TEXAS BOND REVIEW BOARD

1994 ANNUAL REPORT

AGENCY MISSION

Ensure that debt financing is used prudently to meet Texas' infrastructure needs and other public purposes.

Support and enhance the debt issuance and debt management functions of state and local entities.

TEXAS BOND REVIEW BOARD
ANNUAL REPORT 1994

Fiscal Year Ended August 31, 1994

Ann W. Richards, Governor
Chairwoman

Bob Bullock, Lieutenant Governor

James E. "Pete" Laney, Speaker of the House of Representatives

John Sharp, Comptroller of Public Accounts

Martha Whitehead, State Treasurer

Albert L. Bacarisse
Executive Director

November 1994

INTRODUCTION

The 1994 Annual Report of the Texas Bond Review Board presents an overview and analysis of Texas state debt.[1] Texas state bonds, unless specifically exempted, must be approved by the Bond Review Board. State agencies and universities also must obtain the Board's approval prior to executing lease- or installment-purchase agreements for acquisitions that are financed over more than five years or have a principal amount greater than $250,000.

The market for Texas Bonds remained strong during fiscal 1994. The state's economy continues to grow and the state's finances are sound. Chapter One provides an overview of the state's economic and financial condition and describes the state's bond ratings and performance in the bond market.

The amount of Texas state debt supported by general revenues has increased significantly since the late 1980s; however, Texas still has a low debt burden compared to other states. Chapter Two analyzes Texas' debt burden and describes several recent initiatives to improve debt management in Texas. A section of this chapter also reviews the state's challenge in funding facilities for Texas' public schools.

During fiscal 1994, Texas state agencies and institutions of higher education issued approximately $988 million in new-money bonds, $509 million in refunding bonds, and $593 million in new-money commercial paper or variable rate notes. Chapter Three provides a summary of state debt issuance in fiscal 1994 and the bonds expected to be issued during fiscal 1995.

Texas state bond issuers paid average issuance costs of $12.37 per $1,000 of bonds issued during fiscal 1994. Chapter Four provides a breakdown of the costs, along with recent trends in issuance costs by size of issue and type of sale.

Texas had a total of $9.97 billion in state bonds outstanding (including commercial paper and variable rate notes) on August 31, 1994, up from $9 billion on August 31, 1993. Chapter Five reports total Texas bonds outstanding by type along with the annual debt-service requirements associated with this debt, as well as authorized, but unissued debt.

Appendix A includes a summary of each bond issue approved by the Board and sold during fiscal 1994. Appendix B describes state commercial paper and variable rate note or bond programs. Appendix C outlines the Texas Private Activity Bond Allocation Program administered by the Texas Bond Review Board. Appendix D provides a description of each program under which state bonds may be issued. Appendix E contains the current administrative rules of the Board.

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[1]This report does not address short-term debt issued for cash-management purposes.

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Cautionary Statements

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

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

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

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

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

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

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

CHAPTER 1

TEXAS IN THE BOND MARKET

The market for Texas bonds continued to strengthen during fiscal 1994. The state's economy is expanding at a steady pace, state finances remain strong and the bond rating agencies and investors continue to express confidence in the state's creditworthiness.

Texas Economy Outpacing U.S.

