Texas Bond Review Board

ANNUAL ★ REPORT

1989

Texas Bond Review Board

Annual Report
1989

Year Ended August 31, 1989

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 1989

Introduction

The 1989 Annual Report of the Bond Review Board presents an overview and analysis of Texas state bond debt.

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

Texas state agencies and universities issued $1.46 billion in bonds and executed $43 million in lease- or installment-purchases during fiscal year 1989.

At the end of fiscal year 1989, Texas bond debt outstanding totalled $6.7 billion, with annual debt service requirements on these bonds of about $720 million.

This report examines a number of areas related to the issuance of state bonds.

Chapter 1 reviews bond market conditions during fiscal year 1989.

Chapter 2 examines Texas state bond issuance during the year.

Chapter 3 analyzes the cost of issuing bonds.

Chapter 4 reports the total amount of Texas state bonds outstanding at the end of fiscal year 1989 and the debt service requirements associated with these bonds.

Chapter 5 presents a summary of the additional general obligation bonds approved by the voters at the November 7, 1989, election.

Three appendices are attached. Appendix A includes a capsule summary of each series of bonds approved by the Board and issued during 1989. Appendix B contains a description of each program under which state bonds may be issued. Appendix C contains 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.

Bond Market Trends

The market for Texas bonds improved steadily throughout 1989.

A general decline in long-term interest rates, a strong demand for all tax-exempt bonds, and increasing investor confidence in Texas' bonds all contributed to a decline in the state's borrowing costs through 1989.

Lower borrowing costs during 1989 benefitted a wide array of Texas bond-financed programs—from building prisons to financing land purchases by Texas veterans and making school loans to Texas college students.

The Texas Public Finance Authority (TPFA), for example, sold $142.1 million in general obligation bonds in May 1989 at an average interest rate of 6.9 percent. A year earlier, a comparable TPFA bond issue sold at an average rate of 7.6 percent. This 0.7 percent drop in rates over the year meant interest savings for the state of around $14 million on this $142.1 million issue alone.

General Interest Rate Decline

Long-term U.S. interest rates fell during 1989 to their lowest level in two years as evidence grew that the U.S. economy was cooling off, long-term inflation was under control, and the Federal Reserve would loosen monetary policy to reduce rates further (Figure 1).

The decline in long-term rates during 1989 was a reaction to the Federal Reserve's previous use of restrictive monetary policy.

During 1988, fear of accelerating inflation caused the Federal Reserve to take actions which drove up the prime lending rate and other short-term rates. This was done in an effort to put the brakes on business investment and to slow the pace of future growth in the U.S. economy.

This rise in *short-term* interest rates during 1988 and early 1989 dampened U.S. economic growth which reduced investor fears of accelerating inflation and allowed *long-term* interest rates to fall through most of 1989.

The run up in short-term rates accompanied by the decline in long-term rates meant a much flatter "yield curve" during 1989 (Figure 2).

The yield curves in Figure 2 graphically illustrate the relationship between interest rate and years to maturity of AA-rated, tax-exempt bonds.

Typically, investors demand greater yields for longer maturities which makes the yield curve slope upward.

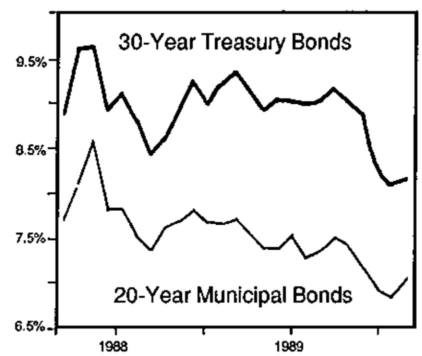
From July 1988 to July 1989, interest rates on bonds with maturities of five years or less rose an average of 0.4 percentage points. Interest rates on 20 to 30 year bonds fell by an average 0.96 percentage points.

The decline in long-term rates benefitted 1989 Texas bond issues since they were most often weighted toward the 20 to 30 year maturities.

More Downward Pressure on Tax-Exempt Rates

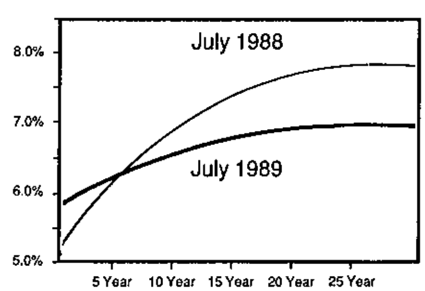
The impact of the decline in all long-term interest rates, tax-exempt and taxable alike, was bolstered by a relative shortage of tax-exempt bonds during 1989.

FIGURE 1
Interest Rate on 30-Year U.S. Treasury Bonds and 20-Year Municipal Bonds



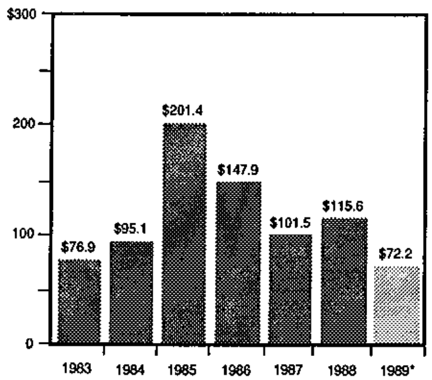
SOURCE: Bond Buyer. *The 20-year municipal bond rate is the average yield on the Bond Buyer's eleven general obligation 20-year bonds.*

FIGURE 2
Yield Curves for AA-Rated Tax-Exempt Bonds, July 1988 and July 1989



SOURCE: Delphis Hanover Corporation.

FIGURE 3
Total U.S. Long-Term Municipal Bond Issue Volume
(billions of dollars)



*Through August 31, 1989

SOURCE: Securities Data Company/Bond Buyer.

The federal tax code revisions in 1986 both decreased the volume of tax-exempt bond issues and reduced the number of alternatives for investors seeking tax-exempt income.

During 1989, the monthly volume of new tax-exempt bond issues remained very close to a $100 billion annual rate through August, down substantially from previous peaks (Figure 3).

And demand for tax-exempt bonds has remained strong as individuals seek one of the few remaining sources of tax-exempt income.

The lack of supply of tax-exempt issues relative to demand —a seller's, or bond issuer's, market—put further downward pressure on tax-exempt interest rates during most of 1989.

Texas Rebound Builds Confidence in Texas Bonds

Increased investor confidence in the Texas economy and state finances has pushed interest rates on Texas bonds down relative to the rates on the bonds of other states.

A June 1989 survey by the Chubb Corporation showed bond traders were demanding an average of .22 percentage points more in yield to buy AA-rated Texas general obligation bonds than the yield required on the general obligation bonds of a benchmark state. The benchmark state, New Jersey, is rated AAA by both Moody's and Standard & Poor's credit rating services.

The 1989 margin is down from last years' margin of .27 percentage points and a peak of .36 percentage points in 1987 (Figure 4).

For comparison, Figure 4 includes the relative yield required on the general obligation bonds of Louisiana, a neighboring state with an oil-based economy, and Massachusetts with an economy more dependent on high technology manufacturing and research.

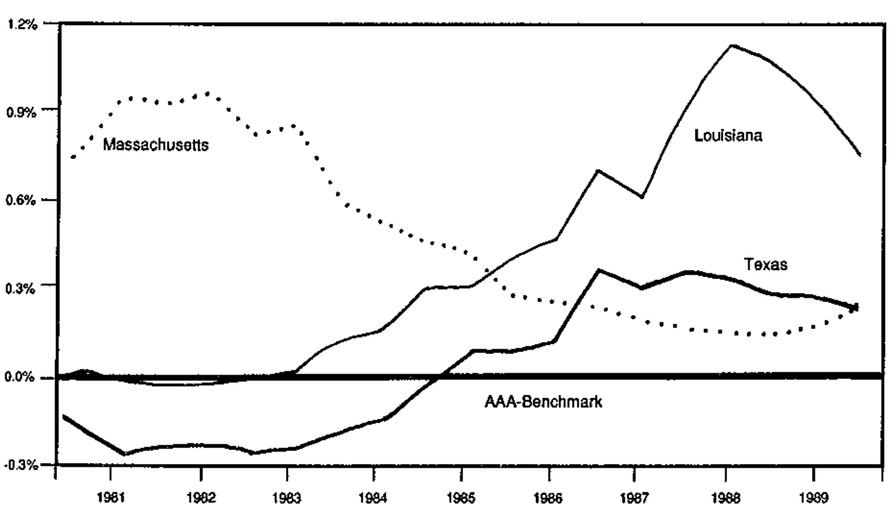
Although showing improvement, Louisiana's general obligation bonds still are trading .55 percentage points above Texas bonds and .77 percentage points above the benchmark, due to continued instability in Louisiana's economy and state finances.

Yields demanded on Massachusetts' bonds were far above those of Texas' bonds during the oil boom of the early 1980's.

Massachusetts' bonds traded better than Texas' bonds during the mid-1980's as Texas slumped and the high-tech boom hit Massachusetts.

Texas' bonds are once again trading at lower yields than Massachusetts' bonds as that state's economy and state finances have weakened and conditions in Texas have improved.

FIGURE 4
Yield Differences on Texas, Louisiana, and Massachusetts General Obligation Bonds Relative to AAA-Benchmark State



SOURCE: The Chubb Corporation.

NOTE: Yield differences are compiled from a semiannual poll by the Chubb Corporation of major municipal bond dealers. Traders are asked to express the average yield they demand on the general obligation debt of a number of states relative to a benchmark state, New Jersey, which is top-rated by both Moody's and Standard and Poor's bond rating agencies.

Texas Economic Turnaround

Texas employment is at a record high. The state has gained back more than all the jobs lost during the 1986-87 recession.

Texas' nonfarm employment stands at 6,812,000 in mid-1989 —up by 344,000 jobs from the low point of 6,468,000 in December 1986 and up by 144,000 jobs (2.3 percent) from a year ago (Figure 5).

And employment growth in Texas is once again approaching that of the U.S. (Figure 6).

The largest gains in employment over the last year have been in business, health, and other services (70,100); government (61,000); manufacturing (7,200); and trade (5,400). The biggest job-losers over the same period were oil and gas, and other mining (-8,700); and construction jobs (-18,600).

These employment shifts are the latest episode in a continuing restructuring of the Texas economy. The state has experienced a substantial shift of jobs away from the state's troubled petroleum and construction sectors and toward its growing manufacturing, trade, and services sectors.

Hy Grossman of Standard and Poor's, in affirming Texas' AA bond rating, stated in March 1989, "(T)he state's economy has begun to recover, and Texas may do better than other regions of the nation in the next two to three years as real estate prices, rentals, space availability, and the labor pool provide the ingredients for economic reinvestment."

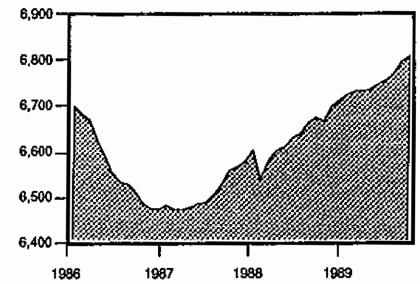
A July 1989 special report by Merrill Lynch, *Texas Turnaround*, focuses on the recent diversification in the state's economy and concludes that after a "devastating slump of the Texas economy from 1984 to 1986...the Texas economy is now on the mend."

