Texas Bond Review Board
Annual Report 2001

Fiscal Year Ended August 31, 2001

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Chairman
Bill Ratliff, Lieutenant Governor
James E. "Pete" Laney, Speaker of the House of Representatives
Carole Keeton Rylander, Comptroller of Public Accounts

Jim Buie
Executive Director

November 2001

Introduction

The Texas Bond Review Board (BRB) is responsible for the approval of all state bond issues and lease purchases with an initial principal amount of greater than $250,000 or of a term longer than five years. The BRB also is responsible for the collection, analysis, and reporting of information on the debt of local political subdivisions in Texas. Lastly, the BRB is charged with the responsibility of administering the state's private activity bond allocation program. This report discusses the activities undertaken by the Board, and related events of the past fiscal year.

The Texas economy has experienced an economic slowdown, but has done better than the nation as a whole. Employment growth in Texas dropped from 3.3 percent in June 2000 to 2.3 percent in June 2001. Nationally, employment growth has dropped from 2.5 percent to 0.3 percent during the same time period. The performance of the economy is reflected in the state's financial position, with the ending General Revenue Fund balance totaling approximately $4.9 billion, an <u>**increase**</u> of 28.2 percent from 2000. However, other funds and petty cash decreased by approximately 64 percent from $9.7 billion to $5.9 billion in fiscal 2001. The total of all funds decreased by 25 percent to $10.8 billion for fiscal 2001.

Tax-supported debt ratios for Texas rank well below other states, including comparisons with the ten most populous states and those rated AAA by the three major rating agencies. Although tax-supported debt outstanding increased modestly during the past fiscal year, due to the increase in unrestricted general revenue, the percentage of these funds utilized for debt service also increased. Bureau of the Census figures depict the significant level of local debt burden in the state as a percentage of combined state and local debt, and contrasts Texas with the ten most populous states. The state remains well below its constitutional debt limit of 5 percent, with a ratio of 1.90 percent, a decrease of 6.4 percent from fiscal year 2000 and a total decrease of 13.6 percent from fiscal year 1999, due to increases in general revenues and retirement of old debt.

Approximately $2.0 billion in new-money and refunding bonds and commercial paper were issued by state agencies and institutions of higher education in fiscal 2001. This figure represents a total decrease in issuance of 4.7 percent from fiscal 2000. The refunding transactions resulted in net present value savings of approximately $26.2 million for state issuers. Projections for fiscal year 2002 show an increase in state debt issuance.

Issuance cost data for the transactions that closed in fiscal 2001 reveal the average issuance cost for state bonds was $612,913, or $7.92 per $1,000 in bonds issued. This is a decrease of 13.4 percent in total average costs per issue from last fiscal year, on a per $1,000 basis. The average issue size increased by 37.8 percent to $94.1 million in fiscal 2001.

Although the state's private activity bond volume cap increased to $1,303,238,751 from $1,002,207,050 million in 2001, the program experienced application demand of $3.25 billion, more than 249 percent of the available authority. Initial applications for the 2002 program year indicate a similar level of requests, $3.20 billion, for bond allocation authority to finance "private activities" such as housing, pollution control, and student loans.

The report concludes with five appendices. Appendix A provides a detailed description of each state bond transaction that closed in fiscal 2001. Appendix B reports on commercial paper and variable rate debt programs used by state agencies and universities. Appendix C is a brief discussion of each of the state's bond issuing entities, and Appendix D contains the BRB's current administrative rules. Appendix E contains a glossary of public finance terms and definitions.

Acknowledgments

The Board's 2001 Annual Report is a result of significant contributions and efforts by:

Board Alternates
- Wayne Roberts, Governor's Office of Budget and Planning
- Mike Morrissey, Lieutenant Governor's Office
- Melissa Guthrie, Lieutenant Governor's Office
- Leslie Lemon, Speaker Laney's Office
- Lita Gonzalez, Comptroller's Office

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Issuers of Texas State Bonds

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CHAPTER 1
Texas Debt in Perspective

Total debt outstanding in the state of Texas remains concentrated at the local level. At the end of fiscal 2001, state debt accounts for 16.3 percent of the total state and local debt outstanding.

Texas' Financial Position Remains Positive

Texas ended the fiscal year on a positive note with a General Revenue Fund cash balance of nearly $5.0 billion. This represents a 28.2 percent increase over the fiscal 2000 balance of $3.9 billion. Since 1988, Texas has ended the fiscal year in the black every year *(Figure 1)*.

Year-end net revenues and other cash sources totaled $80.7 billion, while net expenditures totaled $80.0 billion *(Table 1)*. Total tax collections received in the General Revenue Fund increased by 7.6 percent over fiscal 2000. During fiscal 2001, the state's primary source of revenue, the sales tax, contributed 53.8 percent of the total taxes received. Sales tax collections increased by 4.7 percent from the prior fiscal year. Natural gas production tax revenue ended the year at $1.6 billion, an increase of 128.9 percent over fiscal 2001. Two other large contributors to the tax base of the state, the motor vehicle sales and motor fuels tax, increased by 4.4 and 2.9 percent, respectively, a significant decrease in growth compared to the 12 and 4 percent increases in fiscal 2000.

77th Legislature Passes $113.8 Billion Budget

The 77th Legislature convened in January 2001 and approved the budget for the 2002-03 biennium. This budget, Senate Bill 1, calls for total expenditures of $113.8 billion, an increase of 11.6 percent over actual expenditures for the 2000-01 biennium. Included in this all-

Table 1

STATEMENT OF CASH CONDITION
CONSOLIDATED GENERAL REVENUE FUND
(amounts in thousands)

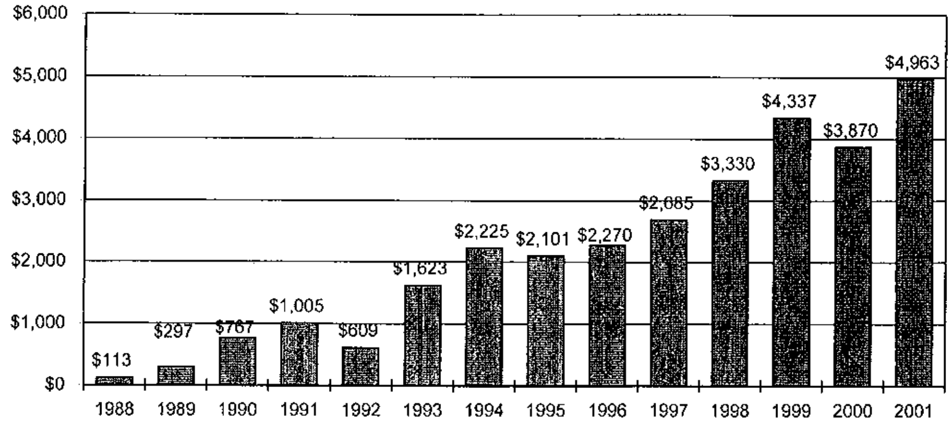
	Fiscal 2000	Fiscal 2001	Percent Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$4,336,448	$4,300,106 **	-0.84%
Tax Collections			
General Revenue Fund			
Sales Tax	13,976,657	14,634,334	4.71%
Oil Production Tax	416,620	442,580	6.23%
Natural Gas Production Tax	697,666	1,596,886	128.89%
Motor Fuels Taxes	2,688,158	2,765,511	2.88%
Cigarette and Tobacco Taxes	531,853	584,586	9.91%
Motor Vehicle Sale/Rental, Mfg. Housing Sale	2,782,017	2,905,538	4.44%
Franchise Tax	2,065,276	1,960,365	-5.08%
Alcoholic Beverages Taxes	514,803	541,306	5.15%
Insurance Occupation Taxes	796,567	820,017	2.94%
Inheritance Tax	278,485	322,355	15.75%
Hotel and Motel Tax	235,804	246,813	4.67%
Utilities Taxes	264,424	339,404	28.36%
Other Taxes	35,438	41,676	17.60%
Total Tax Collections	$25,283,768	$27,201,371	7.58%
Federal Income	$12,912,718	$14,174,722	9.77%
Interest & Investment Income	171,266	297,830	73.90%
Licenses, Fees, Permits, Fines, & Penalties	3,240,043	3,443,842	6.29%
Contributions to Employee Benefits	116,545	127,260	9.19%
Sales of Goods and Services	184,657	192,081	4.02%
Land Income	18,900	31,587	67.13%
Settlements of Claims	315,162	392,229	24.45%
Net Lottery Proceeds	1,304,198	1,393,347	6.84%
Other Revenue Sources	1,062,778	1,165,478	9.66%
Interfund Transfers / Investment Transactions	30,427,694	32,280,862	6.09%
Total Net Revenue and Other Sources	$75,037,729	$80,700,609	7.55%
Expenditures and Ending Balance			
General Government	$1,609,584	$1,964,040	22.02%
Health and Human Services	16,322,275	18,018,573	10.39%
Public Safety and Correction	2,736,167	2,887,898	5.55%
Education	17,344,324	18,268,605	5.33%
Employee Benefits	1,739,625	1,762,274	1.30%
Lottery Winnings Paid	249,692	366,488	46.78%
Other Expenditures*	1,254,441	1,213,767	-3.24%
Interfund Transfers / Investment Transactions	34,247,850	35,555,996	3.82%
Total Expenditures and Other Uses	$75,503,958	$80,037,641	6.00%
Ending Balance, August 31	$ 3,870,219	$ 4,963,074	28.24%

* Includes Transportation, Natural Resources/Recreational Services, Regulatory Agencies.
** Cash transfer from Telecommunication Infrastructure Fund.

Source: Texas Comptroller of Public Accounts.

Figure 1

ENDING CASH BALANCE IN TEXAS' GENERAL REVENUE FUND
(millions of dollars)



Note: Of the ending cash balance, approximately $1.2 billion in 1993, $1.6 billion in 1994, and $1.4 billion in 1995 were attributed to the consolidation of funds into the General Revenue Fund.

Source: Texas Comptroller of Public Accounts.

funds amount was $61.7 billion general revenue spending. This was an increase of $5.1 billion, or 9.1 percent, over the 2000-01 biennium general revenue spending level. As required by the Texas Constitution, the State Comptroller certified that sufficient revenue is available to pay for the state's 2002-03 budget.

Of the total $113.8 billion (all funds) that will be spent during the biennium, 58.2 percent are appropriated general revenue and dedicated general revenue funds. Federal funds comprise [illegible] percent of the state's available revenue with the remainder, 11.2 percent, from other sources.

Major funding changes from the 2000-01 biennium of non-dedicated general revenue include: (1) an 84.4 percent increase in funding for regulatory agencies, (2) an increase of 14.6 percent for health and human services and, (3) a 12.0 percent increase in funding for higher education. The Texas Legislature allocated agencies of education and health and human services 57.7 and 20.8 percent, respectively, of 2002-03 general revenue and dedicated general revenue funds. Public safety and criminal justice is the third largest expenditure of dedicated and non-dedicated general revenue and will consume 10.8 percent of these funds in 2002-03.

Texas GO Bonds Upgraded in 1999 from Aa2 to Aa1

The major credit rating agencies, Moody's, Standard and Poor's, and Fitch IBCA, currently rate Texas general obligation debt Aa1/AA/AA+, respectively.

When making their assessments, rating agencies assess the likelihood of timely repayment of principal and interest. Those entities with the strongest credit quality are assigned a rating of AAA. Ratings of AA or A also indicate good quality credit, but not as strong as AAA ratings *(Table 2)*.

Texas' AAA rating was downgraded in 1987 due to the economic recession experienced by the state during the 1980s. Since that time, however, there has been considerable improvement in the diversification of the state's economic base. A steady transition from a mining (oil & gas) economy to one based increasingly on services and manufacturing has broadened the state's sources of revenue.

In June 1999, Moody's Investors Service upgraded the state's general obligation debt from Aa2 to Aa1. The core factors that led to the increase in the rating are: (1) the state's economic expansion, (2) reduced dependence on oil and gas, (3) debt ratios remain low, (4) states finances are balanced (5) increasing cash balances, and (6) tobacco settlement funds are targeted for health and higher education. The risks associated with Texas' general obligation credits are: (1) future of internet taxation, (2) modest fiscal reserves, and (3) population growth.

Although Moody's elected to upgrade the state's debt rating, Standard & Poor's elected to downgrade the state's ratings outlook from "positive" to "stable." The agency cited a modest level of financial reserves ("rainy day fund") as the primary reason for the downgrade. The agency's analysis concluded that the state's financial flexibility could become impaired without adequate financial reserves that are supported by a financially sound budget.

Eight States Receive Rating Upgrades

Eight states received rating upgrades for state general obligation bonds by the three major rating agencies during fiscal year ended August 2001 *(Table 3).*

Moody's Investors Service upgraded the general obligation debt for Connecticut, Pennsylvania, Michigan, Hawaii, and California during fiscal 2001. Standard & Poor's issued upgrades for Louisiana, Michigan, Vermont, New York, and Hawaii. Fitch IBCA issued upgrades for New York and Vermont.

The "relative value" of a state's bonds is determined by how its bonds trade in relation to another state's bonds. This "relative value" can be used as a gauge to determine how the bonds should be priced at the initial pricing, as well as how they trade on the secondary market.

The Chubb Corporation compiles yield differences from a semi-annual poll 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 the benchmark state.

According to the July 2001 study, Texas general obligation bonds are trading an average of 0.131 basis points above the interest rate on the benchmark general obligation bond, as compared to 0.088 that was recorded the previous year. While Texas general obligation bonds were trading at an average 0.36 percentage points above the benchmark in 1987, that average had decreased to 0.055 in 1998.

When compared to the ten states rated AAA by Moody's and Standard and Poor's, Texas general obligation bonds were trading 0.119 percentage points above that average, as compared to 0.104 percentage points recorded last year and 0.11 percentage points recorded in fiscal 1999.

Table 2

STATE GENERAL OBLIGATION BOND RATINGS
August 2001

State	Moody's Investors Service	Standard & Poor's Corporation	Fitch IBCA
Alabama	Aa3	AA	AA
Alaska	Aa2	*	AA
Arkansas	Aa2	AA	*
California	Aa2	A+	AA
Connecticut	Aa2	AA	AA
Delaware	Aaa	AAA	AAA
Florida	Aa2	AA+	AA
Georgia	Aaa	AAA	AAA
Hawaii	Aa3	AA-	AA-
Illinois	Aa2	AA	AA+
Louisiana	A2	A	A
Maine	Aa2	AA+	AA+
Maryland	Aaa	AAA	AAA
Massachusetts	Aa2	AA-	AA-
Michigan	Aaa	AAA	AA+
Minnesota	Aaa	AAA	AAA
Mississippi	Aa3	*	AA
Missouri	Aaa	AAA	AAA
Montana	Aa3	AA-	*
Nevada	Aa2	AA	AA
New Hampshire	Aa2	AA+	AA+
New Jersey	Aa1	AA+	AA+
New Mexico	Aa1	AA+	*
New York	A2	AA	AA
North Carolina	Aaa	AAA	AAA
Ohio	Aa1	AA+	AA+
Oklahoma	Aa3	AA	AA
Oregon	Aa2	AA	AA
Pennsylvania	Aa2	AA	AA
Rhode Island	Aa3	AA-	AA
South Carolina	Aaa	AAA	AAA
Tennessee	Aa1	AA	AA
TEXAS	Aa1	AA	AA+
Utah	Aaa	AAA	AAA
Vermont	Aa1	AA+	AA+
Virginia	Aaa	AAA	AAA
Washington	Aa1	AA+	AA+
West Virginia	Aa3	AA-	AA-
Wisconsin	Aa3	AA	AA+

* Not rated

Sources: Moody's Investors Service, Standard & Poor's Ratings Services, and Fitch IBCA.

Texas' Debt Ratios Compared to Other States and Those Rated AAA

During fiscal 2001, Texas' rank fell from 38th among all states to 43rd in net tax-supported debt per capita according to Moody's 2001 State Debt Medians *(Table 4).* According to the Moody's report, Texas expended $251 in net tax-supported debt per capita compared to a national median of $541 and an average of $820. The median net tax-supported debt per capita among the ten most populous states is $689, while the average net tax-supported debt is $907.

Another method of comparing Texas' current debt position is to com-

Table 3

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS August 2000 to August 2001

State	Rating Change	Agency
Upgrades		
California	Aa3 to Aa2	Moody's
Connecticut	Aa3 to Aa2	Moody's
Hawaii	A1 to Aa3	Moody's
	A+ to AA-	S&P's
Louisianna	A- to A	S&P's
Michigan	Aa1 to Aaa	Moody's
	AA+ to AAA	S&P's
New York	A+ to AA	S&P's
	A+ to AA	Fitch IBCA
Pennsylvania	Aa3 to Aa2	Moody's
Vermont	AA to AA+	S&P's
	AA to AA+	Fitch IBCA
Downgrades		
California	AA to A+	Fitch IBCA
Hawaii	AA to AA-	Fitch IBCA
Rhode Island	Aa1 to Aa3	Moody's
Tennessee	AA+ to AA	S&Ps
	AAA to AA	Fitch IBCA
West Virginia	AA to AA-	Fitch IBCA
Wisconsin	Aa2 to Aa3	Moody's

Sources: Moody's Investors Service, Standard & Poor's Ratings Services, and Fitch IBCA.

pare it against the nine states rated Aaa/AAA/AAA by Moody's, Standard and Poor's, and Fitch IBCA respectively *(Table 5)*. Ranked against these states, Texas' net tax-supported debt per capita ranks 10th. Delaware had the highest net tax-supported debt at $1,616.

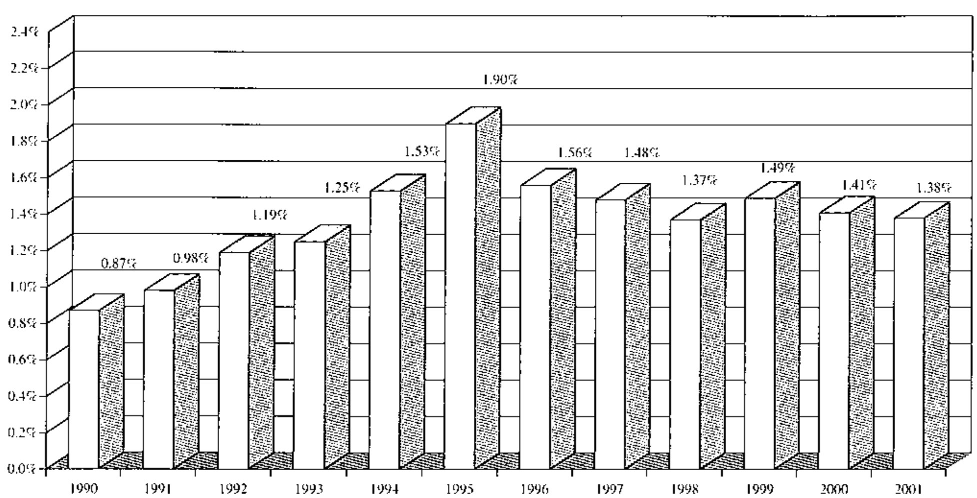
According to U.S. Department of Commerce figures in 2000, Texas' personal income per capita is $27,722. This amount is below the national average of $29,451.

When compared against those states rated AAA by the three major rating agencies, Texas ranks above three of the states: North Carolina, South Carolina, and Missouri.

Examining net tax-supported debt as a percentage of 1999 personal income shows that Texas ranks 44th among the fifty states. Among the nine states rated AAA, Texas is ranked last at 1.0 percent. Texas came in below the national median of 2.1 percent and the national average of 3.0 percent.

Figure 2

ANNUAL DEBT SERVICE AS A PERCENT OF UNRESTRICTED GENERAL REVENUE



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

Additional data provided by the U.S. Census Bureau shows that Texas' debt status among the ten most populous states is manageable *(Table 6)*. While Texas ranks 3rd among the ten most populous states in terms of local debt per capita, it ranks 10th in state debt and 8th in combined state and local debt.

Debt Supported by General Revenue Increases

The use of general obligation debt by the state allows for "the full faith and credit of the state" to back the payment of the bonds. This pledge states that in the event that any revenue used to support the bonds is insufficient to repay the debt, the first monies coming into the Office of the Comptroller - Treasury Operations, not otherwise constitutionally appropriated, shall be used to pay the debt service on these obligations.

Some of these general obligation bonds, such as those issued by the Texas Veterans Land Board, are self-supporting. Others, however, such as those issued by the Texas Public Finance Authority to finance programs for the Texas Department of Criminal Justice, the Texas Department of Mental Health and Mental Retardation, and the Texas Youth Commission, are appropriated annual debt-service payments from the state's general revenue fund.

State debt service payable from general revenue continues to grow modestly as more general obligation debt is issued by the state. At the end of fiscal 2001, outstanding state debt payable from general revenue was $3.3 billion. The Texas Legislature has appropriated $981.0 million in general revenue funds for general obligation and revenue bond debt service during the 2002-03 biennium. Annual debt service as a percent of unrestricted general revenue during fiscal 2001 was 1.38 percent. This is a slight decrease from the 1.41 percent paid during fiscal 2000 *(Figure 2)*.

Although the debt outstanding, as well as the corresponding debt service payable from general revenue has seen a modest increase, the funds accessible

Table 4

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 1999 Personal Income	Rank	Net Tax-Supported Debt Per Capita***	Rank
Hawaii	Aa3	11.0%	1	$2,987	2
Massachusetts	Aa2	8.5%	2	2,957	3
Connecticut	Aa2	8.0%	3	3,037	1
New York	A2	6.2%	4	2,020	4
New Jersey	Aa1	5.5%	5	1,935	5
Delaware	Aaa	5.5%	6	1,616	6
Rhode Island	Aa3	5.3%	7	1,497	7
Mississippi	Aa3	4.6%	8	918	10
Washington	Aa1	4.4%	9	1,316	8
Kentucky	**	4.4%	10	999	9
West Virginia	Aa3	4.2%	11	878	12
New Mexico	Aa1	4.0%	12	843	14
Florida	Aa2	3.3%	13	883	11
Vermont	Aa1	3.3%	14	828	15
Wisconsin	Aa3	3.2%	15	859	13
Kansas	*	3.1%	16	802	18
Utah	Aaa	2.8%	17	634	22
Illinois	Aa2	2.7%	18	815	17
Maryland	Aaa	2.6%	19	819	16
Ohio	Aa1	2.6%	20	698	20
Georgia	Aaa	2.6%	21	679	21
California	Aa2	2.5%	22	733	19
Louisiana	A2	2.5%	23	565	24
Pennsylvania	Aa2	2.2%	24	603	23
Alabama	Aa3	2.2%	25	506	27
Maine	Aa2	2.0%	26	487	29
Virginia	Aaa	1.9%	27	537	26
Minnesota	Aaa	1.8%	28	546	25
Nevada	Aa2	1.8%	29	502	28
South Carolina	Aaa	1.8%	30	398	33
Montana	Aa3	1.7%	31	361	35
Michigan	Aaa	1.6%	32	449	31
Oregon	Aa2	1.6%	33	417	32
Arizona	*	1.6%	34	382	34
New Hampshire	Aa2	1.5%	35	463	30
North Carolina	Aaa	1.4%	36	340	36
Oklahoma	Aa3	1.4%	37	320	37
Tennessee	Aa1	1.2%	38	308	38
South Dakota	*	1.2%	39	291	39
Arkansas	Aa2	1.2%	40	260	42
Missouri	Aaa	1.1%	41	288	40
Indiana	**	1.1%	42	283	41
TEXAS	Aa1	1.0%	43	251	43
Wyoming	*	1.0%	44	250	44
North Dakota	**	0.9%	45	207	45
Colorado	*	0.4%	46	129	46
Alaska	Aa2	0.4%	47	127	47
Iowa	*	0.4%	48	89	48
Idaho	*	0.3%	49	78	49
Nebraska	*	0.1%	50	25	50
U.S. Median		3.0%		$541	
U.S. Mean		2.1%		$820	

* No general obligation debt.
** Not rated.
*** Based on 2000 population figures.

Sources: Moody's Investors Service, *2001 State Debt Medians, April 2001*, U.S. Bureau of Economic Analysis, and U.S. Census Bureau.

to make payments have grown significantly. Unrestricted general revenue is typically considered the source available to make bond debt service payments and to fund appropriations for state operations. As the state's overall economic performance has improved, so has its effect on state finances *(Figure 3)*; however, a slowing of the state's economy is expected in fiscal 2002.