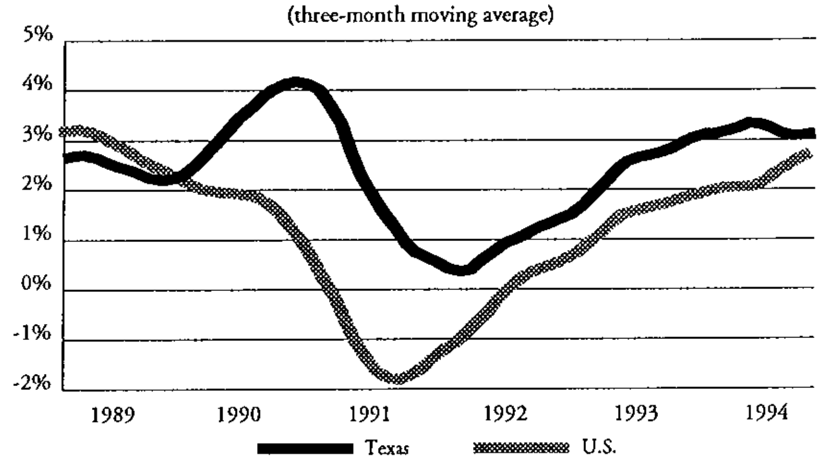
Texas' economic growth is outpacing that of the U.S., continuing a pattern that began in late 1989. Statewide nonfarm employment is at record levels. The state is adding jobs at a faster rate than the U.S. average with Texas gaining the largest number of jobs among all states during the period August 1993 to August 1994. As noted by Standard & Poor's Corporation, in its August 22, 1994, *Creditweek*, "Texas' rate of economic growth has exceeded the national average for the last four years and the trend is expected to continue as the impacts of the North American Free Trade Agreement are felt."

According to the Texas Comptroller of Public Accounts, Texas nonfarm employment stood at 7,760,330 as of August 1994, up 3.3 percent over the previous year compared to just 2.8 percent nonfarm employment growth nationally *(Figure 1)*.

Among the ten most populous states, Texas ranks first in terms of the number of jobs added, 242,700, over the period August 1993 to August 1994, according to a report prepared by the Economic Outlook Center at Arizona State University *(Table 1)*. In percentage

FIGURE 1

EMPLOYMENT GROWTH FOR TEXAS AND THE U.S.
JANUARY 1989 THROUGH SEPTEMBER 1994
(three-month moving average)



Sources: Texas Comptroller of Public Accounts, U.S. Bureau of Labor Statistics, and Texas Employment Commission.

TABLE 1

NONAGRICULTURAL JOB GROWTH
IN THE TEN MOST POPULOUS STATES
AUGUST 1993 THROUGH AUGUST 1994

RANK[1]	STATE	JOB GROWTH	PERCENTAGE CHANGE	RANK[2]
1	TEXAS	242,700	3.24%	13
2	Florida	187,800	3.42	10
3	Michigan	134,700	3.40	11
4	New York	89,200	1.15	41
5	Illinois	85,500	1.60	36
6	New Jersey	69,700	1.98	31
7	North Carolina	67,800	2.09	29
8	Pennsylvania	66,600	1.31	40
9	Ohio	49,300	1.00	43
10	California	-28,100	-0.24	49
	United States	3,064,000	2.77%	

[1]Ranked by the number of new nonagricultural jobs added among the ten most populous states.
[2]Rank in percentage job growth among the 50 states.

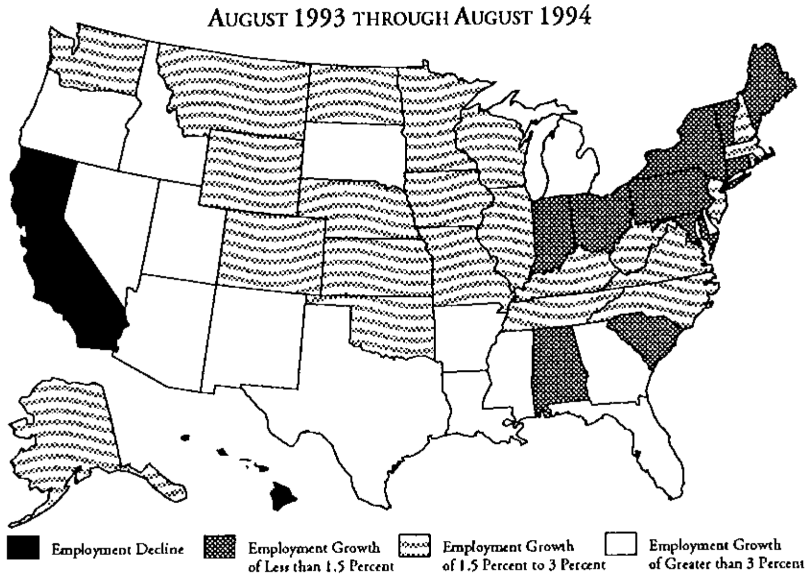
Source: Blue Chip Job Growth Update, Economic Outlook Center, Arizona State University.