Texas Economic Rebound Brings Improvement in State Finances

Texas' economic rebound has translated into an improvement in state finances.

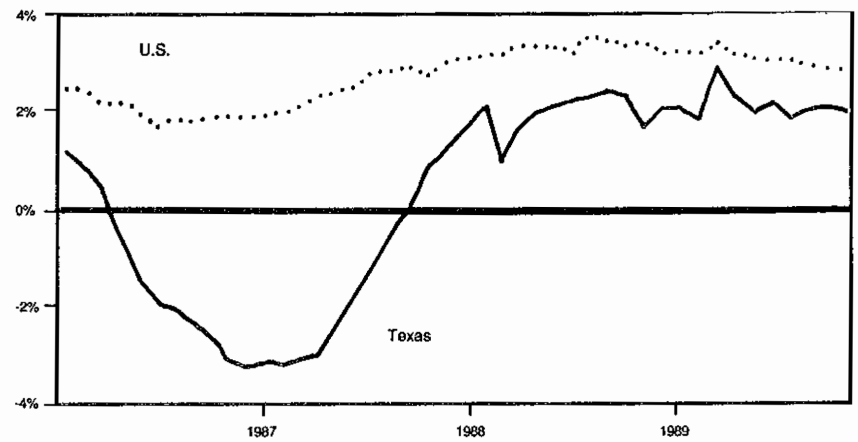
The state began fiscal year 1990 with a positive cash balance of $297 million, up from a positive balance of $113 million at the beginning of fiscal year 1989 and a deficit of $745 million at the beginning of fiscal year 1988 (Figure 7).

FIGURE 5
Texas Nonfarm Employment, January 1986 through August 1989, Seasonally Adjusted (000's)



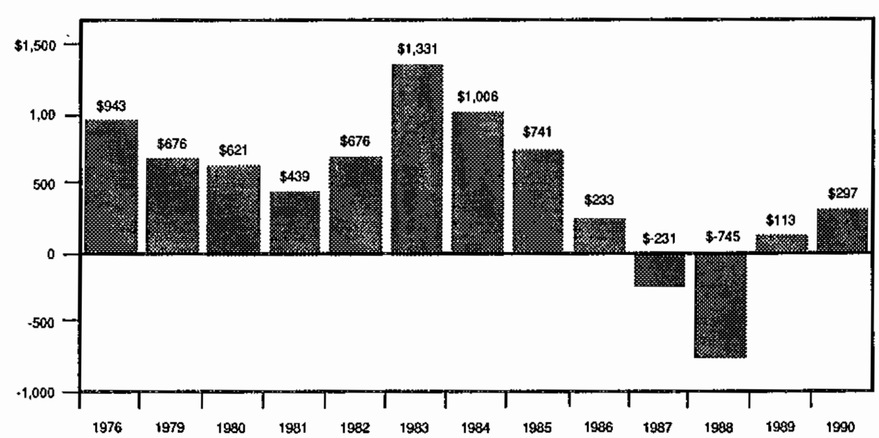
SOURCE: Texas Employment Commission and Texas Comptroller of Public Accounts.

FIGURE 6
Employment Growth, Texas vs. U.S., January 1986 through August 1989 (percent change from same month, previous year)



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

FIGURE 7
Beginning Balance in Texas' General Revenue Fund by Fiscal Year (millions of dollars)



SOURCE: Texas Comptroller of Public Accounts.

CHAPTER TWO

Texas Bond Issuance in 1989

Texas state agencies and universities issued a total of $1.46 billion in bonds during fiscal year 1989.

Approximately $501 million (34 percent) of the bonds issued during fiscal year 1989 were "new-money" issues, while the remaining $962 million (66 percent) were bonds issued to refund obligations issued previously (Table 1).

New-money bond issues raise additional funds and add to the state's debt outstanding while refunding bonds, for the most part, replace bonds issued previously.

A synopsis of each 1989 bond issue is included in Appendix A.

FEWER NEW-MONEY BONDS ISSUED DURING 1989

Texas agencies and universities issued fewer new-money bonds during fiscal year 1989 than in 1988.

TABLE 1
Texas Bonds Issued During Fiscal Year 1989

	Refunding Bonds	New-Money Bonds	Total Bonds Issued
Texas Water Resources Finance Authority	$511,755,000		$ 511,755,000
Texas Turnpike Authority	237,695,000		237,695,000
Texas Housing Agency	167,540,000	$ 45,000,000	212,540,000
Texas Public Finance Authority		189,080,000	189,080,000
Higher Education Coordinating Board		79,500,000	79,500,000
University of Texas System		63,760,000	63,760,000
Texas A&M University System	15,000,000	40,000,000	55,000,000
Veterans' Land Board		45,000,000	45,000,000
Texas State University System	29,980,000	6,294,000	36,274,000
Texas Water Development Board		22,500,000	22,500,000
Texas Tech University		4,240,000	4,240,000
Midwestern State University		2,250,000	2,250,000
Texas State Technical Institute		1,800,000	1,800,000
West Texas State University		1,500,000	1,500,000
TOTAL, BONDS ISSUED DURING FY 1989	$961,970,000	$500,924,000	$1,462,894,000

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

The $501 million in new-money bonds issued during fiscal year 1989 is down from the $657.5 million in new-money bonds issued during fiscal year 1988, and just over the $479 million in new-money bonds issued during fiscal year 1987 (Figure 8).

Prison Construction Number One Use of New-Money Bonds

The construction of prison facilities was the greatest single use of new-money bond proceeds during fiscal year 1989, for the second year in a row.

The Texas Public Finance Authority issued $189.1 million in general obligation bonds in fiscal year 1989 on behalf of the Texas Department of Corrections, Texas Department of Mental Health and Mental Retardation, and the Texas Youth Commission.

Approximately $170.8 million of the bonds were issued to finance the construction of new prison facilities, adding to the $238.9 million in bonds issued in fiscal year 1988 for this purpose.

The proceeds from the 1988 and 1989 bond issues will finance the completion of 16 new prison facilities containing 15,622 new prison beds and associated support facilities.

The Public Finance Authority also issued $14.6 million in bonds on behalf of the Texas Department of Mental Health and Mental Retardation and $3.7 million on behalf of the Texas Youth Commission to repair and renovate their installations across the state.

College Student Loan Bonds Meet New Demand

The Texas Higher Education Coordinating Board issued $79.5 million in state general obligation bonds in fiscal year 1989 to finance student loans, making this agency the second largest issuer of new-money bonds during the year.

A steep decline in federal grants and work/study assistance has caused students in increasing numbers to seek student loans. And much of this increased demand has been absorbed by the Hinson-Hazlewood Student Loan Program operated by the Texas Higher Education Coordinating Board.

Loan volume for the Hinson-Hazlewood program swelled to $46.6 million in 1989, from $21.2 million in 1988 and $12.8 million in 1987. The Coordinating Board projects annual loan demand to reach $50 million by 1991 and continue to grow steadily into the next century.

Veterans' Land Program Expands

The Veterans' Land Board issued $45 million in state general obligation bonds during fiscal year 1989 to finance expansion in its Veterans' Land Program. This made the Veterans' Land Board the third largest issuer of new-money bonds during the year.

The bond proceeds are used to purchase land which is resold to eligible Texas veterans. Each contract for resale is limited to a maximum of $20,000 and must be used to purchase a tract of at least five acres.

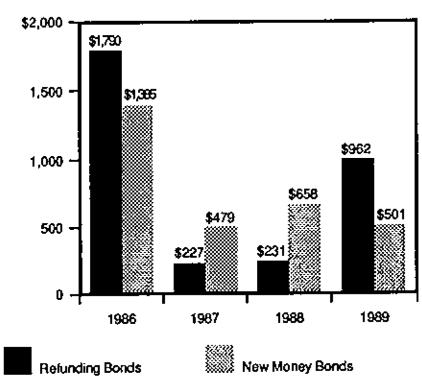
The land program currently has a total of 53,077 land purchase contracts outstanding. The 1989 issue is expected to meet the demand for new land purchases through mid-1990.

REFUNDING BONDS MORE IMPORTANT DURING 1989

State agencies and universities issued $962 million in refunding bonds during the fiscal year. This was up from the $231 million in refunding bonds issued during fiscal

Texas agencies and universities issued fewer new-money bonds during fiscal year 1989 than in 1988.

FIGURE 8
Texas New-Money and Refunding Bond Issues - 1986 through 1989
(millions of dollars)



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

Texas bond issuers took advantage of lower 1989 interest rates to refund outstanding bonds.

year 1988 and $227 million during fiscal year 1987.

Refundings made up 66 percent of all bonds issued during fiscal year 1989, compared to 35 percent of all bonds issued during fiscal year 1988 and 32 percent of all issues during fiscal year 1987.

The proceeds of a refunding bond issue are used to redeem or "defease" previously issued bonds. When a bond issue is defeased, those bonds are no longer considered a liability of the issuer.

A variety of benefits may be achieved by issuing refunding bonds. The most common benefits are to reduce debt service payments and to revise agreements, or "covenants," between the issuer and the bondholders.

The new bond covenants—relating to the refunding as opposed to the refunded bonds—may be written to maximize benefits afforded by changes in the law and by innovative financing alternatives not available or utilized when the refunded debt was initially marketed.

New Water Authority Largest Issuer of Refunding Bonds

The lion's share of the fiscal year 1989 refunding bonds were issued at one time by one agency—the Texas Water Resources Finance Authority.

The Water Resources Finance Authority was created by the Texas Legislature in 1987 to, among other things, issue revenue bonds to purchase all or portions of the Texas Water Development Board's portfolio of loans to political subdivisions.

The Texas Water Development Board has, over the last 30 years, issued $821 million in general obligation bonds and used the proceeds to finance water conservation and development projects across Texas through the purchase of bonds of local political subdivisions.

The Water Resources Finance Authority sold $511.8 million in revenue bonds, and used the proceeds to purchase the current loan portfolio of the Texas Water Development Board.

The Texas Water Development Board then used the proceeds of the portfolio sale to eliminate $529 million in state general obligation debt and free up $41 million in reserves which had been associated with the refunded bonds.

The Texas Water Resources Finance Authority revenue bonds, unlike the Texas Water Development Board bonds that were defeased by them, do not constitute a general obligation debt of the state. Neither the full faith and credit nor the taxing authority of the state is pledged to retire the revenue bonds.

Lower 1989 Interest Rates Encourage Refundings

Texas bond issuers took advantage of lower 1989 interest rates to refund outstanding bonds. The Texas Turnpike Authority issued $237.7 million in bonds to refund $208.1 million in existing Dallas North Tollway Revenue Bonds. The refunding will result in debt service savings of $71.5 million over the 30-year life of the financing.

Texas State University System issued $29,980,000 in refunding bonds on behalf of three universities within the System—Angelo State University, Sam Houston State University, and Southwest Texas State University.

The System's three refunding bond issues will save these universities a total of about $1.7 million in debt service.

The Texas Housing Agency issued $167.5 million in refunding bonds during fiscal year 1989. Approximately $156.9 million of these refunding bonds were used to refund bonds previously issued under the agency's home ownership program for low- to moderate-income Texans wishing to purchase their first home.