Authorized but Unissued Bonds Add to Texas' Debt Burden

Texas continues to have a moderate amount of authorized but unissued debt on the books. This is debt that has been authorized by the Legislature, but has not been issued. As of August 31, 2001, approximately $232.3 million in bonds payable from general revenue had been authorized by the Legislature but remain unissued. Some of these authorized but unissued bonds may be issued at any time without further legislative action, and others would require a legislative appropriation of debt service prior to issuance.

If these additional bonds were issued, the outstanding debt payable from general revenue would be approximately $3.5 billion.

Table 5

SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA

State	Rating *	Net Tax-Supported Debt as a % of 1999 Personal Income	Net Tax-Supported Debt Per Capita**	2000 Personal Income Per Capita
Delaware	AAA	5.5	$1,616	$31,074
Georgia	AAA	2.6	679	27,790
Maryland	AAA	2.6	819	33,621
Michigan	AAA	1.6	449	29,071
Minnesota	AAA	1.8	546	31,913
Missouri	AAA	1.1	288	27,186
North Carolina	AAA	1.4	340	26,842
South Carolina	AAA	1.8	398	23,952
TEXAS	AA	1.0	251	27,722
Virginia	AAA	1.9	537	31,065
Median of AAA States		**1.8**	**$537**	**$29,071**
Mean of AAA States		**2.3**	**$630**	**$29,168**

* States listed as AAA are rated Aaa/AAA/AAA by Moody's, Standard & Poor's, and Fitch IBCA, respectively. Texas is rated Aa1/AA/AA+ by Moody's, Standard & Poor's, and Fitch IBCA, respectively. Median and mean figures do not include Texas.

** Based on 2000 population figures.

Sources: Moody's Investors Service, *2001 State Debt Medians, April 2001*; U.S. Census Bureau; and Bureau of Economic Analysis.

Texas' Constitutional Debt Limit and Proposed Debt Management Policy

The state of Texas is currently limited by its constitution as to the amount of tax-supported debt that may be issued. The 75th Legislature passed House Joint Resolution 59, which limits the amount of debt that may be issued. The resolution called for a constitutional amendment that was placed on the ballot and approved by the voters in November 1997.

This legislation states that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including authorized but

Table 6

1998-99 TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES

	Total State and Local Debt				State Debt				Local Debt			
State	Population (thousands)	Per Capita Rank	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount
New York	19,001	1	$171,419	$9,022	1	$76,562	44.7%	$4,029	1	$94,857	55.3%	$4,992
New Jersey	8,431	2	47,930	5,685	2	27,932	58.3%	3,313	9	19,998	41.7%	2,372
Pennsylvania	12,291	3	69,465	5,652	6	17,658	25.4%	1,437	2	51,806	74.6%	4,215
Illinois	12,444	4	62,897	5,054	3	26,582	42.3%	2,136	6	36,315	57.7%	2,918
California	33,973	5	168,344	4,955	5	53,974	32.1%	1,589	5	114,370	67.9%	3,366
Florida	16,058	6	75,706	4,715	8	17,825	23.5%	1,110	4	57,881	76.5%	3,604
Michigan	9,954	7	44,095	4,430	4	16,189	36.7%	1,626	7	27,906	63.3%	2,803
TEXAS	**20,948**	**8**	**90,558**	**4,323**	**10**	**14,736**	**16.3%**	**703**	**3**	**75,882**	**83.8%**	**3,622**
Ohio	11,366	9	36,510	3,212	7	14,963	41.0%	1,316	10	21,547	59.0%	1,896
Georgia	8,229	10	26,273	3,193	9	6,269	23.9%	762	8	20,004	76.1%	2,431
MEAN			**$79,320**	**$5,024**		**$27,269**	**34%**	**$1,802**		**$52,057**	**66%**	**$3,222**

Detail may not add to total due to rounding.

Source: U.S. Census Bureau, State and Local Government Finances by Level of Government and State: 1998-99.

unissued debt, exceeds five percent of the average annual unrestricted General Revenue Fund revenues for the previous three fiscal years.

The debt limit ratio of 1.46 percent is for outstanding debt as of August 31, 2001. With the inclusion of authorized but unissued debt, the ratio increases to 1.90 percent. These figures are slightly less than 1.51 and 2.03 percent recorded during fiscal 2000.

The 77th Legislature, with the passage of House Bill 2190, directed the Bond Review Board to adopt a formal debt policy and guidelines to ensure that state debt is prudently managed and to provide guidance to issuers of state securities. This report will be available in the Spring of 2002.

Debt Burden in Texas Increases at the Local Level

Data provided by the U.S. Census Bureau reveals that Texas' local debt burden has fallen into the range of 80 to 85 percent. At the national level, the use of local debt remains relatively unchanged *(Figure 4)*.

A breakdown among the ten most populous states shows that Texas ranks 3rd in terms of local debt per capita. Local debt includes debt issued by cities, counties, school districts, and special districts *(Table 6)*.

Local debt per capita in Texas increased by 10.0 percent to $3,622. The increase in local debt per capita is a direct response to the growing infrastructure needs of the local communities. Due to the state's recent economic prosperity, many communities are experiencing significant population growth. This net migration to the state has forced many small and medium-sized communities to increase financing for infrastructure such as roads, school construction, water and wastewater service, etc. Due to the aforementioned factors, Texas' local debt per capita does not compare favorably to the national average of $3,052. In percentage terms, local debt accounts for 83.8 percent of the total $90.6 million of state and local debt outstanding in Texas.

When comparing the ten most populous states in terms of state and local debt per capita, the U.S. Census Bureau figures show that Texas ranks 8th on a combined basis at $4,323. The average among these states for this measure was $5,024. The state with the lowest combined state and local debt per capita was Georgia with $3,193.

The debt issuance process in Texas remains fragmented on the local level, while becoming more consolidated at the state level. On the local level, there are more than 3,600 debt issuing entities. At the state level, the number of direct issuers has been reduced to sixteen.

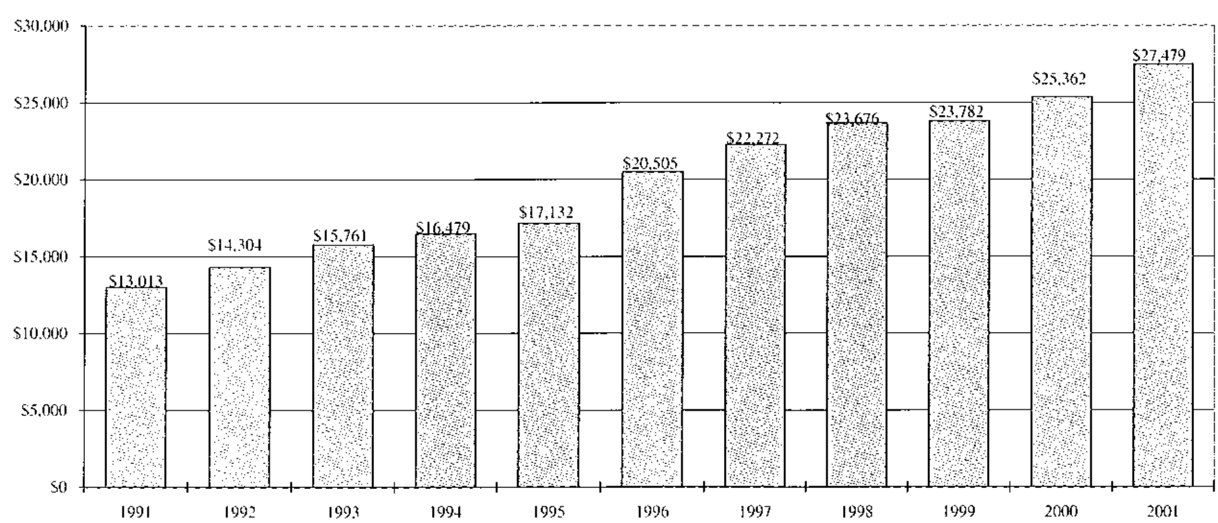
Capital Planning Review and Approval Process

The 76th Legislature, with the passage of House Bill 1, Article 9, Section 9-6.52, directed the Bond Review Board to produce the state's Capital Expenditure Plan (CEP) for FY 2002-2003.

The legislation specifies that all state agencies and higher educational

Figure 3

UNRESTRICTED GENERAL REVENUE
(millions of dollars)



Source: Texas Comptroller of Public Accounts.

institutions appropriated funds by the General Appropriations Act are required to report capital planning information for projects that fall within four specific project areas: (1) acquisition of land and other real property, (2) construction of buildings and facilities, (3) repairs and/or rehabilitation, and (4) acquisition of information resource technologies.

From a budgetary and capital planning standpoint, a number of state agencies work together to coordinate capital reporting and a budget approval process of state agencies. They include the Governor's Office of Budget and Planning, Legislative Budget Board, Texas Higher Education Coordinating Board, Comptroller of Public Accounts, House Committee on Appropriations, Senate Finance Committee and the Texas Building and Procurement Commission.

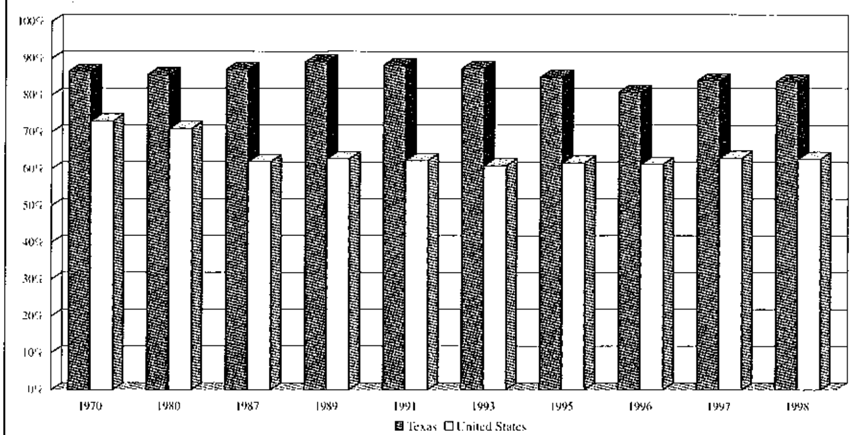
Through the legislative process, the legislature defines the types of projects and cost thresholds to be reported in the CEP. The BRB coordinates the submission of capital projects through the CEP, develops the report, and determines the effect of the additional capital requests on the state's budget and debt capacity. The completed plan is then forwarded to the Governor's Office of Budget and Planning and the Legislative Budget Board (LBB) for their use in the development of recommended appropriations to the legislature. The two budget offices, with input from the requesting agencies or universities, also assess short-term and long-term needs. The legislature determines priority needs through consideration of recommendations from the two budget offices. The legislature, with the approval of the Governor, then makes the final decision on which projects will be funded.

Approved capital and operating budgets are integrated into the General Appropriations Act, which authorizes specific debt issuance for capital projects. Through the capital budgeting process, capital projects are approved for the biennial period. In addition, the CEP reports on the remaining three out-years (2004-2006), to identify long-term needs of the state and to plan for the future.

The 2000 CEP represents the first published capital expenditure plan for the state. The CEP is another management tool for the state of Texas, and an ongoing developmental process that will assist decision makers in assessing future individual capital expenditure requests within the framework of the state's overall financial position.The 2004-05 Capital Expenditure Plan will be available on August 31, 2002.

Figure 4

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



Source: U.S. Census Bureau, State and Local Government Finances by Level of Government: 1998-99.

Chapter 2
Texas Bonds Issued in Fiscal 2001

Issuance of debt by Texas state agencies and universities decreased only slightly from the prior year, with an aggregate total of $1.65 billion, compared to $1.7 billion in fiscal 2000. The fiscal 2001 issues included almost $880 million in new money and $775 million in refunding bonds (Table 7). *Additional debt issued included $352 million of commercial paper and variable-rate notes.*

New Money Funding Decreases in Fiscal 2001

New-money bonds issued by Texas state agencies and institutions of higher education during fiscal 2001 totaled almost $880 million, as compared to $1.4 billion during fiscal 2000, representing a decrease of 35.9 percent *(Figure 5)*. Issuance of commercial paper is not included. The proceeds provided financing for infrastructure, housing, and loan programs.

For fiscal year 2001, there is a split between the Texas Water Development Board (TWDB) and the Texas Department of Housing and Community Affairs (TDHCA) as the top issuers of new-money bonds. TWDB issued 36.9 percent of the total fiscal 2001 new-money debt, while TDHCA issued 23.7 percent. Between the two agencies, they captured 60.6 percent of the total new-money issuance for fiscal 2001.

Sources of New Money for 2001

The Texas Water Development Board (TWDB) issued 36.9 percent of fiscal 2001 new-money debt – totaling $325 million – including $175 million for its state revolving fund to make loans to political subdivisions throughout the state for construction of water treatment facilities. The remainder will provide financial assistance, through various TWDB programs, for water supply, water quality and flood control for political subdivisions.

The Texas Department of Housing and Community Affairs (TDHCA) issued 23.7 percent of total new-money bonds amounting to $209 million.

Unlike fiscal 2000, TDHCA provided more funds for multifamily housing than single-family housing. Nine transactions accounted for $116 million for affordable multifamily housing in Houston, Dallas, McKinney, Denton, Richardson, and Round Rock, Texas. Federal tax law requires a percentage of the rental units in these properties to be set aside for low- to moderate-income households. Of the nine transactions, one transaction in the amount of $10.7 million was designated for constructing a 250-unit multifamily residential rental project for seniors ages 55 or older.

Almost $93 million of new-money bonds were issued for the TDHCA's single-family mortgage revenue bond program. The program provides financing for the purchase of low interest rate mortgage loans made by lenders to first-time homebuyers with very low, low, and moderate income who are acquiring modestly priced residences.

Table 7

TEXAS BONDS ISSUED DURING FISCAL 2001
SUMMARIZED BY ISSUER

ISSUER	REFUNDING BONDS	NEW-MONEY BONDS	TOTAL BONDS ISSUED
Texas Department of Housing & Community Affairs	$31,940,000	$208,695,000	$240,635,000
Texas A&M University System	116,060,550	75,224,450	191,285,000
Texas Higher Education Coordinating Board		75,000,000	75,000,000
Texas Public Finance Authority	318,921,222	12,685,000	331,606,222
Texas State Affordable Housing Corporation		33,032,000	33,032,000
Texas State University System		38,400,000	38,400,000
Texas Veterans Land Board	226,222,515	60,000,000	286,222,515
Texas Water Development Board		324,750,000	324,750,000
University of Houston System		52,070,000	52,070,000
University of Texas System	81,665,000		81,665,000
Total Texas Bonds Issued	**$774,809,287**	**$879,856,450**	**$1,654,665,737**

Note: See Table 17, Appendix B, for commercial paper issuance.

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

The other large proportion of 2001 new-money comprises funding construction and improvement projects at other institutions of higher education in Texas. The combination of all institutions of higher education and the Texas Higher Education Coordinating Board account for 27.4 percent of total new-money issued for fiscal 2001. The Texas Higher Education Coordinating Board financed $75 million to make funds available for the Hinson-Hazelwood College Student Loan Program. This program provides low interest loans to students seeking an undergraduate and/or graduate or professional education through public and independent institutions of higher education in Texas. The Texas State University System issued $38.4 million to fund improvement projects and two additional parking garage floors to accommodate 220 vehicles. Finally, The University of Houston System issued $52.1 million and the Texas A&M University System issued $75.2 million for construction of buildings and upgrades at their campuses.

The Veterans Land Board (VLB) issued 6.8 percent of total fiscal 2001 new-money debt, for a total of $60 million. The proceeds will be used to make housing and home improvement loans to eligible Texas veterans.

The Texas Public Finance Authority (TPFA) closed on a transaction totaling roughly $12.7 million, 1.4 percent of total new-money. The transaction represents a balance of the original project cost to provide funding for the Texas Parks and Wildlife Department (TPWD). The proceeds from the bonds will finance TPWD infrastructure repairs and facility improvements at approximately 60 locations throughout the state. Some of the uses include repair or replacement of roofs, ADA required modifications, the repair or replacement of water and wastewater systems, other utility improvements to existing facilities, and TPFA's cost of issuance payment.

Finally, Texas State Affordable Housing Corporation concludes fiscal year 2001 with two transactions totaling $33 million, 3.8 percent of total new money. The proceeds of the bonds will be used to fund permanent mortgage loans to for the acquisition, rehabilitation, and construction of 561 multifamily residential units located in Galveston, Arlington, and Irving, Texas.

Refunding Transactions Increase in Fiscal 2001

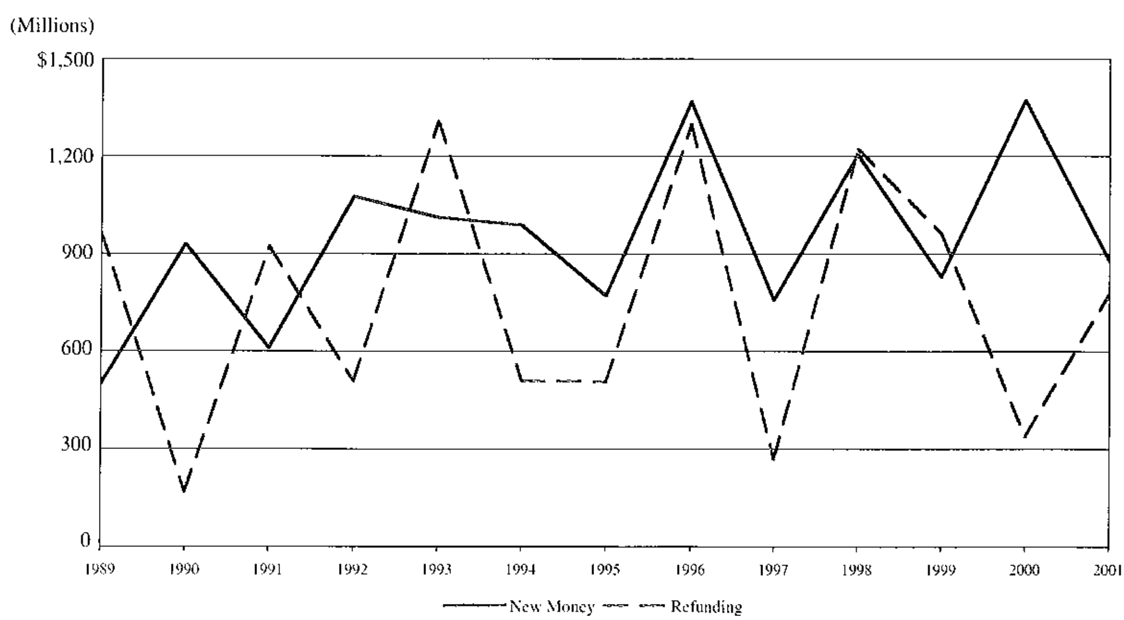
With the decline in consumer confidence, came the Federal Reserve attempt to maintain stability in the economy by lowering the federal fund rates several times in fiscal 2001. As a result, interest rates declined resulting in a rise in refunding issues during fiscal 2001.

Refunding bonds issued by state agencies and universities totaled $775 million, achieving net present value savings of almost $26.2 million. The refunding bonds comprise 46.8 percent of total debt issued in fiscal 2001, as compared to refunded debt amounting to approximately 20 percent of the total refunding bonds issued in fiscal 2000.

The Texas Public Finance Authority refunded the largest amount of outstand-

Figure 5

TEXAS NEW-MONEY AND REFUNDING BOND ISSUES 1989 THROUGH 2001



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

Table 8

LEASE-PURCHASE AGREEMENTS
APPROVED BY THE BOND REVIEW BOARD
Fiscal 2001

AGENCY	Equipment	Other	TOTAL
Texas Water Development Board	$450,000		$450,000
Department of Human Services		$9,800,000	9,800,000
Texas Woman's University		19,356,139	19,356,139
Total Approved Lease-Purchase Agreements	**$450,000**	**$29,156,139**	**$29,606,139**

Note: Amounts listed above are Texas Bond Review Board *approved* amounts.

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

ing debt, issuing $319 million for its general obligation bonds.

The Texas Veterans Land Board issued $226 million in refunding bonds for its land and housing programs. Refunding bonds also enabled the VLB to achieve consolidation of issuance of home revenue bonds to construct skilled-care nursing facilities for veterans.

The Texas Department of Housing and Community Affairs (TDHCA) issued $31.9 million in single-family mortgage revenue refunding bonds.

Texas A&M University issued $116 million in refunding bonds for its Revenue Financing Bonds.

The final issue – just a little under $81.7 million – allows the University of Texas System to refund outstanding Revenue Financing System bonds.

Decreased Interim Financing

State agencies and institutions of higher education use commercial paper and variable-rate notes to provide interim financing for equipment, construction, and loans. Total issuance in fiscal 2001 was almost $352 million, 10.4 percent less than the $393 million that was exercised in fiscal 2000.

The Texas Public Finance Authority issued $16 million in revenue commercial paper during fiscal 2001. As of August 31, 2001, TPFA had a total of $33.6 million in revenue commercial paper debt outstanding. The revenue commercial paper program was instituted in 1992 to finance the agency's Master Lease Purchase Program (MLPP). This program offers low-cost financing for state agencies to purchase items such as computer equipment, automobiles, and real property. Through the MLPP, the TPFA purchases the requested item and leases it back to the client agency. Upon completion of lease payments, the title is transferred to the lessee.

The University of Texas System issued approximately $127 million in Revenue Financing System (RFS) commercial paper notes and $100 million in Permanent University Fund (PUF) variable-rate notes during fiscal 2001. As of August 31, 2001, the System had $218.8 million of RFS commercial paper and $200 million of PUF variable-rate notes outstanding. The System uses commercial paper and variable-rate notes to provide interim financing for construction projects and to purchase equipment.

The Texas A&M University System issued $5.8 million in RFS commercial paper, and $35.6 million in PUF variable-rate notes during fiscal 2001. As of August 31, 2001, the System had no RFS commercial paper outstanding and $35.6 million of PUF variable-rate notes outstanding. The System utilizes commercial paper and variable-rate notes to finance construction projects on its campuses.

During fiscal 2001, the Texas Tech University System issued $46.8 million in RFS commercial paper. As of August 31, 2001, the TTU System had $64.4 million of commercial paper outstanding. The System established its commercial paper program in 1998 to finance construction projects.

The Texas Department of Housing and Community Affairs issued $15.6 million in commercial paper during fiscal 2001. The total amount of commercial paper outstanding as of August 31, 2001, was $15.6 million. TDHCA established its commercial paper program in 1994 to enable the agency to recycle certain prepayments of single-family mortgage loans, thereby preserving the private activity volume cap allocation under its single-family programs. Once TDHCA has issued a substantial aggregate amount of notes, the notes are refunded with single-family mortgage revenue bonds. The preservation of the volume cap allows TDHCA to make additional mortgage loans for modestly priced housing. The program targets first-time homebuyers of very low, low, and moderate income.