terms, Texas, with 3.24 percent nonagricultural job growth, ranks third among the ten most populous states, slightly behind Florida and Michigan. Nationwide, Texas ranks thirteenth in terms of percentage nonagricultural job growth *(Figure 2)*.

The unemployment rate in Texas stood at 6.53 percent as of September 1994, down from 7.00 percent in September 1993. The unemployment rate in Texas, along with the unemployment rate nationwide, has declined steadily since late 1992, with Texas currently having a slightly higher rate than the 6.03 percent unemployment rate for the U.S. *(Figure 3)*.

FIGURE 2

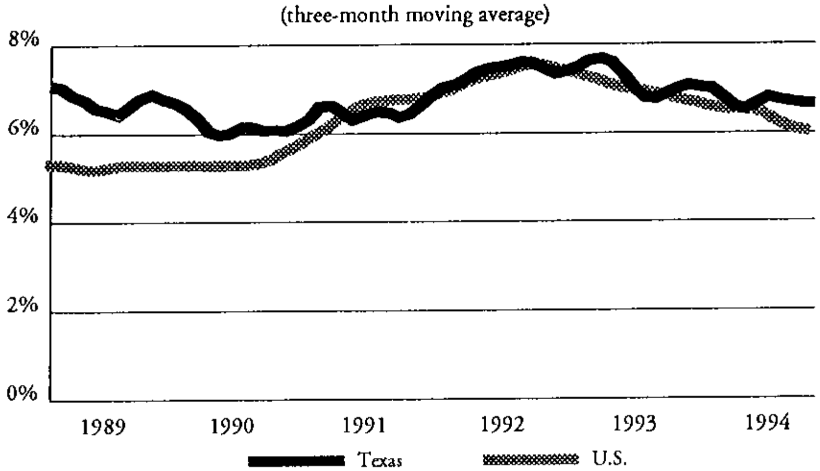
NONAGRICULTURAL EMPLOYMENT GROWTH BY STATE
AUGUST 1993 THROUGH AUGUST 1994



Source: Blue Chip Job Growth, Economic Outlook Center, Arizona State University.

FIGURE 3

UNEMPLOYMENT RATE FOR TEXAS AND THE U.S.
JANUARY 1989 THROUGH SEPTEMBER 1994
(three-month moving average)



Sources: Texas Comptroller of Public Accounts, U.S. Bureau of Labor Statistics, and Texas Employment Commission.

A steadily expanding economy has increased in-migration to Texas. From July 1993 to June 1994, 164,000 more people moved into Texas than moved out. This compares with a peak net out-migration of 133,000 in 1988. The resident population in Texas is expected to increase at a rate of 1.9 percent annually, exceeding 19 million residents during 1996.

The Comptroller's fall 1994 economic forecast predicts moderate growth to continue in Texas. Economic growth in Texas, as measured by gross state product, will continue to outpace growth in the U.S. gross domestic product by an average of 0.4 percent per year during the next few years *(Table 2, p. 3)*. Personal income in Texas is expected to increase at an average annual rate of 6.4 percent with nonfarm employment growing at an average annual rate of 1.9 percent over the next few years.