By refunding bonds outstanding, the agency was able to keep interest rates charged on home mortgages at the lowest level possible. Over the last year, the Texas Housing Agency has provided mortgages to qualified participants at fixed interest rates as low as 7.69 percent.

The remaining $10.6 million in Texas Housing Agency refundings were used to refinance two loans to developers who built apartments for rent by low- and moderate-income families. This refinancing lowered the debt service costs of the developer and helped to ensure the continued availability and affordability of the apartments for low- to moderate-income tenants.

NEW LEASE- AND INSTALLMENT-PURCHASES ADDED TO STATE DEBT DURING 1989

A total of $43 million in lease- or installment-purchases were approved by the Bond Review Board and utilized by state agencies and universities to purchase real estate and equipment during fiscal year 1989 (Table 2).

The lease- or installment-purchase, while not considered a state bond, is a method of paying for equipment over time and carries finance charges.

The Bond Review Board was given the duty by the legislature to approve all lease- or installment-purchases in excess of $250,000 in principal or more than five years in duration.

In a lease- or installment-purchase, a state agency enters into an agreement to pay for an item over time. The agreement can be with either the vendor selling the equipment or a third-party finance company.

The financing agent may hold the agreement or resell it to one or more investors. One method which is used to resell the lease to multiple investors is through the issuance of certificates of participation by the financing agent.

About $14.5 million in certificates of participation were issued during 1989 to accomplish a refinancing of a lease-purchase by the Texas Department of Corrections of ten minimum security "trusty camps."

These prison units were originally financed in 1986 with an installment-purchase agreement held by a single finance company. As a result of the refinancing, the average interest rate over the twenty-year life of the purchase dropped to 7.03 percent from 9.2 percent.

The remainder of the installment-purchases, approximately $28.5 million, were used for the purchase or upgrade of state telecommunications and computer systems. The average interest rate on these financings was 8.3 percent.

TABLE 2
Lease- and Installment-Purchase Agreements
Fiscal Year 1989

	Amount	Purpose	Interest Rate
Texas Department of Corrections	$14,510,000	Correction Facilities	7.03%
University of Texas Medical Branch-Galveston	9,366,000	Telecommunications	8.50
	2,850,000	Computer	8.50
University of Houston	7,350,000	Telecommunications	8.48
Texas Higher Education Coordinating Board	3,734,457	Computer	8.10
Texas Rehabilitation Commission	2,537,000	Computer	7.86
Texas State Treasury	1,327,000	Computer	7.95
West Texas State University	839,345	Computer	8.38
Texas Board of Private Investigators and Private Security Agencies	460,000	Computer	7.73
TOTAL	$42,973,802	AVERAGE RATE	7.90%

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

CHAPTER THREE

Texas Bond Issuance Costs

Services utilized to develop an effectively structured and marketed bond issue can more than pay for themselves through lower interest costs.

Texas incurs two types of costs when the state issues bonds—interest paid to bondholders and costs of bond issuance.

The interest paid to bondholders makes up the largest expense associated with state borrowing. Interest costs over the life of a 20-year bond issue may well approach or exceed the cost of the project being financed. A bond issue to finance a $10 million project over 20 years at 7 percent interest, for example, would cost the state around $9 million in interest.

Issuance costs are those costs which the state must pay for the professional services required to effectively market a state bond issue to investors.[1]

Interest and issuance costs are related. Services utilized to develop an effectively structured and marketed bond issue can more than pay for themselves through lower interest costs.

Getting Bonds to Market

The following are the professional services most common in the marketing of all types of bond issues:

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

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

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

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

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

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[1] *The clear distinction made here between interest and issuance costs is somewhat arbitrary. Issuance costs may—especially in the case of competitively sold bond issues—be paid for by the issuer through an incremental increase to bond interest rates.*

Printer - The printer produces the official statement, notice of sale, and any bonds required to be transferred between the state issuer and investors purchasing the bonds.

Total issuance costs for state bonds issued during fiscal year 1989 averaged $866,144 per issue and $16.03 per $1,000 in bonds sold (Table 3).

The major components of fees during fiscal year 1989 were the following:

- The underwriter's fee, or "spread," for selling state bonds was by far the largest component of issuance costs, averaging $694,803 per issue and $10.71 per $1,000 of bonds sold. This single component accounted for on average about 80 percent of the cost of issuance.

- Legal counsel fees averaged $62,213 per issue and $1.78 per $1,000 of bonds sold.

- Financial advisory fees averaged $30,966 and $0.94 per $1,000 of bonds sold.

- Credit rating fees averaged $27,459 per issue and $.91 per $1,000 in bonds sold.

NEGOTIATED VS. COMPETITIVE SALES

The more complicated financings during 1989 were issued by negotiated sale.

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

With the knowledge that he has the bonds to sell, the underwriter can do whatever presale marketing is necessary to accomplish a successful sale. In the more complicated financings the presale marketing can be crucial to obtaining the lowest possible interest cost.

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

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

Texas bond issues sold via negotiated sale during fiscal year 1989 had only slightly higher total issuance costs per $1,000 of bonds issued than those sold via competitive sale. The total costs of issuance averaged $16.29 per $1,000 for bonds sold by negotiated sale, compared to an average cost of $15.77 per $1,000 for

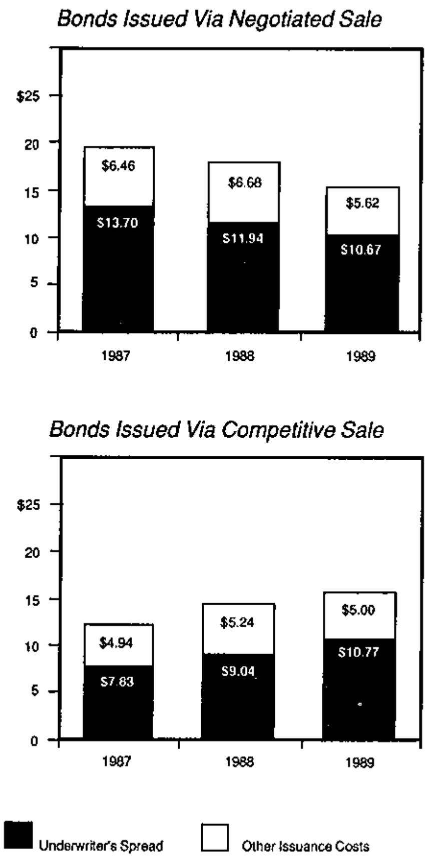
TABLE 3
Average Issuance Costs for 1989 Texas Bond Issues*

	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Underwriter's Spread	$694,803	$10.71
Other Issuance Costs:		
Legal Fees	62,213	1.78
Financial Advisor Fees	30,966	.94
Rating Agency Fees	27,459	.91
Printer Fees	16,840	.93
Paying Agent/Registrar Fees	15,990	.49
Other	17,873	.27
Total	$866,144	$16.03

**The calculations regarding average issuance costs include only those bonds sold via competitive or negotiated sale for which complete data were available. Bond insurance premiums are not included for purposes of average cost calculations. The figures are simple averages of the dollar costs and costs per $1,000 associated with each 1989 state bond issue.*

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

FIGURE 9
Recent Trends in Average Issuance Costs
for Texas Bonds
(costs per $1,000 of bonds issued)



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

those bonds sold by competitive sale (Table 4).

Underwriter's spreads on negotiated sales averaged slightly below the spreads on competitively sold financings. Average underwriter's spread on issues sold by negotiated sale was $10.67 per $1,000, while the average spread on competitively sold issues was $10.77.

Legal fees on negotiated financings were substantially greater than those on competitive financings, reflecting in part the greater complexity of these financings.

The average legal fee was $2.24 per $1,000 on the bond issues sold by negotiated sale, compared to $1.26 per $1,000 on bonds competitively sold.

But this was offset by lower financial advisory fees on average for bond issues sold by negotiated sale.

Financial advisory fees on negotiated sales averaged $0.45 per $1,000, less than one-third the $1.49 per $1,000 financial advisory fee on competitive sales.

On many negotiated sales, no financial advisor was used. Many of the functions usually performed by the financial advisor were performed by the underwriter.

Recent Trends in Issuance Costs

The average issuance cost of negotiated Texas bond sales has come down in recent years relative to the issuance cost of competitively sold bond issues (Figure 9).

The major contributing factor to this convergence in total issuance costs for negotiated and competitive sales is the convergence in underwriter's spread, the largest component of total costs.

Negotiated spreads on Texas bond issues have on average declined over the last three years, while spreads on competitively sold issues have increased.

In fiscal year 1988, underwriter's spread on negotiated sales averaged $11.94—$2.90 per $1,000 higher than the average spread of $9.04 per $1,000 on bonds sold competitively.

And in fiscal year 1987, the average underwriter's spread on negotiated sales—$13.70 per $1,000—was $5.87 per $1,000 higher than the $7.83 per $1,000 average spread on bonds sold competitively.

This convergence of the spreads on negotiated and competitive sales reflects a national trend brought on by a reduction in the volume of municipal bond issuance and increased competition among underwriters for the remaining business.

Average underwriter's spread nationally for negotiated bond sales of $10 million or more dropped to $12.71 in fiscal year 1988 from $14.76 in fiscal year 1986, according to Securities Data Corporation. The average spread nationally on competitively sold issues showed only a slight decline, from $10.18 in fiscal year 1986 to $9.93 in fiscal year 1988.

TABLE 4
Average Issuance Costs for 1989 Texas Bond Issues
Sold Through Negotiated and Competitive Sale

	Negotiated ($/1,000)	Competitive ($/1,000)
Underwriter's Spread	$10.67	$10.77
Other Issuance Costs:		
Legal Fees	2.24	1.26
Financial Advisor Fees	0.45	1.49
Rating Agency Fees	0.89	0.93
Other	2.04	1.32
Total	$16.29	$15.77

**The calculations regarding average issuance costs include only those bonds sold via competitive or negotiated sale for which complete data were available. Bond insurance premiums are not included for purposes of average cost calculations. The figures are the simple average of the costs per $1,000 associated with each 1989 state bond issue.*

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

Total Texas Bond Debt Outstanding

Texas had $6.7 billion in state bond debt outstanding on August 31, 1989—down from $7.0 billion outstanding on August 31, 1988 (Table 5).

Total Texas state bond debt outstanding declined during 1989 despite the issuance of an additional $501 million in new-money bonds during the year.

Redemption of TSBIDC Bonds Lowers Texas Debt Total

The additional new-money bonds were more than offset by the redemption in June 1989 of $649.6 million in bonds previously issued by the Texas Small Business Industrial Development Corporation (TSBIDC).

Cash reserves of the TSBIDC loan program were used to buy back bonds held by investors. The reserves were available because loans had not been made as expected. As a result of the redemption, just $100.4 million of the original $750 million issue remained outstanding at the end of fiscal year 1989.

General Obligation Debt Reduced

One large refunding bond issue during fiscal year 1989, although not substantially affecting the total amount of debt outstanding, did reduce the amount of general obligation debt outstanding.

