TEXAS BOND REVIEW BOARD
ANNUAL REPORT
1988

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ANNUAL REPORT
FISCAL YEAR 1988

Year Ended August 31, 1988

William P. Clements, Jr., Governor, Chairman
William P. Hobby, Lieutenant Governor
Gibson D. (Gib) Lewis, Speaker of the House of Representatives
Bob Bullock, Comptroller of Public Accounts
Ann W. Richards, State Treasurer

Tom K. Pollard, Ph.D.
Executive Director

November 1988

INTRODUCTION

The Texas Bond Review Board, created during the 70th Session of the Texas Legislature (1987), began to carry out its mandate on September 1, 1987.

The Board is composed of William P. Clements, Jr., Governor, Chairman; William P. Hobby, Lieutenant Governor; Gibson D. (Gib) Lewis, Speaker of the House of Representatives; Bob Bullock, Comptroller of Public Accounts; and Ann W. Richards, StateTreasurer.

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

The Board approved the issuance of more than $1.4 billion in state bonds during fiscal 1988. Approximately $888.9 million of these bonds had been sold by the end of the fiscal year.

The oversight of bond issuance by the Board is to ensure that Texas bonds are received favorably by the investment community and are issued in the manner most cost-effective to the state. The Board reviews the structure of proposed financings, the use and provision for safety of bond proceeds, the content of official statements, the proposed timing of bond issues, the costs of bond issuance, and the participation of women and minority professionals in the bond issuance process.

The Board also works outside the bond approval process to analyze and report on state debt to ensure that the decisions of the Board are made in the most informed manner possible and that the public is kept fully aware of the impact of debt on Texas state finances.

This 1988 annual report of the Texas Bond Review Board, the first annual report of the Board, represents part of that research and reporting effort.

Chapter 1 reviews Texas state bond issuance during fiscal 1988.

Chapter 2 is an overview of credit market conditions during fiscal 1988.

Chapter 3 examines the total amount of Texas state bonds outstanding and the debt service requirements associated with these bonds.

Chapter 4 puts the total amount of Texas state bond debt in perspective by measuring the impact of state debt on the state's population, tracing the long-term growth in state debt, and considering the added effect on Texans of local government debt.

Three appendices are attached. Appendix A includes a capsule summary of each bond issue approved by the Board and sold during 1988. Appendix B contains a description of each program under which state bonds may be issued. Appendix C includes the two policy statements adopted by the Board and the current administrative rules of the Board.

Tom K. Pollard, Ph.D.
Executive Director
Texas Bond Review Board

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Cautionary Statements

Chapter 1231 of the Texas Government Code directs issuers of state securities to report their securities transactions to the Bond Review Board (BRB). Chapter 1231 also requires the BRB to report the data to the governor, lieutenant governor, the speaker of the house, and each member of the legislature in an annual report within 90 days of the end of each state fiscal year. This report is intended to satisfy these Chapter 1231 duties.

The data in this report and on the BRB's website is compiled from information reported to the BRB from various sources and has not been independently verified. The reported debt and defeasance data of state agencies may vary from actual debt outstanding, and the variance for a specific issuer could be substantial.

State debt data compiled does not include all installment purchase obligations, but certain lease-purchase obligations are included. In addition, SECO LoanSTAR Revolving Loan Program and certain other revolving loan program debt and privately-placed loans are not included. Outstanding debt excludes debt for which sufficient funds have been escrowed to retire the debt either from proceeds of refunding debt or from other sources.

Future debt issuance is based on estimates supplied by each issuing agency. Future debt service on variable-rate, commercial paper, and other short-term and demand debt is estimated on the basis of interest rate and refinancing assumptions described in the report. Actual future data could be affected by changes in legislative and oversight direction, agency financing decisions, prevailing interest rates, market conditions, and other factors that cannot be predicted. Consequently, actual future data could differ from the estimates, and the difference could be substantial. The BRB assumes no obligation to update any such estimate of future data.

Historical data and trends presented are not intended to predict future events or continuing trends, and no representation is made that past experience will continue in the future.

This report refers to credit ratings. An explanation of the significance of the ratings may be obtained from the rating agencies furnishing the ratings. Ratings reflect only the respective views of each rating agency. In reporting ratings herein, the BRB does not intend to endorse the ratings or make any recommendation to buy, sell or hold securities.

This report is intended to meet chapter 1231 requirements and inform the state leadership and the Legislature. This report is not intended to inform investors in making a decision to buy, hold, or sell any securities, nor may it be relied upon as such. Data is provided as of the date indicated and may not reflect debt, debt service, population or other data as of any subsequent date. This data may have changed from the date as of which it is provided. For more detailed or more current information, see the issuers' web sites or their filings at Electronic Municipal Market Access (EMMA®). The BRB does not control or make any representation regarding the accuracy, completeness or currency of any such site, and no referenced site is incorporated herein by that reference or otherwise.

CHAPTER 1:

Texas Bond Issuance in 1988

During fiscal 1988, Texas state agencies and universities issued $888.9 million in state bonds to finance new prison construction, affordable housing, water conservation and treatment, and a variety of other projects (Table 1). A synopsis of each bond issue is presented in Appendix A.

The state, by selling bonds, spread the cost of these investments over a period of years, just as businesses might finance the purchase of factories and machinery or individuals finance the purchase of homes, cars, and college educations.

Approximately $657.5 million of the $888.9 million total were bonds issued to raise new money, compared to $479 million in new money bonds issued during 1987, and $1.6 billion in new money bonds issued during 1986.

Another $231.4 million in bonds were issued during 1988 to refund previously issued bonds. In a refunding, new bonds are issued to pay off previously issued bonds. Approximately $227 million in refunding bonds were issued during 1987 and $1.8 billion during 1986. A refunding usually results in lower interest costs in the future or additional cash available up front.

The Board also approved, and state agencies executed, $90.4 million in lease-purchase agreements during the year.

The state does not issue bonds when it enters into a lease-purchase agreement, but does enter into a written agreement to make payments over the life of the lease-purchase contract.

The Bond Review Board approved another $598 million in bonds and $1.3 million in lease-purchase agreements during fiscal 1988 which had not been finalized by the end of the year.

Investing in Prisons

The greatest single use of bond financing and lease-purchase agreements during 1988 was to expand the facilities of the Texas Department of Corrections (TDC).

To ease prison overcrowding, the Texas Public Finance Authority (TPFA), acting on behalf of the TDC, issued $238.9 million in general obligation bonds during 1988 to finance the construction of space to accommodate an additional 10,622 beds and provide associated industry projects. The TPFA is expected to issue just over $30 million in new bonds in October 1988 to complete the projects and related repairs and renovations.

The issuance of these general obligation bonds was authorized by the 1987 Legislature and approved by Texas voters in the November 1987 general election.

The TDC also entered into lease-purchase agreements, totalling $50 million, to add an additional 2,000 beds. The Texas Correctional Facilities Financing Corporation, a Texas nonprofit corporation, issued bonds for the construction of the prisons which are to be privately operated. The TDC will make lease-purchase payments to acquire these prisons over twenty years.

Improvements were also made to facilities of the Texas Department of Mental Health and Mental Retardation and the Texas Youth Commission, using the net proceeds of $46.5 million in bonds sold in December 1987 by the TPFA.

Another $19.8 million in bonds were issued by the TPFA to finance the purchase and renovation of state buildings. This brings the total bonds issued by the TPFA during 1988 to $305.2 million, making this agency the largest issuer of state bonds during the year.

Financing Affordable Housing

The Texas Housing Agency (THA) was the second most active state bond issuer during the year, selling a total of $173 million in bonds. The goal of the THA is to finance the construction of affordable single- and multi-family housing for low- to moderate-income Texans. About $149 million (86 percent) of this total went toward the financing of single-family housing, $1.4 million (1 percent) for financing the construction of multi-family units, and $22.5 million (13 percent) to refinance existing projects to bring the interest costs down.

TABLE 1
Texas Bonds Sold During Fiscal 1988*

Texas Public Finance Authority	
Revenue Bonds, Series 1987	$19,765,000
Issued on behalf of State Purchasing and General Services Commission	
General Obligation Bonds, Series 1987	46,500,000
Issued on behalf of the Texas Department of Mental Health and Mental Retardation and the Texas Youth Commission	
General Obligation Bonds, Series 1988A	155,560,000
Issued on behalf of the Texas Department of Corrections	
General Obligation Bonds, Series 1988B	83,370,000
Issued on behalf of the Texas Department of Corrections	
Texas Housing Agency	
Residential Mortgage Revenue Bonds, Series 1987A-D	149,000,000
South Texas Rental Housing Revenue Bonds, Series 1987 (private placement)	1,400,000
Multi-Family Housing Revenue Refunding Bonds, Series 1988A,B	22,535,000
Texas Water Development Board	
Water Development Bonds, Series 1987C	55,000,000
Water Development Bonds, Series 1988A-C	63,000,000
Texas A&M University System	
Combined Revenue System Refunding and Improvement Bonds, Series 1988A,B	106,930,000
Permanent University Fund Refunding Bonds, Series 1988	50,000,000
Permanent University Fund Subordinate Lien Notes, Series 1988A	5,000,000
University of Texas System	
General Revenue Subordinate Lien Notes, Series 1988A	3,700,000
Permanent University Fund Refunding Bonds, Series 1988	100,000,000
Permanent University Fund Variable Rate Notes, Series 1988A	25,000,000
Lamar University	
Subordinate Lien Combined Fee Revenue Bonds, Series 1987	1,100,000
Stephen F. Austin State University	
Combined Fee Revenue Bonds, Series 1988	1,000,000
GRAND TOTAL, BONDS SOLD DURING FY 1988	$888,860,000

*Note: Fiscal 1988 covers the period from September 1, 1987 through August 31, 1988.

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

Enhancing Texas' Water Supply and Treatment

The Texas Water Development Board (TWDB) issued $118 million in bonds during 1988, making this agency the year's third largest issuer of state bonds. The TWDB will lend the bond proceeds to political subdivisions across Texas as part of TWDB's ongoing program to develop the state's water resources.

The Cost of Texas Debt

Two major types of costs are involved in financing state purchases: interest costs which must be paid over the life of any bonds sold and issuance costs—the cost of designing the financing, preparing the necessary documents, and marketing the bonds.

Interest and issuance costs are related in that expenditures for issuance costs which result in a well-structured financing, with adequate security for the bondholder and complete and accurate legal documentation, can more than pay for themselves in the form of lower interest rates over the life of the bond issue.

Interest Costs

The interest paid to bondholders makes up the largest expense associated with state borrowing. A bond issue to finance a $10 million project over 20 years at 7 percent, for example, would cost the state approximately $8.7 million in interest over the life of the bonds.

Bond interest rates are determined primarily by conditions in the capital markets at the time bonds are sold. The interest rates on new Texas bonds fell sharply late in 1987, then drifted slowly upward through mid-1988 with the overall rise in rates.

In return for paying interest, the state is able to purchase an asset today and have it paid for over time by those taxpayers who benefit from the purchase.

Issuance Costs

The major components of issuance costs are financial advisor fees, underwriter's spread, legal fees, rating agency fees, and printing costs. Issuance costs for each bond issue approved by the Bond Review Board and sold during 1988 are reported in Appendix A.

The financial advisor or investment banker structures the financing, prepares and distributes necessary documents, announces and advertises the upcoming sale, and secures a bond rating.

Bond counsel prepares the necessary legal documents and ensures and certifies to prospective bondholders that the proposed bond issue meets state and federal legal requirements.

The issuer also pays Moody's and Standard & Poor's bond rating services to rate the credit quality, or investor risk, associated with a bond issue. These evaluations are the industry standard used by most investors in their decisions on which bonds to buy.

A number of factors affect the individual components of issuance costs, including the size and complexity of the bond issue, the credit worthiness of the issuer, federal tax laws, and bond market conditions at the time of the sale.

Issuance costs averaged $145,943 per bond issue approved by the Bond Review Board and sold during fiscal 1988 (exclusive of underwriter's spread which will be discussed later). On the average, costs amounted to $9.88 per $1,000 of bonds sold (Table 2).

Negotiated vs. Competitive Sale

On more complex or innovative financings—less familiar to prospective investors—the sale of bonds may be negotiated in advance. Other, more standard, financings are more likely to be sold through a competitive bidding process.

