans.

SECURITY:
The bonds are general obligations of the State of Texas. The first monies coming into the state treasury, not otherwise dedicated by the Constitution, are pledged to pay debt service on the bonds.

DEDICATED/PROJECT REVENUE:
Principal, interest, and other payments on the farm and ranch loans are pledged to pay debt service on the bonds issued by the Commissioner. The program is designed to be self-supporting. No draw on general revenue is anticipated.

CONTACT:
Geoffrey S. Connor, Deputy General Counsel
Texas Department of Agriculture
(512) 463-7476

HIGHER EDUCATION CONSTITUTIONAL BONDS

STATUTORY AUTHORITY:
Article VII, Section 17, of the Texas Constitution, adopted in 1985, authorizes the issuance of constitutional appropriation bonds by institutions of higher education outside the Texas A&M and University of Texas systems. Legislative approval of bond issues is not required. Approval of the Bond Review Board and the Attorney General is required for bond issues, and the bonds must be registered with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds are to be used by qualified institutions for land acquisition, construction, major repairs, and permanent improvements to real estate.

SECURITY:
The first $100 million coming into the state treasury, not otherwise dedicated by the Constitution, goes to qualified institutions of higher education to fund certain land acquisition, construction, and repair projects. Fifty percent of this amount is pledged to pay debt service on any bonds or notes issued. While not explicitly a general obligation or full faith and credit bond, the stated pledge has the same effect.

DEDICATED/PROJECT REVENUE:
None. Debt service is payable solely from the state's general revenue fund.

CONTACT:
Individual colleges and universities

NATIONAL GUARD ARMORY BOARD BONDS

STATUTORY AUTHORITY:
The National Guard Armory Board was created in 1935 by Title 4, Chapter 435, of the Government Code as a state agency and authorized to issue long-term debt. Legislative approval of bond issues is not required. The Board is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds are used to acquire land to construct, remodel, repair, and equip buildings for the Texas National Guard.

SECURITY:
Any bonds issued are obligations of the Board and are payable from "rents, issues, and profits" of the Board. The Board's bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of Armory Board bonds.

DEDICATED/PROJECT REVENUE:
The rent payments used to retire Armory Board debt are paid primarily by the Adjutant General's Department, with general revenue funds appropriated by the Legislature. Independent project revenue, in the form of income from properties owned by the Board, also is used to pay a small portion of debt service.

CONTACT:
William E. Beaty, Executive Director
Texas National Guard Armory Board
(512) 451-6394

PARK DEVELOPMENT BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:
Article III, Section 49e of the Texas Constitution, adopted in 1967, authorizes the Texas Parks and Wildlife Commission to issue general obligation bonds for the purposes described below.

PURPOSE:
Proceeds from the sale of the general obligation bonds are to be used to purchase and develop state park lands.

SECURITY:
The bonds are general obligations of the State of Texas. The first monies coming into the state treasury, not otherwise dedicated by the Constitution, are pledged to pay debt service on the bonds.

DEDICATED/PROJECT REVENUE:
Entrance fees to state parks are pledged to pay debt service on the bonds issued by the Texas Parks and Wildlife Commission. The program is designed to be self-supporting. No draw on general revenue is anticipated.

CONTACT:
Jayna Burgdorf, Chief Financial Officer
Texas Parks & Wildlife Department
(512) 389-4803

PERMANENT UNIVERSITY FUND BONDS

CONSTITUTIONAL/STATUTORY AUTHORITY:
Article VII, Section 18, of the Texas Constitution, initially adopted in 1947, as amended in November 1984, authorizes the Boards of Regents of the University of Texas and Texas A&M University systems to issue revenue bonds payable from the income of the Permanent University Fund (PUF) and secured by the corpus of the Fund. Neither legislative approval nor Bond Review Board approval is required. The approval of the Attorney General is required, however, and the bonds must be registered with the Comptroller of Public Accounts.

PURPOSE:
Proceeds are used to make permanent improvements and buy equipment for the two university systems.

SECURITY:
Any bonds issued are obligations of the UT and A&M systems. Neither the state's full faith and credit nor its taxing power is pledged toward payment of PUF bonds.