The Texas Water Resources Finance Authority issued $511.8 million in non-general obligation bonds and used the proceeds to refund, and remove from the state's books, $546 million in Texas Water Development Board general obligation bonds.

Approximately $2.3 billion of Texas' total state bond debt outstanding at the end of fiscal year 1989 is backed by the general obligation pledge of the state, down from the $2.6 billion in general obligation debt outstanding at the end of fiscal year 1988.

The remaining $4.4 billion of Texas bond debt outstanding does not carry the state's general obligation pledge.

This shift of debt from general obligation (G.O.) to non-general obligation (non-G.O.) debt is significant, because non-G.O. debt does not have the same legal force.

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

Any G.O. debt 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.

A debt which is authorized by such a constitutional amendment carries a pledge of the full faith and credit of the state to pay debt service.

Any non-G.O. pledge of state funds beyond the current budget period is contingent upon an appropriation by a future legislature—an appropriation which cannot be guaranteed under state law.

Total Texas state bond debt outstanding declined during 1989 despite the issuance of an additional $501 million in new-money bonds during the year.

TABLE 5
Texas Bonds Outstanding
(amounts in thousands)

	8/31/87	8/31/88	8/31/89
GENERAL OBLIGATION BONDS			
Self-Supporting			
Veterans' Land and Housing Bonds	$1,440,745	$1,384,255	$1,365,030
Water Development Bonds	493,082	595,745	85,500
Park Development Bonds	31,250	29,800	29,300
College Student Loan Bonds	106,915	97,840	167,885
Farm and Ranch Security Bonds	10,000	10,000	10,000
Total, Self-Supporting	2,081,992	2,117,640	1,657,715
Not Self-Supporting[1]			
Higher Education Constitutional Bonds[2]	220,190	199,120	181,420
Texas Public Finance Authority Bonds	0	285,430	474,510
Total, Not Self-Supporting	220,190	484,550	655,930
GENERAL OBLIGATION BONDS, TOTAL	2,302,182	2,602,190	2,313,645
NON-GENERAL OBLIGATION BONDS			
Self-Supporting			
Permanent University Fund Bonds			
A&M	220,690	224,180	248,050
UT	427,420	442,100	477,205
College and University Revenue Bonds	924,164	942,368	950,374
Texas Hospital Equipment Finance Council Bonds	62,200	37,400	37,400
Texas Housing Agency Bonds	1,320,133	1,441,303	1,434,098
Texas Small Business I.D.C. Bonds[3]	770,000	770,000	100,400
Texas Turnpike Authority Bonds[4]	348,009	352,203	384,444
Texas Water Resources Finance Authority	0	0	511,755
Total, Self-Supporting	4,072,616	4,209,554	4,143,726
Not Self-Supporting[1]			
Texas Public Finance Authority Bonds	178,663	198,428	204,535
National Guard Armory Board Bonds	22,640	21,815	20,915
Total, Not Self-Supporting	201,303	220,243	225,450
NON-GENERAL OBLIGATION BONDS, TOTAL	4,273,919	4,429,797	4,369,176
GRAND TOTAL	$6,576,101	$7,031,987	$6,682,821

[1]Bonds which are not self-supporting depend solely on the state's general revenue for debt service. Not self-supporting bonds totalled $881.4 million outstanding in 1989, $704.8 million outstanding in 1988, and $421.5 million outstanding in 1987.
[2]While not explicitly a general obligation or full faith and credit bond, the revenue pledge has the same effect. Debt service is paid from an annual constitutional appropriation to qualified institutions of higher education from first monies coming into the State Treasury not otherwise dedicated by the constitution.
[3]Excludes industrial development bonds per financial reporting guideline changes promulgated by the State Auditor subsequent to the release of the 1987 GAAP Annual Report.
[4]Data for Texas Turnpike Authority are as of December 31, 1988, instead of August 31, 1989.

SOURCES: Texas Bond Review Board, Office of the Executive Director, and Texas Comptroller of Public Accounts. This table was compiled from the 1988 Texas Annual Financial Report: Audited GAAP Edition and unaudited 1989 information obtained directly from the state agencies involved.

Investors are willing to assume the added risk of non-G.O.bonds 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.

Debt Supported from General Revenue Continued Rapid Growth During 1989

The portion of Texas bond debt payable solely from the state's General Revenue Fund increased sharply during 1989, in spite of the decrease in G.O. bond debt and total bond debt outstanding.

Bonds, G.O. and non-G.O. alike, which are payable solely from general revenue are classified as "not self-supporting" (Table 5). Bond-financed programs with debt service paid from sources other than general revenue, or outside state government entirely, are classified as "self-supporting."

About $881.4 million in not self-supporting bonds were outstanding at the end of fiscal 1989. This is up from $704.8 million in such bonds outstanding at the end of fiscal 1988 and $421.5 million outstanding at the end of fiscal 1987 (Figure 10).

Bonds which are not self-supporting have a more direct impact on state finances than do self-supporting bonds. Self-supporting bonds do not compete with other budget items for appropriations from the state's General Revenue Fund.

Debt Service from General Revenue on the Increase

The amount of general revenue which must go to pay debt service is, as expected, increasing along with the amount of "not self-supporting" debt outstanding (Table 6).

During the upcoming 1990-91 two-year budget period, the state will pay $202 million from general revenue for debt service on state bonds, up from $123 million annually during 1988-89 and $85 million annually during 1986-87 (Figure 11).

The primary force behind the growing dependence on general revenue for debt service is the issuance over the last three years of bonds to finance construction of correctional facilities. These bonds alone will require $86.3 million in general revenue for debt service during 1990-91, up from just $23.8 million during 1988-89.

Long-Term Contracts and Lease-Purchases

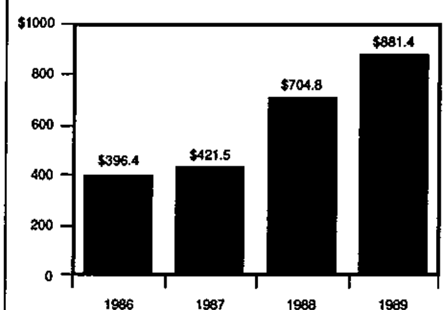
Long-term contracts and lease- or installment-purchase agreements can serve as alternatives to bonds when the issuance of bonds is not feasible or practical. These agreements are, like bonds, a debt of the state. And payments on these contracts or agreements can be either general obligations of the state, 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 year 1989 was $42 million. This contract is a general obligation of the state, but the Texas 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-

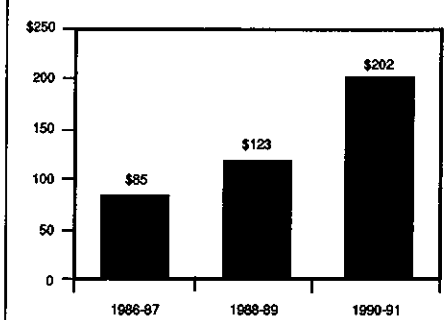
The portion of Texas debt backed by general revenue increased sharply during 1989.

FIGURE 10
Texas State Bonds Outstanding Backed Only by General Revenue
(millions of dollars)



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

FIGURE 11
Debt Service Paid from General Revenue During Two-Year Budget Periods
(millions of dollars)



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

TABLE 6
Debt Service Requirements of Texas State Bonds
(amounts in thousands)

	1989	1990	1991
GENERAL OBLIGATION BONDS			
Self-Supporting			
Veterans' Land and Housing Bonds	$ 172,324	$172,556	$174,828
Water Development Bonds	5,436	7,626	7,934
Park Development Bonds	2,880	2,834	3,264
College Student Loan Bonds	14,419	20,294	23,265
Farm and Ranch Security Bonds	900	900	900
Total, Self-Supporting	195,959	204,209	210,182
Not Self-Supporting[1]			
Higher Education Constitutional Bonds	36,380	37,336	37,638
Texas Public Finance Authority Bonds	22,697	41,262	45,064
Total, Not Self-Supporting	59,077	78,598	82,702
GENERAL OBLIGATION BONDS, TOTAL	255,036	282,807	292,884
NON-GENERAL OBLIGATION BONDS			
Self-Supporting			
Permanent University Fund Bonds			
A&M	19,193	21,302	21,885
UT	52,320	52,239	52,718
College and University Revenue Bonds	102,163	109,621	109,477
Texas Hospital Equipment Finance Council Bonds	2,244	4,348	3,217
Texas Housing Agency Bonds	398,062	151,165	140,408
Texas Small Business I.D.C. Bonds**	827,419	7,279	7,279
Texas Turnpike Authority Bonds***	24,513	14,814	25,916
Texas Water Resources Finance Authority	22,426	46,732	48,282
Total, Self-Supporting	1,448,341	407,501	409,181
Not Self-Supporting[1]			
Texas Public Finance Authority Bonds	11,885	18,145	18,149
National Guard Armory Board Bonds	2,274	2,284	2,283
Total, Not Self-Supporting	14,159	20,428	20,432
NON-GENERAL OBLIGATION BONDS, TOTAL	1,462,500	427,930	429,614
GRAND TOTAL	$1,717,535	$710,737	$722,497

NOTE: Numbers may not add, due to rounding.

[1]Bonds which are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totalled $73.6 million during 1989, and will top $99 million in 1990.

SOURCES: Texas Bond Review Board, Office of the Executive Director, and Texas Comptroller of Public Accounts. This table was compiled from the 1988 Texas Annual Financial Report: Audited GAAP Edition and unaudited 1989 information obtained from the state agencies involved.

1992	1993	1994 plus
$166,261	$161,764	$ 1,785,178
8,366	8,426	196,680
3,172	3,556	35,977
22,929	22,771	152,776
900	900	12,250
201,628	197,417	2,182,861
37,238	36,555	73,191
45,000	44,778	719,845
82,237	81,333	793,036
283,865	278,750	2,975,897
47,397	21,381	359,164
60,722	61,103	638,451
110,076	109,263	1,177,611
3,214	3,203	48,371
139,651	138,875	3,224,615
7,279	7,279	340,607
25,917	25,904	703,518
49,071	50,155	793,496
443,328	417,163	7,285,832
18,156	18,152	296,928
2,287	2,286	22,919
20,443	20,439	319,847
463,771	437,602	7,605,679
$747,636	$716,352	$10,581,576

The primary force behind the growing dependence on general revenue for debt service is the issuance over the last three years of bonds to finance construction of correctional facilities.