On the day of a competitive sale, different groups of underwriters bid for a bond issue by quoting to the issuer the interest rate they would require the state to pay on the bonds being sold. The underwriter with the winning bid buys the Texas bonds with the goal of selling them to investors at a profit, or spread.

The underwriter's spread in a competitive sale is dependent on the ability of the underwriter to turn around and resell the bonds at a profit. The profit comes solely from the difference between what the investor pays for the bonds and what the underwriter purchased them for.

In the negotiated sale, the issuer of the bonds pays a portion of the spread from bond proceeds in exchange for the underwriter's agreement in advance to buy the issuer's bonds.

Because of the time lag between the purchase and the resale of the bonds--and thus the risk of events that will affect interest rates in the capital markets--the underwriters incur an underwriting risk. In a negotiated

TABLE 2
Average Issuance Costs for Bonds Sold During Fiscal 1988

	Fiscal Year 1988		
	NEGOTIATED* SALES	COMPETITIVE SALES	ALL ISSUES
FINANCIAL ADVISOR FEES			
Average Cost Per $1,000 in Bonds Sold	$2.22	$2.22	$2.22
Average Cost Per Bond Issue	$4,009	$13,229	$8,619
LEGAL FEES			
Average Cost Per $1,000 in Bonds Sold	$3.97	$1.38	$2.68
Average Cost Per Bond Issue	$56,775	$24,817	$40,796
RATING AGENCY FEES			
Average Cost Per $1,000 in Bonds Sold	$0.84	$1.42	$1.13
Average Cost Per Bond Issue	$16,437	$14,216	$15,326
OTHER FEES**			
Average Cost Per $1,000 in Bonds Sold	$7.07	$0.64	$3.85
Average Cost Per Bond Issue	$147,469	$14,934	$81,202
ISSUANCE COST, SUBTOTAL			
Average Cost Per $1,000 in Bonds Sold	$14.10	$5.66	$9.88
Average Cost Per Bond Issue	$224,690	$67,196	$145,943
UNDERWRITER'S SPREAD***			
Average Cost Per $1,000 in Bonds Sold	$12.51	$0	$12.51
Average Cost Per Bond Issue	$560,740	$0	$560,740
ISSUANCE COSTS, TOTAL			
Average Cost Per $1,000 in Bonds Sold	$26.61	$5.66	$22.39
Average Cost Per Bond Issue	$785,430	$67,196	$706,683

*Includes private placements and negotiated sales.
**Includes Texas Housing Agency financing fees, as well as fees paid by all issuers for credit enhancement, printing, paying agent, advertising, etc.
***Averages are based only on underwriter's spreads paid on the five negotiated sales during fiscal 1988.

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

sale the issuer compensates the underwriter for this risk through payment of the spread from bond proceeds. The negotiated spread may also include sales concessions, or commissions, as an aid to marketing the bonds.

Underwriter's spreads averaged $560,740 per bond issue and $12.51 per $1,000 of bonds sold on the negotiated sales during 1988.

Other issuance costs were also higher for issues sold on a negotiated basis, in part a result of their greater complexity. Legal fees on negotiated sales were over twice the average legal fees on bond issues sold competitively.

Financial advisor fees per bond issue were much *less* on a per issue basis for negotiated sales, averaging $4,009 per negotiated sale compared to $13,229 for competitively sold issues. The lower average for negotiated sales is because the Texas Housing Agency, which accounted for half of the negotiated sales during the year, pays no fee for financial advisor. The THA does, however, assess a one percent ($10 per $1,000) agency financing fee on certain bond issues which is included under "other fees". Issuance costs, excluding underwriter's spread, averaged $224,690 per issue and $14.10 per $1,000 of bonds sold by negotiated sale compared to $67,196 per issue and $5.66 per $1,000 of bonds sold competitively.

Economies of Scale

Although issuance costs are most commonly expressed as dollars per thousand dollars of bonds issued, costs do not necessarily vary directly with the size of the issue.

There are many fixed costs for legal work, printing, etc., which must be paid no matter how small the issue. On the positive side, however, due to "economies of scale" these costs do not increase with the size of an issue.

Document printing and distribution costs, as well as expenses relating to travel and rating agency assessments, tend to vary little with the size of an issue.

Professional fees for lawyers and investment bankers vary more with the complexity of a financing than with its size, although some increase in fees may be expected for larger issues due to the greater financial liability associated with them.

Issuance costs on competitive issues of $50 million or more ranged from $0.73 per $1,000 on a bond issue of $155.6 million sold by the TPFA to $2.15 per $1,000 on a $50 million bond issue of the TWDB. Issuance costs for the $50 million TWDB issue were $107,692 while the costs for the much larger $155.6 million TPFA issue were only about $7,000 higher at $114,759.

CHAPTER 2:

Credit Market Conditions-1988

The last year has not been a time for the squeamish in the credit markets. Interest rates went on a roller-coaster ride and federal policymakers continued to threaten the tax-exempt status of many issuers.

Interest Rates Tumble with the Stock Market Crash

The yield on 30-year U.S. Treasury Bonds, which had been above 10.25 percent prior to the October 19 stock market crash, dropped to below 9 percent as investors flocked to the safety of U.S. Government securities (Figure 1).

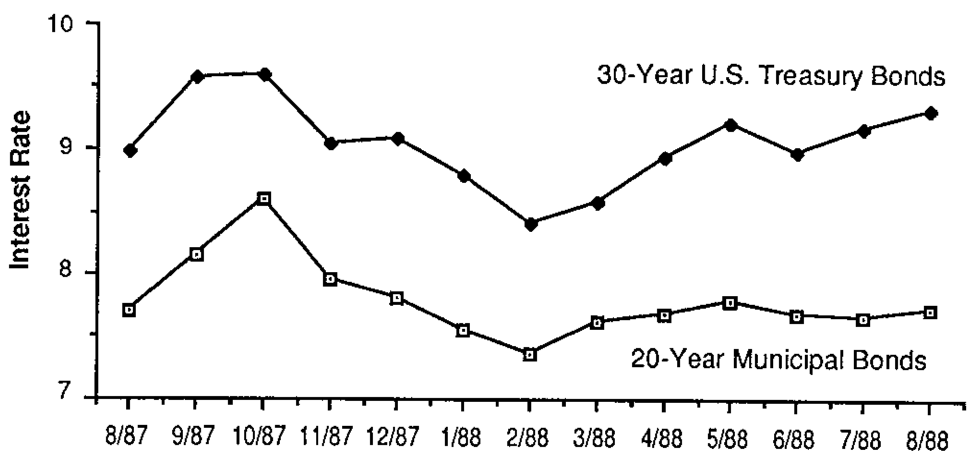
Yields on municipal bonds followed the lead of the U.S. Government securities, declining an average of more than 100 basis points (one percentage point) shortly after the crash.

Rates Rebound with Fed Tightening

Since February 1988, the trend for yields on U.S. Government securities has generally been upward, while municipal yields have held steady. The increase in U.S. Treasury yields is due to efforts by the Federal Reserve Board to cool off what is perceived as a steadily expanding economy. The concern of federal officials is that unless the economy slows down, infla-

FIGURE 1

Interest Rate on 30-Year U.S. Treasury Bonds and 20-Year Municipal Bonds, Monthly Averages



SOURCE: Credit Markets, Various Issues. The 20-year municipal bond rate is the yield on the Bond Buyer's eleven general obligation 20-year municipal bonds.

tionary pressures will build to unacceptable levels. The most visible evidence of federal tightening was a steady increase in the prime rate, which reached 10 percent by August 31, and an increase in the discount rate to 6.5 percent in late summer.

Yields on municipal bonds, meanwhile, have remained in a fairly narrow range since October. Analysts cite a lack of supply of municipal bonds and a large demand for these securities as the principal reasons for the steady yield levels. Some market observers suggest that many state and local government issuers, concerned about the future of the U.S. economy, are reluctant to take on additional debt until the economic picture becomes less hazy.

Also, events of a noneconomic nature during the year spread uncertainty throughout the market for municipal bonds about the long-term access of state issuers to the tax-exempt market. This uncertainty about the future supply of state tax-exempt debt kept their prices high and the interest rates low.

Supreme Court Decision Threatens Municipals' Tax Exemption

In late April, the U.S. Supreme Court removed the constitutional protection of federal tax exemption that state and local governments had counted on for almost 100 years.

In a 7-1 vote, the justices in *South Carolina v. Baker* negated a landmark 1895 decision, *Pollock v. Farmers' Loan & Trust Co.,* which spawned the doctrine of intergovernmental tax immunity. This legal theory holds that the federal government cannot tax the debt of state and local governments and vice versa. The decision leaves the future of the tax-exempt status of municipal bonds in the hands of the U.S. Congress.

Examples of possible increased taxation of municipal bonds would be a broadening of the tax base by expanding the alternative minimum tax on municipal bond interest and the placing of nonprofit organization bonds under a reduced per capita state volume cap for private-activity bonds.

Tighter Municipal Market Regulation Possible

Another shadow grew over the municipal bond market during the past year with the increased attention paid to bond issue defaults and investigations by the Internal Revenue Service (IRS) of a number of legally suspect financings.

Internal Revenue Service officials have, over the past 12 months, investigated a number of financings that many observers claim were conducted simply to earn arbitrage profits and large consultant fees. The suspect bond issues were ostensibly marketed to provide financing for the construction of various housing projects. The projects were never built, however.

In August of this year, the IRS ruled that two such housing financings, issued by Guam and the Northern Mariana Islands, violated IRS regulations and were not tax-exempt. Similar rulings are expected on other housing bond issues.

Foremost in the news this year, however, was the litigation over the 1983 default of the Washington Public Power Supply System (WPPSS). As a September 7, 1988, trial date approached, a number of defendants reached settlements with bondholders, placing in the spotlight once again the largest municipal default in U.S. history ($2.25 billion).

The WPPSS default is scrutinized in a Securities and Exchange Commission (SEC) report released in early September.

The SEC criticized WPPSS, bond lawyers, investment bankers, bond dealers, and bond rating agencies for inadequate research and disclosure of the financial weaknesses which led to the WPPSS default. Certain bond mutual funds, called unit trusts, were faulted for jeopardizing their shareholders' interests by purchasing the high-yielding, but high-risk, WPPSS bonds.

As part of its response to the WPPSS default, the SEC has proposed more stringent rules on financial disclosure related to bond issues. On bond issues exceeding $10 million, underwriters would be required to review substantially complete financial disclosure documents called official statements before bidding on, or purchasing, bonds. Underwriters would also be required to provide investors with official statements on request.

The proposed rules could add to issuance costs, but are not expected to create serious problems for standard, competitively bid bond issues.

The SEC report could increase the likelihood of more strict federal regulation of the industry and additional loophole closing by Congress. But market observers believe that the political will of Congress is in favor of continuing the tax-exempt status of municipal bonds, particularly those bonds that clearly serve a public purpose.

Concern exists, however, that as future sessions of Congress face huge budget deficits they will examine closely all facets of tax-exempt financing and will gradually "chip away" at the tax-exempt status of municipal bonds through a variety of measures.

Texas Bonds Trade Better During 1988

Improvement in the Texas economy and state finances over the last year has increased investor confidence in Texas general obligation bonds.

The relative yield demanded by investors purchasing Texas bonds has fallen steadily since mid-1987, according to a semiannual survey of bond traders conducted by the Chubb Corporation (Figure 2).

Texas' general obligation bonds are trading 0.2 percentage points above the rate on the general obligation debt of the benchmark state, New Jersey, which is rated AAA by both Moody's and Standard & Poor's.

The yield on Texas bonds peaked in June 1987 at almost 0.5 percentage points above the AAA-benchmark.