DEDICATED/PROJECT REVENUE:
Bonds are to be repaid from income of the Permanent University Fund and are secured by the corpus of the Fund. The total amount of PUF bonds outstanding is limited to 30 percent of the value of the Fund, exclusive of land.

CONTACT:

Greg Anderson	or	Tom Ricks
Texas A&M University System		University of Texas System
(409) 845-2531		(512) 499-4337

SUPERCONDUCTING SUPER COLLIDER BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:
The Texas National Research Laboratory Commission was created in 1987 by the 70th Legislature and given the authority to issue both revenue and general obligation bonds. Art. 4413, Section 47g, V.A.T.C.S., authorizes the Commission to issue revenue bonds. Article III, Section 49g of the Texas Constitution authorizes the Commission to issue general obligation bonds.

Legislative approval of specific bond issues is not required. The Commission is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds will be used to finance construction of buildings, the acquisition of land, installation of equipment, and other "eligible undertakings" related to the development of the superconducting super collider facility.

SECURITY:
The general obligation bonds pledge the first monies coming into the state treasury each fiscal year, not otherwise appropriated by the Constitution.

Any revenue bonds issued are solely obligations of the Commission and are payable from funds of the Commission which may include appropriations from the Legislature.

DEDICATED/PROJECT REVENUE:
Debt service on the general obligation bonds is payable solely from the state's general revenue fund. The revenue bonds pledge all revenue of the Commission, including appropriations from the Legislature. Each revenue bond must state on its face that such revenues shall be available to pay debt service only if appropriated by the Legislature for that purpose.

CONTACT:
Kenneth S. Welch, Associate Director for Administration
Texas National Research Laboratory Commission
(214) 709-6481

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

STATUTORY AUTHORITY:
The Texas Agricultural Finance Authority was created in 1987 (V.T.C.A., Agriculture Code Chapter 58) and authorized to issue revenue bonds. In 1989, a constitutional amendment authorizing the issuance of general obligation bonds was approved. Legislative approval of bond issues is not required. The Authority is required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds will be used to make or acquire loans to eligible agricultural businesses, to make or acquire loans to lenders, to insure loans, to guarantee loans, and to administer or participate in programs to provide financial assistance to eligible agricultural businesses.

SECURITY:
Revenue bonds are obligations of the Authority and are payable from revenues, income, and property of the Authority and its programs. The Authority's revenue bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds. The Authority is also authorized to issue general obligation debt, which is payable from revenues and income of the Authority. In the event that such income is insufficient to repay the debt, the first monies coming into the state treasury, not otherwise appropriated, are pledged to repay the bonds.

DEDICATED/PROJECT REVENUE:
Mortgages or other interests in financed property, repayments of financial assistance, investment earnings, any fees and charges, and appropriations, grants, subsidies or contributions are pledged to the payment of principal and interest on the Authority's bonds.

CONTACT:
Geoffrey S. Connor, Deputy General Counsel
Texas Department of Agriculture
(512) 463-7476

TEXAS DEPARTMENT OF COMMERCE BONDS

STATUTORY AUTHORITY:
The Texas Department of Commerce was created by the 70th Legislature in 1987 (Art. 4413(301), V.A.T.C.S.) and given the authority to issue revenue bonds. In 1989, a constitutional amendment authorizing the issuance of general obligation bonds was approved. Legislative approval of bond issues is not required. The Department is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds will be used to provide financial assistance to export businesses, to promote domestic business development, and to provide loans to finance the commercialization of new and improved products and processes.

SECURITY:
Revenue bonds are obligations of the Department and are payable from funds of the Department. The Department's revenue bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the Department's bonds. The Department is also authorized to issue general obligation debt, which is payable from revenues, income, etc. In the event that such income is insufficient to repay the debt, the first monies coming into the state treasury, not otherwise appropriated, are pledged to repay the bonds.

DEDICATED/PROJECT REVENUE:
Revenue of the Department, principally from the repayment of loans and the disposition of debt instruments, is pledged to the payment of principal and interest on bonds issued.