TABLE 7
Texas Bonds Authorized But Unissued
(amounts in thousands)

	8/31/88	8/31/89
GENERAL OBLIGATION BONDS		
Self-Supporting		
Veterans' Land and Housing Bonds	$ 450,000	$ 405,000
Water Development Bonds	1,112,000	1,089,500
Farm and Ranch Loan Bonds	500,000	500,000
Park Development Bonds	29,250	29,250
College Student Loan Bonds	79,500	0
Total, Self-Supporting	2,170,750	2,023,750
Not Self-Supporting[1]		
Higher Education Constitutional Bonds	*	*
Texas Public Finance Authority Bonds[2]	66,840	25,490
Superconducting Super Collider Bonds	500,000	500,000
Total, Not Self-Supporting	566,840	525,490
GENERAL OBLIGATION BONDS, TOTAL	2,737,590	2,549,240
NON-GENERAL OBLIGATION BONDS		
Self-Supporting		
Permanent University Fund Bonds[3]		
A&M	84,030	81,384
UT	174,322	181,663
College and University Revenue Bonds	**	**
Texas Hospital Equipment Finance Council Bonds	**	**
Texas Housing Agency Bonds	**	**
Texas Turnpike Authority Bonds	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000
Texas Department of Commerce Bonds	**	**
Texas Unemployment Compensation Fund Bonds	**	**
Texas Water Resources Finance Authority Bonds	**	**
Texas School Facilities Finance Program	0	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**
Total, Self-Supporting	758,352	1,513,047
Not Self-Supporting[1]		
Texas Public Finance Authority Bonds	214,838	392,588
National Guard Armory Board Bonds	**	**
Superconducting Super Collider Bonds	500,000	500,000
Total, Not Self-Supporting	714,838	892,588
NON-GENERAL OBLIGATION BONDS, TOTAL	1,473,189	2,405,635
TOTAL	$4,210,779	$4,954,875

[1]Bonds which are not self-supporting depend solely on the state's general revenue for debt service.
[2]This figure represents the dollar amount of projects authorized by the legislature for which bonds have not been issued.
[3]Issuance of PUF bonds by A&M is limited to 10 percent, and issuance by UT is limited to 20 percent of the cost value of investments and other assets of the PUF, except real estate.
*No limit on bond issuance, but debt service may not exceed $50 million per year.
**No issuance limit has been set by the Texas Constitution 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.

term financing of furniture and equipment.

As of August 31, 1987, capital leases outstanding of furniture and equipment totalled approximately $20.2 million, 98 percent of which will be paid off by 1991.

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

During fiscal year 1988, the Texas Department of Corrections entered into four long-term (10 to 20 year) lease-purchase agreements, totalling $142.6 million, for the purchase or construction of prison facilities. The lease-purchase payments for the prisons will come totally from appropriations of general revenue by the legislature to the Texas Department of Corrections.

As of August 31, 1988, lease-purchases of furniture, equipment and prison facilities had risen to $197.2 million.

Including just the $28.5 million in equipment purchases approved by the Bond Review Board during fiscal year 1989 (those greater than $250,000) would boost the total amount of lease- or installment-purchases outstanding at the end of fiscal year 1989 to over $225 million.

Bonds Authorized But Unissued

Texas had $4.95 billion in authorized but unissued state bonds as of August 31, 1989 (Table 7). If all authorized bonds were issued, total outstanding debt would top $11.6 billion.

Approximately 51 percent of the bonds authorized but unissued at the end of fiscal year 1989 would be G.O. debt, and 79 percent of this G.O. debt would be self-supporting.

Overall, 71 percent of the bonds authorized but unissued at the end of fiscal year 1989 would be self-supporting.

Another $1.25 billion of new general obligation bond authorization has been added since the books were closed on August 31, 1989. This new bond authorization was granted with the approval of five constitutional amendments by the voters at the November 7, 1989 election. (See Chapter 5 for a description of the new bond authorizations.)

Texas had $4.95 billion in authorized but unissued state bonds as of August 31, 1989.

New State Bonds Authorized

November 1989

Texas voters, in a November 1989 election, approved five amendments to the Texas Constitution authorizing the issuance of an additional $1.25 billion in Texas general obligation bonds (Table 8).

The Texas Legislature authorized $2.1 billion in bonds during their 1989 session—$1.25 billion in general obligation bonds and another $868.5 million in non-general obligation bonds.

The general obligation bonds authorized by the legislature required, in addition, voter approval of constitutional amendments.

The $868.5 million in non-general obligation bonds required only legislative authorization and are included in the $4.95 billion in state bonds authorized but unissued on August 31, 1989 (Table 7).

These newly authorized non-general obligation bonds include $750 million in bonds to finance a voluntary state program to make low-cost loans to local school districts to finance construction of instructional facilities. School districts seeking a loan will apply to the Texas Bond Review Board.

The Texas Public Finance Authority was authorized to issue $118.5 million in non-general obligation bonds to finance construction and renovation of an Austin campus of the Texas School for the Deaf and for the construction or purchase and renovation of office buildings in Harris, Tarrant, and Travis counties.

The newly authorized general obligation bonds are in four broad areas: construction or renovation of the state's corrections and mental health and mental retardation service facilities; water supply, treatment and conservation; economic development; and college student loans.

Texas voters, in a November 1989 election, approved five amendments to the Texas Constitution authorizing the issuance of an additional $1.25 billion in Texas general obligation bonds.

New Correctional Facilities

The voters authorized $400 million in general obligation bonds to finance the purchase, construction, or renovation of facilities of the Texas Department of Corrections, Texas Department of Mental Health and Mental Retardation, and Texas Youth Commission.

The legislature has earmarked $197.8 million of the $400 million total to finance prison construction. These new bonds, to be issued over the next two years, will add 5,809 beds to the Texas Department of Corrections' capacity.

The legislature authorized $65.4 million of the $400 million for improvements to the facilities of the Texas Department of Mental Health and Mental Retardation and the Texas Youth Commission.

And $5.8 million was authorized for the purchase of a facility for the Texas Department of Public Safety.

Approximately $131 million of the $400 million in bonds remains available for future authorization by the legislature for projects in these areas.

Debt service on all these bonds will come from the state's general revenue fund.

Water Supply, Treatment, and Conservation

The legislature authorized, and the voters approved, $500 million in

TABLE 8
New General Obligation Bonds Authorized by Texas Voters on November 7, 1989
(amounts in millions)

Issuer	Purpose	Amount
Texas Water Development Board	To finance water supply, water quality and flood control projects undertaken by local political subdivisions across Texas. Up to 20 percent of the authorization may be used to finance water and water facilities in economically distressed areas.	$ 500
Texas Public Finance Authority	To finance building projects for Texas Department of Corrections, Texas Department of Mental Health and Mental Retardation, and Texas Youth Commission.	400
Texas Water Development Board	To finance agricultural water conservation projects undertaken by individuals or local entities, including soil and water conservation districts and irrigation water supply districts.	200
Higher Education Coordinating Board	To make loans to students attending Texas colleges and universities. The bonds would be sold in a form to make them attractive as instruments for saving for college.	75
Texas Department of Commerce*	To provide loans to finance the commercialization of new or improved products or processes developed in Texas and to stimulate the development of small businesses in Texas.	45
Texas Agricultural Finance Authority*	To provide loans and loan guarantees to stimulate development of agricultural products grown or provided primarily in Texas and to stimulate the expansion of small businesses in rural areas of Texas.	30
	Total New General Obligation Bond Authority	$1,250

**These items were combined into one proposition on the November ballot.*

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

general obligation bonds to finance water supply and treatment projects across the state.

Of the $500 million in new bond authorization, $250 million is earmarked for financing of water supply projects, $200 million for financing wastewater projects, and $50 million for the financing of flood control projects.

The legislature dedicated 20 percent of the new $500 million authorization to the financing of water supply and treatment projects in economically distressed areas across the state. Up to 75 percent of the bonds issued for distressed areas may be used for grants.

Economically distressed areas are defined as counties with unemployment 25 percent above the state average and a per capita income 25 percent below the state average, and all counties adjacent to Mexico.

Agricultural Water Conservation

Another $200 million in general obligation bonds was approved for the financing of agricultural water conservation projects across Texas.

Under this program, bond proceeds will be loaned to water conservation and reclamation districts across the state.

Loans can be used to improve the efficiency of existing irrigation systems, for preparing irrigated land to be converted to dryland conditions, or for preparing dryland for more efficient use of natural precipitation.

Loan repayments are dedicated to the payment of debt service on any bonds issued under this program. The program is designed to be self-supporting, with no general revenue draw anticipated.

Economic Development

The voters authorized another $75 million in general obligation bonds to spur economic development across the state.

The legislature earmarked $30 million of this total to stimulate Texas agricultural production and rural economic development. Another $45 million in bonds was dedicated to finance the development of new products, and growth of new small businesses in all industries and areas of the state.

Agricultural and Rural Development

The Texas Agricultural Finance Authority was given the authorization to issue $25 million in general obligation bonds to provide loans or loan guarantees to expand the production and marketing of Texas agricultural products.

The Authority was also authorized to issue general obligation bonds in an amount not to exceed $5 million at any one time to establish a rural microenterprise development fund.

The Texas rural microenterprise development fund may be used to provide loans and loan guarantees to foster and stimulate the creation and expansion of small businesses in rural areas. The fund will operate as a revolving fund.

Repayments of any financial assistance under the program funded with the proceeds of general obligation bonds will be used to repay the bonds.

New Products and New Businesses

The board of directors of the Texas Department of Commerce was authorized to issue up to $25 million in general obligation bonds, to deposit the proceeds of the bonds in the Texas product development fund, and to provide venture financing to aid in the development of new or improved products in the state.

The Texas Department of Commerce Board may also issue up to $20 million in general obligation bonds and use the proceeds to establish a small business incubator fund and make loans to foster and stimulate the development of small businesses in the state.

The Texas Department of Commerce bonds will be backed by repayments of financial assistance, investment earnings, and other sources of program revenue.

Borrowing or Saving for College

The Texas Higher Education Coordinating Board received authorization to issue general obligation bonds in an amount not to exceed $75 million to provide college student loans under the existing Texas Higher Education Coordinating Board student loan programs.

Those programs, created in 1965, have a total of $167.9 million in general obligation bonds outstanding and currently provide $197 million in loans to 57,324 students.

To serve a dual purpose of providing a method for saving for college, these bonds are to be sold in a manner which will make them desirable to the buyer as instruments for saving for college.

Texas Bonds Issued During 1989

Midwestern State University

Issue: Tuition and General Fee Revenue Bonds Series 1989 - $750,000

Purpose: Proceeds from the sale of the bonds are to be used to convert the Marcham Hall storage building to a dormitory.

Dates: Board Approval - June 22, 1989
Competitive Sale - August 21, 1989

Structure: The bonds are tax-exempt, fixed-rate, serial bonds maturing from 1990 through 2004. The maturities 2000-2005 will be callable at par beginning in 1999.

The bonds are secured by a first lien on pledged revenues consisting of gross collections of the general fee and the pledged student tuition.

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

Consultants: Bond Counsel - McCall, Parkhurst and Horton
Financial Advisor - Rauscher Pierce Refsnes, Inc.

Effective Interest Rate: 7.03%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Financial Advisor	$ 7,800	$10.40
Bond Counsel	3,875	5.17
Bond Rating	6,500	8.67
O.S. Printing/Mailing	5,867	7.82
Bond Printing	546	.73
Paying Agent	350	.47
Miscellaneous	1,246	1.66
	$26,184	$34.91
Underwriter's Spread	$5,632	$7.51

Midwestern State University

Issue: Constitutional Appropriation Bonds, Series 1989 - $1,500,000

Purpose: Proceeds from the sale of the bonds are to be used to replace Daniel Hall which houses the physical plant offices, warehouse, and shops for the university.

Dates: Board Approval - June 22, 1989
Competitive Sale - August 21, 1989

Structure: The bonds are tax-exempt, fixed-rate, serial bonds, maturing from 1990 through 1994. The bonds maturing in 1993 and 1994 are callable at par in 1992.