Texas State Finances Continue to be Strong

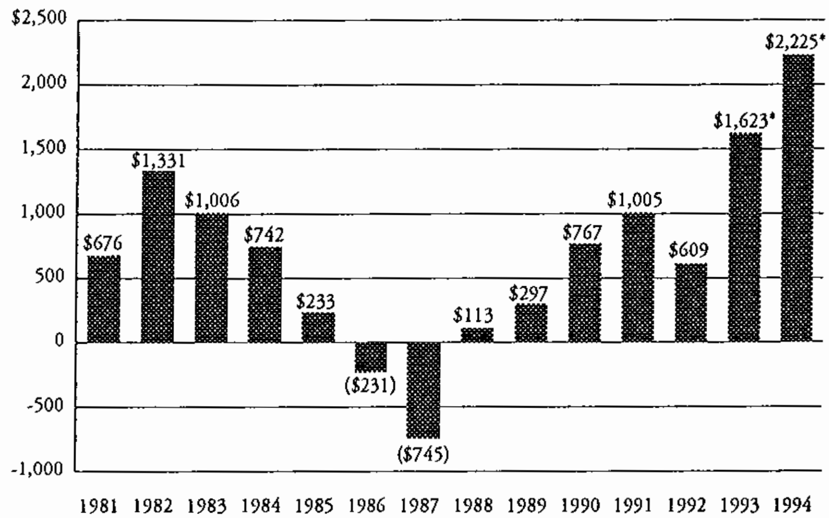
The cash balance in the General Revenue Fund improved during fiscal 1994, with the state ending the year with a cash balance of $2.225 billion, an increase of $602 million over the prior year *(Figure 4, p. 3)*. The state's improved cash flow position has been bolstered by the relatively strong performances of the state sales and motor vehicle taxes and the state lottery.

During fiscal 1994, total tax collections deposited into the General Revenue Fund were up $1.1 billion, or 6.8 percent from the previous year *(Table 3, p. 4)*. One of the state's most favorable indicators was the sales tax growth of 7.6 percent during fiscal 1994. Sales tax collections totaled $9.8 billion during fiscal 1994, representing 55 percent of total tax collections. Motor vehicle, utilities, and insurance taxes all showed double-digit growth, although the majority of the increase in the insurance occupation tax was attributable to several accounting and revenue collection improvements. Finally, the lottery continued its record-setting pace with gross lottery proceeds totaling over $1.5 billion in fiscal 1994.

Two non-tax revenue sources with large increases need further explanation. The "Federal Funding" item contains funds for the state's Medicaid program, including disproportionate share revenues (DISPRO), which provide some

FIGURE 4

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



*Of the ending cash balance, approximately $1.2 billion in 1993 and $1.6 billion in 1994 were attributable to the consolidation of funds into the General Revenue Fund.

TABLE 2

TEXAS ECONOMIC HISTORY AND OUTLOOK
FOR CALENDAR YEARS 1992–1997
FALL 1994 FORECAST

	1992	1993	1994*	1995*	1996*	1997*
TEXAS ECONOMY						
Gross State Product (billions of 1987 $)	$349.6	$361.1	$375.6	$387.1	$398.8	$411.9
Annual Percentage Change	3.0	3.3	4.0	3.1	3.0	3.3
Personal Income (billions of dollars)	$326.0	$346.0	$369.7	$394.0	$419.0	$445.9
Annual Percentage Change	7.7	6.1	6.9	6.6	6.3	6.4
Nonfarm Employment (thousands)	7,268.8	7,478.7	7,710.6	7,883.6	8,019.7	8,168.0
Annual Percentage Change	1.3	2.9	3.1	2.2	1.7	1.8
Resident Population (thousands)	17,727.1	18,074.5	18,426.2	18,767.4	19,048.3	19,288.0
Annual Percentage Change	1.9	2.0	1.9	1.9	1.5	1.3
Unemployment Rate (percent)	7.5	7.0	6.7	6.5	6.4	6.3
Oil Price ($ per barrel)	$18.40	$16.29	$14.84	$15.00	$15.43	$16.02
Natural Gas Price ($ per MCF)	$1.58	$1.82	$1.69	$1.80	$1.89	$1.95
Oil/Gas Drilling Rig Count	250	262	282	288	284	287
U.S. ECONOMY						
Gross Domestic Product (billions of 1987 $)	$4,979.3	$5,134.5	$5,319.2	$5,466.1	$5,620.7	$5,768.0
Annual Percentage Change	2.3	3.1	3.6	2.8	2.8	2.6
Consumer Price Index (1982–84 = 100)	140.4	144.6	148.4	153.2	158.7	164.4
Annual Percentage Change	3.0	3.0	2.7	3.3	3.5	3.6
Prime Interest Rate (percent)	6.3	6.0	7.0	8.1	8.5	8.8