CONTACT:
Dan McNeil, Director of Business Finance
Texas Department of Commerce
(512) 320-9689

TEXAS HOSPITAL EQUIPMENT FINANCING COUNCIL BONDS

STATUTORY AUTHORITY:
The Texas Hospital Equipment Financing Council was created in 1983 (Art. 4437e-3, V.A.T.C.S.) as a state agency and authorized to issue revenue bonds. The authority of the Council to issue bonds was repealed by the 71st Legislature (S.B. 1387), effective September 1, 1989.

PURPOSE:
Proceeds from the sale of bonds were to be used to purchase equipment for lease or sale to health care providers, or to make loans to health care providers for the purchase of equipment.

SECURITY:
Any bonds issued are obligations of the Council and are payable from lease or other project revenues. The Council's bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the Council's bonds.

DEDICATED/PROJECT REVENUE:
Bonds are to be repaid from revenues received by the Council from the repayment of loans from the program.

CONTACT:
John Adkins
(713) 951-5858

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS

STATUTORY AUTHORITY:
The Texas Housing Agency was created in 1979 (Art. 1269l, V.A.T.C.S.) and authorized to issue revenue bonds. On September 1, 1991, the Agency was merged with the Texas Department of Community Affairs. Legislative approval of bond issues is not required. The Department is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds are used to make construction, mortgage, and energy conservation loans at below-market interest rates.

SECURITY:
Any bonds issued are obligations of the Department and are payable entirely from funds of the Department. The Department's bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the Department's bonds.

DEDICATED/PROJECT REVENUE:
Revenue to the Department from the repayment of loans and investment of bond proceeds is pledged to the payment of principal and interest on bonds issued.

CONTACT:
Scott McGuire, Interim Assistant Director of Housing Finance
Texas Department of Housing & Community Affairs
(512) 474-2974

TEXAS PUBLIC FINANCE AUTHORITY BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

The Texas Public Finance Authority is authorized to issue both revenue and general obligation bonds.

The Authority was created by the Legislature in 1983 (Article 601d, V.A.T.C.S.) and given the authority to issue revenue bonds. The Legislature approves each specific project and limits the amount of bonds issued by the Authority. In 1991, the Authority was given the responsibility of issuing revenue bonds for the Texas Workers' Compensation Fund under Subchapter G, Chapter 5 of the Insurance Code.

Article III, Section 49h of the Texas Constitution, adopted in 1987, authorized the Texas Public Finance Authority to issue general obligation bonds for correctional and mental health facilities.

The Authority is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to bond issuance and register its bonds with the Comptroller of Public Accounts.

PURPOSE:

Proceeds from the sale of revenue bonds are to be used to purchase, renovate, and maintain state buildings. Proceeds from the sale of the general obligation bonds are to be used to finance the cost of constructing, acquiring, and/or renovating prison facilities, youth correction facilities, and mental health/mental retardation facilities. Proceeds from the sale of bonds for the Workers' Compensation Fund will be used to raise funds to provide Workers' Compensation insurance coverage through the Fund.

SECURITY:

Revenue bonds issued are obligations of the Authority and are payable from "rents, issues, and profits" resulting from leasing projects to the state. These sources of revenue come primarily from legislative appropriations. The general obligation bonds pledge the first monies coming into the state treasury each fiscal year, not otherwise appropriated by the Constitution, to pay debt service on the bonds. Bonds issued on behalf of the Workers' Compensation Insurance Fund are secured solely by pledged revenues of the Fund.

DEDICATED/PROJECT REVENUE:

Debt service on the general obligation bonds is payable solely from the state's general revenue fund. Debt service on the revenue bonds is also payable from general revenue appropriated by the Legislature. The Legislature, however, has the option to appropriate debt service payments on the bonds from any other source of funds that is lawfully available. Bonds issued on behalf of the Workers' Compensation Fund are payable solely from maintenance tax surcharges and other fees the Fund is authorized to levy. The bonds will be self-supporting and the state's credit is not pledged.

CONTACT:

Glen Hartman, Executive Director
Texas Public Finance Authority
(512) 463-5544

TEXAS SCHOOL FACILITIES FINANCE PROGRAM

STATUTORY/CONSTITUTIONAL AUTHORITY:

The 1989 Texas Legislature adopted the Public School Facilities Funding Act (S.B. 951, 71st Legislature). The Act authorizes the Bond Review Board to make loans or purchase the bonds of qualifying public school districts. The Board is authorized to direct the State Treasurer to issue revenue bonds to finance the school district loans.