The bonds are payable solely from a first lien and pledge of one-half of the annual appropriation to the university, pursuant to Article VII, Section 17 of the Texas Constitution.

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

Consultants: Bond Counsel - McCall, Parkhurst and Horton
Financial Advisor - Rauscher Pierce Refsnes, Inc.

Effective Interest Rate: 6.28%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Financial Advisor	$8,100	$ 5.40
Bond Counsel	5,677	3.78
Bond Rating	6,200	4.13
O.S. Printing/Mailing	6,044	4.03
Bond Printing	1,030	.69
Paying Agent/Registrar	400	.27
Travel	368	.25
Miscellaneous	1,893	1.26
	$29,712	$19.81
Underwriter's Spread	$11,279	$7.52

Texas A&M University System

Issue: Equipment Master Acquisition Program Revenue Notes, Series 1989A - $15,000,000

Purpose: Proceeds from the sale of the notes are to be used to finance the moveable equipment for construction projects in the Biochemistry/Biophysics, Engineering, and Computer Science/Aerospace Engineering buildings, and for a supercomputer for the System.

Dates: Board Approval - April 21, 1989
Negotiated Sale - May 22, 1989

Structure: The notes were issued primarily in registered form, and have a stated maturity of June 1, 1994.

The notes bear interest at a daily rate, and may convert to flexible, weekly, monthly, quarterly, semiannual, term, or fixed rates of interest.

The notes are special obligations of the Board of Regents of the Texas A&M University System, and are secured and payable from a first lien on unrestricted local funds revenue.

Bond Ratings: Moody's - Aa
Standard & Poor's - AA/A-1+

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

Effective Interest Rate: Variable

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Financial Advisor	$ 20,430	$1.36
Bond Counsel	26,702	1.78
Bond Rating	23,800	1.59
O.S. Printing	3,887	.26
Bond Printing	541	.04
Paying Agent/Registrar	5,000	.33
Miscellaneous	22,790	1.52
	$103,150	$6.88
Underwriter's Spread	$88,950	$5.93

Texas Higher Education Coordinating Board

Issue: College Student Loan Bonds, Series 1989 - $79,500,000

Purpose: Proceeds from the sale of the bonds are to be used to make loans to students through the Hinson-Hazelwood Loan Program.

Dates: Board Approval - April 21, 1989
Competitive Sale - July 1, 1989

Structure: The bonds are tax-exempt, fixed-rate, serial general obligation bonds, maturing 1991 through 2004, callable at par after 10 years.

The bonds are secured by loan repayments and interest earnings, as well as the state's general obligation pledge.

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

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

Effective Interest Rate: 7.02%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Financial Advisor	$30,000	$ .38
Bond Counsel	29,825	.38
Bond Rating	22,000	.28
O.S./Bond Printing	11,970	.15
Miscellaneous	3,733	.05
	$97,528	$1.23

Underwriter's Spread(Not Available)

Texas Housing Agency

Issue: Residential Mortgage Revenue Bonds, Series 1988A - $40,920,000

Purpose: Proceeds from the sale of the bonds were used to refund previously issued Texas Housing Agency single-family mortgage revenue bonds, and to pay a portion of the costs of issuance. The bonds refunded consisted of nine separate series issued from 1980 through 1987.

Dates: Board Approval - June 21, 1988
Negotiated Sale - September 7, 1988

Structure: The bonds were issued initially as short-term fixed-rate securities to be remarketed at a later date. This issue is a combination of serial and term bonds maturing in 1990 through 2018.

The bonds are secured by principal and interest on loans made from the proceeds, as well as investment income and certain other income of the program.

Bond Ratings: Moody's - Aa/VMIG-1
Standard & Poor's - A+/A-1+

Consultants: Bond Counsel - Vinson & Elkins
Financial Advisor - Merrill Lynch Capital Markets

Effective Interest Rate: 6.20% (Initial rate)

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 49,784	$1.22
Bond Rating	27,500	.67
Printing	11,166	.27
Paying Agent/Trustee	26,141	.64
Miscellaneous	24,025	.59
	$138,616	$3.39
Underwriter's Spread	$255,750	$6.25

Texas Housing Agency

Issue: Multi-Family Housing Revenue Refunding Bonds, Series 1988C - $7,100,000
Series 1988D - $3,520,000

Purpose: Proceeds were used to redeem $10,625,000 in aggregate principal amount of the Agency's previously issued Residential Development Revenue Bonds. Such redemption enables the Agency to refinance the above-captioned multi-family developments in the cities of Katy and San Antonio, Texas.

Dates: Board Approval - July 19, 1988
Negotiated Sale - September 1, 1988

Structure: Both series of bonds are tax-exempt and have a stated maturity date of March 1, 2000.

The bonds were issued as variable rate, and the interest is subject to adjustment on scheduled annual remarketing dates throughout the terms of both series.

The bonds are payable from and secured by: (1) loan payments made by the borrower to the Agency and a collateralized, direct-pay letter of credit issued for the account of the borrower by San Antonio Savings Association; and (2) all funds held under the indenture, including any investment earnings.

Bond Ratings: Standard & Poor's - AAA/A-1+

Consultants: Bond Counsel - Vinson & Elkins
Financial Advisor - Merrill Lynch Capital Markets

Effective Interest Rate: 6.50% (Initial Rate)

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Legal Fees	$ 93,960	$ 8.85
Trustee Fees	23,740	2.24
Bond Rating	20,000	1.88
Printing	13,328	1.25
Miscellaneous	111,288	10.48
	$262,316	$24.70
Underwriter's Spread	$158,132	$14.89

Texas Housing Agency

Issue: Residential Mortgage Revenue Refunding Bonds, Series 1989A - $44,000,000
Residential Mortgage Revenue Bonds, Series 1989B - $45,000,000

Purpose: Proceeds from the sale of the 1989A bonds were used to current-refund 1988 serial principal maturities and call additional, later maturing, bonds from eleven single-family mortgage revenue bond issues. This refunding made available for lending, approximately $40 million in prepayments on the refunded bonds.

The available funds created by the refunding, together with proceeds from the sale of the Series 1989B bonds, will be used to make below-market loans to qualified borrowers.

Dates: Board Approval - June 22, 1989
Negotiated Sale - July 3, 1989

Structure: The bonds are a combination of fixed-rate serial and term bonds maturing 1990 through 2018.

The bonds are secured by principal and interest payments on mortgage loans, certificates of the Government National Mortgage Association (GNMA), and other income of the Agency.

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

Consultants: Bond Counsel - Vinson & Elkins
Underwriters - Goldman Sachs & Company
Merrill Lynch Capital Markets
Apex Securities

Effective Interest Rate: 7.7%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 73,500	$ .83
Trustee	19,000	.21
Miscellaneous	115,483	1.30
Bond Rating	30,000	.34
Printing	18,181	.20
	$256,164	$2.88
Underwriter's Spread	$792,100	$8.90

Texas Housing Agency

Issue: GNMA-Collateralized Home Mortgage Revenue Refunding Bonds, Series 1989A - $72,000,000

Purpose: Proceeds from the sale of the bonds were used to refund a combination of some or all of the Agency's Residential Mortgage Revenue Bonds, Series 1987B and 1987C.

Dates: Board Approval - March 21, 1989
Private Placement - March 29, 1989

Structure: The bonds are structured to be repaid on a monthly basis from May 1989 through July 2019, with principal retirement beginning in August 1990. The bonds will be subject to mandatory redemption at par after July 1, 1990.

The bonds are secured by principal and interest payments on mortgage loans, certificates of the Government National Mortgage Association (GNMA), and other income of the Agency.

Bond Ratings: Not Rated - Privately Placed

Consultants: Bond Counsel - Vinson & Elkins
Placement Agents - Goldman Sachs & Company
Merrill Lynch Capital Markets
Apex Securities

Effective Interest Rate: 8.49%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
FNMA Fee	$345,000	$ 4.79
FNMA Counsel/ Expense	45,000	.63
Placement Fee	288,000	4.00
Agency Financing Exp.	5,000	.07
Bond Counsel	65,000	.90
Trustee Fees	20,000	.28
Verification Report	21,030	.29
	$789,030	$10.96

Texas Public Finance Authority

Issue: General Obligation Bonds, Series 1988C - $46,935,000

Purpose: Proceeds from the sale of the bonds are to be used to fund various construction projects of the Texas Department of Corrections and the Texas Department of Mental Health and Mental Retardation.

Dates: Board Approval - October 18, 1988
Competitive Sale - November 2, 1988

Structure: The bonds are tax-exempt, fixed-rate, serial general obligation bonds maturing 1989 through 2008 with a 10-year call provision. The bonds are a general obligation of the state of Texas.

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

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

Effective Interest Rate: 7.09%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$28,936	$ .62
Financial Advisor	11,597	.25
Bond Rating	15,000	.32
Printing	10,412	.22
Miscellaneous	750	.02
	$66,695	$1.42
Underwriter's Spread	$469,350	$10.00

Texas Public Finance Authority

Issue: General Obligation Bonds, Series 1989A - $142,145,000

Purpose: Proceeds from the sale of the bonds are to be used by the Texas Department of Corrections to pay for acquiring, constructing, or equipping two Michael prototype maximum security units and one psychiatric facility; and by the Texas Youth Commission for asbestos and P.C.B. abatement in its facilities.

Dates: Board Approval - April 21, 1989
Competitive Sale - May 1, 1989

Structure: The bonds are tax-exempt, fixed-rate, serial general obligation bonds maturing 1990 through 2009 with a 10-year call provision. The bonds are general obligations of the state of Texas.

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

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

Effective Interest Rate: 6.87%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$28,488	$.20
Financial Advisor	6,346	.04
Bond Rating	32,000	.23
O.S. Printing	7,749	.05
Miscellaneous	750	.01
	$75,333	$.53
Underwriter's Spread	$1,249,455	$8.79

Texas State Technical Institute

Issue: Housing System and Auxiliary Services Revenue Bonds, Series 1989 - $1,800,000

Purpose: Proceeds from the sale of the bonds are to be used to construct and equip a student activities center and gymnasium at the Harlingen Campus of the Institute.

Dates: Board Approval - May 19, 1989
Negotiated Sale - June 1, 1989

Structure: The bonds are tax-exempt, fixed-rate, and are a combination of both serial bonds and a term bond. The serial bonds will mature between 1990 and 1999. The term bond, which matures in 2009, is subject to mandatory annual redemption between 2000 and 2009. The bonds are special obligations of the Board of Regents of TSTI and are secured by a first lien on pledged revenues of the Board.

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

Consultants Bond Counsel - McCall, Parkhurst & Horton
Underwriter - First Southwest Company

Effective Interest Rate: 7.29%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 6,500	$ 3.61
Bond Rating	4,500	2.50
Bond Insurance	15,500	8.61
O.S./Bond Printing	3,250	1.81
Paying Agent/Registrar	300	.17
Securities Counsel	2,000	1.11
	$32,050	$17.81
Underwriter's Spread	$19,450	$10.81

Texas State University System

Issue: Angelo State University Student Housing System Revenue Refunding Bonds, Series 1988 - $4,435,000

Purpose: Proceeds from the sale of the refunding bonds were used to partially advance refund two outstanding bond issues.