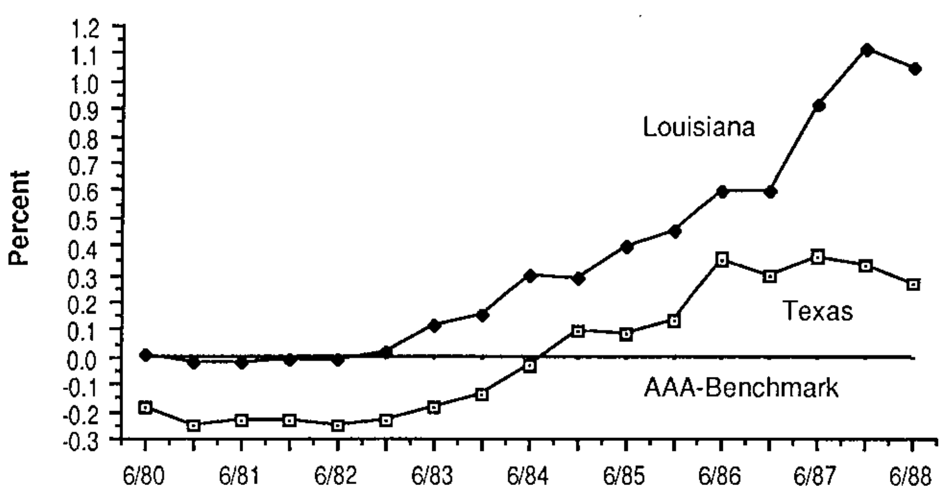
Investor worries concerning Texas' economic and financial future had been pushing yield on Texas bonds steadily upward since 1983, when the falling oil prices began to seriously threaten the state's financial strength.

When oil prices peaked in 1981, Texas' general obligation debt was trading at 0.2 to 0.3 percentage points below the benchmark state. As oil prices fell and Texas' finances weakened, investors demanded a higher rate of return to hold Texas debt.

A worsening state fiscal position pushed yields

FIGURE 2

Yield Differences on Texas and Louisiana General Obligation Bonds, Relative to AAA-Benchmark State



SOURCES: J.P. Morgan Securities, Inc., Municipal Research Division, and the Chubb Corporation.

NOTE: Yield differences are compiled from a semiannual poll by the Chubb Corporation of major municipal bond dealers. Traders are asked to express the average yield they demand on the general obligation debt of a number of states relative to a benchmark state, New Jersey, which is top-rated by both Moody's and Standard & Poor's bond rating agencies. The specific data for this graphic was supplied to the Bond Review Board by the Municipal Research Division of J.P. Morgan Securities.

above the benchmark beginning in 1984. And investor confidence continued to deteriorate through mid-1987.

Moody's downgraded Texas' rating to Aaa from Aa in March 1987 and Standard & Poor's moved Texas from AA+ to AA in August 1987.

Over the last year, however, investor perception of Texas' credit worthiness—as reflected in the relative yield on Texas bonds—has experienced a slow but steady recovery.

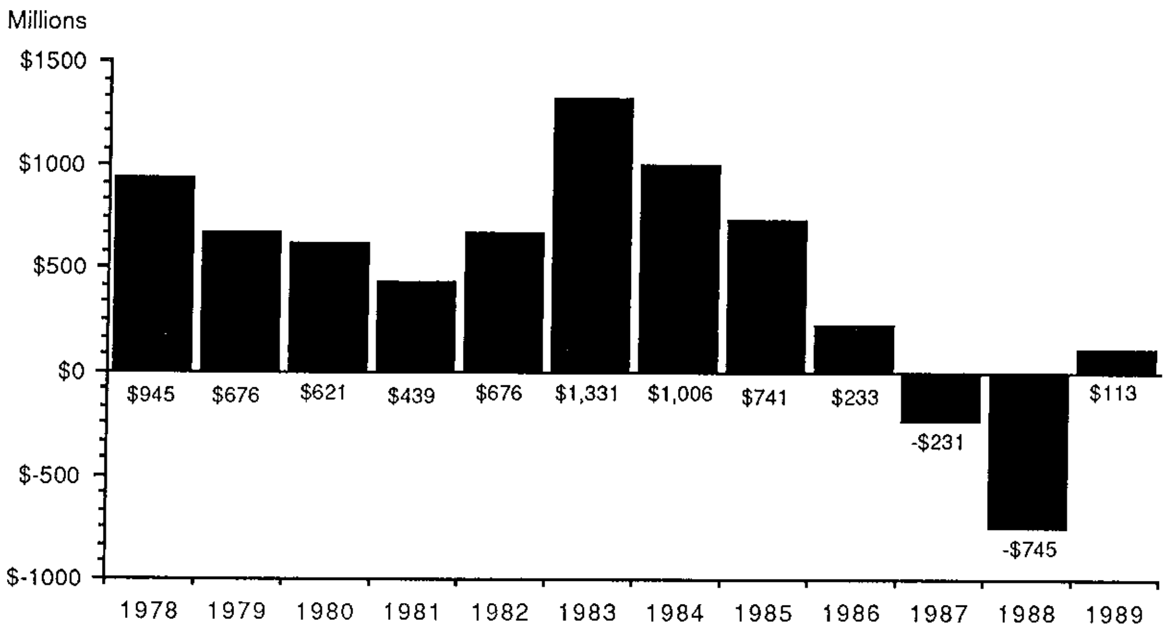
Investors are demanding less of a premium recently because of improvement in the state's economy and a strengthening during the last year in the state's cash position (Figure 3).

For comparison, Figure 2 includes the relative yield on the general obligation bonds of neighboring Louisiana. Louisiana's bonds are trading more than a full percentage point above the AAA-benchmark and 0.8 percentage points above Texas. Louisiana's general obligation debt is currently trading at yields higher than any other state in the U.S. The state's poor position is attributed to lack of diversification in the state's economy and the state's failure to put its finances in order as oil price declines cut into state revenues.

Texas' relative trading strength is testimony to the underlying strength of the state's non-oil economy and the resolve of the state's leadership to keep state finances on an even keel, despite declining oil-related state revenues.

FIGURE 3

Beginning Balance in Texas' General Revenue Fund by Fiscal Year



SOURCE: Texas Comptroller of Public Accounts.

CHAPTER 3:

TOTAL TEXAS BOND DEBT

Texas had $7.0 billion in state bond debt outstanding on August 31, 1988. Wide variation exists, however, in the burden which different types of state debt place, or are likely to place, on state tax coffers.

G.O. Debt: The Only Legally Binding Long-Term Debt

The most basic distinction to be made between types of debt is a constitutional one.

Any debt which would bind a future legislature requires an amendment to the Texas Constitution which must be passed by two-thirds of both houses of the Texas Legislature and approved by a majority of Texas voters.

The amendment is necessary because of the language in the Texas Constitution which strictly limits the creation of state debt:

> "No debt will be created by or on behalf of the State, except to supply casual deficiencies of revenue, repel invasion, suppress insurrection, defend the State in war, or pay existing debt; and the debt created to supply deficiencies in the revenue, shall never exceed in the aggregate at any one time two hundred thousand dollars."[1]

Debt which is authorized by such a constitutional amendment carries a pledge of the full faith and credit of the state and is classified legally as a general obligation (G.O.) debt of the state.

From a legal standpoint, G.O. debt is the only true debt of the state. Future legislatures are not legally bound to pay any debt other than G.O. debt.

The Texas Constitution automatically appropriates funds necessary to pay debt service on G.O. debt out of the first money coming into the State Treasury each fiscal year which is not otherwise dedicated by the constitution. Because of this iron-clad security, interest rates on G.O. debt are typically lower than for similar non-G.O. bonds.

Approximately $2.6 billion (37 percent) of Texas' $7.0 billion in total state bond debt outstanding at the end of 1988 is backed by the general obligation pledge of the state (Table 3).

Non-G.O. Debt: An Act of Faith

Sixty-three percent of Texas bond debt outstanding was incurred by the state without the constitutional amendment necessary to guarantee future payment.

Non-G.O. debt is incurred with the caveat that its repayment to the lender is contingent upon an appropriation by a future legislature—an appropriation which cannot be guaranteed under state statutes. Revenue bonds, lease-purchase agreements, installment purchases, long-term contracts, and other obligations are within this class of non-G.O. debt.

Investors are willing to assume the added risk of a nonguaranteed debt for a price—by requiring a higher rate of return on non-G.O. bonds purchased from the state. The rate of interest on a non-G.O. bond issue ranges from a quarter to a half of a percentage point higher than for a comparable G.O. issue. Investors, additionally, might require a third party to guarantee the loan through a credit insurance policy or bank letter of credit, further increasing the cost of non-G.O. bond debt to the state.

Self-supporting vs. Not Self-supporting Bonds

Many bond-financed programs, G.O. and non-G.O. alike, are designed so that the debt service is paid from sources outside the state's general revenue fund, or outside state government entirely. These "self-supporting" bonds do not put the same direct pressure on state finances as those bonds with no outside source of payment.

Ninety percent of Texas bonds outstanding at the end of fiscal 1988 are self-supporting.

Annual debt service on bonds issued by the Texas Veterans' Land Program, for example, is paid entirely from the loan payments of veterans who have borrowed from the program to purchase land. Although the bonds are general obligations of the state, no draw

[1]Texas Constitution, Art. 3, §49.

TABLE 3
Texas Bonds Outstanding

	8/31/86	8/31/87	8/31/88
GENERAL OBLIGATION BONDS			
Self-Supporting			
Veterans' Land and Housing Bonds	$1,458,345,000	$1,440,745,000	$1,384,255,000
Water Development Bonds	353,295,869	493,081,869	595,744,500
Park Development Bonds	32,500,000	31,250,000	29,800,000
College Student Loan Bonds	115,705,000	106,915,000	97,840,000
Farm and Ranch Security Bonds	10,000,000	10,000,000	10,000,000
Total, Self-Supporting	1,969,845,869	2,081,991,869	2,117,639,500
Not Self-Supporting			
Higher Education Constitutional Bonds*	229,520,000	220,190,000	199,120,000
Texas Public Finance Authority Bonds	0	0	285,430,000
Total, Not Self-Supporting	229,520,000	220,190,000	484,550,000
GENERAL OBLIGATION BONDS, TOTAL	2,199,365,869	2,302,181,869	2,602,189,500
NON-GENERAL OBLIGATION BONDS			
Self-Supporting			
Permanent University Fund Bonds			
A&M	198,065,000	220,690,000	224,180,000
UT	440,045,000	427,420,000	442,100,000
College and University Revenue Bonds	948,365,903	924,163,903	940,757,903
Texas Hospital Equipment Finance Council Bonds	62,200,000	62,200,000	37,400,000
Texas Housing Agency Bonds	1,253,325,867	1,320,132,912	1,441,302,894
Texas Small Business I.D.C. Bonds**	770,000,000	770,000,000	770,000,000
Texas Turnpike Authority Bonds***	346,004,040	349,936,301	354,407,831
Total, Self-Supporting	4,018,005,810	4,074,543,116	4,210,148,628
Not Self-Supporting			
Texas Public Finance Authority Bonds	145,245,984	178,662,982	198,427,982
National Guard Armory Board Bonds	21,700,000	22,640,000	21,815,000
Total, Not Self-Supporting	166,945,984	201,302,982	220,242,982
NON-GENERAL OBLIGATION BONDS, TOTAL	4,184,951,794	4,275,846,098	4,430,391,610
GRAND TOTAL	$6,384,317,663	$6,578,027,967	$7,032,581,110

*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.
**Excludes industrial development bonds per financial reporting guideline changes promulgated by the State Auditor subsequent to the release of the 1987 GAAP Annual Report.
***Data for Texas Turnpike Authority are as of December 31, instead of August 31.

SOURCES: Texas Bond Review Board, Office of the Executive Director, and Texas Comptroller of Public Accounts. This table was compiled from the 1987 Texas Annual Financial Report: Audited GAAP Edition and unaudited1988 information obtained directly from the state agencies involved.

on the state's general revenue fund is anticipated. Only in the unlikely event of wide-scale default by borrowers would the state's general revenue fund be tapped.

On the other hand, the Texas Public Finance Authority recently issued G.O. bonds which are dependent entirely on general revenue for debt service. These bonds were issued to finance construction projects of the Texas Department of Corrections, the Texas Department of Mental Health and Mental Retardation, and the Texas Youth Commission. Principal and interest paid on these bonds will be solely from appropriations by the legislature over the next twenty years.

While the ultimate security for the Public Finance Authority G.O. bonds is the same as for the Veterans' Land Program, the Public Finance Authority bonds—by drawing only on general revenue for debt service—will place a greater direct burden on state finances.

This variation also exists within the non-G.O. bond category. For example, revenue bonds issued by the Texas Housing Agency in no way obligate the state's general revenue fund. They are funded entirely out of proceeds from single- and multi-family housing loans. In fact, the constitution could prevent the state from paying any debt service on the bonds, even if it were the will of the legislature.