The Texas Agricultural Finance Authority (TAFA) issued $5 million in commercial paper notes to purchase participation notes from lenders or fund

Table 9

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 2002

ISSUER	APPROXIMATE AMOUNT	PURPOSE	APPROXIMATE ISSUE DATE
General Obligation Bonds			
Self-Supporting			
Texas Higher Education Coordinating Board	$75,000,000	College Student Loans	Oct-01
Texas Veterans Land Board	60,000,000	Veterans Housing Bonds	Nov-01
Texas Veterans Land Board	30,000,000	Veterans Land Bonds	Jan-02
Texas Veterans Land Board	60,000,000	Veterans Housing Bonds	Feb-02
Texas Veterans Land Board	30,000,000	Veterans Land Bonds	Apr-02
Texas Veterans Land Board	60,000,000	Veterans Housing Bonds	May-02
Texas Veterans Land Board	60,000,000	Veterans Housing Bonds	Jul-02
Texas Water Development Board	25,000,000	Water Financial Assistance Bonds – Rural	Feb-02
Total Self-Supporting	**$400,000,000**		
Not Self-Supporting			
Texas Public Finance Authority*	$14,500,000	Texas Youth Commission – Facilities Construction	Nov-01
Texas Public Finance Authority*	31,000,000	Texas Department of Criminal Justice – Repair and Rehab	Jan-02
Texas Public Finance Authority*	2,300,000	Texas Youth Commission – Facilities Construction	Jan-02
Texas Public Finance Authority*	33,900,000	Texas Department of Health – Chest Hospital	Jan-02
Texas Public Finance Authority*	7,085,000	Texas School for the Deaf – Construction and Repair	Jan-02
Texas Public Finance Authority*	175,000,000	Texas Department of Transportation – Colonias Roadways	unknown
Texas Water Development Board	100,000,000	Water Financial Assistance Bonds – Econ Distressed Areas	Jun-02
Total Not Self-Supporting	**$363,785,000**		
Total General Obligation Bonds	**$763,785,000**		
Non-General Obligation Bonds			
Self-Supporting			
Texas A&M University System – PUF	$27,000,000	Facility Construction, Renovation, and Equipment	As Needed
Texas A&M University System – RFS*	75,000,000	Facility Construction, Renovation, and Equipment	As Needed
Texas Department of Housing & Community Affairs	107,325,000	Single-Family Housing – Mortgage Revenue Bonds	Oct-01
Texas Department of Housing & Community Affairs	32,250,000	Single-Family Housing – Mortgage Revenue Refunding Bonds	Oct-01
Texas Department of Housing & Community Affairs	54,300,000	Single-Family Housing – Mortgage Revenue Bonds	Oct-01
Texas Department of Housing & Community Affairs	146,618,018	Single-Family Housing – Mortgage Revenue Bonds	Apr-02
Texas Department of Housing & Community Affairs	12,000,000	Single-Family Housing – Mortgage Revenue Refunding Bonds	Aug-02
Texas Department of Housing & Community Affairs	10,000,000	Single-Family Housing – Mortgage Revenue Bonds	Aug-02
Texas Department of Housing & Community Affairs	20,000,000	Single-Family Housing – Mortgage Revenue Bonds	Dec-01
Texas Department of Housing & Community Affairs*	15,585,000	Single-Family Housing – Commercial Paper Refunding Bonds	Mar-02
Texas Department of Transportation	300,000,000	Toll Revenue Bond – State Hwy 130 Tollroad	Mar-02
Texas Tech University	184,000,000	Revenue Financing System Refunding and Improvement Bonds	Jan-02
Texas Veterans Land Board	60,000,000	Veterans Mortgage Revenue Refunding Bonds	Dec-01
Texas Veterans Land Board	60,000,000	Veterans Mortgage Revenue Refunding Bonds	Mar-02
Texas Veterans Land Board	40,092,515	Veterans Mortgage Revenue Refunding Bonds	Jun-02
Texas Water Development Board	100,000,000	State Water Pollution Control Revolving Fund	Nov-01
Texas Water Development Board	100,000,000	State Water Pollution Control Revolving Fund	Nov-02
Texas Water Development Board	400,000,000	Clean Water State Revolving Fund	Jun-02
Texas Water Development Board	200,000,000	State Water Pollution Control Revolving Fund	Jul-02
Texas Woman's University	25,795,500	Fire and Life Safety Upgrades	Mar-02
The University of Texas System - PUF	115,000,000	Facility Construction Refunding Bonds	various
The University of Texas System - PUF	150,000,000	Facility Construction Refunding Bonds - Flexible Rate Notes	Jul-02
The University of Texas System - RFS*	264,200,000	Facility Construction Refunding Bonds	Sep-01
The University of Texas System - RFS*	315,800,000	Facility Construction Refunding Bonds	Jun-02
The University of Texas System - RFS*	200,000,000	Financing Capital Construction Projects	throughout the yr
University of Houston System	30,918,750	Student Service and Classroom Building - UH Clear Lake	Apr-02
University of North Texas System	32,000,000	Recreation and Sports Center Construction	May-02
Total Self-Supporting	**$3,077,884,783**		
Not Self-Supporting			
Texas Public Finance Authority	$4,721,580	Military Facilities Commission – Construction and Renovation	Dec-01
Texas Public Finance Authority	9,000,000	Parks and Wildlife Department – Nimitz Museum	unknown
Texas Public Finance Authority	75,000,000	Department of Insurance – Nursing Home Liability Fund	unknown
Texas Public Finance Authority	8,967,500	Midwestern State University	Mar-02
Texas Public Finance Authority	14,072,000	Stephen F. Austin State University	Jan-02
Texas Public Finance Authority	64,500,000	Texas Southern University	Jan-02
Texas Public Finance Authority*	60,172,562	Master Lease Purchase Program	various
Total Not Self-Supporting	**$236,433,642**		
Total Non-General Obligation Bonds	**$3,314,318,425**		
Total All Bonds	**$4,078,103,425**		

* Commercial Paper or Variable-Rate Note program.

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

direct loans to eligible agricultural businesses or other rural economic development projects. No notes were issued in fiscal 2001 for TAFA's Farm and Ranch Finance Program that provides loans or other assistance for purchase of farm or ranch land. An amount of $35 million was outstanding as of August 31, 2000, for both TAFA programs.

Additional information about commercial paper and variable-rate note programs is included as Appendix B of this report.

Texas Lease Purchases

Lease purchases with an initial principal greater than $250,000, or with a term of more than five years are required to be approved by the Bond Review Board. Three fiscal 2001 acquisitions were financed through the Texas Public Finance Authority's Master Lease Purchase Program (MLPP). The MLPP assists state agencies and universities in obtaining competitive, low-interest, short-term acquisition financing. The Texas Bond Review Board approved $29.6 million for lease-purchase acquisitions during fiscal 2001 *(Table 8)*, compared to $13.3 million in fiscal 2000.

The largest lease-purchase transaction – $19.4 million – enabled the Texas Woman's University to acquire an energy conservation system. The new energy-efficient system will generate cost savings that will be used to pay debt service.

The Department of Human Services financed $9.8 million of software for its Texas Integrated Eligibility Redesign System (TIERS) project, which focuses on the redesign and replacement of the Department of Human Services' automated legacy systems.

The Water Development Board financed $450,000 for the lease purchase of a truck-mounted drilling rig .

Funding Needs Projected to Increase For 2002

Texas state issuers expect to issue more debt in fiscal 2002 than was issued during fiscal 2001. The results of an annual survey conducted by the Bond Review Board show that Texas state agencies and institutions of higher education are planning to issue over $4 billion in bonds and commercial paper during fiscal 2002 (Table 9). It is estimated that $2.8 billion will finance projects, programs, and facilities and $1.2 billion will refund outstanding debt.

The largest amount of debt issuance in fiscal 2002 will provide funding for Texas Water Development Board programs. The TWDB anticipates that it will issue $925 million in new money. The State Water Pollution Control Revolving Fund and Clean Water State Revolving Fund will utilize the majority of this new debt – $800 million – to provide funds for financial assistance to local governmental jurisdictions in Texas that seek to improve their wastewater infrastructure. The TWDB also plans to issue $100 million for the agency's Economically Distressed Areas Program (EDAP) and $25 million for water quality enhancement programs.

The Texas Veterans Land Board expects to issue $300 million of new-money debt during fiscal 2002. Of this projected debt, $240 million will augment the Veterans Housing Loan Program and $60 million will provide loans for eligible veterans to acquire land through the Veterans Land Loan Program. The VLB also anticipates refunding approximately $160 million of its revenue debt in the Veterans Mortgage Revenue Program.

The Texas Department of Housing and Community Affairs expects to issue approximately $338 million of new-money debt during fiscal 2002. The proceeds will finance TDHCA's Single-Family Mortgage Revenue Bond Program. TDHCA also plans to issue approximately $59.8 million in refunding bonds, of this amount an estimated $15.6 million is expected to be issued via commercial paper, to refund a portion of its outstanding residential mortgage revenue bonds.

The Texas Higher Education Coordinating Board plans to issue $75 million in new-money bonds to provide financing for its Hinson-Hazelwood student loan program. The program is self-supporting and is repaid from payment revenues received from the student loans.

The Texas Public Finance Authority plans to issue approximately $500 million in bonds and commercial paper during fiscal 2001. Approximately $93.5 million will be used for renovation and construction projects by the Department of Criminal Justice, Youth Commission, Department of Health, School for the Deaf, and the Military Facilities Commission. Other projects to be funded in fiscal 2002 include $175 million for colonias roadways, $75 million for the Nursing Home Liability Fund, and $9 million for the Nimitz Museum project. The remainder of TPFA's new debt for 2002 consists of an estimated $87.5 million in tuition revenue bonds for Midwestern State University, Stephen F. Austin State University, and Texas Southern University, and $60 million in revenue commercial paper to fund the Master Lease Purchase Program.

Texas institutions of higher education are planning to issue bonds and commercial paper during fiscal 2002 to provide funding for facility expansion and renovation.

The University of Texas System expects to issue $1.05 billion of debt during the new fiscal year. Of this amount, approximately $580 million will refund previously issued Revenue Financing System (RFS) commercial paper, $200 million of commercial paper to fund its Financing Capital Construction Projects, and $265 million to refund its Permanent University Fund bonds.

The Texas A&M University System projects that it will issue $27 million of Permanent University Fund (PUF) bonds during fiscal 2002 for facilities improvement and construction. In addition, the System will be issuing $75 million of RFS commercial paper to fund the acquisition, construction and equipping of various university facilities.

The Texas Tech University System estimates that it will refund $184 million of Revenue Financing System and Improvement Bonds in fiscal 2002.

The University of Houston System expects to issue $31 million of debt for the construction and renovation of the University of Houston at Clear Lake.

The University of North Texas System anticipates issuing $32 million to fund the construction of its recreation and sports center.

Lastly, Texas Woman's University expects to use $26 million for fire and life safety upgrades at the facility.

Chapter 3

Texas Bonds and Notes Outstanding

Texas had a total of $13.4 billion in state bonds and notes outstanding on August 31, 2001, compared to $13.2 billion in fiscal 2000, and $12.2 billion in fiscal 1999.

General Obligation Bonds Outstanding Increased Slightly in FY 2001

Approximately $5.7 billion of the state's $13.5 billion debt outstanding on August 31, 2001, is backed by the general obligation (G.O.) pledge of the state, an increase of $70.9 million, or 1.3 percent, from the $5.6 billion G.O. bonds outstanding at the end of fiscal 2000 *(Table 10)*. The increase in G.O. bonds outstanding is attributed primarily to the issuance of College Student Loan bonds by the Texas Higher Education Coordinating Board and the issuance of Texas Water Development Board bonds. (See Chapter 2 for a description of bonds issued in fiscal 2001.)

Texas G.O. bonds carry a constitutional pledge of the full faith and credit of the state to pay the bonds. 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.

Conversely, the repayment of non-G.O. debt is dependent only on the revenue stream of an enterprise 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 associated with the purchase of non-G.O. bonds by charging the state a higher interest rate on such bonds. The rate of interest on non-G.O. bond issues may range from 0.1 to 0.5 percentage points higher than comparable G.O. issues.

General Revenue Supported Debt Decreased in FY 2001

All bonds do not have the same financial impact on the state's general revenue. Self-supporting bonds, both G.O. and non-G.O., rely on sources other than the state's general revenue to pay debt service; thus, self-supporting bonds do not directly impact state finances. However, bonds that are non-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.

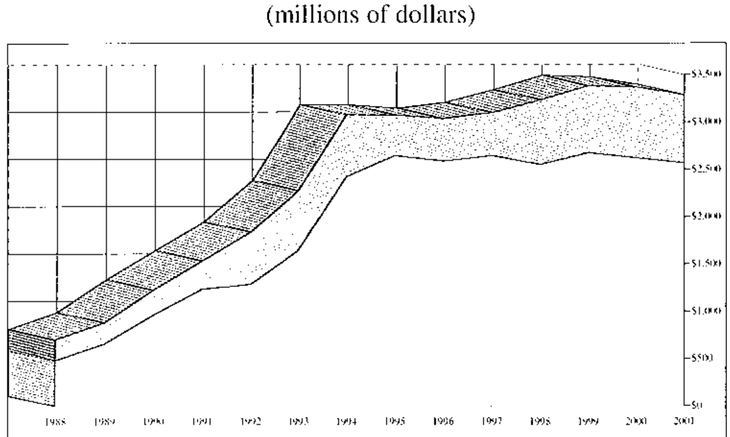
The combined total of non-self-supporting general obligation and revenue bonds outstanding decreased by $100.2 million, during fiscal 2001 *(Figure 6)*. Non-self-supporting G.O. bonds outstanding decreased by $72.9 million in fiscal 2001, while non-self-supporting revenue bonds outstanding decreased by $27.3 million. As a result, Texas had $3.3 billion in outstanding bonds that must be paid from the state's general revenue as of August 31, 2001, compared to $3.4 billion at the end of fiscal 2000. Non-self-supporting G.O. and revenue bonds totaled $3.4 billion and $3.2 billion in fiscal years 1999 and 1998, respectively.

Significant growth in bonds payable from general revenue occurred during 1988-94, primarily as a result of the issuance of bonds to finance construction of correctional facilities and the initial phase of the Superconducting Super Collider (SSC) project. At the end of fiscal 1987, before the expansion of correctional facilities and approval of the SSC bonds, Texas had $422 million in bonds outstanding payable from general revenue. The $250 million in SSC project revenue bonds were defeased June 1, 1995. In fiscal 1997, through provisions contained in the General Appropriations Act, the Texas Public

Figure 6

TEXAS STATE BONDS OUTSTANDING BACKED ONLY BY GENERAL REVENUE

(millions of dollars)



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

Table 10

TEXAS BONDS OUTSTANDING
(amounts in thousands)

	8/31/98	8/31/99	8/31/00	8/31/01
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$1,465,715	$1,324,332	$1,701,244	$1,673,221
Water Development Bonds	560,740	624,665	644,545	776,870
Park Development Bonds	34,284	32,563	30,462	28,107 [4]
College Student Loan Bonds	547,127	595,606	565,084	604,550
Farm and Ranch Security Bonds*	0	1,000	1,000	1,000
Texas Agricultural Finance Authority*	21,500	26,000	29,000	34,000
Agriculture Water Conservation Bonds	13,470	11,230	8,915	6,380
Total, Self-Supporting	**$2,642,836**	**$2,615,396**	**$2,980,250**	**$3,124,128**
Not Self-Supporting [1]				
Higher Education Constitutional Bonds [2]	$90,605	$78,970	$66,775	$53,995
Texas Public Finance Authority Bonds	2,284,653	2,368,192	2,363,223	2,233,241 [4,7]
Park Development Bonds	0	0	16,310	15,675
Texas National Research Laboratory Commission Bonds	67,136	47,739	0	0 [5]
Water Development Bonds—EDAP [3]	107,400	129,710	126,165	146,775
Water Development Bonds—State Participation Bonds	0	50,000	50,000	99,840
Total, Not Self-Supporting	**$2,549,794**	**$2,674,611**	**$2,622,473**	**$2,549,526**
Total General Obligation Bonds	**$5,192,630**	**$5,290,007**	**$5,602,723**	**$5,673,654**
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds				
A&M	$336,809	$331,117	$312,870	$308,228 [4,7]
UT	661,030	623,625	703,210	669,040 [7]
College and University Revenue Bonds	1,805,646	2,255,736	2,444,554	2,464,713 [7]
Texas Hospital Equip. Finance Council Bonds	10,900	0	0	0 [5]
Texas Department of Housing & Community Affairs Bonds	1,209,362	1,227,762	1,308,348	1,541,849 [7]
Texas State Affordable Housing Corporation	0	0	0	33,037
Texas Small Business I.D.C. Bonds	99,335	99,335	99,335	99,335
Economic Development Program *	4,700	6,100	7,750	5,655
Texas Water Resources Finance Authority Bonds	293,515	169,100	104,875	86,290
College Student Loan Bonds	45,547	37,311	28,432	20,287
Texas Workers' Compensation Fund Bonds	158,250	146,095	132,848	118,409
Veterans' Financial Assistance Bonds	0	9,980	200,000	196,597
Texas Public Finance Authority Bonds (Special Revenue)	38,800	37,505	36,165	34,775
Texas Water Development Board Bonds (State Revolving Fund)	1,244,260	1,226,045	1,452,140	1,474,367
Total, Self-Supporting	**$5,908,154**	**$6,169,711**	**$6,830,526**	**$7,052,582**
Not Self-Supporting [1]				
Texas Public Finance Authority Bonds	$617,876	$626,646	$650,273	$615,146
TPFA Master Lease Purchase Program*	32,100	33,800	33,700	33,600 [6]
Texas Military Facilities Commission	24,205	21,540	18,715	15,725
Parks and Wildlife Improvement Bonds	11,460	28,165	46,080	57,030
Total, Not Self-Supporting	**$685,641**	**$710,151**	**$748,768**	**$721,501**
Total Non-General Obligation Bonds	**$6,593,795**	**$6,879,862**	**$7,579,294**	**$7,774,083**
Total Bonds	**$11,786,425**	**$12,169,869**	**$13,182,017**	**$13,447,737**

* commercial paper

[1] Bonds that are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue fund for debt service. Not self-supporting bonds totaled $3.3 billion outstanding on August 31, 2001, $3.4 billion outstanding on August 31, 2000, $3.4 billion outstanding on August 31, 1999, and $3.2 billion outstanding on August 31, 1998.

[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.

[3] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, up to 90 percent of bonds issued may be used for grants.

[4] Amounts do not include premium on capital appreciation bonds.

[5] No longer an active issuer.

[6] This figure reflects only the commercial paper component of the Master Lease Purchase Program (MLPP).

[7] Includes commercial paper notes outstanding.

[8] These bonds were fully defeased on September 29, 1999.

Note: The debt outstanding figures include the accretion on capital appreciation bonds as of August 31, 2001.

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

Finance Authority defeased another $89.6 million of the outstanding general revenue bonds issued for the SSC project. An additional $58.6 million and $16.3 million of the SSC bonds were defeased in fiscal 1998 and 1999, respectively. The 76th Legislature appropriated funds to defease the remaining balance of the SSC bonds in fiscal 2000.

Debt service payments from general revenue continued a steady increase in fiscal 2001. *(Figure 7 is on a biennial basis).* During the 2000-01 biennium, the state paid $735.7 million from general revenue for debt service compared to $679 million paid during 1998-99, and $648 million during 1996-97.

Texas Bonds Authorized but Unissued

Authorized bonds are defined as those bonds that may be issued without further action by the Legislature. As of August 31, 2001, Texas had $5.8 billion in authorized but unissued bonds *(Table 12).* Of the total authorized but unissued bonds, approximately $2.0 billion, or 35.3 percent, are general obligation bonds. Only $232 million of all authorized but unissued bonds would require the payment of debt service from general revenue; however, new bond authority passed by the 77th Legislature and subsequently approved by voters will impact the amount of general obligation bonds issued during the next biennium. The remaining outstanding bonds are in programs that are designed to be self-supporting.

New Bond Authority – 77th Texas Legislature

In November 2001, Texas voters approved four constitutional amendments authorizing over $3.5 billion in additional general obligation bond issuance by the Texas Public Finance Authority (TPFA), the Texas Veterans' Land Board (VLB), and the Texas Water Development Board (TWDB). The new bond authority includes approximately $1 billion of non-self-supporting general obligation bonds to provide financing for roadway projects in border colonias, and for state agency construction and repair projects.

The new authority also includes $2.5 billion of self-supporting general obligation bonds to provide financing for veterans' housing loans, cemeteries, and water projects. Although the self-supporting bonds are backed by the general obligation pledge of the state, the likelihood that the bonds will draw on the general revenue is remote. Historically, program revenues have been sufficient to pay debt service on the obligations.

Additional legislation passed by the 77th Legislature includes Senate Bill 1173, which authorizes TPFA to issue $9 million in revenue bonds to provide financing for repair and renovation projects at the Nimitz Memorial Naval Museum. House Bill 2453 increases the Veterans' Land Board's authority to issue revenue bonds from $250 million to $1 billion. House Bill 2190 requires the Bond Review Board to adopt debt issuance policies to guide issuers of state securities and to ensure that state debt is prudently managed.

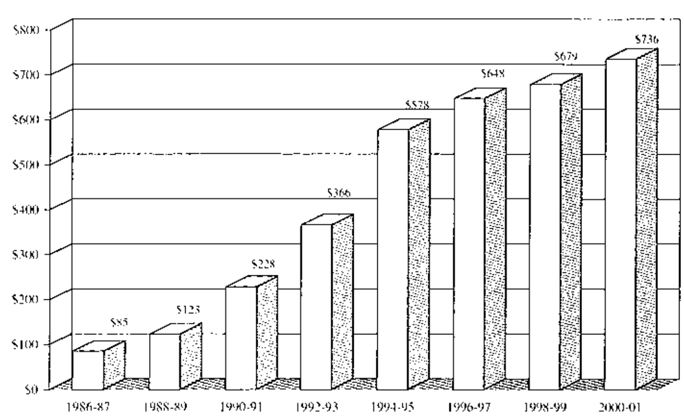
Long-Term Contracts and Lease Purchases

Long-term contracts and lease- or installment-purchase agreements can serve as financing alternatives when the issuance of bonds is not feasible or practical. These agreements, like bonds, are a method of financing capital purchases over time. Payments on these contracts or agreements are generally 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 look at the state

Figure 7

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

(millions of dollars)



Source: Texas Bond Review Board, Office of Executive Director.

Table 11

DEBT SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR
(amounts in thousands)

	2001	2002	2003	2004	2005	2006 beyond
General Obligation Bonds						
Self-Supporting						
Veterans' Land and Housing Bonds	$180,425	$183,154	$180,530	$147,070	$127,957	$2,762,639
Water Development Bonds	46,224	51,939	55,524	57,433	58,393	856,540
Park Development Bonds	4,139	4,136	4,133	4,138	4,142	19,373
College Student Loan Bonds	72,601	78,215	78,927	85,994	85,492	517,802
Farm and Ranch Loan Bonds	59	70	70	70	70	1,980
Texas Agricultural Finance Authority	1,621	2,380	2,380	2,380	2,380	69,700
Agriculture Water Conservation Bonds	3,153	3,162	1,975	760	739	715
Total Self-Supporting	$308,222	$323,056	$323,539	$297,846	$279,174	$4,228,750
Not Self-Supporting [1]						
Higher Education Constitutional Bonds [2]	$16,139	$15,181	$15,153	$15,116	$15,074	$450
Texas Public Finance Authority Bonds	250,177	243,740	243,642	244,522	244,543	2,182,426
Park Development Bonds	1,730	1,686	1,641	1,595	1,550	17,735
Water Development EDAP Bonds [3]	10,746	12,276	12,091	12,064	11,985	192,438
Water Development State Participation Bonds	2,740	5,949	5,490	5,490	5,490	230,847
Total Not Self-Supporting	$281,532	$278,832	$278,017	$278,787	$278,642	$2,623,895
Total General Obligation Bonds	$589,753	$601,888	$601,556	$576,633	$557,815	$6,852,645
Non-General Obligation Bonds						
Self-Supporting						
Permanent University Fund Bonds						
A&M	$57,212	$38,203	$38,228	$38,473	$37,770	$202,499
UT	66,865	63,229	63,230	63,225	63,226	416,788
College and University Revenue Bonds	251,886	267,732	261,675	257,614	246,345	2,846,146
Texas Dept. of Housing & Community Affairs Bonds	94,600	96,902	96,440	95,818	94,781	2,576,598
Texas State Affordable Housing Corporation	525	2,042	2,100	1,947	2,067	24,188
Texas Small Business I.D.C. Bonds	3,681	4,967	4,967	4,967	4,967	207,776
Economic Development Program	304	283	283	283	283	8,335
Texas Water Resources Finance Authority Bonds	19,782	17,758	17,090	15,260	13,906	43,424
College Student Loan Bonds	3,893	3,326	3,598	3,625	3,253	27,817
Texas Workers' Compensation Fund Bonds [4]	25,746	25,689	25,624	25,553	25,478	50,702
Veterans' Financial Assistance Bonds	5,396	13,387	13,045	17,318	2,782	99,886
Texas Public Finance Authority Bonds (Special Revenue)	3,138	3,143	3,141	3,141	3,142	39,156
Texas Water Development Bonds (State Revolving Fund)	109,795	110,859	113,433	115,173	117,762	2,026,265
Total Self Supporting	$642,823	$647,520	$642,854	$642,396	$615,761	$8,569,580
Not Self-Supporting [1]						
Texas Public Finance Authority Bonds	$71,195	$70,994	$70,183	$71,458	$71,359	$453,647
TPFA Master Lease Purchase Program	17,444	10,706	6,503	5,152	3,876	12,866
Military Facilities Commission Bonds	4,009	4,016	4,005	1,941	1,817	7,825
Parks and Wildlife Improvement Bonds	4,415	5,130	5,569	5,676	5,578	61,895
Total Not Self-Supporting	$97,062	$90,847	$86,259	$84,228	$82,629	$536,233
Total Non-General Obligation Bonds	$739,884	$738,367	$729,113	$726,624	$698,391	$9,105,812
Total All Bonds	$1,329,638	$1,340,254	$1,330,669	$1,303,257	$1,256,206	$15,958,458

[1] Bonds that are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totaled $357.1 million during fiscal 2000, and will total approximately $378.6 million in fiscal 2001.
[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.
[3] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, effective September 1, 1993, up to 90 percent of the bonds issued may be used for grants.
[4] Texas Workers' Compensation Fund Bonds were economically defeased. Full legal debt service requirements are reflected in this table.