Dates: Board Approval - November 22, 1988
Negotiated Sale - December 7, 1988

Structure: The bonds are fixed-rate, tax-exempt, and will mature serially, 1989 through 2002. The bonds are callable at par beginning in 1999.

The bonds are special obligations of the Board of Regents of the Texas State University System and are payable solely from a pledge of Angelo State University Housing System Revenue and Student Center Building Use Fee revenue.

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

Consultants: Bond Counsel - McCall Parkhurst & Horton
Financial Advisor - Rauscher Pierce Refsnes, Inc.

Effective Interest Rate: 7.32%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 3,992	$ .90
Financial Advisor	4,435	1.00
Bond Insurance	22,834	5.15
Bond Rating	4,500	1.01
Printing	6,215	1.40
Paying Agent/Registrar	2,000	.45
Escrow Agent	8,200	1.85
Verification/Other	1,350	.30
	$53,526	$12.06
Underwriter's Spread	$53,220	$12.00

Texas State University System

Issue: Sam Houston State University Combined Fee Revenue Refunding Bonds, Series 1988 - $5,865,000

Purpose: Proceeds from the sale of the refunding bonds were used to partially advance refund currently outstanding bond issues.

Dates: Board Approval - November 22, 1988
Negotiated Sale - December 7, 1988

Structure: The bonds are fixed-rate, tax-exempt, and will mature serially, 1989 through 2005. The bonds are callable at par beginning in 1999.

The bonds are special obligations of the Board of Regents of the Texas State University System and are payable solely from a pledge of general fees, tuition fees, and earnings on the interest and sinking fund created for this issue.

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

Consultants: Bond Counsel - McCall Parkhurst & Horton
Financial Advisor - Rauscher Pierce Refsnes, Inc.

Effective Interest Rate: 7.56%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 5,279	$ .90
Financial Advisor	5,865	1.00
Bond Insurance	38,112	6.50
Bond Rating	4,500	.77
Printing	7,575	1.29
Paying Agent/Registrar	2,100	.36
Escrow Agent	3,600	.61
Verification/Other	1,350	.23
	$68,381	$11.66
Underwriter's Spread	$70,380	$12.00

Texas State University System

Issue: Southwest Texas State University Housing System Revenue Refunding Bonds, Series 1988 - $19,680,000

Purpose: Proceeds from the sale of the refunding bonds were used to partially advance refund a currently outstanding bond issue.

Dates: Board Approval - November 22, 1988
Negotiated Sale - January 4, 1989

Structure: The bonds are fixed-rate, tax-exempt bonds, and will mature serially 1989 through 2005. The bonds are callable at par beginning in 1999.

The bonds are special obligations of the Board of Regents of the Texas State University System and are payable solely from a pledge of the net revenues of the Southwest Texas State University Housing System.

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

Consultants: Bond Counsel - McCall Parkhurst & Horton
Financial Advisor - Rauscher Pierce Refsnes, Inc.

Effective Interest Rate: 7.4%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 17,712	$ .90
Financial Advisor	19,680	1.00
Bond Insurance	156,104	7.93
Bond Rating	4,500	.23
Printing	14,710	.75
Paying Agent/Registrar	5,100	.26
Escrow Agent	3,600	.18
Verification/Other	2,795	.14
	$224,201	$11.39
Underwriter's Spread	$236,160	$12.00

Texas State University System

Issue: Sam Houston State University Student Housing System Revenue Bonds, Series 1989A - $3,500,000

Purpose: Proceeds from the sale of the bonds were used to renovate dormitories on the Sam Houston State University Campus.

Dates: Board Approval - January 27, 1989
Competitive Sale - February 16, 1989

Structure: The bonds are fixed-rate, long-term bonds maturing 1990 through 2009. The bonds are callable at par beginning in 1998.

The bonds are special obligations of the Texas State University System, payable solely from net revenue of the Sam Houston State University Housing System and interest income derived from investments of funds under the bond resolution.

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

Consultants: Bond Counsel - McCall Parkhurst & Horton
Financial Advisor - Rauscher Pierce Refsnes, Inc.

Effective Interest Rate: 7.4%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 3,500	$ 1.00
Financial Advisor	1,500	.43
Paying Agent	2,000	.57
O.S. Printing	3,000	.86
Bond Printing	2,000	.57
Attorney General	500	.14
Credit Enhancement	37,893	10.83
Rating Agencies	4,500	1.29
Miscellaneous	1,605	.46
	$56,499	$16.15
Underwriter's Spread	$56,548	$16.16

Texas State University System

Issue: Sam Houston State University Student Housing System Revenue Bonds, Series 1989B - $2,794,000

Purpose: Proceeds from the sale of the bonds were used to renovate dormitories on the Sam Houston State University Campus.

Dates: Board Approval - January 27, 1989
Privately Placed with U.S. Department of Education, College Facilities Loan Program - May 1, 1989

Structure: The bonds were sold to the U.S. Department of Education, College Facilities Loan Program. The bonds bear an interest rate of 5.5 percent and will mature serially over 30 years.

The bonds are a special obligation of the Board of Regents of the Texas State University System payable solely from the net revenue of the Sam Houston State University Housing System and interest income on required reserve accounts.

Bond Ratings: Not Rated - Private Placement

Consultants: Bond Counsel - McCall Parkhurst & Horton
Financial Advisor - Rauscher Pierce Refsnes, Inc.

Effective Interest Rate: 5.5%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$3,000	$1.07
Financial Advisor	1,324	.47
Miscellaneous	1,878	.67
	$6,202	$2.21

Texas Tech University Health Sciences Center

Issue: Constitutional Appropriation Bonds, Series 1989 - $4,240,000

Purpose: Proceeds from the sale of the bonds will be used to finance the purchase of the Amarillo Ambulatory Care Clinic.

Dates: Board Approval - March 21, 1989
Competitive Sale - May 1, 1989

Structure: The bonds are fixed-rate, tax-exempt serial bonds with no call provision, maturing through 1994. The bonds bear interest at the rate of 7.25% per annum.

The bonds will be payable solely from a first lien on the pledge of one-half of the annual $4.3 million appropriation to the Health Science Center, pursuant to Article VII, Section 17 of the Texas Constitution.

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

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Financial Advisor - Rotan Mosle, Incorporated

Effective Interest Rate: 7.10%

Issuance Costs:

	Fees	Per $1,000 Bonds Issued
Financial Advisor	$12,975	$3.06
Bond Counsel	8,000	1.89
Bond Rating	9,200	2.17
O.S. Printing	5,491	1.30
Bond Printing	777	.18
	$36,444	$8.60
Underwriter's Spread	$35,916	$8.47

Texas Turnpike Authority

Issue: Dallas North Tollway Revenue Refunding Bonds, Series 1989 - $237,695,000

Purpose: Proceeds from the sale of the bonds were used to advance refund all of the Authority's Series 1985 Dallas North Tollway Revenue Bonds.

Dates: Board Approval - June 22, 1989
Negotiated Sale - August 8, 1989

Structure: The bonds are fixed-rate, tax-exempt serial and term bonds. The first principal payment will be made on January 1, 1995, and the last principal payment will be made on January 1, 2020.

The bonds are limited obligations of the Texas Turnpike Authority, payable from the tolls and revenues of the tollway.

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

Consultants: Bond Counsel - McCall,Parkhurst & Horton
Financial Advisor - First Southwest Company
Issuer's Counsel - Locke Purnell Rain Harrell
Underwriter's Counsel - Fulbright & Jaworski
Senior Underwriters - Dillon, Read & Company
Merrill Lynch Capital Markets

Effective Interest Rate: 6.82%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$188,898	$.79
Financial Advisor	118,849	.50
Issuer's Counsel	65,000	.27
Trustee	68,896	.29
Bond Rating	56,500	.24
O.S. & Bond Printing	56,378	.24
Computer Expense	56,000	.24
Rating & Ins. Co. Mtg.	7,059	.03
Closing Expenses	14,061	.06
Consulting Engineer	14,115	.06
	$645,756	$2.72
Underwriter's Spread	$2,305,642	$9.70

Texas Veterans' Land Board

Issue: Veterans' Land Bonds, Series 1989 - $45,000,000

Purpose: Proceeds from the sale of the bonds are to be used primarily for acquiring land to be resold to Texas veterans who served in World War II and thereafter.

Dates: Board Approval - March 21, 1989
Competitive Sale - May 16, 1989

Structure: The bond issue is a combination of serial bonds maturing from 1991 to 2004 and term bonds maturing in 2008, 2013, and 2018. The bonds are subject to call at par in 2001, and the term bonds have mandatory annual redemption provisions.

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

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

Consultants: Bond Counsel - Johnson & Swanson
Financial Advisor - Donaldson, Lufkin & Jenrette

Effective Interest Rate: 7.66%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 40,390	$ .90
Financial Advisor	20,703	.46
Bond Rating	20,000	.44
O.S. Printing	12,203	.27
Miscellaneous	11,483	.26
	$104,779	$2.33
Underwriter's Spread	$326,168	$7.25

Texas Water Development Board

Issue: Texas Water Development Bonds, Taxable Series 1989A and 1989B - $22,500,000

Purpose: Proceeds from the sale of the bonds were used by the Water Development Board to purchase the refunding bonds of local political subdivisions and nonprofit water supply corporations. The refunding bonds were used by the local entities to refinance loans previously used for the construction of water storage, transportation, and treatment facilities.

Dates: Board Approval - March 21
Competitive Sale - April 6, 1989

Structure: The bond issue is a combination of serial bonds maturing from 1992 through 1999 and term bonds maturing in 2011. The bonds are subject to call at par in 1999, and the term bonds are subject to mandatory annual redemption provisions.

The bonds are general obligations of the State of Texas. Principal and interest on bonds purchased from local entities are also pledged to pay debt service on the Water Development Board bonds.

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

Consultants: Bond Counsel - McCall, Parkhurst & Horton
Financial Advisors - First Southwest Underwood Neuhaus

Effective Interest Rate: 10.00%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$18,268	$ .81
Financial Advisor	11,535	.51
Bond Rating	14,000	.62
Printing	17,597	.78
Miscellaneous	3,690	.16
	$65,090	$2.88
Underwriter's Spread	$236,250	$10.50

Texas Water Resources Finance Authority

Issue: Texas Water Resources Finance Authority Revenue Bonds, Series 1989 - $511,755,000

Purpose: Proceeds from the sale of the bonds were used to purchase the portfolio of political subdivision bonds held by the Texas Water Development Board.

The Board applied the proceeds from the sale to discharge its outstanding Texas Water Development Bonds issued prior to 1988.

Dates: Board Approval - August 16, 1988
Negotiated Sale - February 16, 1989

Structure: The bonds are fixed-rate, tax-exempt securities. The issue is a combination of serial bonds maturing in 1989 through 2004 and term bonds maturing in 2008 and 2013. They are subject to call at par in 1999.

The bonds are payable from the principal and interest payments on political subdivision bonds held by the Authority, investment income, prepayments of subdivision bonds, and the proceeds from the sale of any such bonds. The bonds are obligations solely of the Authority.