PURPOSE:

The proceeds of bonds issued under this program are to be used to make loans to qualifying school districts for the acquisition, construction, renovation, or improvement of instructional facilities. Districts will be qualified on the basis of need.

SECURITY:

The bonds are special obligations of the program and are payable only from program revenues. The bonds are not a general obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds.

DEDICATED/PROJECT REVENUE:

Repayment of principal and interest on local school district loans is pledged to pay debt service on the state bonds. In the event of a loan delinquency, the program may draw on the state foundation school fund payment otherwise due the school district.

CONTACT:

John Bell
Public Finance Programs
Texas State Treasury
(512) 463-6000

Sonja Suessenbach, Director
Public School Facilities
Funding Program
Bond Review Board
(512) 463-1741

TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

STATUTORY AUTHORITY:

The Texas Small Business Industrial Development Corporation (TSBIDC) was created in 1983 (Art. 5190.6, Secs. 4-37, V.A.T.C.S.) as a private nonprofit corporation, created pursuant to the Development Corporation Act of 1979, and authorized to issue revenue bonds. The authority of TSBIDC to issue bonds was repealed by the Legislature, effective September 1, 1987.

PURPOSE:

Proceeds from the sale of the TSBIDC bonds were to be used to provide financing to state and local governments and to other businesses and nonprofit corporations for the purchase of land, facilities, and equipment for economic development.

SECURITY:

Any bonds issued are obligations of the Corporation. The Corporation's bonds are in no way an obligation of the State of Texas or any political subdivision of the state, and neither the

state's full faith and credit nor its taxing power is pledged toward payment of Corporation bonds.

DEDICATED/PROJECT REVENUE:
Debt service on bonds issued by the TSBIDC is payable from the repayment of loans made from bond proceeds and investment earnings on bond proceeds.

CONTACT:
Dan McNeil, Director of Business Finance
Texas Department of Commerce
(512) 320-9689

TEXAS TURNPIKE AUTHORITY BONDS

STATUTORY AUTHORITY:
The Texas Turnpike Authority was created in 1953 (Art. 6674V, V.A.T.C.S.) as a state agency and authorized to issue revenue bonds. Legislative approval is not required for specific projects or for each bond issue. The Authority is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to bond issuance, and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds are used for the construction, operation, and maintenance of toll roads, bridges, and tunnels.

SECURITY:
Any bonds issued are obligations of the Authority and are payable from tolls or other project revenues. The Authority's bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of Turnpike Authority Bonds.

DEDICATED/PROJECT REVENUE:
Bonds are to be repaid from tolls and other project revenues.

CONTACT:
Harry Kabler, Secretary/Treasurer
Texas Turnpike Authority
(214) 522-6200

TEXAS UNEMPLOYMENT COMPENSATION FUND BONDS

STATUTORY AUTHORITY:
The Texas Employment Commission was created in 1936. The 70th Legislature authorized the issuance of bonds by the Commission (Art. 5221b-7d, V.A.T.C.S.) to replenish the state's unemployment compensation fund. Legislative approval of bond issues is not required. The Commission is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds will be used to replenish the state's unemployment compensation fund.

SECURITY:
Any bonds issued are obligations of the Commission and are payable from Commission funds. The bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of Commission bonds.

DEDICATED/PROJECT REVENUE:
Revenue of the Commission, in the form of special unemployment taxes on employers, is pledged to the payment of principal and interest on the bonds.

CONTACT:
William Grossenbacher, Administrator
Texas Employment Commission
(512) 463-2652

TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS

STATUTORY AUTHORITY:
The Texas Water Resources Finance Authority was created in 1987 (V.T.C.A., Water Code, Chapter 20) and given the authority to issue revenue bonds. Legislative approval of bond issues is not required. The Authority is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of bonds will be used to finance the acquisition of the bonds of local government jurisdictions, including local jurisdiction bonds that are owned by the Texas Water Development Board.

SECURITY:
Any bonds issued are obligations of the Authority and are payable from funds of the Authority. The Authority's bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of Authority bonds.