In contrast, revenue bonds issued by the Texas Public Finance Authority are payable only from lease payments made to the Public Finance Authority from other state agencies. The funding for these lease payments comes from appropriations to the agencies from general revenue. Future legislatures are not legally bound to continue the appropriations which pay debt service, but only an unforeseen catastrophe would keep them from doing so. Therefore, the Public Finance Authority revenue bonds—with no outside revenue source—put a greater burden on state finances.

Long-Term Contracts and Lease-Purchases

An analysis of long-term financing techniques must include long-term contracts and lease-purchase agreements. These financing tools can serve as alternatives to bonds when the issuance of bonds is not feasible or practical. Payments on these contracts can be either general obligations of the state, or subject to biennial appropriations by the legislature.

The Texas Water Development Board has entered into a long-term contract with the federal government to gain storage rights at two reservoirs under construction by the Federal Bureau of Reclamation. The balance due on the contract at the end of fiscal 1987 was $38.8 million. This contract is a general obligation of the state, but the Water Development Board does not anticipate a draw on general revenue for contract payments.

Until recently, lease-purchase agreements represented a relatively small part of Texas debt. They were used for the short-term financing of furniture and equipment. As of August 31, 1987, capital leases outstanding totalled approximately $20.2 million, 98 percent of which will be paid off within four years.

The greater volume and extended repayment periods associated with recent lease-purchase agreements have greatly increased the significance of this type of debt.

This year, the Texas Department of Corrections entered into $146 million in 20-year lease-purchase agreements for prison facilities. The lease-purchase payments for the prisions will come totally from appropriations by the legislature to the Texas Department of Corrections.

The University of Texas System entered into a $38 million lease-purchase agreement with the Travis County Research and Development Authority to purchase a research facility to house SEMATECH, a research and development consortium of semiconductor manufacturers. SEMATECH chose Austin, Texas, as the site for its laboratory after a nationwide site-selection competition. Proceeds of bonds issued by the Authority will be used to customize an existing manufacturing facility to meet SEMATECH's needs. Bonds are secured by lease payments from the U.T. System and payments from other state sources, if available. The U.T. System's lease payments will be made solely from earnings on the Permanent University Fund.

Texas Bonds Authorized But Unissued

As of August 31, 1988, Texas had $4.2 billion in authorized but unissued debt (Table 4). If all authorized bonds were issued today, outstanding debt would top $11.2 billion and the mix of bonds would remain weighted—although not by as great a margin—toward those bonds that are self-supporting. The G.O. component of state debt would increase to 48 percent from the current 37 percent.

Sixty-five percent of the authorized but unissued debt is G.O., and 80 percent of this G.O. debt would be self-supporting. Overall, 70 percent of the authorized

TABLE 4
Texas Bonds Authorized But Unissued

	8/31/87	8/31/88
GENERAL OBLIGATION BONDS		
Self-Supporting		
Veterans' Land and Housing Bonds	$450,000,000	$450,000,000
Water Development Bonds	868,670,000	1,150,670,000
Farm and Ranch Loan Bonds	500,000,000	500,000,000
Park Development Bonds	29,250,000	29,250,000
College Student Loan Bonds	79,500,000	79,500,000
Farm and Ranch Loan Security Bonds	0	0
Total, Self-Supporting	1,927,420,000	2,209,420,000
Not Self-Supporting		
Higher Education Constitutional Bonds	*	*
Texas Public Finance Authority Bonds**	0	66,840,165
Superconducting Super Collider Bonds	0	500,000,000
Total, Not Self-Supporting	0	566,840,165
GENERAL OBLIGATION BONDS, TOTAL	1,927,420,000	2,776,260,165
NON-GENERAL OBLIGATION BONDS		
Self-Supporting		
Permanent University Fund Bonds***		
A&M	71,264,050	84,030,000
UT	155,463,100	174,321,710
College and University Revenue Bonds	****	****
Texas Hospital Equipment Finance Council Bonds	****	****
Texas Housing Agency Bonds	****	****
Texas Small Business I.D.C. Bonds	****	0
Texas Turnpike Authority Bonds	****	****
Texas Agricultural Finance Authority Bonds	0	500,000,000
Texas Department of Commerce Bonds	0	****
Texas Unemployment Compensation Fund Bonds	0	****
Texas Water Resources Finance Authority Bonds	0	****
Texas Water Development Bonds (Water Resources Fund)	0	****
Total, Self-Supporting	226,727,150	758,351,710
Not Self-Supporting		
Texas Public Finance Authority Bonds	169,887,000	214,837,500
National Guard Armory Board Bonds	****	****
Superconducting Super Collider Bonds	0	500,000,000
Total, Not Self-Supporting	169,887,000	714,837,500
NON-GENERAL OBLIGATION BONDS, TOTAL	396,614,150	1,473,189,210
GRAND TOTAL	$2,324,034,150	$4,249,449,375

* No limit on bond issuance, but debt service may not exceed $50 million per year.
** This figure represents the dollar amount of projects authorized by the legislature for which bonds have not been issued.
*** 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.
**** No issuance limit has been set by the Texas Constitution or by statute. 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.

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

but unissued debt would be self-supporting.

An examination of the debt authorized during 1987 by the 70th Legislature and voters in the November 1987 election reveals a potential turn toward debt which could have a substantially greater impact on the state's general revenue fund (Table 5).

More than $1.5 billion, or 63 percent, of the $2.5 billion in bonds authorized last year would have debt service paid solely from the general revenue fund. Only 10 percent of all bonds currently outstanding depend only on the general revenue fund. Also, fewer of the newly authorized bonds serviced from general revenue would be general obligations of the state, resulting in higher interest and issuance costs.

The 70th Legislature also authorized $50 million in long-term capital leases which must be serviced only from general revenue appropriations and carry relatively high borrowing costs.

Annual Debt Service Requirements

Table 6 presents debt service requirements on all Texas bonds outstanding as of August 31, 1988.

Most notable is the increase in debt service payments from general revenue.

During the 1990-91 biennium, bond debt service from the general revenue fund will top $168 million (including lease-purchases, payments from general revenue will approach $200 million in 1990-91). Bond debt service from general revenue will total $122 million in the 1988-89 biennium and totalled $85 million during the 1986-87 budget period.

The issuance of the remainder of the Texas Public Finance Authority Bonds and the bonds authorized for the superconducting super collider, both of which depend solely on general revenue for debt service, could push the 1990-91 debt service requirement from general revenue much higher.

TABLE 5:
Texas Bonds Authorized During 1987

	BONDS NEWLY AUTHORIZED 1987
GENERAL OBLIGATION BONDS	
Self-Supporting	
Water Development Bonds	$400,000,000
Total, Self-Supporting	400,000,000
Not Self-Supporting	
Texas Public Finance Authority Bonds*	361,850,713
Superconducting Super Collider Bonds	500,000,000
Total, Not Self-Supporting	861,850,713
GENERAL OBLIGATION BONDS, TOTAL	**$1,261,850,713**
NON-GENERAL OBLIGATION BONDS	
Self-Supporting	
Texas Agricultural Finance Authority Bonds	500,000,000
Texas Department of Commerce	**
Texas Unemployment Compensation Fund Bonds	**
Texas Water Resource Finance Authority Bonds	**
Water Development Bonds (Water Resource Fund)	**
Total, Self-Supporting	500,000,000
Not Self-Supporting	
Texas Public Finance Authority Bonds	197,262,000
Superconducting Super Collider Bonds	500,000,000
Total, Not Self-Supporting	697,262,000
NON-GENERAL OBLIGATION BONDS, TOTAL	**$1,197,262,000**
TOTAL, GENERAL AND NON-GENERAL OBLIGATION BONDS	**$2,459,112,713**

*This figure represents the total dollar amount of projects which have been authorized by the legislature. The amount of bonds issued to finance these projects will be slightly larger due to issuance costs.

**Legislature granted new authority to issue bonds. No issuance limit was set, however, by the Texas Constitution or by statute. Bonds may be issued by the agency without furthur authorization by the legislature. Bonds may not be issued, however, without the approval of the Bond Review Board and the Attorney General.

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

TABLE 6
Texas State Debt Service Requirements
(Amounts in Thousands)

Description of Issue	1988	1989	1990	1991	1992	1993 and Beyond	Total
GENERAL OBLIGATION BONDS							
Self-Supporting							
Veterans' Land and Housing Bonds	$169,555	$172,326	$168,455	$171,313	$162,323	$1,841,849	$2,685,821
Water Development Bonds	54,597	57,222	57,352	58,513	60,721	824,282	1,112,687
Park Development Bonds	3,890	2,880	2,834	3,264	3,172	39,533	55,573
College Student Loan Bonds	14,549	14,419	14,201	14,045	13,859	66,598	137,671
Farm and Ranch Security Bonds	900	900	900	900	900	13,150	17,650
Total, Self-Supporting	243,491	247,747	243,742	248,035	240,975	2,785,412	4,009,402
Not Self-Supporting							
Higher Education Constitutional Bonds	35,364	36,380	36,406	36,442	36,032	106,078	286,702
Texas Public Finance Authority Bonds	1,058	21,355	27,576	27,441	27,358	455,520	560,308
Total, Not Self-Supporting	36,422	57,735	63,982	63,883	63,390	561,598	847,010
GENERAL OBLIGATION BONDS, TOTAL	279,913	305,482	307,724	311,918	304,365	3,347,010	4,856,412
NON-GENERAL OBLIGATION BONDS							
Self-Supporting							
Permanent University Fund Bonds							
A&M	14,649	23,012	23,576	24,079	49,591	280,656	415,563
UT	39,982	51,071	48,490	48,968	48,437	682,719	919,667
College and University Revenue Bonds	95,839	100,355	103,359	103,670	104,201	1,227,885	1,735,309
Texas Hospital Equipment Finance Council Bonds*	2,799	1,612	1,612	1,612	1,612	30,952	40,199
Texas Housing Agency Bonds	137,562	142,729	151,794	145,353	144,651	3,250,149	3,972,238
Texas Small Business I.D.C. Bonds**	63,275	827,419	0	0	0	0	890,694
Texas Turnpike Authority Bonds	19,083	24,513	28,178	31,398	31,305	960,471	1,094,948
Total, Self-Supporting	373,189	1,170,711	357,009	355,080	379,797	6,432,832	9,068,618
Not Self-Supporting							
Texas Public Finance Authority Bonds	11,371	11,885	18,145	18,150	18,156	384,494	462,201
National Guard Armory Board Bonds	2,295	2,274	2,283	2,284	2,287	25,206	36,629
Total, Not Self-Supporting	13,666	14,159	20,428	20,434	20,443	409,700	498,830
NON-GENERAL OBLIGATION BONDS, TOTAL	386,855	1,184,870	377,437	375,514	400,240	6,842,532	9,567,448
TOTAL	$666,768	$1,490,352	$685,161	$687,432	$704,605	$10,189,542	$14,423,860

*Includes principal payments only. Estimates of interest payments on the variable rate bonds were not available at the time the table was prepared.
**Excludes industrial development bonds per financial reporting guideline changes promulgated by the State Auditor subsequent to the release of the 1987 GAAP Annual Report.

SOURCES: Texas Bond Review Board, Office of the Executive Director, and Texas Comptroller of Public Accounts.
This table was compiled from the 1987 Texas Annual Financial Report: Audited GAAP Edition and unaudited 1988 information obtained directly from the state agencies involved.

CHAPTER 4:

TEXAS STATE DEBT IN PERSPECTIVE

Texas has a relatively light state debt burden, ranking very low among the 50 states on each of three Moody's Investors Service 1988 state debt rankings:

- state tax-supported debt per capita (41st),
- state tax-supported debt per dollar of personal income (40th), and
- state tax-supported debt as a percentage of the full value of property in the state (42nd).

This might lead to the conclusion that the state has ample room to issue new state debt. But, before more state debt is issued, the magnitude of the recent increase in state debt and the added impact of local government debt must be considered.

Texas ranks first among the ten largest states in local debt per capita, and third in total state and local debt per capita. Debt issued by local governments, serviced by local taxes and fees levied on the same persons who pay state taxes and fees, accounts for almost 90 percent of Texas' total state and local debt.

Long-term Growth in State Debt

While Texas state debt has not been growing relative to local debt, it has grown dramatically in absolute terms over the last four decades. And recent trends in state debt policy are better understood as part of this long-term expansion of the role of debt in Texas state finances.

Total state bond debt outstanding grew from $81.3 million in 1950 to $7.0 billion as of August 31, 1988 (Table 7). Over the 1950-1988 period, state debt increased from $10.49 per capita to $404.90 per capita (Figure 4).