Notes: The debt-service figures do not include the early redemption of bonds under the state's various loan programs.
The future debt-service figures for variable-rate bonds and commercial paper programs are estimated amounts.
Detail may not add to total due to rounding.

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

Table 12

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

	08/31/99	08/31/00	08/31/01
General Obligation Bonds			
Self-Supporting			
Veterans Land and Housing Bonds	$805,002	$365,002	305,002
Water Development Bonds	684,330	600,410	481,586
Farm and Ranch Loan Bonds [4]	474,000	474,000	469,000
Park Development Bonds	16,310	0	0
College Student Loan Bonds	74,822	474,822	400,000
Texas Department of Economic Development Bonds	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	29,000	26,000	21,000
Agriculture Water Conservation Bonds	181,000	181,000	181,000
Total Self-Supporting	**$2,309,464**	**$2,166,234**	**1,902,588**
Not Self-Supporting [1]			
Higher Education Constitutional Bonds	*	*	*
Texas Public Finance Authority Bonds	$127,940	$49,340	49,340
Water Development Bonds-EDAP [2]	111,705	111,705	86,571
Water Development Bonds-State Participation Bonds	0	50,000	9
Total Not Self-Supporting	**$239,645**	**$211,045**	**135,920**
Total General Obligation Bonds	**$2,549,109**	**$2,377,279**	**2,038,508**
Non-General Obligation Bonds			
Self-Supporting			
Permanent University Fund Bonds [3]			
A&M	$269,365	$479,208	466,149
UT	577,338	980,946	879,713
College and University Revenue Bonds	**	**	**
Texas Department of Housing & Community Affairs	**	**	**
Texas Turnpike Authority Bonds	**	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000	500,000
Texas Department of Economic Development Bonds	**	**	**
Texas State Affordable Housing Corporation			**
Texas Water Resources Finance Authority Bonds	**	**	**
Texas School Facilities Finance Program	750,000	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**
Alternative Fuels Program	50,000	50,000	50,000
Texas Public Finance Authority Bonds (Special Revenue)	0	0	0
Veterans' Financial Assistance Bonds [5]	240,020	50,000	1,000,000
Texas Water Development Board (State Revolving Fund)	**	**	**
Total Self-Supporting	**$2,386,723**	**$2,810,154**	**3,645,862**
Not Self Supporting [1]			
Texas Public Finance Authority Bonds	$248,997	$92,404	29,941
TPFA Master Lease Purchase Program—commercial paper	66,200	66,300	66,400
Texas Military Facilities Commission Bonds	**	**	**
Parks and Wildlife Improvement Bonds	31,485	12,685	0
Total Not Self-Supporting	**$346,682**	**$171,389**	**96,341**
Total Non-General Obligation Bonds	**$2,733,405**	**$2,981,544**	**3,742,203**
Total All Bonds	**$5,282,514**	**$5,358,823**	**5,780,711**

* No limit on bond issuance, but debt service may not exceed $87.5 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 that are not self-supporting depend solely on the state's general revenue for debt service.

[2] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, up to 90 percent of bonds issued may be used for grants.

[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. The PUF value used in this table is as of August 31, 2001.

[4] Effective in November 1995, state voters authorized the use of $200 million of the existing $500 million Farm and Ranch Program authority for the purposes of the Texas Agricultural Finance Authority (TAFA). Of the $200 million, the Bond Review Board has approved an initial amount of $25 million for the Texas Agricultural Fund Program of TAFA.

[5] The 77th Legislature authorized the Veterans' Land Board to issue revenue bonds in an aggregate amount not to exceed $1 billion effective June 14, 2001.

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

Table 13

SCHEDULED REAL PROPERTY LEASE-PURCHASE PAYMENTS FROM GENERAL REVENUE BY FISCAL YEAR

(amounts in thousands)

	2001	2002	2003	2004	2005	2006 and Beyond
Texas Building and Procurement Commission	$3,390	$3,387	$3,389	$3,383	$3,383	$42,207
TOTAL	$3,390	$3,387	$3,389	$3,383	$3,383	$42,207

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

debt.

The Texas Building and Procurement Commission, formerly the General Services Commission, is party to six lease-with-option-to-purchase agreements for state agency office and warehouse facilities. Depending on the occupying agency, either all or a portion of these leases are paid from appropriated general revenue funds *(Table 13)*.

In fiscal 2001, TWDB issued bonds to prepay obligations under a federal contract in connection with the construction of Palmetto Bend Dam and Reservoir.

There were no lease purchases of facilities approved by the Bond Review Board during fiscal 2001. All of the equipment lease purchases approved by the Bond Review Board in fiscal 2001 were financed through the Master Lease Purchase Program and are shown as bonds outstanding.

CHAPTER 4

Texas Bond Issuance Costs

Texas' state bond issuers spent an average of $612,913 per issue or $7.92 per $1,000 on bond issues sold during the 2001 fiscal year.[1] Appendix A of this report details the issuance costs associated with each of these issues.

The Costs of Issuing Bonds

Issuance costs are composed of the fees and expenses paid to consultants and underwriters to market Texas bonds to investors. Several types of professional services commonly used in the marketing of all types of municipal securities are listed below:[2]

- Underwriter – The underwriter or underwriting syndicate acts as a dealer that purchases a new issue of municipal securities from the issuer for resale to investors. The underwriter may acquire the securities either by negotiation with the issuer or by award on the basis of competitive bidding. In a negotiated sale, the underwriter may also have a significant role in the structuring of the issue.
- Bond Counsel – Bond counsel is retained by the issuer to give a legal opinion that the issuer is authorized to issue the proposed securities, has met all legal requirements necessary for issuance, and whether interest on the proposed securities will be exempt from federal income taxation and, where applicable, from state and local taxation. Typically, bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings, disclosure requirements, and litigation.
- Financial Advisor – The financial advisor advises the issuer on matters pertinent to a proposed issue, such as structure, timing, marketing, fairness of pricing, terms, and bond ratings. A financial advisor may also be employed to provide advice on subjects unrelated to a new issue of securities, such as advising on cash flow and investment matters.
- Rating Agencies – Rating agencies provide publicly available ratings of the credit quality of securities issuers. These ratings are intended to measure the probability of the timely repayment of principal and interest on municipal securities. Ratings are initially made before issuance and are periodically reviewed and may be amended to reflect changes in the issuer's credit position.
- Paying Agent/Registrar – The paying agent is responsible for transmitting payments of principal and interest from the issuer to the security holders. The registrar is the entity responsible for maintaining records on behalf of the issuer for the purpose of noting the owners of registered bonds.
- Printer – The printer produces the official statement, notice of sale, and any bonds required to be transferred between the issuer and purchasers of the bonds.

Issuance Costs for Texas Bond Issues

The largest portion of the costs associated with the issuance of bonds is the fee paid to the underwriter, known

Table 14

AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES

	Fiscal 2000		Fiscal 2001	
	Average Cost Per Bond Issue	Average Cost Per $1,000 of Bonds Issued	Average Cost Per Bond Issue	Average Cost Per $1,000 of Bonds Issued
Average Issue Size (In Millions)	$68.3		$94.1	
Underwriter's Spread	$388,194	$5.94	$453,355	$5.44
Other Issuance Costs:				
Bond Counsel	53,793	1.10	53,450	0.80
Financial Advisor	33,836	0.94	41,767	0.67
Rating Agencies	24,557	0.60	36,353	0.61
Printing	7,995	0.21	6,155	0.15
Other	19,990	0.36	21,833	0.25
Subtotal – Other Costs	$140,171	3.21	$159,558	2.48
Total	$528,365	$9.15	$612,913	$7.92

Note: 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 state bond issue exclusive of conduit issues.

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

as the "underwriter's spread." This "spread" is paid to the underwriter as compensation for the risk of holding the bonds and to cover the expenses associated with the marketing of the bonds.

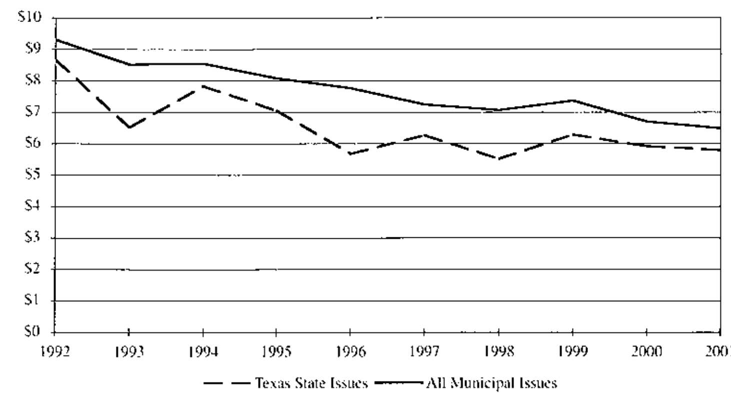
In fiscal 2001, the underwriter's spread accounted for 74 percent of all issuance costs (Table 14). This percentage is slightly higher than in the previous year. The average cost per issue increased by almost $70,000 to $453,355. However, this increase was offset by the growth in the size of the average issue. In fiscal 2001, the average underwriter's spread per issue was $453,355 compared to $388,194 in fiscal 2000. When measured on a per $1,000 basis, the $5.44 average spread paid in fiscal 2001 is lower than the $5.94 reported in fiscal 2000. The decrease in the average cost of issuance per $1,000 is primarily attributable to Veterans' Land Board (VLB) bonds and the University of Texas Revenue Financing System bonds. For example, the VLB closed on two particular issues with significantly low issuance costs, one issue for $39,960,000 with underwriter's spread per $1,000 of $2.11, and a private placement for $160,092,515 with a total cost of issuance of $1.15 per $1,000. The University of Texas System closed on one issue for $81,665,000 with underwriter's spread per $1,000 of $1.36. The structure and size of these transactions allowed these issuers to sell these bonds at a lower than average cost. As a result, the overall average cost per $1,000 of bonds issued in fiscal 2001 is significantly lower than bond issuance costs in fiscal 2000.

Other costs of issuance primarily consist of bond counsel fees, financial advisor fees, rating agency fees, and printing costs. These costs averaged $159,558 or $2.48 per $1,000 in fiscal 2001 compared to $140,171 per issue or $3.21 per $1,000 in fiscal 2000. Therefore, not only did the cost per $1,000 drop in the underwriter's spread, but also in the other costs. Please note this analysis excludes conduit issues.

A comparison of gross spreads paid to underwriters on a national basis to those paid by Texas issuers reveals that the state's bond issuers paid lower underwriting fees than the national average *(Figure 8)*. Data published by Thomson Financial Securities shows that spreads paid by issuers nationally have averaged $6.49 per $1,000 compared to Texas' average of $5.80 per $1,000.

Figure 8

Gross Underwriting Spreads: 1992-2001
Texas State Bond Issues vs. All Municipal Bond Issues



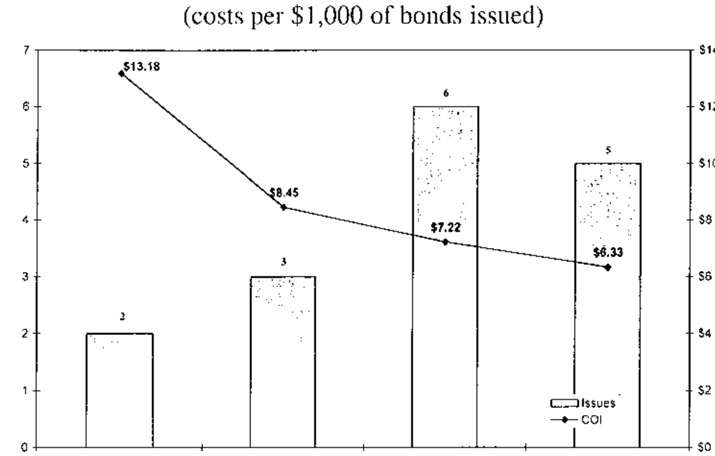
Note: 2001 Municipal figures are for the first six months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.
Sources: The *Bond Buyer* (8/13/01), Thomson Financial Securities (7/14/01), and Texas Bond Review Board, Office of the Executive Director.

Comparison of Issuance Costs by Size

In general, a larger bond issue has a greater issuance cost, but a lower issuance cost when calculated as a percentage of the size of the bond issue. This occurs because there are costs of issuance that do not vary proportionately with the size of a bond issue. For

Figure 9

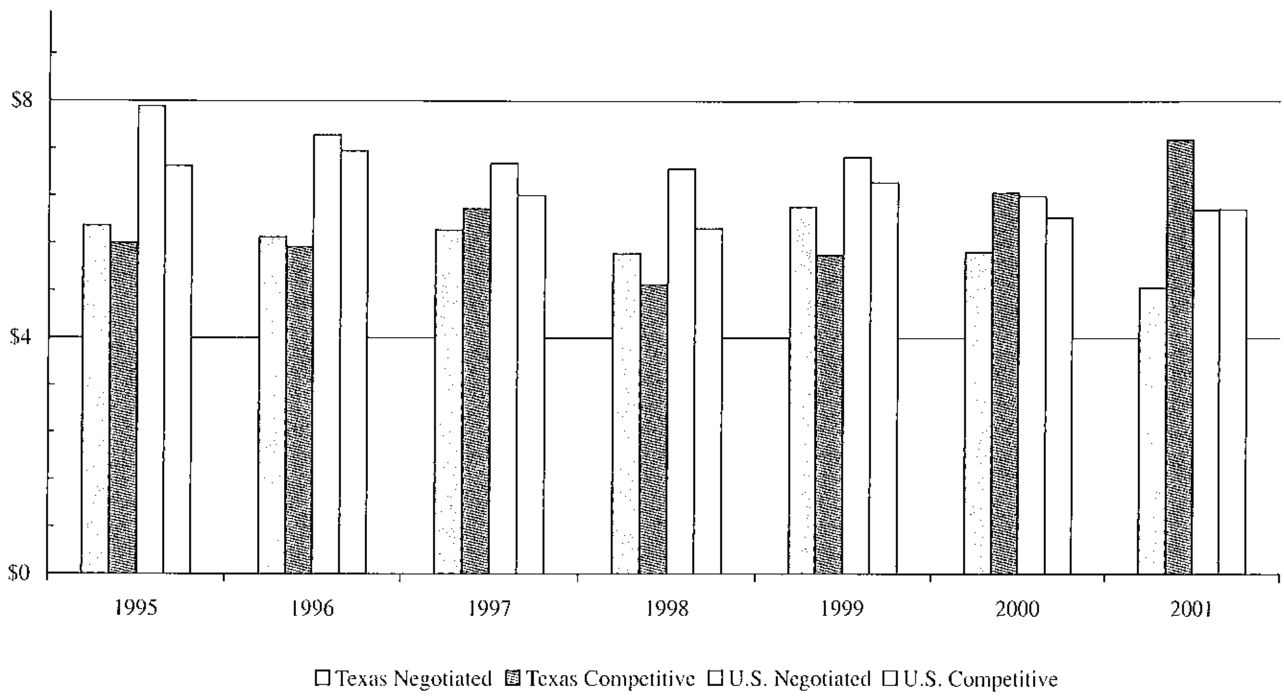
AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES BY SIZE OF ISSUE
(costs per $1,000 of bonds issued)



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

Figure 10

GROSS UNDERWRITING SPREADS: 1995-2001
Negotiated vs. Competitive Municipal Issues



Note: 2001 figures are for the first six months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include manager's fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.

Sources: The *Bond Buyer* (8/13/01), Thomson Financial Securities (7/14/01), and Texas Bond Review Board, Office of the Executive Director.

example, professional fees for legal services, financial advisory services, and document drafting must be paid no matter how small the size of the bond issue.

Texas bond issues followed this general pattern; the smaller issues were proportionally more costly than the larger issues *(Figure 9)*. In fiscal 2001, total issuance costs for bond issues of less than $25 million averaged $165,060 per issue or $13.18 per $1,000. Costs for the larger issues of over $100 million averaged $1,128,781 per issue or $6.33 per $1,000.

Negotiated Versus Competitive Sales

One of the most important decisions an issuer of municipal securities has to make is selecting a method of sale. Competitive sales and negotiated sales each have their own advantages and disadvantages. The challenge facing the issuer is evaluating factors related to the proposed financing and selecting the appropriate method of sale.

In a competitive sale, sealed bids or electronic bids from a number of underwriters are opened on a predetermined sale date. The bonds are then awarded to the underwriter submitting the lowest bid that meets the terms and conditions of the sale. Generally, underwriters that bid competitively perform less presale marketing because they cannot be sure (until the day the bids are opened) that they have been awarded the contract.

Advantages of the competitive bid include: (1) a competitive environment where market forces determine the price, (2) historically lower spreads, and (3) an open process. Disadvantages of the competitive sale include: (1) limited timing and structuring flexibility, (2) minimum control over the distribution of bonds, and (3) the possibility of underwriters including a risk premium in their bids to compensate for uncertainty regarding market demand.

The conditions that favor a competitive sale are a stable, predictable market in which market demand for the securities can be readily ascertained. Stable market conditions lessen the bidder's risk of holding unsold balances. Market demand is generally easier to assess for securities issued by a well-known, highly-rated issuer that regularly borrows in the public market, securities that have a conventional structure, such as serial and term coupon bonds, and securities that have a strong source of repayment. These conditions will generally lead to aggressive bidding since bidders will be able to ascertain market demand without extensive pre-marketing activities.

In a negotiated sale, an underwriter is chosen by the issuer in advance and agrees to buy the bonds at some future date for resale. Thereafter, the underwriter will try to ensure a successful sale by marketing the bonds. In more complicated financings, presale marketing can be crucial to obtaining the lowest possible interest cost. In addition, the negotiated method of sale offers issuers timing and structural flexibility as well as more influence in bond distribution directed to selected underwriting firms or customers.

Disadvantages of negotiated sales are a lack of competition in pricing and the possible appearance of favoritism. In addition, a wide fluctuation in spread between comparable deals may be greater in a negotiated environment. Conditions favoring a negotiated sale are market volatility or securities for which market demand is difficult to ascertain.

Market demand is generally more difficult to assess for securities issued by an infrequent issuer or problem credits, securities that include innovative structuring or derivative products, or securities that are backed by a weak source of repayment. These conditions generally favor a negotiated method of sale.

Comparisons of the spreads paid on Texas negotiated and competitive transactions in fiscal 2001 reveal that bond issues sold in the competitive market had higher underwriting costs than the negotiated transactions *(Figure 10)*. During fiscal 2001, Texas bond issuers paid an average of $5.10 per $1,000 through negotiated sales, and $7.74 per $1,000 through competitive bids. Compared to the national averages compiled by Thomson Financial Securities Data, which recorded averages of $6.49 per $1,000 for negotiated transactions and $6.50 per $1,000 for competitive transactions, Texas shows to be above the average range in competitive sales, but substantially lower than the national average in negotiated sales. For fiscal year 2001, most of Texas' competitive issues were smaller issues with an average size of just under $41.4 million, while the negotiated issues had an average size of over $107.3 million.

Although issue size differences explain the majority of the differences between the type of Texas transactions, the nationwide closing gap between negotiated and competitive issues is notable. From 1997 to 2001 the gap has decreased from $1.07 to preliminarily -$0.01, between negotiated and competitive issues nationwide.

Theoretically, the competitive gross spread provides compensation for risk and the distribution of bonds, but it does not include significant components in a negotiated spread, such as management fees or underwriters' counsel. As negotiated gross spreads are now sometimes below competitive gross spreads, it appears that bonds sold through negotiation may be priced to essentially eliminate the likelihood of loss.

Issuers should primarily focus on how their bonds are being priced in the market and secondarily focus on the underwriting spread. Issuers need to be cognizant of the possibility that, by reducing the takedown component below comparable market levels, they may be reducing the sales effort needed to move their bond issue, which will most likely result in a lower price (higher yield) for their bonds.

Recent Trends in Issuance Costs

In order to determine any trends in issuance costs, it is important to review the makeup of the 16 bond transactions (exclusive of conduit issues) occurring in fiscal 2001. Four of those issues were sold via competitive bids, one was a private placement, and eleven were negotiated transactions. All four of the issues sold competitively were issued for amounts under $75 million. Of the eleven negotiated transactions, only one was $25 million or less. Among those bond issues, total issuance costs for bonds issued via negotiated sale averaged $7.56 per $1,000, whereas bonds issued via competitive bid had an average cost of $10.59 per $1,000.

An accurate comparison of the average issuance costs per $1,000 on negotiated and competitively bid bond issues for fiscal 2001 is difficult because there were only four competitively bid transactions, all were under $75 million. This is important because smaller bond issues tend to be more costly due to the costs that occur despite the size of the issue. This can be shown more effectively by separating the average underwriter's spread and the average issuance costs. For the transactions bid competitively, the average spread was $7.74 per $1,000 and average issuance cost per $1,000 was $2.85 for a total of $10.59. Negotiated issues, however, had a total average of $7.56, an average spread of $5.10 per $1,000 and average issuance cost of $2.46 per $1,000.

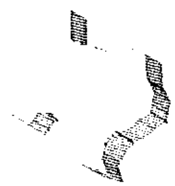
The purpose of this synopsis is to analyze recent trends in issuance costs. A definitive conclusion regarding the most efficient method of sale for Texas bonds should not be drawn from such a limited number of bond issues.

The responsibility of choosing the method of sale lies with the issuer. In determining the method of sale, factors such as size, complexity, and time frame influence the issuer's decision. Texas bond issuers have demonstrated the ability to issue bonds in a cost-efficient manner. It is the responsibility of the Bond Review Board to ensure that they remain vigilant in achieving this goal.

[1] Issuance cost calculations in this chapter do not include issues where the state acted as a conduit issuer.
[2] Definitions adapted from the Municipal Securities Rulemaking Board's *Glossary of Municipal Securities Terms.*

Chapter 5

Texas Private Activity Bond Allocation Program



Tax-exempt financing of "private activities" is limited by federal law since the passage of the Tax Reform Act of 1986 (the "Tax Act"). Private activity bonds are those that meet any or all of the following tests: 1) Private Business Use Test – more than ten percent of the proceeds are to be used for any private business use; 2) Private Security or Payment Test – payment on principal or interest of more than ten percent of the proceeds is to be directly or indirectly secured by, or payments are to be derived from, a private business use; and 3) Private Loan Financing Test – proceeds are to be used to make or finance loans to persons other than government units.

The Tax Act also restricted the types of privately-owned public purpose projects that can take advantage of tax-exempt financing. The types of issues authorized are mortgage revenue bonds (MRBs), small-issue industrial development bonds (IDBs), certain state-voted bond issues, student loan bonds, and a variety of "exempt facilities," including qualified residential rental projects (multifamily housing), sewage facilities, solid waste disposal facilities, and hazardous waste disposal facilities.

In addition, the Tax Act imposed a volume ceiling on the aggregate principal amount of tax-exempt private activity bonds that may be issued within each state during any calendar year. As a result, the ceiling was initially set at the greater of $50 per capita or $150 million. Section 146(e) of the Internal Revenue Code also provided for each state to devise an allocation formula or a process for allocating the state's ceiling. This provision gave each state the ability to allocate this limited resource in a manner consistent with the needs of that state. Since different states have different needs and demands, there are many varied allocation systems in place.

The Texas Revised Civil Statutes, Article 5190.9a, as amended, and Chapter 1372, Texas Government Code (collectively the "Act"), mandate the allocation process for the state of Texas. The Private Activity Bond Allocation Program regulates the volume ceiling and monitors the amount of demand and the use of private activity bonds each year. The Texas Bond Review Board has administered this program since January 1, 1992.

In an effort to address the high demand for most types of private activity bond financing, the state of Texas devised a nonpolitical system that ensures an allocation opportunity for each eligible project type. As the state's ceiling is limited by the federal government, it is impossible to meet all the demands. Therefore, a lottery system is in place that ensures an equitable method of allocation.