*Projected

Sources: Texas Comptroller of Public Accounts and The WEFA Group.

of the Medicaid money for health care services for low income people. These Medicaid funds, including the DISPRO component, do not affect the cash position of the state as they are immediately transferred to special accounts to be spent only on Medicaid services. Balances in the "Interfund Transfers" item have been affected by the implementation of the state's new Uniform Statewide Accounting System (USAS). Many "outgoing" interfund transfers have been reclassified under USAS from a negative revenue to a positive expenditure. The above factors, along with other accounting changes, make the 65.7 percent growth in total revenues and 74.3 percent growth in total spending during fiscal 1994 somewhat unrepresentative of the state's performance compared to fiscal 1993.

TABLE 3

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

	Fiscal 1993	Fiscal 1994	Percentage Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$ 609,155	$ 1,623,491	
Tax Collections			
Sales Tax	$ 9,101,207	9,788,013	7.55%
Oil Production Tax	492,258	361,969	-26.47
Natural Gas Production Tax	682,926	554,484	-18.81
Motor Fuels Taxes	2,085,524	2,170,231	4.06
Cigarette and Tobacco Taxes	616,836	573,336	-7.05
Motor Vehicle Taxes	1,420,656	1,616,526	13.79
Franchise Tax	1,193,299	1,260,745	5.65
Alcoholic Beverages Taxes	144,989	144,617	-0.26
Insurance Companies Taxes	418,185	766,870	83.38
Inheritance Tax	142,201	152,354	7.14
Hotel and Motel Tax	135,735	145,655	7.31
Utilities Taxes	227,286	263,308	15.85
Other Taxes	37,930	29,894	-21.19
Total Tax Collections	$16,699,031	$17,828,002	6.76%
Federal Funding	$ 4,233,061	$ 5,367,714	26.80
Interest & Investment Income	46,838	51,684	10.35
Licenses, Fees, Permits & Fines	576,834	582,841	1.04
Lottery Proceeds	1,113,574	1,586,028	42.43
Other Revenue Sources	773,217	441,177	-42.94
Interfund Transfers/Allocations	-4,675,920	5,239,158	N/A
Total Revenue and Other Sources	$18,766,634	$31,096,604	65.70%
Expenditures and Ending Balance			
General Government	$ 715,306	$ 692,697	-3.16%
Health and Human Services	2,893,887	1,923,708	-33.53
Public Safety and Correction	1,247,507	1,610,497	29.10
Education	3,582,269	3,828,755	6.88
Employee Benefits	1,099,079	1,142,766	3.97
Lottery Winnings Paid	275,662	428,701	55.52
Other Expenditures	511,085	503,041	-1.57
Interfund Transfers/ Investment Transactions	7,427,503	20,810,627	N/A
Total Expenditures and Other Uses	$17,752,298	$30,940,792	74.29%
Consolidated/Dedicated Accounts			
Revenues	$ 0	$18,161,824	N/A
Expenditures	0	17,716,253	N/A
Funds Consolidation Reclassification		-28	
Net Gain/Loss to Consolidated Accounts		445,544	
Ending Balance, August 31	$ 1,623,491	$ 2,224,847	37.04%

Source: Texas Comptroller of Public Accounts.