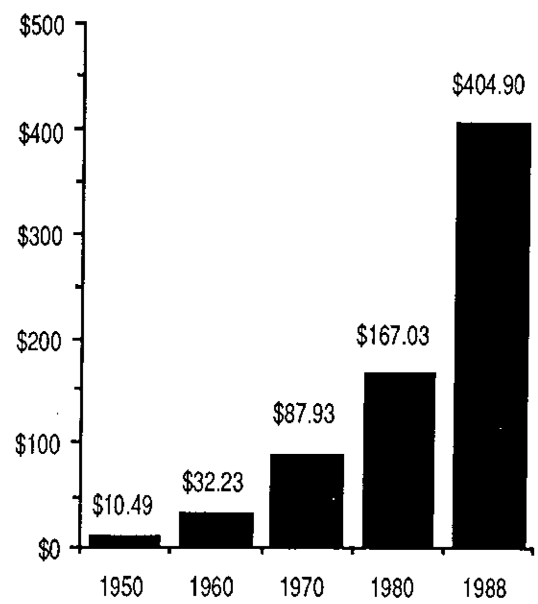
The growth in state debt is substantial, even when growth in the state's economy is taken into account. In 1950, there was $7.88 in state debt outstanding for every thousand dollars of personal income generated in the state. In 1988, debt outstanding totalled $28.73 per thousand dollars of Texas personal income (Figure 5).

Broadening Purpose for State Debt

The dramatic growth in debt outstanding has been accompanied by a broadening in the purposes for which debt has been issued.

To aid returning veterans of World War II, the legislature authorized, and voters approved, the establishment in 1946 of the Veterans' Land Program. The first bonds were issued in 1949, and the program grew to be the state's largest bond financed program in 1960 with a total of $132.6 million in general obligation bonds outstanding. The veteran's bond program was expanded in 1983 with the creation of the Veterans'

FIGURE 4
Texas State Bond Debt Per Capita



SOURCES: Municipal Advisory Council of Texas and Texas Bond Review Board, Office of the Executive Director.

TABLE 7
Texas State Bond Debt Outstanding: 1950 - 1988
(Amounts In Thousands)

	1950	1960	1970	1980	1988
GENERAL OBLIGATION BONDS					
Self-Supporting					
Veterans' Land and Housing Bonds	$25,000	$132,620	$216,370	$404,275	$1,384,255
Water Development Bonds	0	10,000	93,335	301,937	595,744
Park Development Bonds	0	115	5,750	9,000	29,800
College Student Loan Bonds	0	0	68,000	169,245	97,840
Farm and Ranch Loan Security Bonds	0	0	0	0	10,000
Total, Self-Supporting	25,000	142,735	383,455	884,457	2,117,639
Not Self-Supporting					
Various Purposes (Issued 1890-1915)	4,102	0	0	0	
Higher Education Constitutional Bonds	15,495	30,565	76,921	0	199,120
Texas Public Finance Authority Bonds	0	0	0	0	285,430
Total, Not Self-Supporting	19,597	30,565	76,921	0	484,550
GENERAL OBLIGATION BONDS, TOTAL	44,597	173,300	460,376	884,457	2,602,189
NON-GENERAL OBLIGATION BONDS					
Self-Supporting					
College and University Revenue Bonds	36,743	95,639	452,824	1,365,713	1,607,038
Texas Hospital Equipment Finance Council Bonds	0	0	0	0	37,400
Texas Housing Agency Bonds	0	0	0	0	1,441,303
Texas Small Business I.D.C. Bonds	0	0	0	0	770,000
Texas Turnpike Authority Bonds	0	58,500	73,397	128,485	354,408
Total, Self-Supporting	36,743	154,139	526,221	1,494,198	4,210,149
Not Self-Supporting					
Texas Public Finance Authority Bonds	0	0	0	0	198,428
National Guard Armory Board Bonds	0	2,310	2,320	16,180	21,815
Total, Not Self-Supporting	0	2,310	2,320	16,180	220,243
NON-GENERAL OBLIGATION BONDS, TOTAL	36,743	156,449	528,541	1,510,378	4,430,392
GRAND TOTAL	$81,340	$329,749	$988,917	$2,394,835	$7,032,581

* All years are as of January 1 except 1950 and 1988, which are as of August 31.

SOURCES: Municipal Advisory Council of Texas and Texas Bond Review Board, Office of the Executive Director.

Housing Program. Veteran's land and housing bonds outstanding totalled almost $1.4 billion at the end of fiscal 1988.

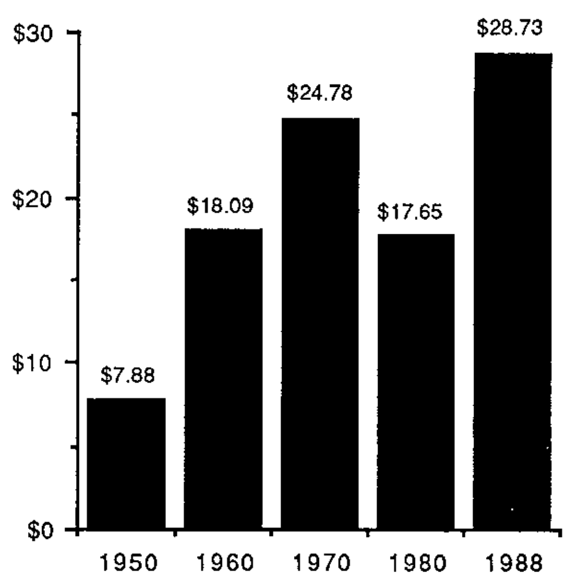
Another early use of bond proceeds was to finance expansion at Texas colleges and universities. A total of $126.2 million in general obligation and revenue bonds for this purpose were outstanding in 1960, second in size only to the Veterans' Program.

The 1960s and 1970s saw an explosion in the issuance of bonds for higher education, with the creation of the College Student Loan Bond Program and the increased use of existing programs.

The College Student Loan Bond Program was established in 1965 and had $169.2 million in general obligation bonds outstanding on January 1, 1980, and $97.8 million at the end of fiscal 1988. College and university bond debt, under the higher education constitutional general obligation bonds and all revenue bond programs, increased to almost $1.4 billion in 1980 and $2.0 billion in 1988.

During the 1950s, the infrastructure needs of the state were addressed with the establishment of bonding authority for the Texas Turnpike Authority in 1953 and the Texas Water Development Board in 1957.

FIGURE 5
Texas State Bond Debt per $1,000 of Personal Income



SOURCES: Municipal Advisory Council of Texas, U.S. Bureau of the Census, and Texas Bond Review Board, Office of the Executive Director.

The Water Development Bond Program expanded greatly during the 1960s and 1970s to $301.9 million in bonds outstanding in 1980 from $10 million outstanding in 1960. The Water Development Bond Program reached $595.7 million in bonds outstanding in 1988.

The period since 1980 has been notable for the creation of a number of new programs utilizing non-general obligation bonds to finance programs in a number of diverse areas:

- The Texas Housing Agency was created by the legislature in 1979 to provide financing for the purchase of low- and moderate-income housing. On August 31, 1988, the Agency had $1.4 billion in bonds outstanding.
- The Texas Small Business Industrial Development Corporation was established in 1981 and had a total of $770 million in bonds outstanding as of August 31, 1988.
- The Texas Hospital Equipment Financing Council, established by the legislature in 1983, issued $62.2 million in bonds to help qualifying hospitals purchase needed equipment.
- The Texas Public Finance Authority, authorized in 1983 to issue non-general obligation bonds to finance the construction and renovation of state office buildiings, had more than $198 million in bonds outstanding for this purpose on August 31, 1988.

The use of general obligation bonds has also been expanded with the authority granted to the Texas Public Finance Authority in 1987 to issue bonds for the construction of facilities for the Texas Department of Corrections, the Texas Department of Mental Health and Mental Retardation, and the Texas Youth Commission. The TPFA had a total of $285.4 million in general obligation bonds outstanding at the close of fiscal 1988.

Importance of Local Debt

Although Texas ranked *last* among the ten largest states in 1986 state debt per capita, based on data from the Bureau of the Census, the state ranked *first* in local debt per capita (Table 8). This heavy local debt burden pushed Texas' ranking based on total state and local debt to number three among the ten largest states.

The level of debt issued by local entities, including school districts, municipalities, counties, authorities, and special districts indicates the relatively minor role which the state plays in local capital finance.

As of January 1, 1988, local governmental entities in Texas accounted for 87 percent of the state's $47.6 billion in state and local debt outstanding. The average for all states was 62 percent.

The growth of local debt in Texas has kept pace with the growth in state debt since 1950, so that local debt's portion of total public debt in the state has remained relatively stable. This stability is in contrast to the decline in the importance of local debt across all states (Figure 6). Local debt peaked at 78 percent of the average state's total debt burden in 1950, and had declined to 62 percent by 1986.

Policy Considerations

With the most recent authorizations by the legislature, Texas is making a historic move toward debt that will be paid off entirely from the state's general revenues. More than ever before, debt service is competing with current expenditures for available revenue.

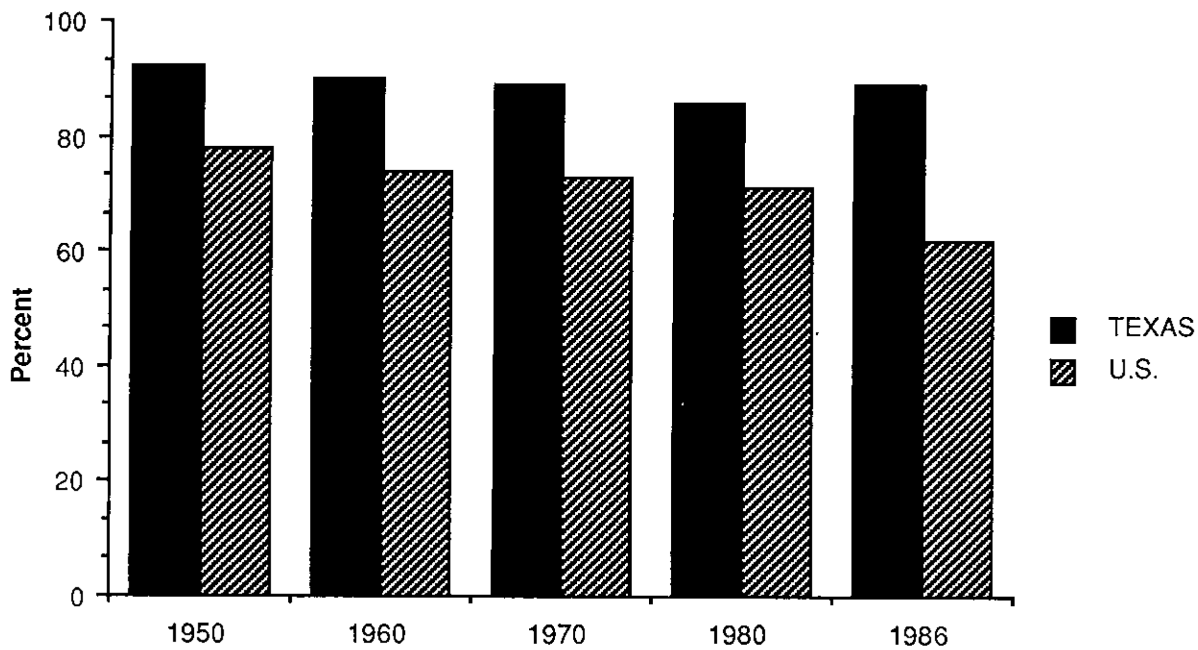
It is more crucial than ever that capital investment decisions—especially those to be financed out of general revenue—be made wisely and that debt be issued in the most cost-efficient manner possible.

Finally, any policy on state debt must recognize the overriding importance of local debt to the state's total debt picture.

The same persons who pay state taxes to support state debt, pay the local taxes which support local debt. And, as was shown earlier, the local debt burden in Texas is high.

The heavy local debt burden and legal limits on local taxation often cause local debt to carry a lower credit rating and, therefore, higher issuance and interest costs than state debt. Any policy which would lower state debt by increasing local debt, could increase the overall cost of debt to Texas taxpayers.