The 76th Texas Legislature passed Senate Bill 1155 (SB 1155), which made significant amendments to the Act. Beginning with the 2000 program year, the Act specified that, for the first seven and a half months of the year, the state's ceiling must be set aside as follows:

- 25 percent for single family housing to issuers of qualified mortgage revenue bonds (MRBs). Of that amount, one-third will continue to be set aside for the Texas Department of Housing and Community Affairs (TDHCA) with the other two-thirds dedicated to the local issuers. Local issuers may apply for an amount determined by a formula, based on their population, but in no event for more than the maximum amount of $25 million.

- 11 percent for issues authorized by a state constitutional amendment. The Texas Higher Education Coordinating Board may apply for a maximum of $75 million, while other issuers eligible in this category are limited to a maximum of $50 million.

- 7.5 percent for issuers of qualified small issue industrial development bonds (IDBs) and empowerment zone bonds (EZ bonds) for use in federally designated empowerment zones and enterprise communities. The maximum allocation amount in this subceiling is $10 million.

- 16.5 percent for issuers of qualified residential rental project issue bonds (multifamily housing). Issuers within this category may apply for a maximum amount of the lesser of $15 million or 15 percent of the amount set aside for this subceiling.

- 10.5 percent for issuers of qualified student loan bonds authorized by §53.47, Texas Education Code. Each issuer is limited to a maximum amount of $35 million.

- 29.5 percent for issuers of "all other" bonds requiring an allocation. This final subceiling receives applications from local issuers of exempt facility bonds and any other eligible bonds not covered by the other subceilings. Applications in this subceiling may not exceed $25 million.

In addition to amending the set-aside amounts, the new statute required a priority system for residential rental (multifamily housing) applications. The multifamily category now has three priorities to encourage developers to reach residents at a lower income level. Priority one requires that 100 percent of the units be set aside for residents at or below 50 percent of the area median family income (AMFI) and that the rents on those units be capped at the 30 percent level. Priority two requires that 100 percent of the units be set aside for residents at or below 60 percent AMFI and that the rents on those units be capped at the 30 percent level. Priority three does not require any rent caps or set asides other than the federal requirements of either 40 percent of the units being set aside for residents earning at or below 60 percent AMFI or 20 percent of the units being set aside for residents earning at or below 50 percent AMFI. For the first two priorities, the developer is required to use the four percent low income housing tax credits, including applying for such credits with TDHCA before a bond reservation can be issued. Tax credits are optional in the third priority.

SB 1155 changes also cause all six subceilings to collapse on August 15th rather than September 1st. Any remaining amounts are combined and made available exclusively to the multifamily applications, in priority order, until August 31st. Any amounts available on or after September 1st are then offered to remaining applications by lot order, regardless of project type or priority.

With the exception of single family housing and student loan bonds, reservations of state ceiling are allocated by lottery for applications received from October 10 - October 20 of the year preceding the program year, and thereafter on a first-come, first-serve basis. Single family housing and student loan bonds have a separate priority system based on prior applications and prior bond issues. This system, used exclusively within these two subceilings, is in place from January through August 14th of each year. As previously noted, on August 15th of each year, unreserved allocation from all the subceilings is now combined and redistributed to qualified residential rental projects. Furthermore, on September 1st, unreserved allocation from all subceilings is combined and redistributed by lot order, regardless of project type.

All issuers, except MRB issuers, must complete their transaction and close on the bond issue within 120 days of the reservation date. Issuers of MRBs must close within a 180-day time limit. If an applicant receives a reservation for allocation and is unable to consummate the transaction, or closes for a lesser amount, the original request is considered satisfied. Subsequently, the unused reservation or excess allocation is redistributed and used by the next applicant in line. Oftentimes, this results in a volume cap distribution, that might vary slightly from the predetermined set-asides at the beginning of the program year *(Table 15).*

The state of Texas is second only to California in population and volume cap. Texas once again experienced an increase in volume cap for the 2001 Private Activity Bond Allocation Program. Based on the Texas population figures of 20,851,820, the 2001 volume cap was set at $1,303,238,751, an increase of $301,031,701 (30.03 percent) from the 2000 cap of $1,002,207,050.

The dramatic increase in the amount of cap allocation can be attributed to the growth of the state's population and new federal legislation that increased the per capita formula. On December 20, 2000, new legislation was passed that accelerated the increase in private-activity volume cap; the first such increase since the Tax Reform Act of 1986. The New phase in began January 1, 2001, when the limit was increased from $50 per capita to $62.50 per capita. The second part of the plan will occur in January of 2002 when the cap multiplier increases to $75 per capita or $225 million, whichever is greater. Beginning in 2003, the state ceiling will be indexed to inflation.

The increase still fell short of the demand for the program. The allocation program in Texas has been oversubscribed each year since 1988 *(Figure 11).* Applications received for program year 2001 totaled $3.25 billion or 249.32 percent of the available allocation amount *(Table 16).* The 2001 program year left $1.94 billion in requests for allocation unsatisfied.

State legislation passed during the 77th legislative session will have an impact on the future set-aside amounts of the state's six subceilings. Senate Bill 322 establishes new set-aside percentages that will be in effect for the 2002 Private Activity Bond Allocation Program and are as follows:

Table 15

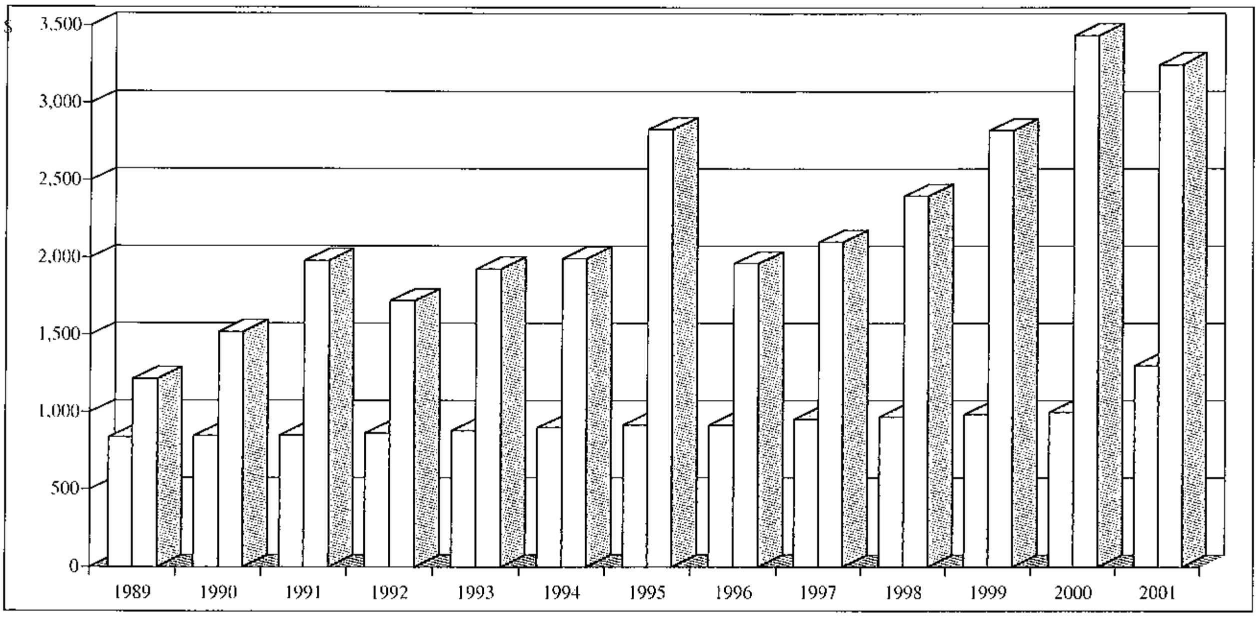
STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
2001 SET-ASIDE vs. ISSUED ALLOCATION AMOUNTS

SUBCEILINGS	SET-ASIDE ALLOCATION	PERCENT OF TOTAL	ISSUED ALLOCATION	PERCENT OF TOTAL
Single Family Housing	$325,809,688	25.00%	$323,492,473	24.82%
State-Voted Issues	143,356,262	11.00%	75,000,000	5.75%
Small-Issue IDBs	97,742,906	7.50%	14,600,000	1.12%
Multifamily Housing	215,034,394	16.50%	369,101,277	28.32%
Student Loan Bonds	136,840,069	10.50%	136,840,000	10.50%
All Other Issues	384,455,431	29.50%	384,205,000	29.48%
TOTALS	**$1,303,238,750**	**100.00%**	**$1,303,238,750**	**100.00%**

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

Figure 11

STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
AVAILABLE vs. REQUESTED ALLOCATION
(millions of dollars)



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

Subceiling #1
Mortgage Revenue Bonds
Increased from 25 to 29.6 percent

Subceiling #2
State-Voted Issues
Decreased from 11 to 8 percent

Subceiling #3
Qualified Small-Issue IDBs
Decreased from 7.5 to 4.6 percent

Subceiling #4
Multifamily Revenue Bonds
Increased from 16.5 to 23 percent

Subceiling #5
Student Loan Bonds
Decreased from 10.5 to 8.8 percent

Subceiling #6
All Other Issues
Decreased from 29.5 to 26 percent.

Table 16

STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
2001 APPLICATIONS FOR ALLOCATION
(as of November 1, 2001)

	Available Allocation	**Requested Allocation**	**Requests as a % of Availability**
Mortgage Revenue Bonds	$325,809,688	$660,380,254	202.69%
State-Voted Issue Bonds	143,356,263	75,000,000	52.32%
Industrial Development Bonds	97,742,906	44,150,000	45.17%
Multifamily Rental Project Bonds	215,034,394	1,521,770,064	707.69%
Student Loan Bonds	136,840,069	171,840,000	125.58%
All Other Bonds Requiring Allocation	384,455,431	776,081,580	201.87%
Total	**$1,303,238,751**	**$3,249,221,898**	**249.32%**

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

Appendix A
Summary of Bonds Issued

THE TEXAS A&M UNIVERSITY SYSTEM

Issue: Texas A&M University System, Revenue Financing System Refunding Bonds, Series 2001A & B – $191,285,000

Purpose: The proceeds from the Series 2001A and 2001B bonds will be used to refund outstanding bonds, refund outstanding commercial paper, and provide funds for new construction.

Dates:	Board Approval –	April 19, 2001
	Negotiated Sale –	May 9, 2001
	Closing Date –	June 14, 2001

Structure: The bonds are to be sold on a negotiated basis as tax-exempt, fixed rate, callable securities with final maturity in 2021.

Bond Ratings:	Moody's -	Aa1
	Standard & Poor's -	AA+
	Fitch IBCA -	AA+

Interest Cost:
True Interest Cost (TIC) – 4.73%
Net Interest Cost (NIC) – 4.84%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L.L.P.
Financial Advisor -	First Southwest Company
Senior Underwriter -	Morgan Stanley Dean Witter

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$136,113	$0.71
Financial Advisor	99,397	0.52
Rating Agencies	51,000	0.27
Printing	5,881	0.03
Escrow Agent	6,750	0.04
Paying Agent/Registrar	435	0.00
Escrow Verification	5,000	0.03
Attorney General	2,500	0.01
Miscellaneous	606	0.00
	$307,682	**$1.61**
Underwriter's Spread	**$874,004**	**$4.57**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Residential Mortgage Revenue Bonds Series 2000 B, C, D, and E – $124,915,000 (Private Activity)

Purpose: Proceeds of the Series 2000B bonds ($82,975,000) and the Series 2000E bonds ($10,000,000) were used to fund mortgage loans to first time homebuyers of low, very low, and moderate income. A portion of the proceeds was used to fund the cost of issuance of the bonds. Proceeds of the Series 2000C bonds ($13,675,000) and the 2000D bonds ($18,265,000) were used to refund TDHCA's outstanding Single Family Mortgage Revenue Refunding Tax-Exempt Commercial Paper Notes, Series A.

Dates:	Board Approval –	August 22, 2000
	Negotiated Sale –	September 13, 2000
	Closing Date –	October 26, 2000

Structure: The Series 2000B bonds ($82,975,000) were issued as fixed-rate, tax-exempt term bonds maturing in January 2033. The Series 2000C bonds ($13,675,000) were issued as fixed-rate, tax-exempt term bonds maturing in January 2025. The Series 2000D bonds ($18,265,000) were issued as fixed-rate term and serial bonds, maturing in January 2020. The Series 2000E bonds ($10,000,000) were issued as fixed-rate, taxable term bonds maturing in January 2033.

Bond Ratings:	Moody's –	Aaa
	Standard & Poor's –	AAA

Interest Cost:
True Interest Cost (TIC) – 5.86%
Net Interest Cost (NIC) – 5.90%

Consultants:

Bond Counsel -	Vinson & Elkins L.L.P.
Financial Advisor -	Dain Rauscher, Inc.
Senior Underwriter -	George K. Baum & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$98,473	$0.79
Disclosure Counsel	63,937	0.51
Financial Advisor	97,000	0.78
Trustee	20,000	0.16
Trustee Counsel	17,000	0.14
Attorney General	2,500	0.02
TDHCA Fees	80,000	0.64
Private Activity Fees	21,379	0.17
Printing Fee	18,883	0.15
Rating Agencies	67,455	0.54
Escrow Verification	8,500	0.07
	$495,126	**$3.97**
Underwriter's Spread	**$936,320**	**$7.50**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Bluffview) Series 2001 – $10,700,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to TX Bluffview Housing, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 250-unit multifamily residential rental project in Denton, Texas.

Dates: Board Approval – April 19, 2001
Private Placement – May 2, 2001
Closing Date – May 2, 2001

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing in May 2041.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.71%
Net Interest Cost (NIC) – 7.64%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$50,000	$4.67
Disclosure Counsel	2,500	0.23
Financial Advisor	30,000	2.80
Trustee	7,500	0.70
Trustee Counsel	5,000	0.47
Attorney General	1,250	0.12
TDHCA Fees	70,750	6.61
Miscellaneous	3,589	0.34
	$170,589	**$15.94**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Cobb Park) Series 2001 – $7,785,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Cobb Park Townhomes, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 172-unit multifamily residential rental project to be located in Fort Worth, Texas.

Dates: Board Approval – July 19, 2001
Private Placement – July 31, 2001
Closing Date – July 31, 2001

Structure: The bonds were issued as fixed-rate, tax-exempt and taxable securities maturing in 2041. The bonds are insured.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.48%
Net Interest Cost (NIC) – 7.44%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$61,500	$7.90
Disclosure Counsel	2,500	0.32
Financial Advisor	28,000	3.60
Trustee	8,000	1.03
Trustee Counsel	5,000	0.64
Attorney General	2,500	0.32
TDHCA Fees	54,225	6.97
Private Activity Fee	1,947	0.25
TEFRA Notice	2,500	0.32
	$166,172	**$21.35**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Collingham Park), Series 2000 A, B & C – $13,500,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to TCR Bissonet, L.P., a Texas limited partnership, to finance the acquisition, construction, and long-term financing of a new 250-unit multi-family residential rental project located in Houston, Texas.

Dates: Board Approval – October 19, 2000
Private Placement – November 14, 2000
Closing Date – November 15, 2000

Structure: The Series 2000A&B bonds were issued as fixed-rate, tax-exempt securities maturing in 2033. The Series 2000C bonds were issued as fixed-rate taxable securities maturing in 2008.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 6.48%
Net Interest Cost (NIC) – 6.60%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$45,000	$3.33
Disclosure Counsel	2,500	0.19
Financial Advisor	40,000	2.96
Trustee	10,000	0.74
Trustee Counsel	5,000	0.37
Attorney General	2,500	0.19
TDHCA Fees	91,500	6.78
Private Activity Fee	3,438	0.25
Miscellaneous	5,000	0.37
	$204,938	**$15.18**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Greenbridge at Buckingham), Series 2000 A&B – $20,085,000

Purpose: The proceeds of the bonds were used to fund a permanent mortgage loan to Greenbridge at Buckingham LLC, a Texas limited liability company, to provide for the acquisition, construction, equipment and long-term financing of a new 242-unit multi-family residential rental project located in Richardson, Texas.

Dates: Board Approval – October 19, 2000
Private Placement – November 6, 2000
Closing Date – November 7, 2000

Structure: The Series 2000A bonds ($19,735,000) were issued as fixed-rate, tax-exempt securities maturing in October 2040. The Series 2000B bonds ($350,000) were issued as fixed-rate taxable securities maturing in January 2007.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.41%
Net Interest Cost (NIC) – 7.41%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$100,000	$4.98
Disclosure Counsel	2,500	0.12
Financial Advisor	35,000	1.74
Trustee	7,500	0.37
Trustee Counsel	5,000	0.25
Printing	2,300	0.11
Attorney General	2,500	0.12
TDHCA Fees	61,263	3.05
Miscellaneous	690,717	34.39
	$906,780	**$45.15**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Revenue Bonds Series 2000 A, B & C (Highland Meadow Village)– $13,500,000

Purpose: The proceeds of the bonds were used to fund a permanent mortgage loan to TCR Highland Meadow limited partnership, to provide for the acquisition, construction, equipment, and long-term financing of a new 250-unit multi-family residential rental project located in Houston, Texas.

Dates:

Board Approval –	September 21, 2000
Private Placement –	September 25, 2000
Closing Date –	September 26, 2000

Structure: The Series 2000A bonds ($10,115,000) were issued as fixed-rate, tax-exempt securities maturing in May 2033. The Series 2000B bonds ($2,635,000) were issued as fixed-rate tax-exempt securities maturing in May 2033. The Series 2000C bonds ($750,000) were issued as fixed-rate taxable securities maturing in May 2008.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 6.59%
Net Interest Cost (NIC) – 6.67%

Consultants:
Bond Counsel — Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$56,500	$4.19
Disclosure Counsel	2,545	0.19
Financial Advisor	35,000	2.59
Trustee	6,500	0.48
Trustee Counsel	5,000	0.37
Attorney General	2,500	0.19
TDHCA Fees	91,500	6.78
Private Activity Fees	5,563	0.41
Miscellaneous	278,130	20.60
	$483,238	**$35.80**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Knollwood Villas) Series 2001 – $13,750,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Knollwood Villas, L.P., a Texas limited partnership. The loan was used to finance the acquisition, construction, equipment and long-term financing of a new, 264-unit multifamily residential rental project to be located on a 22-acre site on the south side of McKinney Street, west of Loop 288 in Denton County, Denton, Texas.

Dates:

Board Approval –	April 19, 2001
Private Placement –	May 2, 2001
Closing Date –	May 2, 2001

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing in May 2041.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.71%
Net Interest Cost (NIC) – 7.64%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$50,000	$3.64
Disclosure Counsel	2,500	0.18
Financial Advisor	30,000	2.18
Trustee	7,500	0.55
Trustee Counsel	5,000	0.36
Attorney General	1,250	0.09
TDHCA Fees	86,350	6.28
Miscellaneous	3,588	0.26
	$186,188	**$13.54**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Red Hills Villas) Series 2000 A&B – $10,300,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to South Creek Housing, Ltd., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 169-unit multi-family residential rental project to be located in Round Rock, Texas.

Dates:		
	Board Approval –	November 23, 2000
	Private Placement –	December 13, 2000
	Closing Date –	December 13, 2000

Structure: The Series 2000A bonds ($9,900,000) were issued as fixed-rate, tax-exempt securities maturing in December 2040. The Series 2000B bonds ($400,000) were issued as fixed-rate, taxable securities maturing in July 2010.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.43%
Net Interest Cost (NIC) – 7.42%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$65,000	$6.31
Disclosure Counsel	2,500	0.24
Financial Advisor	35,000	3.40
Trustee	7,500	0.73
Trustee Counsel	5,000	0.49
Attorney General	2,500	0.24
TDHCA Fees	66,700	6.48
Private Activity Fees	3,000	0.29
Printing Fee	1,500	0.15
Miscellaneous	253,500	24.61
	$442,200	**$42.93**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Skyway) Series 2001 – $13,250,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Skyway Villas, Ltd., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 232-unit multifamily residential rental project to be located in McKinney, Texas.

Dates:		
	Board Approval –	June 21, 2001
	Negotiated –	June 27, 2001
	Closing Date –	July 10, 2001

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing in 2034. The Senior bonds, Series 2001A, are insured. Series 2001B bonds are not insured.

Bond Ratings:

Series 2001A:	Moody's –	Aaa
	Standard & Poor's –	AAA
Series 2001B:	The bonds were not rated.	

Interest Cost:
True Interest Cost (TIC) – 5.53%
Net Interest Cost (NIC) – 5.65%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$70,000	$5.28
Disclosure Counsel	5,000	0.38
Financial Advisor	30,000	2.26
Rating Agencies	25,000	1.89
Printing	4,000	0.30
Trustee	7,500	0.57
Trustee Counsel	5,000	0.38
Attorney General	2,500	0.19
TDHCA Fees	83,050	6.27
Private Activity Fee	3,813	0.29
TEFRA Notice	1,500	0.11
	$237,363	**$17.91**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Williams Run) Series 2000 A&B – $12,850,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Greenbridge at Williams Run, L.L.C., a Texas limited liability company, to finance the acquisition, rehabilitation and long-term financing of a 252-unit multi-family residential rental project to be located in Dallas, Texas.

Dates:		
	Board Approval –	September 21, 2000
	Private Placement –	December 1, 2000
	Closing Date –	December 6, 2000

Structure: The Series 2000A bonds ($12,650,000) were issued as fixed-rate, tax-exempt securities maturing in November 2040. The Series 2000B bonds ($200,000) were issued as fixed-rate, taxable securities maturing in July 2004.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.65%
Net Interest Cost (NIC) – 7.65%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$70,000	$5.45
Disclosure Counsel	2,500	0.19
Financial Advisor	30,000	2.33
Trustee	7,500	0.58
Trustee Counsel	5,000	0.39
Attorney General	2,500	0.19
TDHCA Fees	43,925	3.42
Miscellaneous	190,800	14.85
	$352,225	**$27.40**

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: Texas Higher Education Coordinating Board, Student Loan Bonds, Series 2000 – $75,000,000

Purpose: The proceeds of the bonds were used to make funds available for the Hinson-Hazelwood College Student Loan Program administered by the Texas Higher Education Coordinating Board. Proceeds from the sale of the bonds were also used to pay the cost of issuance.

Dates:		
	Board Approval –	September 21, 2000
	Competitive Sale –	October 26, 2000
	Closing Date –	November 16, 2000

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 2005 with a final maturity of August 2017. The issue also contains term bonds maturing in 2020 and 2024. The bonds are general obligations of the state.

Bond Ratings:		
	Moody's –	Aa1
	Standard & Poor's –	AA

Interest Cost:
True Interest Cost (TIC) – 5.33%
Net Interest Cost (NIC) – 5.33%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Co-Bond Counsel –	Wickliff & Hall P.C.
Financial Advisor –	First Southwest Company
Co-Financial Advisor –	Walton Johnson & Company
Senior Underwriter –	PaineWebber Incorporated

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$30,895	$0.41
Co-Bond Counsel	8,150	0.11
Financial Advisor	30,521	0.41
Co-Financial Advisor	7,731	0.10
Rating Agencies	23,060	0.31
Paying Agent	700	0.01
Printing	7,500	0.10
Private Activity Fee	19,250	0.26
Attorney General	1,250	0.02
Other	6,304	0.08
	$135,361	**$1.80**
Underwriter's Spread	**$517,500**	**$6.90**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority State of Texas Revenue Bonds, Series 2001 – $12,685,000

Purpose: The bond proceeds were used to provide funds to finance the Texas Department of Parks and Wildlife (TPWD) infrastructure repairs and facitilty improvements.

Dates:	Board Approval –	November 23, 2000
	Negotiated Sale –	January 9, 2001
	Closing Date –	January 30, 2001

Structure: The bonds were sold on a negotiated basis as tax-exempt, fixed rate, callable securities with final maturity in 2013. The bonds were issued in book-entry form as fully registered securities in denominations of $5,000 or any intergral mutiple thereof.

Bond Ratings:	Moody's –	Aa2
	Standard & Poor's –	A+

Interest Cost:
True Interest Cost (TIC) – 4.3354%
Net Interest Cost (NIC) – 4.3358%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Morgan Stanley Dean Witter

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$26,000	$2.05
Financial Advisor	23,427	1.85
Co-Financial Advisor	11,026	0.87
Rating Agencies	12,960	1.02
Printing	7,500	0.59
Escrow Agent	0	0.00
Escrow Verification	0	0.00
Attorney General	1,000	0.08
Miscellaneous	3,107	0.24
	$85,020	**$6.70**
Underwriters' Spread	**$82,925**	**$6.54**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas General Obligation Refunding Bonds, Series 2001 – $318,921,222

Purpose: The bond proceeds were used to refund a portion of the Authority's outstanding general obligation bonds and to pay for the cost of issuing the bonds.