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

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

Effective Interest Rate: 7.57%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$ 387,128	$ .76
Financial Advisor	277,642	.54
Bond Rating	195,000	.38
Bond Insurance	2,990,367	5.84
Printing	73,736	.14
Paying Agent/Registrar/ Trustee/Escrow Agent	106,655	.21
Miscellaneous	40,000	.08
	$4,070,528	$7.95
Underwriter's Spread	$4,830,967	$9.44

University of Texas System

Issue: General Revenue Subordinate Lien Notes - $5,000,000

Purpose: Proceeds from the sale of the notes were used to provide interim financing for three projects under the System's general revenue subordinate lien note program.

Dates: Board Approval - February 16, 1988
Private Placement - October 11, 1988

Structure: Variable rate, 20-year maturity. UT anticipates redeeming the notes by issuing fixed-rate bonds with a maximum maturity of 18 years in 1990.

Bond Ratings: Not Rated -- Privately Placed

Consultants: Bond Counsel - Vinson & Elkins
Purchaser's Counsel - Piper & Marbury

Effective Interest Rate: Variable

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$5,000	$1.00
Purchaser's Counsel	1,250	.25
	$6,250	$1.25

University of Texas System

Issue: General Revenue Subordinate Lien Notes - $4,500,000

Purpose: Proceeds from the sale of the notes were used to provide interim financing for one project under the System's general revenue subordinate lien note program.

Dates: Board Approval - February 16, 1988
Private Placement - January 31, 1989

Structure: Variable rate, 20-year maturity. UT anticipates redeeming the notes by issuing fixed-rate bonds in 1990 with a maximum maturity of 18 years.

Bond Ratings: Not Rated -- Privately Placed

Consultants: Bond Counsel - Vinson & Elkins
Purchaser's Counsel - Piper & Marbury

Effective Interest Rate: Variable

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$5,000	$1.11
Purchaser's Counsel	975	.22
	$5,975	$1.33

University of Texas System

Issue: General Revenue Subordinate Lien Notes - $4,260,000

Purpose: Proceeds from the sale of the notes were used to provide interim financing for two projects under the System's general revenue subordinate lien note program.

Dates: Board Approval - August 17, 1989
Private Placement - August 24, 1989

Structure: Variable rate, 20-year maturity. UT anticipates redeeming the notes by issuing fixed-rate bonds in 1990 with a maximum maturity of 18 years.

Bond Ratings: Not Rated -- Privately Placed

Consultants: Bond Counsel - Vinson & Elkins
Purchaser's Counsel - Piper & Marbury
Tax Counsel - Vinson & Elkins

Effective Interest Rate: Variable Rate

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Bond Counsel	$5,487	$1.28
Tax Counsel	2,000	.47
Purchaser's Counsel	743	.17
	$8,230	$1.92

West Texas State University

Issue: Combined Fee Revenue Bonds, Series 1988 - $1,500,000

Purpose: Proceeds of the bonds, together with $1.9 million in available funds, will be used to finance the renovation of the administration building, the classroom center, and to construct a bookstore.

Dates: Board Approval - July 19, 1988
Closing - September 15, 1988

Structure: The bonds are fixed-rate, tax-exempt serial bonds, maturing in 1989 through 2003. The bonds are subject to call at par in 1999. The bonds are special obligations of the Board of Regents of West Texas State University, backed solely by a pledge of certain University fees, investment earnings, and grants.

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

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

Effective Interest Rate: 7.56%

Issuance Costs:

	Fees	Per $1,000 of Bonds Issued
Financial Advisor	$12,782	$ 8.52
Legal Fees	6,463	4.31
Bond Rating	3,100	2.07
Printing	3,837	2.56
Paying Agent Fee	500	.33
	$26,682	$17.79
Underwriter's Spread	$21,366	$14.24

Texas State Bond Programs

COLLEGE STUDENT LOAN BONDS

Statutory/Constitutional Authority:
Article III, Sections 50b and 50b-1 of the Texas Constitution, adopted in 1965 and 1969, authorize the issuance of general obligation bonds by the Texas Higher Education Coordinating Board.

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.

Contact:
Mack Adams, Assistant Commissioner for Student Services
Texas Higher Education Coordinating Board
(512) 462-6325

COLLEGE AND UNIVERSITY REVENUE BONDS

Statutory/Constitutional 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.

Contact:
Individual colleges and universities.

FARM AND RANCH LOAN BONDS

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

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

Security:
The bonds are general obligations of the State of

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

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

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

FARM AND RANCH LOAN SECURITY BONDS

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

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

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

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

Contact:
Barbara Moore
Texas Department of Agriculture
(512) 463-7715

HIGHER EDUCATION CONSTITUTIONAL BONDS

Statutory/Constitutional 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.

Contact:
Individual Colleges and Universities

NATIONAL GUARD ARMORY BOARD BONDS

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

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

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

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

Contact:
William E. Beaty, Agency Administrator
Texas National Guard Armory Board
(512) 465-5129

PARK DEVELOPMENT BONDS

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

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

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

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

Contact:
James E. Dickinson, Director of Finance
Texas Parks & Wildlife Department
(512) 389-4816

PERMANENT UNIVERSITY FUND BONDS

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

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

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

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

Contact:
Administrator
Permanent University Fund Bonds
210 West Sixth Street
Austin, Texas 78701

SUPERCONDUCTING SUPER COLLIDER BONDS

Statutory/Constitutional Authority:
The Texas National Research Laboratory Commission was created in 1987 by the 70th Legislature and given the authority to issue both revenue and general obligation bonds.

Article 4413, Section 47g, Vernon's Texas Civil Statutes authorizes the Commission to issue revenue bonds. Article III, Section 49g of the Texas Constitution authorizes the Commission to issue general obligation bonds.

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

Purpose:

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

Security:

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

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

Dedicated/Project Revenue:

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

Contact:

Dr. Ed Bingler, Executive Director
Texas National Research Laboratory Commission
(214) 709-6481

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

Statutory/Constitutional Authority:

The Texas Agricultural Finance Authority was created in 1987 (V.T.C.A., Agriculture Code Chapter 58) and authorized to issuerevenue 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.

Contact:

Barbara Moore
Texas Department of Agriculture
(512) 463-7715

TEXAS DEPARTMENT OF COMMERCE BONDS

Statutory/Constitutional 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 payment 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.

Contact:
Dan McNeil
Texas Department of Commerce
(512) 472-5059

TEXAS HOSPITAL EQUIPMENT FINANCING COUNCIL BONDS

Statutory/Constitutional 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 authority of the Council to issue bonds was repealed by the 71st Legislature (S.B. 1387), effective September 1, 1989.

Purpose:
Proceeds from the sale of bonds 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 the repayment of loans from the program.

Contact:

Charles Bailey	or	John Adkins
(512) 465-1000		(713) 951-5858

TEXAS HOUSING AGENCY BONDS

Statutory/Constitutional Authority:
The Texas Housing Agency was created in 1979 (Art. 1269l, V.A.C.S.) and authorized to issue revenue bonds. 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:
Revenue to the Agency from the repayment of loans and investment of bond proceeds is pledged to the payment of principal and interest on bonds issued.

Contact:
Tom C. Adams, Executive Administrator
Texas Housing Agency
(512) 474-2974

TEXAS PUBLIC FINANCE AUTHORITY BONDS

Statutory/Constitutional Authority:
The Texas Public Finance Authority is authorized to issue both revenue and general obligation bonds.
The Authority was created by the legislature in 1983 (Article 601d, Vernon's Annotated Civil Statutes) and given the authority to issue revenue bonds. The legislature approves each specific project and limits the amount of bonds issued by the Authority.
Article III, Section 49h of the Texas Constitution, adopted in 1987, authorized the Texas Public Finance Authority to issue general obligation bonds for correctional and mental health facilities.
The Authority is required to obtain the approval of the Bond Review Board and the Attorney General's

Office prior to bond issuance and register its bonds with the Comptroller of Public Accounts.

Purpose:
Proceeds from the sale of revenue bonds are to be used to purchase, renovate, and maintain state buildings. Proceeds from the sale of the general obligation bonds are to be used to finance the cost of constructing, acquiring, and/or renovating prison facilities, youth correction facilities, and mental health/mental retardation facilities.

Security:
Revenue bonds issued are obligations of the Authority and are payable from "rents, issues, and profits" resulting from leasing projects to the state. These sources of revenue come primarily from legislative appropriations. The general obligation bonds pledge the first monies coming into the state treasury each fiscal year, not otherwise appropriated by the constitution, to pay debt service on the bonds.

Dedicated/Project Revenue:
Debt service on the general obligation bonds is payable solely from the state's general revenue fund. Debt service on the revenue bonds is also payable from general revenue appropriated by the legislature. The legislature, however, has the option to appropriate debt service payments on the bonds from any other source of funds that is lawfully available.

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

TEXAS PUBLIC SCHOOL FACILITIES FINANCE PROGRAM BONDS

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

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

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

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

Contact:

Louise Epstein, Director	Tom Pollard
Public Finance Programs	Executive Director
Texas State Treasury	Bond Review Board
(512) 463-6000	(512) 463-1741

TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

Statutory/Constitutional 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, created pursuant to the Development Corporation Act of 1979, and authorized to issue revenue bonds. The authority of TSBIDC to issue bonds was repealed by the legislature, effective September 1, 1987.

Purpose:
Proceeds from the sale of the TSBIDC bonds 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.

Contact:
Dan McNeil
Texas Department of Commerce
(512) 472-5059

TEXAS TURNPIKE AUTHORITY BONDS

Statutory/Constitutional 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 bond issuance, and to register its bonds with the Comptroller of Public Accounts.

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

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

Dedicated/Project Revenue:
Bonds are to be repaid from tolls and other project revenues.

Contact:
Robert Neely, Executive Director, or
Harry Kabler, Secretary/Treasurer
Texas Turnpike Authority
(214) 522-6200

TEXAS UNEMPLOYMENT COMPENSATION FUND BONDS

Statutory/Constitutional 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 payment of Commission bonds.

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

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

TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS

Statutory/Constitutional 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 Au-

thority's bonds are in no way an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of Authority bonds.

Dedicated/Project Revenue:

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

Contact:

Sue Brookmole, Manager of Development Fund
Texas Water Development Board
(512) 463-7867

VETERANS' LAND AND HOUSING BONDS

Statutory/Constitutional Authority:

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

Purpose:

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

Security:

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

Dedicated/Project Revenue:

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

Contact:

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

TEXAS WATER DEVELOPMENT BONDS

Statutory/Constitutional Authority:

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

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

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

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

Purpose:

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

Security:

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

Dedicated/Project Revenue:

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

Contact:

Sue Brookmole, Manager of Development Fund
Texas Water Development Board
(512) 463-7867

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

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

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

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

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

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

(d) An application for all state 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.

(e) 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.

(f) 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 Thursday following the third Tuesday of each month.

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

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

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

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

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

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

(e) The bond finance office shall prepare and distribute to the members of the bond review board a summarization of each final report within 30 days after the final report has been submitted by the issuer.

This summarization shall include a comparison of the estimated costs of issuance for the items listed in Sections 181.3(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 June 5, 1989.

Tom K. Pollard
Executive Director
Texas Bond Review Board

Effective June 26, 1989