FIGURE 6
Local Debt as a Percentage of Total State and Local Debt



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

TABLE 8

Total State and Local Debt Outstanding in 1986: An Interstate Comparison

(Amounts in Millions)

	State Debt				Local Debt				Total State and Local Debt		
State	Amount	Percent of Total Debt	Per Capita	Rank	Amount	Percent of Total Debt	Per Capita	Rank	Amount	Per Capita	Rank
New York	$36,371	51.3%	$2,047	2	$34,510	48.7%	$1,942	4	$70,881	$3,988	1
New Jersey	16,899	63.0	2,218	1	9,916	27.0	1,301	7	26,815	3,519	2
Texas	**5,432**	**11.4**	**326**	**10**	**42,272**	**88.6**	**2,534**	**1**	**47,704**	**2,860**	**3**
Florida	5,680	17.9	487	8	25,978	82.1	2,225	2	31,658	2,712	4
Pennsylvania	7,802	24.9	656	7	23,549	75.1	1,981	3	31,351	2,637	5
California	20,122	30.9	746	6	44,975	69.1	1,667	5	65,097	2,413	6
Illinois	11,988	46.8	1,038	3	13,647	53.2	1,181	8	25,635	2,219	7
North Carolina	2,606	20.3	412	9	10,254	79.7	1,620	6	12,860	2,031	8
Michigan	7,084	39.8	775	5	10,721	60.2	1,172	9	17,805	1,947	9
Ohio	8,859	49.2	824	4	9,153	50.8	851	10	18,012	1,675	10
Total	$122,843	35.3%			$224,975	64.7%			$347,818		
Average	$12,284		$942		$22,498		$1,725		$34,782	$2,667	

SOURCE: Department of Commerce, Bureau of the Census: 1986 Governmental Finances.

APPENDIX A
TEXAS BOND ISSUES APPROVED BY THE BOND REVIEW BOARD AND SOLD DURING FISCAL YEAR 1988

Texas Public Finance Authority

Issue Revenue Bonds, Series 1987 - $19,765,000

Purpose Proceeds of the bonds will be used to finance the construction of a data processing center, a hazardous materials testing laboratory, an aircraft maintenance shop, and an office building; and to acquire, construct, and renovate several warehouses; and to restore a second office building. The projects will be owned by the Authority and will be leased to the State Purchasing and General Services Commission to be occupied by various state agencies.

Dates Board Approval - October 20, 1987
Negotiated Sale - December 2, 1987

Structure The bonds are fixed-rate serial bonds maturing from 1990 to 2007. They are special and limited obligations of the Authority, payable only from the pledged revenues which consist primarily of lease payments made by the Commission pursuant to the lease agreement. Monies used to make lease payments will be derived from funds to be appropriated for that purpose to the Commission or to other state agencies and instrumentalities that occupy the projects, or directly to the Authority on behalf of such entities. The state will not be obligated to pay debt service on the bonds. Neither the full faith and credit nor the taxing power of the state will be pledged to payment of debt service on the bonds.

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

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

Effective Interest Rate 8.03%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Underwriting Spread	$310,137	$15.69
Bond Counsel Fees	71,209	3.60
Financial Advisor Fee	13,193	.67
Rating Agency Fees	18,000	.91
Credit Enhancement Fee	-0-	.00
Printing Costs	33,714	1.71
Paying Agent Fee	-0-	.00
Miscellaneous Costs*	16,476	.83
Total Costs	$462,729	$23.41

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Public Finance Authority

Issue	General Obligation Bonds, Series 1987 - $46,500,000
Purpose	Fund the acquisition, construction, or equipping of new facilities or the major repair, or renovation of existing facilities of correctional institutions, including mental health and mental retardation institutions and youth correctional institutions for the Texas Department of Mental Health and Mental Retardation and the Texas Youth Commission.
Dates	Board Approval - November 17, 1987 Competitive Sale - December 15, 1987
Structure	The bonds are fixed-rate 20 year serial bonds of ascending principal amounts, callable beginning in 1997 at par. The bonds are a general obligation of the state.
Bond Rating	Moody's - Aa Standard & Poor's - AA
Consultants	Bond Counsel-McCall, Parkhurst & Horton Financial Advisor-First Southwest
Effective Interest Rate	7.25%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$ 32,467	$ .70
Financial Advisor Fee	5,245	.11
Rating Agency Fees	15,500	.33
Credit Enhancement Fee	-0-	.00
Printing Costs	14,575	.31
Paying Agent Fee	-0-	.00
Miscellaneous Costs*	-0-	.00
Total Costs	$67,787	$1.45

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Public Finance Authority

Issue General Obligation Bonds, Series 1988A - $155,560,000

Purpose Proceeds of the bonds will be used to fund the acquisition, construction, or equipping of new facilities or the major repair or renovation of existing facilities of correctional institutions for the Texas Department of Corrections and to pay costs of issuance.

Dates Board Approval - January 29, 1988
Competitive Sale - February 17, 1988

Structure The bonds will be issued in book entry form and will mature serially from 1989 through 2008. The bonds maturing from 1999 through 2008 are callable at par plus accrued interst in 1998.

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

Consultants Bond Counsel - Wood, Lucksinger & Epstein
Financial Advisor - Eppler, Guerin & Turner

Effective Interest Rate 7.10%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$39,192	$.25
Financial Advisor Fee	12,499	.08
Rating Agency Fees	30,000	.19
Credit Enhancement Fee	-0-	.00
Printing Costs	32,968	.21
Paying Agent Fee	-0-	.00
Miscellaneous Costs*	100	.00
Total Costs	$114,759	$.73

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Public Finance Authority

Issue General Obligation Bonds, Series 1988B - $83,370,000

Purpose Proceeds of the bonds will be used to fund the acquisition, construction, or equipping of new facilities or the major repair or renovation of existing facilities of correctional institutions for the Texas Department of Corrections and to pay costs of issuance.

Dates Board Approval - July 6, 1988
Competitive Sale - July 21, 1988

Structure The bonds will be issued in book entry form and will mature serially from 1989 through 2008. The bonds maturing from 1999 through 2008 are callable at par plus accrued interest in 1998.

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

Consultants Bond Counsel - Wood, Lucksinger & Epstein
Financial Advisor - Eppler, Guerin & Turner, Inc.

Effective Interest Rate 7.60%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$24,396	$.29
Financial Advisor Fee	13,150	.16
Rating Agency Fees	17,000	.20
Credit Enhancement Fee	-0-	.00
Printing Costs	22,746	.27
Paying Agent Fee	-0-	.00
Miscellaneous Costs*	-0-	.00
Total Costs	$77,292	$.92

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, estimated Depository Trust Company charge, etc.

Texas Housing Agency

Issue Residential Mortgage Revenue Bonds, Series 1987 A-D - $149,000,000

Purpose Proceeds from the sale of the bonds will be used to finance the purchase of low-interest mortgage loans made by lenders to first-time homebuyers of low and moderate income who are acquiring modestly-priced residences.

Dates Board Approval - October 20, 1987
Negotiated Sale - November 24, 1987

Structure Series 1987A consists of $30 million of serial and term, fixed-rate bonds maturing 1990 to 2019, inclusive. Series 1987B, C, and D consists of variable rate bonds in the amounts of $25 million, $47 million, and $47 million, respectively, maturing between and including 1994 and 2021. The bonds are equally and ratably secured by a pledge of and lien on the revenues from the mortgage loans and on investment earnings on monies in the funds and accounts established with the issuance of the bonds.

Bond Ratings

	1987 A	1987 B,C,D
Moody's-	Aa	Aa/VMIG-1
Standard & Poors-	A+	A+/A-1+

Consultants Bond Counsel - Vinson & Elkins
Underwriter's Counsel - Reynolds Shannon Miller Blinn White & Cook
Lead Underwriter - Merrill Lynch Capital Markets

Effective Interest Rate 8.86%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Underwriting Spread	$1,117,500	$7.50
Bond Counsel Fees	105,863	.71
Financial Advisor Fee	-0-	.00
Rating Agency Fees	55,000	.37
Credit Enhancement Fee	-0-	.00
Printing Costs	26,397	.18
Paying Agent Fee	-0-	.00
Miscellaneous Costs*	65,693	.44
Total Costs	$1,370,453	$9.20

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Housing Agency

Issue South Texas Rental Housing Revenue Bonds, Series 1987 - $1,400,000

Purpose To provide financing for 70 single-family detached residences located near Mission, Texas, to be occupied by low-income tenants. All tenants are expected to receive rental assistance under the HUD Section 8 Existing Housing Program.

Dates Board Approval - October 20, 1987
Private Placement - December 17, 1987

Structure The bonds are taxable, fixed-rate, 24 year, serial, fully registered bonds issued in denominations of $100,000, or any integral multiple, with principal and interest payable monthly. The bonds are secured by payments received on a loan made of the net proceeds of the bonds to a Texas limited partnership; a letter of credit; other amounts held in the bond reserve fund; and other funds of the Agency derived from housing program fees, revenues, and investment earnings that are available for such purpose. The bonds are limited obligations of the Agency payable solely from the revenues, funds and assets of the Agency pledged to their repayment.

Bond Rating Unrated

Consultants Bond Counsel - Vinson & Elkins

Effective Interest Rate 9.50%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$ 2,955	$2.11
Financial Advisor Fee	-0-	.00
Rating Agency Fees	-0-	.00
Credit Enhancement Fee	-0-	.00
Printing Costs	-0-	.00
Paying Agent Fee	-0-	.00
Miscellaneous Costs*	9,821	7.02
Total Costs	$12,776	$9.13

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Housing Agency

Issue Multi-Family Housing Revenue Refunding Bonds, Series 1988A - $12,905,000

Purpose To provide money to acquire with respect to each series of bonds a Guaranteed Mortgage Pass-Through Certificate issued by Federal National Mortgage Association in order to provide for the refunding of certain outstanding obligations of the Agency and the refinancing of two separate mortgage loans originally made to finance two multi-family residential rental developments intended for occupancy by persons and families of low- and moderate-income.

Dates Board Approval - October 20, 1987
Negotiated Sale - March 1, 1988

Structure Tax-exempt bonds issued in book entry or fully registered form, with interest payable semiannually and principal payable at maturity. Fixed-rate interest for an initial period of approximately five years, at which time the rate will be adjusted and the bonds will be subject to mandatory tender and remarketing. The bonds will have a maturity not exceeding nine years.

Bond Rating Standard & Poor's - AAA

Consultants Bond Counsel - Vinson & Elkins
Lead Underwriter - Merrill Lynch Capital Markets

Effective Interest Rate 6.58%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Underwriting Spread	$191,019	$14.80
Bond Counsel Fees	73,245	5.68
Financial Advisor Fee	-0-	.00
Rating Agency Fees	5,000	.39
Credit Enhancement Fee	-0-	.00
Printing Costs	4,560	.35
Paying Agent Fee	18,972	1.47
Miscellaneous Costs*	129,650	10.05
Total Costs	$422,446	$32.74

*Includes Texas Housing Agency one percent filing fee, AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Housing Agency

Issue Multi-Family Housing Revenue Refunding Bonds, Series 1988B - $9,630,000

Purpose To provide money to acquire with respect to each series of bonds a Guaranteed Mortgage Pass-Through Certificate issued by Federal National Mortgage Association in order to provide for the refunding of certain outstanding obligations of the Agency and the refinancing of two separate mortgage loans originally made to finance two multi-family residential rental developments intended for occupancy by persons and families of low- and moderate-income.

Dates Board Approval - October 20, 1987
Negotiated Sale - March 7, 1988

Structure Tax-exempt bonds issued in book entry or fully registered form, with interest payable semiannually and principal payable at maturity. Fixed-rate interest for an initial period of approximately five years, at which time the rate will be adjusted and the bonds will be subject to mandatory tender and remarketing. The bonds will have a maturity not exceeding nine years.

Bond Rating Standard & Poor's - AAA

Consultants Bond Counsel - Vinson & Elkins
Lead Underwriter - Merrill Lynch Capital Markets

Effective Interest Rate 6.58%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Underwriting Spread	$142,542	$14.80
Bond Counsel Fees	68,054	7.07
Financial Advisor Fee	-0-	.00
Rating Agency Fees	5,000	.52
Credit Enhancement Fee	-0-	.00
Printing Costs	4,560	.47
Paying Agent Fee	18,972	1.97
Miscellaneous Costs*	96,900	10.06
Total Costs	$336,028	$34.89

*Includes Texas Housing Agency one percent filing fee, AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Water Development Board

Issue Texas Water Development Bonds, Series 1987C - $55,000,000

Purpose Proceeds from the sale of the bonds will be used to augment the Texas Water Development Fund, a revolving fund administered by the Texas Water Development Board. The proceeds will be used to fund loans for the construction of dams, reservoirs, and other water storage projects, including systems necessary for the conveyance of water from storage to treatment distribution facilities for wholesale purchasers of water, regional water treatment facilities, and wholesale conveyance systems and to convert from the use of ground water to surface water.