Dates:	Board Approval –	February 22, 2001
	Negotiated Sale –	April 3, 2001
	Closing Date –	May 2, 2001

Structure: The bonds were issued as fixed-rate, tax-exempt securities with final maturity in October 2016. The bonds are secured by the state's general obligation pledge and as such, the state's full faith and credit are pledged towards repayment of the bonds.

Bond Ratings:	Moody's –	Aa1
	Standard & Poor's –	AA
	Fitch IBCA –	AA+

Interest Cost:
True Interest Cost (TIC) – 4.41%
Net Interest Cost (NIC) – 4.29%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Morgan Stanley Dean Witter

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$32,304	$0.10
Financial Advisor	32,801	0.10
Co-Financial Advisor	11,960	0.04
Rating Agencies	62,000	0.19
Printing	3,959	0.01
Escrow Agent	1,750	0.01
Escrow Verification	5,150	0.02
Attorney General	1,250	0.00
Miscellaneous	1,942	0.01
	$153,115	**$0.48**
Underwriters' Spread	**$1,588,800**	**$4.98**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation, Multi-Family Mortgage Revenue Bonds (Ashton/Woodstock Apartments) Series 2001 A & B – $11,485,000

Purpose: The proceeds were used to fund a mortgage loan to Agape Ashton/Woodstock, Inc., for the purpose of financing the acquisition, rehabilitation, and equipment of two multifamily residential apartment developments located in Galveston and Arlington, Texas.

Dates:	Board Approval –	June 21, 2001
	Negotiated Sale –	July 9, 2001
	Closing Date –	July 12, 2001

Structure: The bonds were issued in four series. Series A, C, and D were issued as fixed-rate, tax-exempt securities. The Series B bonds were issued as fixed-rate, taxable securities. All series were issued as term bonds. The Series A and B bonds mature in August of 2004, 2011, 2016, 2021, and 2033. The Series C and D bonds mature in August 2033.

Bond Ratings:	Moody's – Series A and B	A3
	Series C	Baa3
	Series D	Ba2

Interest Cost:
True Interest Cost (TIC) – 6.63%
Net Interest Cost (NIC) – 6.68%

Consultants:
Bond Counsel – Andrews and Kurth L.L.P.
Financial Advisor – First Southwest Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$90,000	$7.84
Issuer Counsel	16,000	1.39
Financial Advisor	32,829	2.86
Rating Agency	40,000	3.48
Trustee	16,500	1.44
Attorney General	2,500	0.22
Printing	0	0.00
Miscellaneous	13,985	1.22
	$211,814	**$18.44**
Underwriter's Spread	**$214,888**	**$18.71**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation, Multi-Family Mortgage Revenue Bonds (Reserve Apartments), Series 2001 A & B – $21,547,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Agape Irving Housing, Inc., to provide for the acquisition, construction, equipment and long-term financing of a new 261-unit multifamily residential rental project located in Irving, Texas.

Dates:	Board Approval –	March 22, 2001
	Negotiated Sale –	April 5, 2001
	Closing Date –	April 10, 2001

Structure: The bonds were issued in four series. Series A, C, and D were issued as fixed-rate, tax-exempt securities. The Series B bonds were issued as fixed-rate, taxable securities. All series were issued as term bonds. The Series A and B bonds mature in August of 2004, 2011, 2016, 2021, and 2033. The Series C and D bonds mature in August 2033.

Bond Ratings: Moody's – Aaa

Interest Cost:
True Interest Cost (TIC) – 5.74%
Net Interest Cost (NIC) – 5.95%

Consultants:
Bond Counsel – Andrews and Kurth L.L.P.
Financial Advisor – First Southwest Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$125,000	$5.80
Issuer Counsel	35,000	1.62
Financial Advisor	53,094	2.46
Rating Agency	17,500	0.81
Trustee	14,773	0.69
Trustee Counsel	5,000	0.23
Attorney General	2,500	0.12
TSAHC Fees	22,547	1.05
Miscellaneous	18,000	0.84
	$293,414	**$13.62**
Underwriter's Spread	**$163,819**	**$7.60**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents of Texas State University System, Revenue Financing System Bonds, Series 2001 – $12,400,000

Purpose: The proceeds of the bonds were used to acquire, purchase, construct, improve, renovate, enlarge, and equip property, building, structures, facilities, roads, and related infrastructure for Southwest Texas State University.

Dates:

	Board Approval –	April 19, 2001
	Competitive Sale –	June 7, 2001
	Closing Date –	June 21, 2001

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in 2002 with final maturity in March 2021. The bonds are insured.

Bond Ratings:

	Moody's –	Aaa/Aa3
	Standard & Poor's –	AAA/A+

Interest Cost:
True Interest Cost (TIC) – 4.95%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	Dain Rauscher, Inc.
Underwriter –	Banc of America Securities L.L.C.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$10,180	$0.82
Financial Advisor	17,200	1.39
Rating Agencies	16,250	1.31
Paying Agent	975	0.08
Printing	5,000	0.40
Attorney General	1,000	0.08
Other	3,395	0.27
	$54,000	**$4.35**
Underwriter's Spread	**$108,174**	**$8.72**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents of Texas State University System, Revenue Financing System Bonds, Series 2000 – $26,000,000

Purpose: The proceeds of the bonds were used to acquire, purchase, construct, improve, renovate, enlarge, and equip property, building, structures, facilities, roads, and related infrastructure for Southwest Texas State University and Sam Houston State University.

Dates:

	Board Approval –	June 22, 2000
	Competitive Sale –	August 30, 2000
	Delivery Date –	September 26, 2000

Structure: The Series 2000 bonds were issued as fixed-rate, tax-exempt securities and mature serially beginning in 2001 with final maturity in March 2020. The bonds are insured.

Bond Ratings:

	Moody's -	Aaa/A1
	Standard & Poor's -	AAA/A+

Interest Cost:
True Interest Cost (TIC) – 5.30%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	Dain Rauscher, Inc.
Underwriter –	Banc of America Securities L.L.C.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$12,500	$0.48
Financial Advisor	23,100	0.89
Rating Agencies	34,000	1.31
Paying Agent	400	0.02
Printing	9,000	0.35
Attorney General	1,250	0.05
	$80,250	**$3.09**
Underwriter's Spread	**$195,000**	**$7.50**

UNIVERSITY OF HOUSTON

Issue: Board of Regents of the University of Houston System, Consolidated Revenue Bonds, Series 2000 – $52,070,000

Purpose: The proceeds from the sale of the bonds were used to finance the acquisition, purchase, construction, improvement, renovation, enlargement and equipping of any property, buildings, structures, activities, services, operations, or other facilities for the University of Houston System. Proceeds from the sale of the bonds were also used to pay the costs of issuance.

Dates:	Board Approval –	August 22, 2000
	Competitive Sale –	September 13, 2000
	Closing Date –	October 11, 2000

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 2003 with final maturity in February 2030. The bonds are insured.

Bond Ratings:	Moody's –	Aaa/Aa3
	Standard & Poor's –	AAA/AA-

Interest Cost:

True Interest Cost (TIC) –	5.55%
Net Interest Cost (NIC) –	5.48%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Salomon Smith Barney

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$34,729	$0.67
Financial Advisor	18,867	0.36
Rating Agencies	42,500	0.82
Paying Agent	250	0.00
Printing	10,781	0.21
Attorney General	1,250	0.02
Miscellaneous	270	0.01
	$108,647	**$2.09**
Underwriter's Spread	**$474,358**	**$9.11**

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Revenue Financing System Refunding Bonds, Series 2001A – $81,665,000

Purpose: Proceeds of the Series 2001 bonds were used to refund outstanding Revenue Financing System Bonds, Series 1991A and Series 1991B and to pay the costs of issuance.

Dates:	Board Approval –	March 18, 1999
	Competitive Sale –	May 17, 2001
	Closing Date –	May 17, 2001

Structure: The bonds were issued as variable-rate, tax-exempt securities. The bonds mature serially beginning in 2002 with final maturity in August 2013.

Bond Ratings:	Moody's –	Aaa
	Standard & Poor's –	AAA
	Fitch IBCA –	AAA

Interest Cost:

True Interest Cost (TIC) –	Variable
Net Interest Cost (NIC) –	Variable

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	Dain Rauscher, Inc.
Underwriter –	J.P. Morgan Securities Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$52,908	$0.65
Financial Advisor	26,361	0.32
Rating Agencies	53,460	0.65
Paying Agent	1,300	0.02
Printing	650	0.01
Attorney General	1,250	0.02
Other	22,650	0.28
	$158,579	**$1.94**
Underwriter's Spread	**$111,231**	**$1.36**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program, Fund I and Fund II, Taxable Series 2000D & E – $26,170,000

Purpose: The bond proceeds were used to refund the principal amounts in the Veterans' Housing Assistance Program.

Dates:	Board Approval –	October 19, 2000
	Negotiated Sale –	November 2, 2000
	Closing Date –	November 16, 2000

Structure: The bonds were issued as fixed-rate, taxable term bonds maturing in December 2010.

Bond Ratings:	Moody's –	Aa1
	Standard & Poor's -	AA

Interest Cost:

True Interest Cost (TIC) –	7.07%
Net Interest Cost (NIC) –	7.07%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Co-Bond Counsel –	Lannen & Oliver P.C.
Financial Advisor –	Dain Rauscher, Inc.
Senior Underwriter –	U.S. Bancorp Piper Jaffray

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$33,124	$1.27
Co-Bond Counsel	15,678	0.60
Financial Advisor	10,410	0.40
Rating Agencies	17,000	0.65
Printing	4,270	0.16
Attorney General	2,500	0.10
	$82,982	**$3.17**
Underwriter's Spread	**$191,015**	**$7.30**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Land Refunding Bonds, Taxable Series 2000 – $39,960,000

Purpose: The proceeds of the bonds were used, together with other moneys of the Board, to refund a portion of the outstanding Veterans' Land Refunding Bonds, Series 1990.

Dates:	Board Approval –	October 19, 2000
	Negotiated Sale –	November 14, 2000
	Closing Date –	November 15, 2000

Structure: The bonds were issued as variable-rate, taxable securities initially in a Weekly Mode and mature on December 1, 2020. The bonds are general obligations of the state.

Bond Ratings:	Moody's –	Aa1/P1
	Standard & Poor's –	AA/A-1+

Interest Cost:

True Interest Cost (TIC) –	floating
Net Interest Cost (NIC) –	floating

Consultants:

Bond Counsel –	Akin, Gump, Strauss, Hauer & Feld L.L.P.
Co-Bond Counsel –	Wickliff & Hall P.C.
Financial Advisor –	Dain Rauscher, Inc.
Senior Underwriter –	Morgan Stanley Dean Witter

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$24,145	$0.60
Co-Bond Counsel	4,904	0.12
Financial Advisor	15,236	0.38
Rating Agencies	31,150	0.78
Printing	1,624	0.04
Attorney General	1,250	0.03
Miscellaneous	8,000	0.20
	$86,309	**$2.15**
Underwriter's Spread	**$84,338**	**$2.11**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program Fund II, Series 2001A-1 and A-2 – $60,000,000

Purpose: The proceeds were used to make housing loans to eligible Texas veterans and to pay the costs of issuance.

Dates:

Board Approval –	February 22, 2001
Negotiated Sale –	March 13, 2001
Closing Date –	March 22, 2001

Structure: The bonds were issued as tax-exempt, variable and fixed-rate securities, maturing in June 2032. The bonds are general obligations of the state.

Bond Ratings:

Moody's –	Aa1/VMIG-1
Standard & Poor's –	AA/A-1+

Interest Cost:

True Interest Cost (TIC) –	4.78%
Net Interest Cost (NIC) –	4.73%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Co-Bond Counsel –	Lannen & Oliver, P.C.
Financial Advisor –	Dain Rauscher, Inc.
Senior Underwriter –	U.S. Bancorp Piper Jaffray

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$83,591	$1.39
Co-Bond Counsel	18,705	0.31
Financial Advisor	22,500	0.38
Rating Agencies	29,250	0.49
Printing	6,567	0.11
Attorney General	2,500	0.04
	$163,113	**$2.72**
Underwriter's Spread	**$247,371**	**$4.12**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans Revenue Refunding Bonds, Taxable Series 2001B – $160,092,515

Purpose: The proceeds were used to refund a portion of the Veterans Mortgage Revenue Bonds, Taxable Series 2000A and all of the Veterans Mortgage Revenue Bonds, Taxable Series 2000B.

Dates:

Board Approval –	June 21, 2001
Private Placement –	July 11, 2001
Closing Date –	July 24, 2001

Structure: The bonds were issued as taxable, variable-rate securities with final maturity in 2004.

Bond Ratings: The bonds were not rated.

Interest Cost:

True Interest Cost (TIC) –	Variable
Net Interest Cost (NIC) –	Variable

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Co-Bond Counsel –	Lannen & Oliver P.C.
Financial Advisor –	Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$94,080	$0.59
Co-Bond Counsel	24,727	0.15
Financial Advisor	58,032	0.36
Trustee	2,500	0.02
Attorney General	1,250	0.01
Miscellaneous	2,500	0.02
	$183,089	**$1.14**
Underwriter's Spread	**$0**	**$0**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board Water Financial Assistance Bonds, Series 2000A – $75,000,000

Purpose: The bond proceeds were used to provide financial assistance to political subdivisions for water supply, water quality enhancement, and flood control purposes, and to pay costs of issuance.

Dates:	Board Approval –	October 19, 2000
	Negotiated Sale –	December 6, 2000
	Closing Date –	January 9, 2001

Structure: The bonds were issued as fixed-rate, tax-exempt serial and term securities. The serial bonds mature August 2020. The term bonds mature August 2022.

Bond Ratings:	Moody's –	Aa1
	Standard & Poor's –	AA
	Fitch IBCA –	AA+

Interest Cost:
True Interest Cost (TIC) – 5.30%
Net Interest Cost (NIC) – 5.34%

Consultants:

Bond Counsel –	McCall Parkhurst & Horton L.L.P.
Co-Bond Counsel –	Wickliff & Hall P.C.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Chase Securities of Texas, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$25,737	$0.34
Co-Bond Counsel	3,419	0.05
Financial Advisor	52,448	0.70
Rating Agencies	40,060	0.53
Printing	4,386	0.06
Paying Agent	250	0.00
Miscellaneous	548	0.01
Attorney General	1,250	0.02
	$128,098	**$1.71**
Underwriter's Spread	**$430,941**	**$5.75**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board State Revolving Fund, Senior Lien Revenue Bonds, Series 2000A – $100,000,000

Purpose: The bond proceeds were used to provide funds to the State Revolving Fund to purchase political subdivision bonds, fund a reserve account for the senior lien bonds and to pay the costs of issuance of the Series 2000A bonds.

Dates:	Board Approval –	July 22, 1999
	Negotiated Sale –	August 25, 2000
	Closing Date –	September 19, 2000

Structure: The bonds were issued as fixed-rate, tax-exempt serial and term securities. The serial bonds' final maturity is in July 2019. The term bonds mature in July 2021.

Bond Ratings:	Moody's –	Aaa
	Standard & Poor's –	AAA
	Fitch –	AAA

Interest Cost:
True Interest Cost (TIC) – 5.27%
Net Interest Cost (NIC) – 5.33%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Bear, Stearns & Co. Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$25,800	$0.26
Financial Advisor	63,452	0.63
Rating Agencies	42,000	0.42
Printing	7,511	0.08
Paying Agent	71	0.00
Attorney General	1,250	0.01
Miscellaneous	2,543	0.03
	$142,627	**$1.43**
Underwriter's Spread	**$589,055**	**$5.89**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Water Development Bonds, Series 2001A & B and Water Financial Assistance Bonds, Series 2001A, B & C – $149,750,000

Purpose:
Water Development Fund I
The proceeds of the Water Development Refunding Bonds, Series 2001A & B, were used to prepay the Water Development Board's obligations under a federal contract (authorized by Article III, Section 49-d of the State Constitution) entered into in connection with the construction of Palmetto Bend Dam and Reservoir.

Water Development Fund II
The proceeds of the Water Financial Assistance Bonds, Series 2001A-C, were used to provide loans and/or grants to political subdivisions including those in economically distressed areas of the state for water supply, water quality enhancement and flood control purposes, and for the acquisition of interests in State Participation Projects.

Dates:	Board Approval –	May 17, 2001
	Negotiated Sale –	June 1, 2001
	Closing Date –	June 26, 2001

Structure:
The bonds constitute a general obligation of the state of Texas. The bonds were sold on a negotiated basis and issued as tax-exempt and taxable, fixed-rate securities with final maturities in 2025, 2035 and 2036. Interest on the bonds shall be payable semi-annually on February 1 and August 1, beginning on August 1, 2001. Principal payments will be payable on August 1st of each maturity date.

Bond Ratings:	Moody's –	Aa1
	Standard & Poor's –	AA
	Fitch IBCA –	AA+

Interest Cost:

True Interest Cost (TIC) –	WDB Series 2001A	5.41%
	WDB Series 2001B	5.22% (Taxable)
	WFA Series 2001A	5.40%
	WFA Series 2001B	5.29%
	WFA Series 2001C	5.53%
Net Interest Cost (NIC) –	WDB Series 2001A	5.42%
	WDB Series 2001B	5.20% (Taxable)
	WFA Series 2001A	5.37%
	WFA Series 2001B	5.31%
	WFA Series 2001C	5.51%

Consultants:

Bond Counsel –	McCall Parkhurst & Horton L.L.P.
Co-Bond Counsel –	Wickliff & Hall P.C.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Goldman, Sachs & Co.

TEXAS WATER DEVELOPMENT BOARD
CONTINUED

	Amount	Per $1,000
Issuance Costs:		
Bond Counsel	$47,767	$0.37
Co-Bond Counsel	10,275	0.02
Financial Advisor	73,158	0.49
Rating Agencies	57,000	0.38
Printing	4,961	0.03
Paying Agent	300	0.00
Miscellaneous	2,360	0.02
Attorney General	4,250	0.03
Total Issuance Costs	**$200,071**	**$1.34**
Underwriters' Spread	**$889,345**	**$5.94**

Appendix B
Texas Commercial Paper and Variable-Rate Note Programs

In recent years, some state agencies and institutions of higher education have established variable-rate debt financing programs that provide financing for equipment or capital projects, or provide loans to eligible entities.

As of August 31, 2001, a total of $1.755 billion was authorized for state commercial paper or variable-rate note programs. Of this amount, $998.9 million was outstanding as of the end of fiscal 2001 *(Table 17)*. [The amounts in *Table 17* are included in the bonds outstanding amounts reported in Chapter 3.]

A brief summary of each variable-rate debt program is provided below:

The University of Texas System

The University of Texas System (the "System") has authorized two variable-rate financing programs: a flexible-rate note program secured by distributions from the total return on all investment assets of the Permanent University Fund (PUF), and a commercial paper program secured by the revenues of the System.

The System's PUF Flexible Rate Note program provides interim financing for permanent improvements at various eligible component institutions of the System. The PUF Flexible Rate Note Program replaces a similar program established in 1985. The prior program became obsolete when an amendment to the Texas Constitution was adopted on November 2, 1999, altering the source and method for determining distributions from the PUF. The System's outstanding PUF Flexible Rate Notes may not exceed $250 million in principal amount at any one time.

The System's Revenue Financing System (RFS) commercial paper note program was established in 1990 to provide interim financing for capital projects, including construction,

Table 17

TEXAS COMMERCIAL PAPER AND VARIABLE-RATE NOTE PROGRAMS
as of August 31, 2001

ISSUER	TYPE OF PROGRAM	AMOUNT AUTHORIZED	AMOUNT ISSUED FISCAL 2001	AMOUNT OUTSTANDING
The University of Texas System				
Permanent University Fund	Flexible-Rate Notes	$250,000,000	$100,000,000	$200,000,000
Revenue Financing System	Commercial Paper	350,000,000	127,145,00	218,760,000
The Texas A&M University System				
Permanent University Fund	Flexible-Rate Notes	80,000,000	35,600,000	35,600,000
Revenue Financing System	Commercial Paper	125,000,000	5,790,000	0
Texas Tech University System				
Revenue Financing System	Commercial Paper	100,000,000	46,770,000	64,380,000
Texas Dept. of Agriculture	Commercial Paper *	50,000,000	5,000,000	34,000,000
	Commercial Paper	100,000,000	0	1,000,000
Texas Dept. of Economic Development	Commercial Paper	25,000,000	0	5,655,000
Texas Dept. of Housing & Community Affairs	Commercial Paper	75,000,000	15,585,000	15,585,000
Texas Public Finance Authority				
Revenue	Commercial Paper	100,000,000	16,000,000	33,600,000
General Obligation	Commercial Paper	500,000,000	0	390,300,000
Total		**$1,755,000,000**	**$351,890,000**	**$998,880,000**

* Represents maximum amount outstanding approved by the Bond Review Board for the Texas Agricultural Fund. The TAFA Board has approved a $100 million program amount.

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

acquisition, and renovation or equipping of facilities. The commercial paper is secured by a pledge of all legally available revenues of the System, including pledged tuition fees, general fees, and other revenue sources. The System's outstanding RFS commercial paper notes may not exceed $350 million in principal amount at any one time.

The Texas A&M University System

The Texas A&M University System (the "A&M System") has also authorized two variable-rate financing programs: a flexible-rate note program secured by the Permanent University Fund (PUF) and a commercial paper program secured by A&M System revenues. The Texas A&M PUF note program was established in 1988 to provide interim financing and equipping of facilities for eligible construction projects.

The Texas A&M University's Revenue Financing System commercial paper program was established in 1992 to provide interim financing for capital projects, including construction, acquisition, and renovation, or equipping of facilities throughout the A&M System. The commercial paper is secured by a pledge of all legally available revenues to The A&M System, including pledged tuition fees, general fees, and other revenue sources. The A&M System has a self-liquidity facility for this program. In fiscal 1994, the A&M System expanded the pledge to include tuition revenues.

Texas Tech University and Texas Tech University Health Sciences Center

In November 1997, the Board of Regents of Texas Tech University (TTU) authorized a Revenue Financing System commercial paper program in an amount not to exceed $100 million. Under the terms of the prior authorization, commercial paper notes could not be issued in an aggregate principal amount exceeding $50 million at any one time without approval of the Board of Regents. Subsequent authorizations from the Board have raised the limit to $100 million.

The program was established to provide interim financing for capital projects, including construction, acquisition, renovation, and equipment for facilities of TTU. The commercial paper is secured by a pledge of all legally available revenues of TTU, including pledged tuition fees, general fees, and other revenue sources. The University has entered into a liquidity agreement in an aggregate amount not to exceed $77,770,000 to pay principal and interest coming due under the commercial paper program.

Texas Department of Agriculture

In 1991, The Texas Agricultural Finance Authority (TAFA), a public authority within the Texas Department of Agriculture, was authorized to establish a Series A taxable commercial paper note program. The TAFA issues commercial paper to purchase and guarantee loans made to businesses involved in the production, processing, marketing, and exporting of Texas agricultural products. The commercial paper notes are a general obligation of the state; however, the program is designed to be self-supporting.

During fiscal 1995, TAFA established a second Series B general obligation taxable commercial paper note program with authority to issue up to $100 million in obligations. Proceeds from this program are used to make funds available for the Farm and Ranch Finance Program. The program was established to provide loans and other financial assistance through local lending institutions to eligible borrowers for the purchase of farm or ranch land.

Texas Department of Economic Development

In 1992, the Texas Department of Economic Development (TDED) was granted the authority to issue commercial paper to fund loans to Texas businesses under three programs. Under the first program, the TDED approves loans to local industrial development corporations. Revenues from an optional local half-cent sales tax for economic development secure these loans. The second program provides for the purchase of small business loans, which are fully guaranteed by the Small Business Administration. A third program may make loans directly to businesses from program reserves. The commercial paper issued by TDED is taxable. The program is designed to be self-supporting.

Texas Department of Housing and Community Affairs

The Texas Department of Housing and Community Affairs (TDHCA) established a single-family mortgage revenue commercial paper program in 1994. The program enables the TDHCA to capture mortgage prepayments and recycle them into mortgage loans. By issuing commercial paper notes to satisfy the mandatory redemption provisions of outstanding single-family mortgage revenue bonds instead of using the prepayments to redeem bonds, the TDHCA is able to preserve private activity volume cap and generate new mortgage loans with the prepayments. The commercial paper refunding bonds pay off the commercial paper notes, and the prepayments are used to make new mortgage loans. These new loan revenues repay the principal and interest on commercial paper refunding bonds.