DEDICATED/PROJECT REVENUE:
Revenue from the payment of principal and interest on local jurisdiction bonds it acquires is pledged to the payment of principal and interest on bonds issued.

CONTACT:
Dan Black, Acting Development Fund Manager
Texas Water Development Board
(512) 463-7867

VETERANS' LAND AND HOUSING BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:
Article III, Section 49b of the Texas Constitution, initially adopted in 1946, currently authorizes the issuance of general obligation bonds to finance the Veterans' Land Program. And Article III, Section 49b-1 of the Texas Constitution, adopted in 1983, authorizes the issuance of general obligation bonds to finance the Veterans' Housing Assistance Program.

PURPOSE:
Proceeds from the sale of the general obligation bonds are loaned to eligible Texas veterans for the purchase of land or housing or for home improvements.

SECURITY:
The bonds are general obligations of the State of Texas. The first monies coming into the state treasury, not otherwise dedicated by the Constitution, are pledged to pay debt service on the bonds.

DEDICATED/PROJECT REVENUE:
Principal and interest payments on the loans to veterans are pledged to pay debt service on the bonds. The programs are designed to be self-supporting and have never had to rely on the general revenue fund.

CONTACT:
Bruce Salzer, Director of Funds Management
General Land Office
(512) 463-5198

TEXAS WATER DEVELOPMENT BONDS

STATUTORY AUTHORITY:
The Texas Water Development Board is authorized to issue both revenue and general obligation bonds.

The Texas Water Resources Fund, administered by the Board, was created by the 70th Legislature in 1987 (Chapter 17.853, Water Code, Ch. 17.853) and authorized to issue revenue bonds.

Article III, Sections 49c, 49d, 49d-1, 49d-2, 49d-4, 49d-6, and 50d of the Texas Constitution, initially adopted in 1957, contain the authorization for the issuance of general obligation bonds by the Texas Water Development Board.

Further legislative approval of specific bond issues is not required. The Board is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:
Proceeds from the sale of revenue bonds will be used to provide funds to the State Water Pollution Control Revolving Fund and to provide financial assistance to local government jurisdictions through the acquisition of their obligations. Proceeds from the sale of the general obligation bonds are used to make loans to political subdivisions of Texas for the performance of various projects related to water conservation, transportation, storage, and treatment.

SECURITY:
Any revenue bonds issued are obligations of the Board and are payable solely from the income of the program, including the repayment of loans to political subdivisions. The general obligation bonds pledge, in addition to program revenues, the first monies coming into the state treasury, not otherwise dedicated by the Constitution.

DEDICATED/PROJECT REVENUE:
Principal and interest payments on the loans to political subdivisions for water projects are pledged to pay debt service on the bonds issued by the Board. The Water Development Bond Programs are designed to be self-supporting. No draw on general revenue has been made since 1980, and no future draws are anticipated.

CONTACT:
Dan Black, Acting Development Fund Manager
Texas Water Development Board
(512) 463-7867

nated representative may allow an applicant to make an oral presentation to the board.

(e) At a meeting, the board may, by order, resolution, or other process adopted by the board, approve an issuance of state bonds as proposed in the application, may approve an issuance of state bonds on conditions stated by the board, or may fail to act on a proposed issuance. If the board does not act on a proposed issuance during the meeting at which the application is scheduled to be considered, the application is no longer valid on the occurrence of the earlier of the expiration of 45 days from the date of the meeting at which the application was scheduled to be considered or immediately following the board's next meeting if the board fails to act on the proposed issuance at that meeting. If an application becomes invalid under this subsection the applicant may file a new application for the proposed issuance.

(f) The executive director of the bond finance office shall notify applicants in writing of any action taken regarding their application. A letter of approval shall contain the terms and conditions of the issue as approved by the board. Issuers must inform the director of the bond finance office of changes to the aspects of their application which are specified in the approval letter. Such changes may prompt reconsideration of the application by the bond review board. A copy of the approval letter shall be forwarded to the attorney general.

(g) If applicable law requires the approval by the attorney general of an issuance of state bonds that are not exempt from review by the board, attorney general approval must be obtained after approval by the board.

(h) If there is a dispute among members regarding the conduct of board meetings, standard parliamentary rules shall apply.

Sec. 181.5. SUBMISSION OF FINAL REPORT.