Dates Board Approval - October 20, 1987
Competitive Sale - November 19, 1987

Structure Fixed-rate, 20 year, serial ascending principal. The bonds are secured by the proceeds from repayment of principal and interest on the bonds of political subdivisions which have been acquired by the Board, proceeds from the sale, transfer or lease of state acquired facilities, or any interest therein, and proceeds received from the sale of water and standby services to the extent not required for the operation and maintenance of state acquired facilities. The bonds are further secured by an absolute and ultimate obligation of the State of Texas to provide during each fiscal year, all money necessary for the payment of debt service out of the first monies coming into the treasury not otherwise appropriated by the constitution.

Bond Ratings Moody's- Aa
Standard & Poors - AA

Consultants Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - First Southwest Company & Underwood Neuhaus and Co.

Effective Interest Rate 7.33%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$ 43,042	$ .78
Financial Advisor Fees	28,297	.51
Credit Enhancement Fees	-0-	.00
Rating Agency Fees	21,000	.38
Printing Costs	17,235	.31
Paying Agent Fee	-0-	.00
Miscellaneous*	812	.01
Total Costs	$110,386	$ 1.99

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Water Development Board

Issue	Water Development Bonds, Series 1988A - $50,000,000
Purpose	Provide financial assistance to political subdivisions for the development of water quality enhancement programs.
Dates	Board Approval - April 19, 1988 Competitive Sale - June 3, 1988
Structure	The fixed-rate, tax-exempt general obligation bonds mature from 1991 through 2009. The bonds are callable beginning in 1998 at par plus accrued interest. The Water Development Board sets the interest rates and debt service schedules on political subdivision bonds that are acquired with bond proceeds in a manner that will provide sufficient funds to pay debt service on the bonds when due.
Bond Ratings	Moody's - Aa Standard & Poor's - AA
Consultants	Bond Counsel - Vinson & Elkins Financial Advisors - Underwood Neuhaus & Company First Southwest Company
Effective Interest Rate	7.54%

Issuance Cost:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$ 42,015	$ .84
Financial Advisor Fee	25,000	.50
Rating Agency Fees	17,460	.35
Credit Enhancement Fee	-0-	.00
Printing Costs	18,945	.38
Paying Agent Fee	1,004	.02
Miscellaneous Costs*	3,268	.07
Total Costs	$107,692	$2.16

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter

Texas Water Development Board

Issue Water Development Bonds, Series 1988B - $11,000,000

Purpose Provide financial assistance to political subdivisions for flood control projects.

Dates Board Approval - April 19, 1988
Competitive Sale - June 3, 1988

Structure The fixed-rate, tax-exempt general obligation bonds mature from 1991 through 2009. The bonds are callable beginning in 1998 at par plus accrued interest. The Water Development Board sets the interest rates and debt service schedules on political subdivision bonds that are acquired with bond proceeds in a manner that will provide sufficient funds to pay debt service on the bonds when due.

Bond Rating Moody's - Aa
Standard & Poor's - AA

Consultants Bond Counsel - Vinson & Elkins
Financial Advisors - Underwood Neuhaus & Company
First Southwest Company

Effective Interest Rate 7.54%

Issuance Cost

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$ 9,243	$ .84
Financial Advisor Fee	5,500	.50
Rating Agency Fees	3,841	.35
Credit Enhancement Fee	-0-	.00
Printing Costs	4,168	.38
Paying Agent Fee	481	.04
Miscellaneous Costs*	719	.07
Total Costs	$23,952	$2.18

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas Water Development Board

Issue Water Development Bonds, Series 1988C - $2,000,000

Purpose Provide financial assistance to political subdivisions for the development of water supply resources within the state.

Dates Board Approval - April 19, 1988
Competitive Sale - June 3, 1988

Structure The fixed-rate, taxable general obligation bonds mature from 1991 through 2009. The bonds are callable beginning in 1998 at par plus accrued interest. The Water Development Board sets the interest rates and debt service schedules on political subdivision bonds that are acquired with bond proceeds in a manner that will provide sufficient funds to pay debt service on the bonds when due.

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

Consultants Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - Underwood Neuhaus & Company
First Southwest Company

Effective Interest Rate 9.64%

Issuance Cost

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$2,859	$1.43
Financial Advisor Fee	1,000	.50
Rating Agency Fees	698	.35
Credit Enhancement Fee	-0-	.00
Printing Costs	758	.38
Paying Agent Fee	292	.15
Miscellaneous Costs*	590	.29
Total Costs	$6,197	$3.10

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Texas A&M University System

Issue	Combined Revenue System Refunding and Improvement Bonds Series 1988A - $71,975,000 Series 1988B - $34,955,000
Purpose	Proceeds of the Series A bonds will be used to refund the $25,810,000 Combined Fee Revenue Refunding Bonds, Series 1985, and the $22,700,000 Combined Fee Revenue Bonds, Series 1986, and for financing the construction and equipping of additional dormitories and improvements of the utility plant system of the University. Proceeds of the Series B bonds will be used to refund the $1,205,000 Stadium Revenue Bonds, Series 1978 and the $14,575,000 System Student Fee Revenue Refunding Bonds, Series 1978; and for financing two multilevel parking structures on the A&M campus in College Station.
Dates	Board Approval - February 16, 1988 Negotiated Sale - February 24, 1988
Structure	The fixed-rate bonds mature from 1988 through 2004. Purchase of surety bond instead of placing bond proceeds in a debt service reserve fund. Payable from pledged revenues from the College Station campus.
Bond Ratings	Moody's - A1 Standard & Poor's - AA
Consultants	Bond Counsel - McCall, Parkhurst & Horton Financial Advisor - Smith Barney, Harris Upham & Company, Inc. Lead Underwriter - J.P. Morgan Securities, Inc.
Effective Interest Rate	1988A - 7.45% 1988B - 7.46%

Issuance Costs

	Fees	Per $1,000 of Bonds Issues
Underwriting Spread	$1,042,568	$ 9.75
Bond Counsel Fees	115,820	1.08
Financial Advisor Fee	-0-	.00
Rating Agency Fees	44,100	.41
Credit Enhancement Fee	306,294	2.86
Printing Costs	31,817	.30
Paying Agent Fee	45,732	.43
Miscellaneous Costs*	26,476	.25
Total Costs	$1,612,807	$15.08

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

University of Texas System

Issue General Revenue Subordinate Lien Notes, Series 1988A - $3,700,000

Purpose To provide construction financng for UTMB Galveston Parking Garage.

Dates Board Approval - February 16, 1988
Private Placement - June 15, 1988

Structure Variable rate with a 20-year maturity. Issued through private placements in increments during the construction of the projects and scheduled to be retired through the issuance of refunding bonds within two to three years. Secured by a subordinate lien on pledged general revenues.

Bond Ratings Unrated

Consultants Bond Counsel - Vinson & Elkins

Effective Interest Rate 5.50%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$6,760	$1.83
Total Costs	$6,760	$ 1.83

Lamar University System

Issue Subordinate Lien Combined Fee Revenue Bonds, Series 1987 - $1,100,000

Purpose To provide funds to acquire, construct, purchase, improve, enlarge and/or equip property, buildings, structures, and other facilities.

Dates Board Approval - December 22, 1987
Private Placement - January 12, 1988

Structure Fixed-rate, 15-year serial bonds with an eight year premium call. Secured by a subordinate lien on, and pledge of, the pledged combined fee revenues, and pledged income revenues from a general combined fee, student tuition, and additional revenues and resources without limitation. The bonds are further secured by municipal bond insurance provided by AMBAC Indemnity Corporation.

Bond Rating Moody's - Aaa
Standard & Poor's - AAA

Consultants Bond Counsel - Orgain, Bell & Tucker
Financial Advisor - First Southwest Company

Effective Interest Rate 8.25%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$10,660	$ 9.69
Financial Advisor Fees	18,835	17.12
Rating Agency Fees	4,500	4.09
Credit Enhancement Fee	17,407	15.82
Printing Costs	1,053	.96
Paying Agent Fee	1,500	1.36
Miscellaneous*	-0-	.00
Total Costs	$53,955	$49.04

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

Stephen F. Austin State University

Issue Combined Fee Revenue Bonds, Series 1988 - $1,000,000

Purpose Proceeds from the sale of the bonds will be used to provide a portion of the funds required for the renovation and addition to the University's stadium fieldhouse.

Dates Board Approval - December 15, 1987
Competitive Sale - January 19, 1988

Structure Fixed-rate, 15-year serial maturities of ascending principal. Payable from an irrevocable first lien on, and pledge of, the pledged revenues from a general fee charged all enrolled students, interest and other investment earnings, interest subsidy grants from the Department of Education, and a junior and subordinate lien and pledge of a building use fee.

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

Consultants Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - Rotan Mosle
Lead Underwriter - Rotan Mosle

Effective Interest Rate 6.99%

Issuance Costs

	Fees	Per $1,000 of Bonds Issued
Bond Counsel Fees	$ 5,920	$ 5.92
Financial Advisor Fees	15,375	15.38
Rating Agency Fees	9,200	9.20
Credit Enhancement Fee	-0-	.00
Printing Costs	549	.55
Paying Agent Fee	1,700	1.70
Miscellaneous Costs	-0-	.00
Total Costs	$32,744	$32.75

*Includes AG filing fee, advertising, transfer fee, accountant comfort letter, etc.

APPENDIX B
STATE BOND PROGRAMS

GENERAL OBLIGATION BONDS

VETERANS' LAND AND HOUSING BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

Article III, Section 49b, of the Texas Constitution, initially adopted in 1946, currently authorizes the issuance of up to $450 million in general obligation bonds to finance the Veterans' Land Program. Article III, Section 49b-1, adopted in 1983, authorizes the issuance of up to $1.3 billion in general obligation bonds to finance the Veterans' Housing Assistance Program.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

WATER DEVELOPMENT BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

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

PURPOSE:

Proceeds from the sale of the general obligation bonds are used to make loans to political subdivisions of Texas for the performance of various projects related to water conservation, transportation, storage, and treatment.

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

FARM AND RANCH LOAN BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

Article III, Section 49f, of the Texas Constitution, adopted in 1985, authorizes the Veterans' Land Board to issue up to $500 million in general obligation bonds. No bonds have been issued under this program.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

PARK DEVELOPMENT BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

Article III, Section 49e, of the Texas Constitution, adopted in 1967, authorizes the Texas Parks and Wildlife Commission to issue $75 million in general obligation bonds.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

COLLEGE STUDENT LOAN BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

Article III, Sections 50b and 50b-1, of the Texas Constitution, adopted in 1965 and 1969, authorize the issuance of up to $285 million in general obligation bonds by the Texas Higher Education Coordinating Board.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

FARM AND RANCH LOAN SECURITY BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

Article III, Section 50c, of the Texas Constitution, adopted in 1967, authorizes the Commissioner of Agriculture to issue up to $10 million in general obligation bonds.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

HIGHER EDUCATION CONSTITUTIONAL BONDS

STATUTORY AUTHORITY:

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

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

None. Debt service is payable solely from the state's general revenue fund.

TEXAS PUBLIC FINANCE AUTHORITY BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

Article III, Section 49h, of the Texas Constitution, adopted in 1987, authorizes the Texas Public Finance Authority to issue up to $500 million in general obligation bonds for correctional and mental health facilities.

PURPOSE:

Proceeds from the sale of the general obligation bonds are used to finance the cost of constructing, acquiring, and/or renovating prison facilities, youth correction facilities, and mental health/mental retardation facilities.

SECURITY:

The bonds are general obligations of the State of Texas. The first monies coming into the state treasury each fiscal year, not otherwise appropriated by the constitution, are pledged to pay debt service on the bonds.

DEDICATED/PROJECT REVENUE:

None. Debt service is payable solely from the state's general revenue fund.