Texas Public Finance Authority

In 1992, the Texas Public Finance Authority (TPFA) established a Master Lease Purchase Program (MLPP) that is funded through commercial paper. The commercial paper issued to date has primarily been used to finance the purchase of equipment, such as computers and telecommunications equipment. The TPFA also has the authority to use the commercial paper to provide interim financing for capital projects undertaken on behalf of state agencies. The MLPP commercial paper is a special revenue obligation of the state, payable only from legislative appropriations to the participating agencies for lease payments.

During fiscal 1993, TPFA established a variable-rate financing program that is secured by the state's general obligation pledge. The proceeds are used to provide interim financing for capital projects that are authorized by the Legislature and financed through general obligation bonds.

Other State Issuers of Variable-Rate Debt

Several other state issuers have the authority to issue debt in variable-rate form. State issuers may utilize variable-rate debt in order to diversify their debt portfolio and to take advantage of lower short-term interest rates that may be available.

The Veterans Land Board is one example of a state issuer that has issued variable-rate housing assistance bonds to diversify its debt portfolio. Similarly, the Texas Water Development Board is authorized to issue subordinate-lien variable-rate-demand revenue bonds (VRDBs) as part of the State Revolving Fund program.

Comptroller of Public Accounts Liquidity Facility Provider Duties

The 73rd Legislature passed legislation that authorized the State Treasurer to enter into agreements to provide liquidity for obligations issued for governmental purposes by an agency of the state as long as the agreements did not conflict with the liquidity needs of the Treasury. Eligible obligations included commercial paper, variable-rate demand obligations, and bonds. Although Treasury funds were not sufficient to cover all state variable-rate debt programs, the use of state funds for liquidity provision resulted in significant savings.

As of September 1, 1996, the voters abolished the office of the State Treasurer. The duties of this office were transferred to the Comptroller of Public Accounts - Treasury Operations.

Appendix C
Texas State Bond Programs

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

Statutory Authority: The Texas Agricultural Finance Authority (the "Authority") was created in 1987 (Texas Agriculture Code, Chapter 58) and given the authority to issue revenue bonds. In 1989, a constitutional amendment authorizing the issuance of general obligation bonds under Article III, Section 49-i, of the Texas Constitution was approved. In 1993, a constitutional amendment authorized the issuance of general obligation bonds under Article III, Section 49-f, of the Texas Constitution in an amount not to exceed $200 million. Legislative approval is not required for each bond issue; however, the Authority is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuing bonds, and is required to register its bonds with the Comptroller of Public Accounts.

Purpose: Proceeds from the sale of bonds are used to acquire or make loans to eligible agricultural businesses, to make or acquire loans from lenders, to insure loans, to guarantee loans, and to administer or participate in programs to provide financial assistance to eligible agricultural businesses, and to provide financial assistance to other rural economic development projects.

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 not 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 Comptroller of Public Accounts - Treasury Operations, not otherwise appropriated by the Constitution, 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. The program is designed to be self-supporting; therefore, no draw on general revenue is anticipated.

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COLLEGE STUDENT LOAN BONDS

Statutory/Constitutional Authority: Article III, Sections 50b and 50b-1, 50b-2, 50b-3, 50b-4, and 50b-5, of the Texas Constitution, adopted in 1965, 1969, 1989, 1991, 1995, and 1999, 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. The Board 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 are used to make loans to eligible students attending public or private colleges and universities in Texas.

Security: The first monies coming into the Comptroller of Public Accounts – Treasury Operations, 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. Approximately 30 percent of the loans made are guaranteed by the Texas Guaranteed Student Loan Corporation, the U.S. Department of Education, and the U.S. Department of Health and Human Services.

Dedicated/Project Revenue: Principal and interest payments on the loans are pledged to pay debt service on the bonds issued by the Coordinating Board. No draw on general revenue is anticipated.

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COLLEGE AND UNIVERSITY REVENUE BONDS

Statutory Authority: Section 55.13 of the Texas Education Code authorizes the governing boards of institutions of higher education to issue revenue bonds. Enacted originally in 1969 by the 61st Legislature, the statute (Article 2909c-3, Tex.Rev.Civ.Stat.Ann.) was designed to supplement or supersede numerous similar statutes that contained restrictions, which often made it difficult or impossible to issue bonds under prevailing market conditions.

The 1991 Texas Legislature authorized the Texas Public Finance Authority (TPFA), effective January 1, 1992, to issue bonds on behalf of all institutions of higher education that carry authority to issue bonds under Chapter 55, Texas Education Code, with the exception of The University of Texas System, The Texas A&M University System, a component of those systems, and higher education institutions that carry authority to issue bonds under Article VII, Section 17, of the Texas Constitution. As a result of these exceptions, the only higher education institution for which the TPFA issued bonds was Texas State Technical College. In 1993, the voters approved an amendment to Article VII, Section 17, which added the Texas State Technical College System to the section.

In 1997, the 75th Legislature passed House Bill 1077, adding Midwestern State University, Stephen F. Austin State University, and Texas Southern University to the TPFA's list of state entities on whose behalf the Authority will issue bonds.

Legislative approval is not required for specific projects or for each bond issue, but certain capital projects must be approved by the Texas Higher Education Coordinating Board in accordance with Chapter 61, Texas Education Code. 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 used to acquire, purchase, construct, improve, enlarge, and/or equip any property, buildings, structures, activities, services, operations, or other facilities.

Security: The revenue bonds issued by the institutions' governing boards are secured by the income of the institutions and are not 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 repaid with income from pledged revenues. Pledged revenues include the pledged tuition, and any or all of the revenues, funds and balances now or hereafter lawfully available to the governing boards and derived from or attributable to any member of the Revenue Financing System.

Contact:
Individual colleges and universities.

TEXAS DEPARTMENT OF ECONOMIC DEVELOPMENT BONDS

Statutory Authority: As the successor agency to the Texas Department of Commerce, the Texas Department of Economic Development (the "Department") was created and given the authority to issue revenue bonds by Senate Bill 932, 75th Legislature, 1997. In 1989, a constitutional amendment authorizing the issuance of general obligation bonds was approved. Although 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 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 not 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. House Bill 1, 75th Legislature, Rider 6, specifically prohibits the use of general revenue for debt service on the Department's general obligation bonds; therefore, any general obligation bonds issued by the Department are required to be self-supporting.

Dedicated/Project Revenue: Revenue of the Department, primarily from the repayment of loans and the disposition of debt instruments, is pledged to the payment of principal and interest on bonds issued.

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TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS BONDS

Statutory Authority: The Texas Department of Housing and Community Affairs (the "Department") was created pursuant to the Act of June 16, 1991, Chapter 762, 1991 Tex.Sess.Law Serv. 2672 (Section 2 is now codified as Chapter 2306, Texas Government Code). The Department is the successor agency to the Texas Housing Agency and the Texas Department of Community Affairs, both of which were abolished by the Act and their functions and obligations were transferred to the Department.

Pursuant to the Act, the Department may issue bonds, notes, or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Agency, the Department, or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the Agency become revenue bonds of the Department. Legislative approval of bond issues is not required; however, 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 provide assistance to individuals and families of low, very low, and moderate income and persons with special needs to obtain decent, safe, and sanitary housing.

Security: Any bonds issued are obligations of the Department and are payable solely from the revenues and funds pledged for the payment thereof. The Department's bonds are not 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 received by the Department from the repayment of loans and investment of bond proceeds is pledged to the payment of principal and interest on bonds issued.

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FARM AND RANCH LOAN BONDS

Statutory/Constitutional Authority: Article III, Section 49-f, of the Texas Constitution, adopted in 1985, authorizes the issuance of general obligation bonds by the Veterans Land Board. The program was transferred from the Veterans Land Board to the Texas Agricultural Finance Authority with the passage of House Bill 1684 by the 73rd Legislature. In 1993, a constitutional amendment was authorized and approved that transfers the constitutional authority for the program from the Veterans Land Board to the Texas Agricultural Finance Authority and allows no more than $200 million of the authority to be used for the purposes defined in Article III, Section 49-i of the Texas Constitution. In 1997, House Bill 2499, 75th Legislature increased the maximum loan amount available through the program to $250,000. In 2001, Senate Bill 716, authorized the Authority to provide a guarantee to a local lender for an eligible applicant.

Purpose: Proceeds from the sale of the general obligation bonds may be used to make loans of up to $250,000 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 Comptroller of Public Accounts – Treasury Operations, 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 Texas Agricultural Finance Authority. The program is designed to be self-supporting; therefore, no draw on general revenue is anticipated.

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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 not eligible to issue bonds payable from and secured by the income of the Permanent University Fund (PUF). Legislative approval of bond issues is not required; however, approval of the Bond Review Board and the Attorney General is required, and the bonds must be registered with the Comptroller of Public Accounts.

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

Security: The first $175 million coming into the Comptroller of Public Accounts - Treasury Operations, not otherwise dedicated by the Constitution, goes to qualified institutions of higher education to fund certain land acquisition, construction, and repair projects. Fifty (50) percent of this amount may be 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: Debt service is payable solely from state General Revenue Fund appropriations to institutions of higher education.

Contact:
Individual colleges and universities.

TEXAS NATURAL RESOURCES CONSERVATION COMMISSION BONDS

Statutory Authority: The Texas Low-Level Radioactive Waste Disposal Authority (the "Authority") was created in 1981 (Texas Health and Safety Code, Chapter 402), and authorized to issue revenue bonds in 1987 (Texas Health and Safety Code, Sec. 402.291) to finance certain costs related to the creation of a radioactive waste disposal site. The Authority was 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. House Bill 1077, 75th Legislature, in 1997, authorized the Texas Public Finance Authority to issue the bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority.

In 1999, the 76th Legislature abolished the Authority effective September 1, 1999, and transferred all of its duties, responsibilities, and resources to the Texas Natural Resources Conservation Commission ("the Commission").

Purpose: Proceeds from the sale of bonds may be used to reimburse the General Revenue Fund for the expenses incurred and paid by the Commission; to pay the expenses of selecting, licensing, and constructing a low-level radioactive waste disposal site; to provide required reserve funds; and to pay capitalized interest and operating costs of the Commission that were not paid from the General Revenue Fund. The Commission may finance project costs from sources other than bond proceeds.

Security: Bonds issued are obligations of the Commission and are payable from revenues and income collected by the Commission and its programs and credited to the low-level waste fund. These bonds would not obligate the state, the Texas Public Finance Authority, or a public entity to pay the principal or interest.

Although the statutory authority remains, it is unlikely that any such bonds will be issued.

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TEXAS MILITARY FACILITIES COMMISSION BONDS

Statutory Authority: The Texas Military Facilities Commission (the "Commission") was created by Senate Bill 352, 75th Legislature, 1997, as the successor agency to the National Guard Armory Board, which was created as a state agency in 1935 by Title 4, Chapter 435 of the Texas Government Code, and authorized to issue long-term debt. Legislative approval of bond issues is not required; however, 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.

Senate Bill 3, 72nd Legislature, 1991, authorized the Texas Public Finance Authority to issue bonds on behalf of the Texas Military Facilities Commission (Texas Government Code, Sec. 435.041).

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

Security: Any bonds issued are obligations of the Commission and are payable from "rents, issues, and profits" of the Commission. The Commission's 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 Military Facilities Commission bonds.

Dedicated/Project Revenue: The rent payments used to retire Military Facilities Commission 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 Commission, also is used to pay a small portion of debt service.

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TEXAS PARKS AND WILDLIFE DEPARTMENT BONDS

Statutory/Constitutional Authority: Article III, Section 49-e, of the Texas Constitution, adopted in 1967, authorized the Texas Parks and Wildlife Department (the "Department") to issue general obligation bonds to acquire and develop state parks. Senate Bill 3, 72nd Legislature, 1991, authorized the Texas Public Finance Authority ("the Authority") to issue bonds on behalf of the Department. House Bill 3189, 75th Legislature, 1997, authorized the Authority to issue revenue bonds or other revenue obligations not to exceed $60 million in the aggregate on behalf of the Department, for construction and renovation projects for parks and wildlife facilities.

Purpose: Proceeds from the sale of the general obligation bonds are used to purchase and develop state park lands. Proceeds from the sale of revenue bonds are used to finance the repair, renovation, improvement, and equipping of parks and wildlife facilities.

Security: General obligation debt issued on behalf of the Department is payable from revenues and income of the Department. In the event that such income is insufficient to repay the debt, the first monies coming into the Comptroller of Public Accounts - Treasury Operations, not otherwise dedicated by the Constitution, are pledged to pay debt service on the bonds.

Revenue obligations issued on behalf of the Department are to be repaid from rent payments made by the Department to the Authority. The Department may receive legislative appropriations of general revenue for its required rent payments.

Dedicated/Project Revenue: Entrance fees to state parks are pledged to pay debt service on the general obligation park development bonds. Additionally, the sporting goods sales tax revenue may also be used to pay debt service on general obligation park development bonds.

The Department's obligations to the Authority are repaid from the Department's lease revenue. These revenues are appropriated to the Department out of general revenue.

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PERMANENT UNIVERSITY FUND BONDS

Statutory/Constitutional 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 and secured by the income of the Permanent University Fund (PUF). The constitutional amendment approved by voters on November 2, 1999, allows for distributions from the PUF to be based on the "total return" on all PUF investment assets, including current income, as well as capital gains. 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 for acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding PUF bonds or PUF notes.

Security: Bonds are repaid from the total return on all investment assets of the Permanent University Fund, including the net income attributable to the surface of PUF Land, in amounts determined by the Board of Regents.

Dedicated/Project Revenue: Bonds are repaid from income of the Permanent University Fund. The total amount of PUF bonds outstanding is limited to 30 percent of the book value of the Fund, exclusive of land.

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TEXAS PUBLIC FINANCE AUTHORITY BONDS

Statutory/Constitutional Authority: The Texas Public Finance Authority (the "Authority") is authorized to issue both revenue and general obligation bonds.

The Authority was initially created by the Legislature in 1983, by Tex.Rev.Civ.Stat.Ann., Article 601d, now codified as Chapter 1232, Texas Government Code, and given the authority to issue revenue bonds to finance state office buildings. The Legislature approves each project and the amount of bonds to be issued by the Authority.

Article III, Section 49h, of the Texas Constitution, adopted in 1987, authorized the Authority to issue general obligation bonds for correctional and mental health facilities; additional authorization was passed in 1989, 1991 and 1993.

In 1989, the Authority was authorized to establish a Master Lease Purchase Program. This program was created to finance the purchase of equipment on behalf of various state agencies at tax-exempt interest rates.

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 Texas Insurance Code.

The 73rd Legislature authorized the Authority, effective January 1, 1992, to issue bonds on behalf of the Texas Military Facilities Commission, Texas National Research Laboratory Commission, Texas Parks and Wildlife Department, and the Texas State Technical College. In 1993, the Authority was authorized to issue bonds or other obligations to finance alternative fuels equipment and infrastructure projects for state agencies, institutions of higher education, and political subdivisions.

In 1995, the 74th Legislature authorized the Authority to issue building revenue bonds on behalf of the Texas Department of Health for financing a Public Health Laboratory in Travis County, and general obligation bonds on behalf of the Texas Juvenile Probation Commission.

The Authority was subject to Sunset Commission review during the 75th Legislature in 1997. The Legislature continued the Authority for twelve years and authorized the Authority, effective September 1, 1997, to issue bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority (See: Texas Natural Resources Conservation Commission), Midwestern State University, Texas Southern University, and Stephen F. Austin State University. Other legislation passed during the 75th Legislature authorized the Authority to issue revenue bonds on behalf of the Health and Human Services Commission and the Texas Parks and Wildlife Department. In the General Appropriations Act, the Legislature also authorized the Authority to issue bonds to finance the Texas State History Museum on behalf of the State Preservation Board.

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 general obligation bonds for correctional and mental health facilities are 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 building revenue bonds are used to purchase, construct, renovate, and maintain state buildings. Proceeds from the sale of bonds for the Workers' Compensation Fund are used to fund the Workers' Compensation Insurance Fund. Proceeds from the issuance of commercial paper for the Master Lease Purchase Program are used to finance equipment for various state agencies. For a description of the use of funds for bonds issued on behalf of the Texas Military Facilities Commission, the Texas National Research Laboratory Commission (Superconducting Super Collider Bonds), the Texas Parks and Wildlife Department, and the Texas state colleges and universities that are clients of the Authority, see the applicable sections in this Appendix.

Security: Building 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 issued for correctional and mental health facilities pledge the first monies not otherwise appropriated by the Constitution that come into the state treasury each fiscal year 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. Revenue bonds issued for the Master Lease Purchase Program are secured by lease payments from state agencies, which come from state appropriations.

Dedicated/Project Revenue: Debt service on the general obligation bonds for correctional and mental health facilities are payable solely from the state's General Revenue Fund. Debt service on the general obligation bonds for park facilities is paid first from department revenues, as described in the applicable section of this appendix. Debt service on the revenue bonds is payable from lease payments, which are primarily general revenue funds appropriated to the respective agencies and institutions by the Legislature. The Legislature, however, has the option to appropriate lease payments to be used for debt service on the bonds from any other source of funds that is lawfully available. For example, debt service on the bonds issued on behalf of the Department of Health is appropriated from lab fees collected by the Department. Bonds issued on behalf of the Workers' Compensation Fund are payable solely from maintenance tax surcharges authorized in Article 5.76 of the Texas Insurance Code. With monies contributed by the Fund in 1995, in June 1998 and in June 1999, securities have been deposited into an escrow fund with the Texas Safekeeping Trust Company in an amount sufficient to fully pay principal and interest on the bonds until they mature. Consequently, no additional maintenance tax surcharges will need to be collected to service the debt on these bonds. College and university revenue bonds issued are repaid from pledged revenue such as tuition and fees. The university bonds are self-supporting, and the state's credit is not pledged.

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PUBLIC SCHOOL FINANCE PROGRAM

Statutory/Constitutional Authority: The 1989 Texas Legislature adopted the Public School Facilities Funding Act in Senate Bill 951, 71st Legislature, and amended the Act in Senate Bill 3, 71st Legislature, Sixth Called Session, and House Bill 1608, 73rd Legislature. The Act, codified as Chapter 1402, Texas Government Code, authorizes the Bond Review Board to make loans or purchase the bonds of qualifying public school districts. The Board is authorized to direct the Comptroller of Public Accounts – Treasury Operations to issue revenue bonds to finance the school district loans.

Although the statutory authority remains, no bonds have been issued under this program.

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; for equipment and minor repair; for cash-management purposes; and for refunding of school district bonds.

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 for bonds issued under Subchapter A, Chapter 271, Texas Local Government Code, and Chapter 20.49 of the Texas Education Code. Bonds issued with the guarantee of the Texas Permanent School Fund (PSF) may draw on the principal of the PSF in the event of a pending default.

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TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

Statutory Authority: The Texas Small Business Industrial Development Corporation (TSBIDC) was created as a private non-profit corporation in 1983 (Title 83, Article 5190.6, Sections 4-37, Tex.Rev.Civ.Stat.Ann.) pursuant to the Development Corporation Act of 1979 and was 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 used to provide financing to state and local governments and to businesses and nonprofit corporations for the purchase of land, facilities, and equipment for economic development.

Security: The bonds are obligations of the Corporation. The Corporation's bonds are not 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.

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TEXAS STATE AFFORDABLE HOUSING CORPORATION

Statutory Authority: Chapter 2306, Subchapter Y, of the Texas Government Code, authorizes the Texas State Affordable Housing Corporation (the "Corporation") to issue revenue bonds.

In accordance with the Texas Government Code, as amended, the Corporation is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Section 2306.555, and qualified mortgage revenue bonds under the Teachers Home Loan Program as established under Section 2306.562. Currently, there are no limits on the issuance of 501(c)(3) bonds for multifamily properties owned by nonprofit organizations. The Teachers Home Loan Program is authorized to issued $25 million in revenue bonds.

The Corporation 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: The Corporation's primary public purpose is to facilitate the provisions of housing and the making of affordable loans to individuals and families of low, very low, and extremely low income, and for teachers under the Teachers Home Loan Program as provided by Section 2306.562 of the Texas Government Code. The Corporation is required to perform such activities and services that will promote and facilitate the public health, safety, and welfare through the provision of adequate, safe and sanitary housing for individuals and families of low, very low, and extremely low income.

Security: Any bonds issued are payable solely from the revenues and funds pledged for the payment thereof. The Corporation's bonds are not an obligation of the state of Texas, and neither the state's full faith and credit nor its taxing power is pledged toward the payment of the Corporation's bonds.

Dedicated/Project Revenue: Revenue received by the Corporation from the repayment of loans and investment of bond proceeds is pledged to the payment of principal and interest on the bonds issued.

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TEXAS DEPARTMENT OF TRANSPORTATION BONDS

Statutory Authority: The Texas Turnpike Authority ("the Authority") was created as a division of the Department of Transportation ("the Department") by the 75th Legislature in 1997 by Senate Bill 370 (Texas Transportation Code, Chapter 361). [Senate Bill 370 also established the North Texas Tollway Authority, consisting of Collin, Dallas, Denton, and Tarrant counties, as a successor agency to the previous Texas Turnpike Authority. The North Texas Tollway Authority does not require Bond Review Board approval to issue bonds.]

The Authority is authorized to study, design, construct, operate or enlarge turnpike roads. The Department is also authorized to create a State Infrastructure Bank (SIB) to be funded by federal funds, state matching funds, and the proceeds of revenue bonds. The SIB will be used to fund transportation infrastructure development projects such as interchanges, off-system bridges, collector roads, toll roads, utility adjustments, right-of-way acquisitions, and other eligible projects.

The Department is authorized to issue revenue bonds payable from the income and receipt of the revenues of the SIB including principal and interest on obligations acquired and held by the SIB. Legislative approval is not required for specific projects or for each bond issue. The Department 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. The Authority is authorized to issue turnpike revenue bonds pursuant to Sec. 361.171 of the Texas Transportation Code, and turnpike revenue refunding bonds pursuant to Sec. 361.175.

Senate Bill 4, 77th Legislature, and the constitutional amendment that voters approved in November 2001, created the Texas Mobility Fund and authorized the Department to issued bonds backed by the Fund.

Purpose: Proceeds from the sale of bonds to fund the SIB can be used to encourage public and private investment in transportation facilities, to develop financing techniques to expand the availability of funding transportation projects, and to maximize private and local participation in financing projects. SIB assistance may include direct loans, credit enhancements, establishment of a capital reserve for bond financing, subsidized interest rates, ensuring the issuance of a letter of credit, financing a purchase or lease agreement, providing security for bonds, or providing various methods of leveraging money approved by the United States Secretary of Transportation. Proceeds from the sale of turnpike revenue bonds by the Authority may be used to pay for all or part of the cost of a turnpike project, provided that they are only used to pay costs of the project for which they are issued. The Texas Mobility Fund will provide financing for the acquisition, construction, maintenance, reconstruction, and expansion of state highways.

Security: Any bonds issued are obligations of the Department and are payable from income from the SIB and other project revenues. The Department's bonds are not 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 Texas Department of Transportation bonds. Likewise, bonds issued by the Authority are payable from project revenues and other identified revenue sources. Additionally, bonds issued by the Authority are not obligations of the state or a pledge of the full faith and credit of the state.

Dedicated/Project Revenue: Bonds are repaid from income from the SIB and other project revenues. Likewise, bonds issued by the Authority are payable from project revenues and other identified revenue sources.

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VETERANS LAND AND HOUSING ASSISTANCE BONDS

Statutory/Constitutional Authority: Article III, Section 49-b, of the Texas Constitution, initially adopted in 1946, authorized the issuance of general obligation bonds to finance the Veterans Land Program. Article III, Section 49-b-1, of the Texas Constitution, adopted in 1983, authorized additional land bonds and created the Veterans' Housing Assistance Program, establishing the Veterans' Housing Assistance Fund within the program. Article III, Section 49-b-2, of the Texas Constitution, adopted in 1993, authorized additional land bonds and the issuance of general obligation bonds to finance the Veterans Housing Assistance Program, Fund II. Chapter 164 of the Texas Natural Resources Code authorized the Veterans Land Board to issue revenue bonds for its programs, including the financing of veterans' homes.

Purpose: Proceeds from the sale of the general obligation bonds are loaned to eligible Texas veterans for the purchase of land, housing, and home improvements. Proceeds from the sale of revenue bonds are used to make land loans to veterans, to make home mortgage loans to veterans, or to provide for one or more veterans skilled nursing-care homes.