(a) Within 60 days after the signing of a lease-purchase agreement or delivery of the state bonds and receipt of the state bond proceeds, the issuer or purchaser, as applicable, shall submit one original and one copy of a final report to the bond finance office and a single copy of the final report to the Texas Comptroller of Public Accounts.

(b) A final report for lease-purchases must include a detailed explanation of the terms of the lease-purchase agreement including, but not limited to, amount of purchase, trade-in allowance, interest charges, service contracts, etc.

(c) A final report for all state bonds other than lease-purchase agreements must include:

(1) all actual costs of issuance including, as applicable, the specific items listed in Secs. 181.3(d)(8) and (9), as well as the underwriting spread for competitive financings and the private placement fee for private placements, all closing costs, and any other costs incurred during the issuance process; and

(2) a complete bond transcript including the preliminary official statement and the final official statement, private placement memorandum, if applicable, or any other offering documents as well as all other executed documents pertaining to the issuance of the state bonds. The issuer also must submit a copy of the winning bid form and a final debt service schedule (if applicable).

(d) Submission of this final report is for the purpose of compiling data and disseminating information to all interested parties. The cost of reproduction of any and all portions of the final documents shall be borne by each requesting party.

(e) The bond finance office shall prepare and distribute to the members of the bond review board a summarization of each final report within 30 days after the final report has been submitted by the issuer. This summarization shall include a comparison of the estimated costs of issuance for the items listed in Sections 181.3(d)(8) and (9) contained in the application for approval with the actual costs of issuance listed in Section 181.5(c)(1) submitted in the final report. This summarization must also include such other information, which in the opinion of the bond finance office, represents a material addition to, or a substantial deviation from, the application for approval.

Sec. 181.6. OFFICIAL STATEMENT.

(a) The official statement or any other offering documents prepared in connection with issuance of bonds approved by the board must conform, to the extent feasible, to the most recent Disclosure Guidelines for State and Local Government Securities published by the Government Finance Officers Association. The preliminary official statement, or other offering documents, shall be submitted to and reviewed by the director of the bond finance office prior to mailing. Issuers should submit early drafts of the preliminary official statement to the director of the bond finance office to allow adequate time for review. Review of the preliminary official statement by the director of the bond finance office is not to be interpreted as a certification as to the accuracy, timeliness, and completeness of the specific data in the document. These standards remain the responsibility of the provider(s) of the data.

(b) The comptroller shall certify the accuracy and completeness of statewide economic and demographic data, as well as revenues, expenditures, current fund balances, and debt service requirements of bonded indebtedness of the state contained in the preliminary official statement. This data shall be used unchanged in the final official statement unless changes are approved in writing by the comptroller. The comptroller may execute a waiver of any part of this subsection.

Sec. 181.7. DESIGNATION OF REPRESENTATION.

A member of the board may designate another person to represent the member on the board by filing a designation to that effect with the director of the bond finance office. A designation of representation filed under this section is effective until revoked by a subsequent filing by the member with the bond finance office. During the time a designation of representation is in effect, the person designated has all powers and duties as a member of the board, except the authority to make a designation under this section.

Sec. 181.8. ASSISTANCE OF AGENCIES.

A member of the board may request the Legislative Budget Board, the Office of the Attorney General, or any other state agency to assist the member in performing duties as a member of the board.

Sec. 181.9. EXEMPTIONS.
The board may exempt certain bonds from review and approval by the board. The board may from time to time publish in the Texas Register a list of state bonds that are exempt.

Sec. 181.10. ANNUAL ISSUER REPORT.
All state bond issuers whose bonds are subject to review by the board must file a report no later than September 15 of each year with the bond finance office to include:

(1) the investment status of all unspent state bond proceeds (i.e., the amount of proceeds, name of institution, type of investment program or instrument, maturity and interest rate);

(2) an explanation of any change during the fiscal year previous to the deadline for this report, in the debt retirement schedule for any outstanding bond issue (e.g. exercise of redemption provision, conversion from short-term to long-term bonds, etc.); and

(3) a description of any bond issues expected during the fiscal year, including type of issue, estimated amount, and expected month of sale.