SUPERCONDUCTING SUPER COLLIDER BONDS

STATUTORY/CONSTITUTIONAL AUTHORITY:

Article 4413 (47d) of the Texas Revised Civil Statutes, authorizes the Texas National Research Laboratory Commission to issue up to $500 million in general obligation bonds in the event a superconducting super collider project is established in Texas. The Texas National Research Laboratory Commission was created in 1987 by the 70th Legislature.

PURPOSE:

Proceeds from the sale of the general obligation bonds will be used to fund land acquisition, construction, and other undertakings related to the establishment of the superconducting super collider facility.

SECURITY:

The bonds are general obligations of the State of Texas. The first monies coming into the state treasury each fiscal year, not otherwise appropriated by the constitution, are pledged to pay debt service on the bonds.

DEDICATED/PROJECT REVENUE:

None. Debt service is payable solely from the state's general revenue fund.

NON-GENERAL OBLIGATION BONDS

PERMANENT UNIVERSITY FUND BONDS

CONSTITUTIONAL/STATUTORY AUTHORITY:

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

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

COLLEGE AND UNIVERSITY REVENUE BONDS

STATUTORY AUTHORITY:

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

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

TEXAS HOSPITAL EQUIPMENT FINANCING COUNCIL BONDS

STATUTORY AUTHORITY:

The Texas Hospital Equipment Financing Council was created in 1983 (Art. 4437e-3, V.A.C.S.) as a state agency and authorized to issue revenue bonds. The Texas Hospital Association administers the program and the Municipal Bond Insurance Association must approve any loan using bond proceeds. Neither legislative approval nor the approval of the Attorney General is required for bond issues, and the bonds do not have to be registered with the Comptroller of Public Accounts. The Council is required to obtain the approval of the Bond Review Board.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

Bonds are to be repaid from revenues received by the Council from borrowers.

TEXAS HOUSING AGENCY BONDS

STATUTORY AUTHORITY:

The Texas Housing Agency was created in 1979 (Art.1269l, V.A.C.S.) and authorized to issue long-term debt. Legislative approval of bond issues is not required. The Agency is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

Revenues to the Agency from the repayment of loans and the investment of bond proceeds is pledged to the payment of principal and interest on bonds issued.

TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

STATUTORY AUTHORITY:

The Texas Small Business Industrial Development Corporation (TSBIDC) was created in 1983 (Art. 5190.6, Secs. 4-37, V.A.C.S.) as a private nonprofit corporation, pursuant to the Development Corporation Act of 1979, and authorized to issue revenue bonds. TSBIDC bonds are subject to the review and approval by the Texas Department of Commerce. Neither legislative approval nor the approval of the Attorney General is required for bond issues and the bonds do not have to be registered with the Comptroller of Public Accounts. The TSBIDC is required to obtain the approval of the Bond Review Board. The TSBIDC issued $808 million in bonds between 1985 and September 1, 1987. The TSBIDC may not issue any additional bonds, effective September 1, 1987.

PURPOSE:

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

SECURITY:

Any bonds issued are obligations of the Corporation. The Corporation's bonds are in no way an obligation of the State of Texas or any political subdivision of the state, and neither the state's full faith and credit nor its taxing power is pledged toward payment of Corporation bonds.

DEDICATED/PROJECT REVENUE:

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

TEXAS TURNPIKE AUTHORITY BONDS

STATUTORY AUTHORITY:

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

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

Bonds are to be repaid from tolls and other project revenues.

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

STATUTORY AUTHORITY:

The Texas Agricultural Finance Authority was created in 1987 (V.T.C.A., Agriculture Code Chapter 58) and authorized to issue $500 million in revenue bonds. Legislative approval of bond issues is not required. The Authority is required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:

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

SECURITY:

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

TEXAS DEPARTMENT OF COMMERCE BONDS

STATUTORY AUTHORITY:

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

PURPOSE:

Proceeds from the sale of bonds will be used to provide financial assistance to export businesses and to provide financial assistance to promote domestic business development.

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

TEXAS UNEMPLOYMENT COMPENSATION FUND BONDS

STATUTORY AUTHORITY:

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

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

Revenue of the Commission in the form of special unemployment taxes on employers is pledged to the payment of principal and interest on the bonds.

TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS

STATUTORY AUTHORITY:

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

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

Revenue from the payment of principal and interest on local jurisdiction bonds it acquires is pledged to the payment of principal and interest on bonds issued.

WATER DEVELOPMENT BONDS
TEXAS WATER RESOURCES FUND

STATUTORY AUTHORITY:

The Texas Water Resources Fund was created by the 70th Legislature in 1987 (V.T.C.A., Water Code, Ch. 17.853) as part of a new revenue bond program (Chapter 17, Subchapter I). The Water Development Board administers both the fund and the revenue bond program. Legislative approval of bond issues is not required. The Board is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:

Proceeds from the sale of bonds will be used to provide funds to the State Water Pollution Control Revolving Fund and to provide financial assistance to local government jurisdictions through the acquisition of their obligations.

SECURITY:

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

DEDICATED/PROJECT REVENUE:

Revenue for the payment of principal and interest on the revenue bonds will include principal and interest paid on acquired obligations, other designated obligations held by the Board, or income from accounts within the Water Resources Fund.

TEXAS PUBLIC FINANCE AUTHORITY BONDS

STATUTORY AUTHORITY:

The Public Finance Authority was created in 1983 (Art. 601d, V.A.C.S.) as a state agency and authorized to issue long-term debt. The legislature approves each specific project and limits the amount of bonds issued by the Authority. 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 to be used to purchase, renovate, and maintain state buildings.

SECURITY:

Any revenue bonds issued are obligations of the Authority and are payable from "rents, issues, and profits" resulting from leasing projects to the state. The bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds.

DEDICATED/PROJECT REVENUE:

Debt service is payable from general revenue appropriated by the legislature. The legislature, however, has the option to appropriate debt service payments from any other source of funds that is lawfully available.

NATIONAL GUARD ARMORY BOARD BONDS

STATUTORY AUTHORITY:

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

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

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

SUPERCONDUCTING SUPER COLLIDER BONDS

STATUTORY AUTHORITY:

The Texas National Research Laboratory Commission was created by the 70th Legislature (V.T.C.A., Government Code, Chapter 465) and authorized to issue revenue bonds in an amount not exceed $500 million. Legislative approval of bond issues is not required. The Commission is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

PURPOSE:

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

SECURITY:

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

DEDICATED/PROJECT REVENUE:

Revenue of the Commission, principally appropriations from the legislature, is pledged to the payment of principal and interest on bonds issued. Each revenue bond must state on its face that such revenues shall be available to pay debt service only if appropriated by the legislature for that purpose.

APPENDIX C

POLICY STATEMENTS AND BOND REVIEW BOARD RULES

Policy Statement Adopted by the Bond Review Board on September 15, 1987:

The purposes of the Bond Review Board are:

- To develop a coordinated financial policy for the State of Texas in relation to public debt.
- To provide information to Texas citizens about the bonded indebtedness of the state and to analyze the impact of debt on the financial affairs of the state.
- To develop uniform guidelines to protect the proceeds of bond sales by ensuring the safety and security of public money and ensuring that bond proceeds are used only for the purposes for which they are intended.
- To develop guidelines requiring issuers of Texas bonds to present in official statements uniform, consistent and accurate information about the Texas economy and state finances so that Texas bonds are received favorably by the rating agencies and the investment community.
- To coordinate the timing of bond sales among debt issuers to ensure the most favorable conditions for all Texas sales.
- To provide full disclosure to Texas citizens about the methods and costs of debt issuance.

Policy Statement on participation of Women and Minorities in the Bond Issuance Process. Motion made by Treasurer Richards and approved by the Bond Review Board on October 20, 1987:

"I move that the executive director and the staff examine and make recommendations to this Board for methods to increase the participation of women and minority professional firms in the issuance of bonds through the employment of bond attorneys, underwriters, and other minority professionals. The executive director and staff are also to recommend methods by which we might encourage firms currently involved in the issuance of bonds to develop affirmative action plans for the inclusion of minorities and women. I further move that a copy of this motion be sent to all state issuers with the suggestion that it be distributed to firms associated with the issuance of Texas bonds. This motion also instructs the executive director and staff to prepare a list of qualified firms, not just bond underwriters and lawyers, but everybody involved in the issuance process, as well as qualified minority practitioners and circulate that list to all issuers. "

BOND REVIEW BOARD RULES

PART IX. BOND REVIEW BOARD

CHAPTER 181. 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:

Board - The Bond Review Board, created by Acts of the 70th Legislature, 1987, particularly Senate Bill 1027.

State bond -

(A) a bond or other obligation 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 clause (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.

Sec. 181.2. NOTICE OF INTENTION TO ISSUE.

(a) An issuer intending to issue state bonds shall submit a written 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 bond issue scheduled for consideration by the board during a specified monthly meeting; and

(4) an agreement to submit the required application set forth herein in Sec. 181.3 of this title (relating to application for board approval of state bond issuance) no later than two weeks prior to the requested board meeting date.

(c) An issuer may reschedule the date requested for board consideration of the state bonds 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 bonds, written notice of such change shall be sent as soon as possible to the issuer. Priority scheduling for consideration at board meetings shall be given to refunding issues and to those state bonds which also require a submission to the Department of Commerce 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 bonds unless the issuance has been approved or exempted from review by the bond review 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 six copies with the director of the bond finance office. The 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) 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.

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

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

(2) a brief description of the program under which the state bonds 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;

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

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

(5) a description of the applicant's investment provisions for bond 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;

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

(7) 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 bonds;

(8) 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;

(9) an estimate, if bond sale is negotiated, of underwriter's spread, broken down into 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;

(10) a list of the firms providing the services reported in subsections (8) and (9) of this section and a statement of prior representation of the issuer by each firm;

(11) 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;

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

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

(14) 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.

(15) The notification procedures used by or on behalf of the issuer to select the participants referenced in subsection (14) above.

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

(e) At any time before approval of an application by the board, an applicant may withdraw or revise the application.

Sec. 181.4. MEETINGS.

(a) The regular meeting of the board shall be held the third Tuesday of each month. Applications for consideration at the regular meeting must be filed with the bond finance office no later than two weeks prior to the date of the regular meeting. Applications filed after that date will be considered at the regular meeting only with the approval of the governor or three or more members of the board.

(b) As chairman of the board, the governor may call additional meetings of the board and is responsible for filing notice of meetings as required by Texas Civil Statutes, Article 6252-17, and giving timely notice of meetings to members of the board. On the petition of three 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 no later than one week prior to a regular board meeting. 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, but may not conduct board business. 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, a board member or designated representative may allow an applicant to make an oral presentation to the board.

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

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

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

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

Sec. 181.5. SUBMISSION OF FINAL REPORT.

(a) Within 60 days after delivery of the state bonds and receipt of the state bond proceeds the issuers shall submit one original and one copy of a final report to the bond finance office and a single copy of the final report to the Texas Comptroller of Public Accounts.

(b) A final report must include:

(1) all actual costs of issuance including, as applicable, the specific items listed in Secs. 181.3(c)(8) and (9), all closing costs, and any other costs incurred during the issuance process; and

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

(c) 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.

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

Sec. 181.6. OFFICIAL STATEMENT.

(a) The official statement or any other offering documents prepared in connection with issuance of bonds approved by the board must conform, to the extent feasible, to the Disclosure Guidelines for State and Local Government Securities published by the Government Finance Officers Association (January 1988). The preliminary official statement, or other offering documents, shall be submitted to and reviewed by the director of the bond finance office prior to mailing. Issuers should submit early drafts of the preliminary official statement to the director of the bond finance office to allow adequate time for review. Review of the preliminary official statement by the director of the bond finance office is not to be interpreted as a certification as to the accuracy, timeliness, and completeness of the specific data in the document. These standards remain the responsibility of the provider(s) of the data.

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

Sec. 181.7. DESIGNATION OF REPRESENTATION. A member of the board may designate another person to represent the member on the board by filing a designation to that effect with the director of the bond finance office. A designation of representation filed under this section is effective until revoked by a subsequent filing by the member with the bond finance office. During the time a designation of representation is in effect, the person designated has all powers and duties as a member of the board, except the authority to make a designation under this section.

Sec. 181.8. ASSISTANCE OF AGENCIES. A member of the board may request the Legislative Budget Board, the Office of the Attorney General, or any other state agency to assist the member in performing duties as a member of the board.

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

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

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

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

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

Issued in Austin, Texas on 19th day of July, 1988.