Security: The general obligation bonds are paid from the first monies coming into the Comptroller of Public Accounts – Treasury Operations, not otherwise dedicated by the Constitution, to pay debt service on the bonds. The revenue bonds issued under Chapter 164 are special obligations of the board and are payable only from and secured by the revenue and assets pledged to secure payment of the bonds under the Texas Constitution and Chapter 164. The revenue bonds do not constitute a pledge, gift, or loan of the full faith, credit or taxing authority of the state.

Dedicated/Project Revenue: Principal and interest payments on the loans to veterans are pledged to pay debt service on the general obligation bonds. The revenue bonds are paid from all available revenue from the projects financed, which is pledged as security for the bonds. The programs are designed to be self-supporting and have never had to rely on the General Revenue Fund.

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TEXAS WATER DEVELOPMENT BONDS

Statutory Authority: The Texas Water Development Board (the "Board") is authorized to issue both revenue and general obligation bonds.

Article III, Sections 49-c, 49-d, 49-d-1, 49-d-2, 49-d-4, 49-d-6, 49-d-7, 49-d-8, and 50-d of the Texas Constitution, initially adopted in 1957, contain the authorization for the issuance of general obligation bonds by the Board.

The Texas Water Resources Fund, administered by the Board, was created by the 70th Legislature in 1987 (Texas Water Code, Sec. 17.853) to issue revenue bonds that facilitate the conservation of water resources.

The 71st Legislature in 1989 passed comprehensive legislation that established the Economically Distressed Areas Program (EDAP). Article III, Section 49-d-7(b), provides for subsidized loans and grants from the proceeds of bonds authorized by this section.

Further legislative approval of specific bond issues is not required; however, 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 are used to provide funds to the State Water Pollution Control Revolving Fund, or any other state revolving funds, 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 (and grants under the Economically Distressed Areas Program) 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 Comptroller of Public Accounts - Treasury Operations 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, with the exception of the Economically Distressed Areas Program and the State Participation Program, are designed to be self-supporting. No draw on general revenue has been made since 1980, and no future draws are anticipated, except for the Economically Distressed Areas Program and the State Participation Program.

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TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS

Statutory Authority: The Texas Water Resources Finance Authority (the "Authority") was created in 1987 (Texas Water Code, Chapter 20) and given the authority to issue revenue bonds. 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 are 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 not 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 acquired is pledged to the payment of principal and interest on bonds issued.

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Appendix D

Bond Review Board Rules

TITLE 34. PUBLIC FINANCE
Part IX. Texas Bond Review Board
Chapter 181. Bond Review Board
Subchapter A. Bond Review Rules

Sec. 181.1 Definitions.

The following words and terms, when used in this chapter, shall have the following meanings, unless the context clearly indicates otherwise:

(1) Board – The Bond Review Board, created under Chapter 1078, Acts of the 70th Legislature, Regular Session, 1987 codified as Chapter 1231, Government Code.

(2) State security –

(A) an obligation, including a bond, issued by:

(i) a state agency;

(ii) an entity expressly created by statute and having statewide jurisdiction; or

(iii) any other entity issuing a bond or other obligation on behalf of the state or on behalf of any entity listed in clause (i) or (ii) of this subparagraph; or

(B) an installment sale or lease-purchase obligation issued by or on behalf of an entity listed in clauses (i), (ii), or (iii) of this subparagraph that has a stated term of longer than five years or has an initial principal amount of greater than $250,000.

(C) References in these rules to a board member include the person designated to act on their behalf, except as noted in Sec. 181.4(b).

Sec. 181.2. Notice Of Intention To Issue.

(a) An issuer intending to issue state securities shall submit a written or electronic notice to the bond finance office no later than three weeks prior to the date requested for board consideration. The director of the bond finance office shall forward one copy of the notice to each member of the board.

Prospective issuers are encouraged to file the notice of intention as early in the issuance planning stage as possible. The notice is for information purposes only, to facilitate the scheduling of board review activities.

(b) A notice of intention to issue under this section shall include:

(1) a brief description of the proposed issuance, including, but not limited to, the purpose, the tentative amount, and a brief outline of the proposed terms;

(2) the proposed timing of the issuance with a tentative date of sale and a tentative date for closing;

(3) a request to have the issue of state securities scheduled for consideration by the board during a specified monthly meeting; and

(4) an agreement to submit the required application described in Sec. 181.3 of this title (relating to application for board approval of state security issuance) no later than the first Tuesday of the month in which the applicant requests board consideration.

(c) An issuer may reschedule the date requested for board consideration of the state securities by submitting an amended notice of intention at any time prior to the application date in the same manner as provided in this section.

(d) The requested date for board consideration shall be granted whenever possible; however, if it becomes necessary in the board's discretion to change the date of the board meeting for consideration of the proposed issuance of state securities, written notice of such change shall be sent to the issuer as soon as possible. Priority scheduling for consideration at board meetings shall be given to refunding issues and to those state securities which also require a submission to the Bond Review Board to obtain a private activity bond allocation.

Sec. 181.3. Application For Board Approval Of State Bond Issuance.

(a) An officer or entity may not issue state securities unless the issuance has been approved or exempted from review by the Board. An officer or entity that has not been granted an exemption from review by the board and that proposes to issue state bonds shall apply for board approval by filing one application with original signatures and nine copies with the Executive Director of the bond finance office. The Executive Director of the bond finance office shall forward one copy of the application to each member of the board and one copy to the Office of the Attorney General.

(b) Applications must be filed with the bond finance office no later than the first Tuesday of the month in which the applicant requests board consideration. Applications filed after that date will be considered at the regular meeting only with the approval of the Chair or two or more members of the board.

(c) An application for approval of a lease-purchase agreement must include:

(1) a description of, and statement of need for, the facilities or equipment being considered for lease purchase;

(2) the statutory authorization for the lease-purchase proposal;

(3) evidence of all necessary approvals from any state boards, state agencies, etc.; and

(4) a detailed explanation of the terms of the lease-purchase agreement, including, but not limited to, amount of purchase, trade-in allowances, interest charges, service contracts, etc.

(d) An application for all state securities other than lease-purchase agreements must include:

(1) evidence that all necessary approvals of the issuance of the state securities or the project to be financed with the proceeds of the state securities have been obtained from the appropriate state boards or state agencies except (i) the approval of the state securities by the Attorney General; (ii) the approval of or review of the projects by the Texas Higher Education Coordinating Board to be financed with the proceeds of the state securities issued by the board of regents of an institution of higher education pursuant to a system wide revenue financing system; and (iii) environmental approvals and permits;

(2) a substantially complete draft or summary of the proposed resolution, order, or ordinance providing for the issuance of state bonds;

(3) where applicable, evidence of review of proposed issuance by local entities;

(4) a brief description of the program under which the state securities are proposed to be issued, which may include a reference to a legislative enactment or to existing rules if the program is established in accordance with an existing statute or existing rules;

(5) the applicant's plans for use of state security proceeds, including a description of, statement of the need for, and cost of each specific project for which security proceeds are proposed to be used;

(6) the applicant's plans for the administration and servicing of the state securities to be issued, including, when applicable, a disbursement schedule of state security proceeds, the proposed flow of funds, the sources and methods of repayment, and an estimated debt-service schedule;

(7) a description of the applicant's investment provisions for state security proceeds, including any specific provisions for safety and security and a description of the duties and obligations of the trustee and paying agent/registrar as applicable;

(8) a timetable for financing that contains dates of all major steps in the issuance process, including all necessary approvals;

(9) if the applicant has authority to issue both general obligation and revenue bonds and the proposed issuance is of one of these, a statement of the applicant's reasons for its choice of type of state securities;

(10) a statement of the applicant's estimated costs of issuance, listed on an item by item basis, including, as applicable, the estimated costs for:

(A) bond counsel
(B) financial advisor
(C) paying agent/registrar
(D) rating agencies
(E) official statement printing
(F) bond printing
(G) trustee
(H) credit enhancement
(I) liquidity facility
(J) miscellaneous issuance costs;

(11) an estimate, if state security sale is negotiated, of underwriter's spread, specified in the following components and accompanied by a list of underwriters' spreads from recent comparable bond issues:

(A) management fee
(B) underwriter's fees
(C) selling concessions
(D) underwriter's counsel
(E) other costs;

(12) a list of the firms providing the services reported in subsections (10) and (11) of this section and a statement of prior representation of the issuer by each firm;

(13) a justification of the decision of whether or not to apply for municipal bond insurance or other credit enhancement, including a comparison of expected bond ratings and borrowing costs for the issue with and without the particular enhancement(s) considered;

(14) copy of preliminary official statement, if available;

(15) a statement of any potential liability of the general revenue fund or any other state funds resulting from the issuance;

(16) a copy of any preliminary written review of the issuance that has been made by the attorney general;

(17) a statement addressing the participation of women and minorities. The purpose of this section is to promote economic opportunity by affording equal access to the procurement of contracts for professional services for the financing of bonds by state issuers. Therefore, the following information about each participant (including, but not limited to, bond counsel, underwriters, underwriter's counsel, and financial advisor) must be included:

(A) the degree of ownership and control of each participant firm by minorities and women;

(B) the number and percentage of professionally employed women and minorities in each participant's firm; and

(C) a brief description of the effort made by each participant to encourage and develop participation of women and minorities. This description can include internal firm recruitment efforts, any offers tendered for apportioning responsibilities by subcontract or joint venture, and the equal opportunity goals and policies of each participant's firm.

(18) the notification procedures used by or on behalf of the issuer to select the participants referenced in subsection (17) above.

(19) applications for the approval of proceedings authorizing the issuance of state securities in the form of commercial paper notes shall contain the information required by subsections 1 through 18 of this Section 181.2(d) to the extent it is available or capable of being determined.

(e) In addition to the information required by Subsections (c) or (d) of this section, an application under this section may include any other relevant information the applicant wants to submit to the board.

(f) At any time before the date for consideration of an application by the board, an applicant may withdraw the application. Revisions to an application must be submitted in writing not less than seventy-two (72) hours prior to the board meeting.

Sec. 181.4. Meetings.

(a) The regular meeting of the board shall be held the Thursday following the third Tuesday of each month, with the exception of the months of January, July and September. No meetings will be held in those months unless called by the Chair.

(b) The Chair may call additional meetings of the board and is responsible for filing notice of meetings as required by Chapter 551, Government Code, and giving timely notice of meetings to members of the board. On the petition of two or more members of the board, the governor shall call an additional meeting of the board or cancel a meeting.

(c) A planning session will be held regarding applications pending before the board on or before the second Tuesday of each month, with the exception of the months of January, July, and September. Planning sessions regarding applications to be heard at additional meetings of the board will be held as far in advance of the additional board meeting as is practicable. At a planning session, board members, their designated representatives, or their staff representatives may discuss pending applications. Applicants may be required to attend a planning session and may be asked to make a presentation and answer questions regarding their application. Applicants may be asked to submit written answers to questions regarding their application in lieu of, or in addition to, their attendance at a planning session.

(d) At a meeting of the board, the board 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 securities 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 Executive Director of the bond finance office of changes to the aspects of their application that 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 Office of the Attorney General.

(g) If applicable law requires the approval by the Attorney General of an issuance of state securities 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 securities and receipt of the state security proceeds, the issuer or purchaser, as applicable, shall submit one original 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 bid form or a listing of orders and allotments 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 make available to the members of the bond review board a summary of each final report within 30 days after the final report has been submitted by the issuer. This summary shall compare 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 summary must also include other information that 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 securities 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 may be submitted to and reviewed by the Executive Director of the bond finance office prior to mailing. Review of the preliminary official statement by the Executive 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 Executive 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 security issuers whose bonds are subject to review by the board must file a report with the bond finance office no later than September 15 of each year, to include:

(1) the investment status of all unspent state security 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 state security issue (e.g. exercise of redemption provision, conversion from short-term to long-term securities, etc.);

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

(4) a list of all state security issues outstanding and corresponding debt service schedules for all bonds outstanding in a digital and hard copy format.

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 state security issuance process. Any state security issuer whose securities 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 securities. The bond finance office, upon request, will make the request for proposals available to consultants, other state security issuers and the general public.

Sec. 181.12. Charges For Public Records.

The charge to any person requesting copies of any public records of the Texas Bond Review Board will be the charge established by the General Services Commission; however, the Texas Bond Review Board will charge the following amounts necessary to recoup the costs of items as follows:

(1) computer resources charges (mainframe and programming time), as determined by the Department of Information Resources.

(2) copies of public records shall be furnished without charge or at a reduced charge if the Executive Director determines that waiver or reduction of the fee is in the public interest because furnishing the information can be considered as primarily benefiting the general public.

(3) any additional reasonable cost will be added at actual cost, with full disclosure to the requesting party as soon as it is known.

(4) a reasonable deposit may be required for requests where the total charges are over $200.

(5) all requests will be treated equally. The Executive Director may exercise discretion in waiving charges.

(6) if records are requested to be inspected instead of receiving copies, access will be by appointment only during regular business hours of the agency and will be at the discretion of the Executive Director.

(7) confidential documents will not be made available for examination or copying except under court order or other directive.

(8) all open records requests will be referred to the Executive Director or designee before the agency staff will release the information.

Appendix E
Glossary

Additional Bonds Test

The conditions under which an issuer is permitted, pursuant to the terms of the resolution or indenture, to issue additional bonds on parity with an outstanding obligation. For example, an issuer may be permitted to issue additional bonds when pledged revenues are sufficient to cover existing and projected debt service by some specific multiple (e.g. 1.25x).

Arbitrage

In the municipal market, arbitrage refers to the difference between the tax-exempt interest rate paid by the borrower and the interest rate at which the proceeds of the issue are invested. The Internal Revenue Code contains specific regulations concerning the amount that can be earned from the investment of tax-exempt proceeds.

Bank-Qualified Obligation

Obligations issued by governments that do not expect to sell in excess of $10 million of "qualified tax-exempt obligations" in a calendar year. The issuer must designate its securities as "qualified tax-exempt obligations" at the time of issuance, and the securities may not be private-activity bonds. The designation of bonds as qualified tax-exempt obligations is an exception to the general rule of Section 265(b)(1) for bank purchasers.

Basis Point

An expression of interest rate equal to one-hundredth of a percent (0.01%).

Bearer Bonds

Bonds that do not identify the owner. Possession is considered to be ownership. Current federal law requires that all debt obligations with a maturity greater than one year be issued in registered form; these are known as registered bonds.

Bond Bank

A financing structure used to pool a number of distinct borrowings to take advantage of reduced issuance costs and a common reserve. In many cases, bond banks are administered by large jurisdictions (often states) and the issuer covenants to create and/or make up a deficiency in a reserve fund available to program participants.

Bond Indenture

A legal document that spells out the specific terms and conditions under which bonds may be issued. The indenture is used when a trustee is involved in a financing and forms the basis of the trustee's responsibilities to bondholders (also called the "trust indenture").

Bond Purchase Agreement

The agreement signed by the issuer and the underwriter(s) setting forth the price to be paid for the bonds and the interest rates that the bonds are to bear. The bond purchase agreement also details any options or certifications to be delivered on the date of closing (delivery).

Bond Resolution or Bond Ordinance

The act of the governing body that authorizes the issuance of bonds (sometimes called an "Authorizing Resolution or Ordinance"). State statutes generally govern the procedures that need to be followed by the governing body to permit issuance of debt. Of the two terms, the bond ordinance is the more formal legislative action.

Bond-Year Dollars

Bond-year dollars are calculated by adding the results of the amount of bonds outstanding times the number of years they are outstanding. (See "Net Interest Cost.")

Call or Call Provision

The conditions under which a debt obligation may be redeemed prior to its stated maturity. Such provisions specify the date on which an obligation may be redeemed and the price investors will receive if their bonds are redeemed. Such provisions typically take one of the following forms: mandatory redemption provisions, optional redemption provisions, or extraordinary redemption provisions.

Call Premium

The price an issuer will pay to investors to redeem its obligations prior to their stated maturity date. The call premium is expressed as a percent of the par value.

Capital Budget

A spending plan for capital outlays for the current or upcoming budget year(s). The capital budget is usually the first year of a multiyear capital improvement plan or capital expenditures plan.

Certificate of Participation

A security that represents a share of an issuer's lease payment. When a municipality finances a public facility through a lease-purchase transaction, the interest in that government's lease payment often is assigned to a third party that issues certificates of participation. The certificate represents a share of the lease payment to be received by the investor.

Closing Date

The date on which the issuer legally issues its debt or other obligation. On that date, the purchaser provides the funds to the issuer and the issuer delivers the securities to the purchaser. At closing, bond counsel will provide the approving legal opinion.

Commercial Paper

A form of financing consisting of short-term unsecured promissory notes usually backed by a line of credit with a bank.

Conduit Financing

The sale of bonds or notes for the benefit of a third party, usually a corporation.

Coupon Interest Rate

The rate of interest paid on a specific bond. The coupon interest rate appears on the face of the bond or, in the case of book-entry-only bonds, on the bond record maintained by the securities depository.

Coverage Covenant

A pledge by the issuer, in the trust indenture or bond resolution, to maintain a specified level of coverage of debt-service requirements from pledged revenues.

Credit Enhancement

A guarantee by a third party in a debt financing that strengthens the credit quality behind the obligation.

Dated Date

The date on which a debt obligation begins to accrue interest. For example, if a bond issue was dated July 1 and was delivered to the purchaser (closed) on July 14, the purchaser would need to pay the issuer accrued interest from the dated date (July 1) up to but not including the delivery date (July 14). (See "Delivery Date.")

Defeasance

The provision for payment of an outstanding obligation with cash or securities that are placed in escrow until the due date.

Delivery Date

The date on which debt obligations are delivered to the purchaser. This is also known as the closing date.

Denomination

The face value, or par amount, of a bond that is due at maturity. Most municipal bonds are issued in denominations of $5,000 or integral multiples thereof.

Derivative Products

A term used to describe a wide range of financial products derived from more conventional securities or debt-service cash flows. Often contractual arrangements, derivative products include interest rate swaps, inverse floaters, and other hybrid securities.

Double-Barrel Bonds

A bond that has two pledged sources of security. Most often, a double-barrel bond is a general obligation that is initially secured by some specified revenue stream.

501(c) (3) Bond

Section 501c (3) of the Internal Revenue Code refers to organizations that are traditional charitable organizations, including but not limited to those organized for religious, scientific, literary, or educational purposes.

General Obligation Bonds

Bonds that are secured by the issuer's full-faith and credit pledge. Most GO bonds are backed by the issuer's ability to level an ad valorem tax in an amount sufficient to meet debt-service requirements. Some GO bonds, known as limited-tax GO bonds, are backed by the pledge of a defined portion of the issuer's general taxing power.

Issuer Structure

The repayment schedule for a bond or other obligation that is set out in the legal documents at the time of issue.

Lease-Purchase Agreement

An agreement entered into by two parties in which one provides a facility or equipment in exchange for a pledge from the other to make regular lease payments. Upon completion of the lease term, the lessee assumes ownership of the item. Most lease-purchase agreements provide that the lessee will continue to make lease payments only as long as its governing body appropriates funds for that purpose.

Legal Opinion

An opinion concerning the legality of a municipal bond issue. Such opinions usually address the legal authority of the issuer to sell bonds, the issuer's compliance with all procedural requirements prior to issuance, and the tax status of the bonds as an investment. To ensure the marketability of their offerings, governments usually retain the services of firms which specialize in municipal bond issues. (See "Nationally Recognized Bond Counsel.")

Level Debt Service Maturity Schedule

A debt repayment structure that is characterized by lower principal maturity amounts in the early years that gradually increase. When these principal repayment requirements are combined with interest payments, the result is a level debt-service payment (similar to a home mortgage).

Level Principal Maturity Schedule

A debt repayment structure that provides for equal principal payments in each year. When combined with interest requirements, this structure results in a debt-service schedule that is higher in the early years.

Master Lease Purchase Program

Administered by the Texas Public Finance Authority (TPFA), this commercial paper program enables state agencies to finance equipment acquisitions and other revenue bond projects that may be authorized by the Legislature through the TPFA. The program is available to finance purchases in excess of $10,000 and projects with a useful life of at least three years.

Maturity Amount

The amount of an issue's principal, or par value, that is scheduled to be redeemed on a given date.

Maturity Date

The date on which a given security is scheduled for redemption.

Municipal Securities Rulemaking Board (MSRB)

Created in 1975 as a product of amendments to the Securities Exchange Act of 1934, the MSRB is an independent, self-regulatory organization. The 15-member MSRB is charged with providing regulatory oversight of dealers, dealer banks, and brokers in the municipal securities industry.

Nationally Recognized Bond Counsel

Firms that have experience providing legal opinions related to the issuance of municipal bonds. The market generally considers firms listed in *The Bond Buyer's Municipal Marketplace* to be nationally recognized.

Net Interest Cost (NIC)

A method to calculate the overall interest cost of borrowing. The NIC is calculated by dividing total interest payments over the life of the issue by the total bond year dollars. Total bond year dollars is the sum of the products of the amount of bonds outstanding and the number of years they are outstanding. If the issue is sold at a discount, the amount of the discount is added to the total interest payments. If the issue is sold at a premium, the amount of the premium is subtracted from the total interest payments.

Official Statement

A disclosure document prepared in connection with a specific offering that provides detailed information concerning security provisions, maturity dates and amounts, optional redemption provisions, ratings, coupon rates and reoffering yields, and other relevant credit data. The official statement is prepared and circulated after the sale has been completed. (See "Preliminary Official Statement.")

Par Value

The face or maturity value of a security.

Parity Bonds

Separate bond issues that have the same lien against pledged revenues.

Pay-as-you-go-basis

The financial policy of a municipality that finances all capital outlays from current revenues rather than borrowing.

Preliminary Official Statement

A disclosure document prepared in connection with a specific offering that provides detailed information concerning security provisions, maturity dates and amounts, optional redemption provisions, and other relevant credit data. The preliminary official statement is prepared and circulated as a marketing tool prior to the sale of the securities. (See "Official Statement.")

Present Value

The sum of future payments due discounted back to the present date at an assumed rate of interest.

Primary Market

A term used to describe the underwriting, sale, or placement of securities at the time of original pricing.

Revenue Bonds

Bonds payable from an identified source of revenue that is typically derived from operation of the financed project, but may be derived from grants, excise or other specified non-ad valorem taxes. Revenue bonds do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service, and generally, do not require voter approval prior to issuance.

Revolving Loan Fund

A centrally administered (usually by a state) fund that makes loans to subordinate units of government to address specific funding objectives. Loan repayments are recycled into additional loans. Original capitalization often comes from a combination of federal grants and state monies. Examples are the wastewater treatment revolving loan funds created pursuant to the Water Quality Act of 1987.

Rule 15c2-12

A rule promulgated by the Securities and Exchange Commission that requires underwriters of municipal obligations to obtain and review certain disclosure materials prior to making a commitment to purchase securities.

Secondary Market

A term used to describe the sale or trading of securities at market prices – not at the time of original offer.

Source of Funds

Identifies what money will be used to finance the project. Examples of sources of funds include the state's general revenue fund, federal funds, and bond proceeds.

Takedown

A component of the underwriting spread, takedown is a fee expressed either as dollars per thousand dollars of par value or as the sales commission component of the underwriting spread.

Taxable Equivalent Yield

The yield an investor in a certain tax bracket would need to obtain on a taxable investment to equal the yield on a tax-exempt security. The equation is: (tax-exempt yield/1-investor's tax bracket)=taxable equivalent yield.

True Interest Cost (TIC)

A method of calculating the overall cost of a financing that takes into account the time value of money. The TIC is the rate of interest that will discount all future payments so that the sum of their present value equals the issue proceeds.

Type of Financing

Identifies how a capital project will be financed. Examples of types of financing include legislative appropriations, general obligation bonds, revenue bonds, and lease-purchase agreements.

Underwriter

In the municipal market, the term is used broadly to refer to the firm that purchases a securities offering from a governmental issuer. In some cases, the underwriter might be a syndicate of firms that have joined together to submit a bid for the issue.

Underwriting Spread

The compensation paid to the underwriter for the purchase of the governmental obligation. The underwriting spread is expressed as either dollars per thousand dollars of par value (e.g., $6.50) or as a percent of par value (0.65%). Underwriting spread consists of four components: takedown, management fee, underwriting fee (or "risk"), and expenses.

Variable Rate

An interest rate on a security that is periodically reset, usually according to an index or preset measure. Also typically known as a "floater."

Yield to Maturity

Total return on a bond, taking into consideration its coupon, length of maturity, and dollar price.