Sec. 181.11. FILING OF REQUESTS FOR PROPOSAL.
The Bond Review Board wishes to encourage use of the request for proposal process to maximize participation in the bond issuance process. Any state bond issuer whose bonds are subject to review by the board is requested, for information purposes only, to submit to the executive director at the time of distribution one copy of any request for proposal for consultants prepared in connection with the planned issuance of state bonds. The Bond Finance Office, upon request, will make the request for proposals available to consultants, other state bond issuers and the general public.

Issued in Austin, Texas, on May 29, 1991.

Tom K. Pollard
Executive Director
Texas Bond Review Board

Effective June 24, 1991

APPENDIX D

New Debt Legislation

Several bills have been passed by the 72nd Texas Legislature that affect Texas state debt. New bonds were authorized, new bond programs were created, the administration of certain programs was changed, and a limit was placed on tax-supported debt. A brief description of debt-related legislation follows. Additional information may be obtained from the Bond Review Board.

SJR 2 by Barrientos proposed a constitutional amendment to authorize the Legislature to provide for the issuance of an additional $300 million in G.O. bonds by the Texas Higher Education Coordinating Board to finance college student loans. SB 20 by Barrientos is the enabling legislation. The amendment was approved by voters in November.

HB 686 by Cavazos authorized the Texas Higher Education Coordinating Board to issue revenue bonds in an amount not to exceed $75 million annually to finance college student loans. The bonds are backed solely by the repayment of student loans and other income of the revenue bond-financed program. With the passage of the constitutional amendment authorizing the issuance of G.O. bonds for student loans, however, no more bonds may be issued under the revenue bond program.

SJR 4 by Lyon proposed a constitutional amendment authorizing the Legislature to provide for the issuance of $1.1 billion in G.O. bonds. The amendment was approved by voters in November. The bonds will be issued to finance correctional and mental health facilities.

HB 62 by Counts provided that the Texas Public Finance Authority may issue up to $300 million in revenue bonds on behalf of the Texas Workers' Compensation Insurance Fund. Proceeds would be used to establish the initial surplus, maintain reserves and pay start-up costs. The bonds would be payable from a maintenance-tax surcharge established by the Act. The state's credit would not be pledged.

HB 1757 by Alexander authorized the Texas Low-Level Radioactive Waste Disposal Authority to issue revenue bonds to pay expenses incurred in selecting and establishing a waste disposal site. The bonds would be payable from receipts such as waste disposal fees collected by the Authority.

SJR 34 by Montford proposed an amendment to the Texas Constitution to increase to 50 percent from 20 percent the portion devoted to economically distressed areas of a 1989 G.O. bond authorization of $500 million for the Texas Water Development Board. SB 1193 by Montford is the enabling legislation. The amendment was approved by voters in November.

SJR 21 by Montford proposed to amend the Texas Constitution by requiring that all constitutional amendments authorizing G.O. debt be presented to the voters in the form of a proposition. The proposition would describe amounts and purposes for which the debt would be created, and would state the source for payment of the debt. The amendment was approved by voters in November.

SB 546 by Barrientos abolished the Texas Housing Agency and the Texas Department of Community Affairs and transferred bond issuance authority and other functions to a new agency called the Texas Department of Housing and Community Affairs.

SB 103 by Barrientos increased the Texas Higher Education Coordinating Board's initial private-activity bond-cap allocation to $100 million, provided there is sufficient supply within the subceiling for state-voted bonds.

SB 1070 by Dickson transfers the administration of the private-activity bond-volume cap from the Texas Department of Commerce to the Texas Bond Review Board on January 1, 1992.

SB 41 by Glasgow changed the allocation of the state's private-activity bond-volume cap. Under the new law, effective January 1, 1992, qualified mortgage bonds will receive 28 percent, state-voted issues 17.5 percent, qualified small-issue bonds 7.5 percent and multi-family 5 percent. The balance, 42 percent, will be available for all other issuers.

SB 3 by Montford established the debt limit and capital budget and planning system discussed in this update. In addition, the bill provides that beginning in 1992, the Texas Public Finance Authority shall issue bonds on behalf of the Texas National Guard Armory Board, Texas National Research Laboratory Commission, Texas Parks and Wildlife Department and Texas State Technical Institute.