Texas' Year-End Financial Position Ranks High Relative to Other States

Texas' General Revenue Fund cash balance as of August 31, 1994, was equal to 7.2 percent of the General Revenue Fund's fiscal 1994 expenditures (including other uses of funds). Based on estimated data collected by the National Conference of State Legislatures (NCSL), the comparable average percentage among all states was 3.3 percent. Texas' year-end balance as a percentage of expenditures was the seventh highest among all states.

The NCSL views a five percent balance in general revenue as a prudent level of reserve. At the end of fiscal 1994, it is estimated that thirty-nine states held less than the recommended five percent in general fund balances, and sixteen held less than one percent *(Figure 5, p. 5)*. Thirty-one states reported an increase in their ending balances as a percentage of expenditures for fiscal 1994 compared to fiscal 1993, while seventeen states reported a decline. The other two states reported no change.

Texas' current financial position is viewed positively by the rating agencies. In research dated August 23, 1994, Fitch Investors Service's outlook on Texas was that "the estimated safety margin (ending available funds as a percent of cash flow) is very comfortable this year and Texas has an excellent record of cash management, revenue estimation tends to be conservative and operations in each of the past three fiscal years have surpassed expectations. The economy continues to perform well and economic assumptions for the fiscal period appear reasonable."

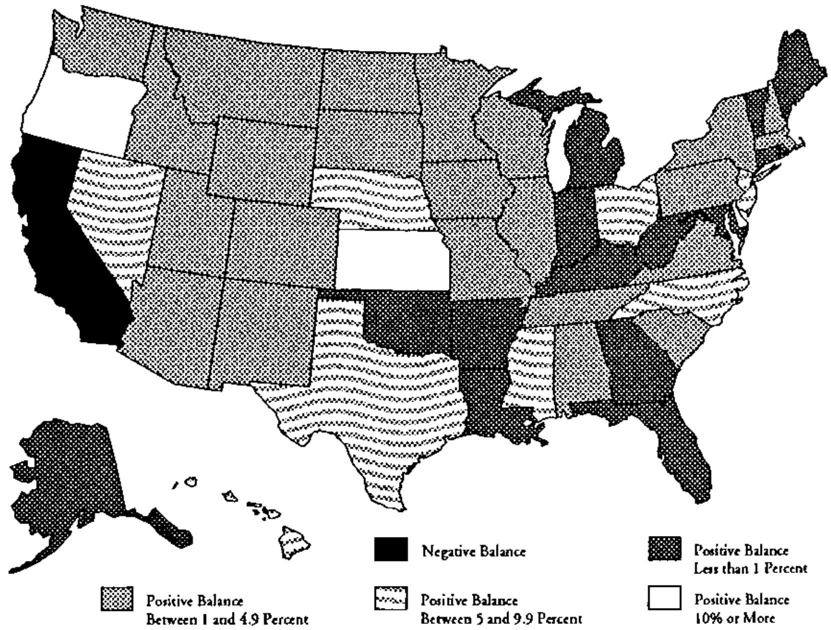
Texas G.O. Bonds Currently Rated Aa/AA/AA+

Each rating agency has a unique classification system; however, bonds of the highest quality are rated AAA. Ratings of AA and A denote very sound investments, but of lower quality. Ratings below A, from BBB downward through C, indicate higher and higher levels of risk. As of the end of fiscal 1994, Texas state general obligation bonds were rated as follows: Aa by Moody's Investors Service, AA by Standard & Poor's Corporation, and AA+ by Fitch *(Table 4, p. 6)*.

Prior to 1987, Moody's and Standard & Poor's gave Texas a Aaa and AAA rating respectively; however, the state's economic recession in 1986–87 and the accompanying weakness in state finances led Standard & Poor's and Moody's to decrease the state's rating to AA and Aa in 1987. However, much improvement has occurred since that time. Moody's, in its publication dated September 27, 1994, states that Texas has "an increasingly diversified economy, sound financial operations and low net debt ratios." Similarly, Standard & Poor's, in its September 19, 1994, *Creditweek*, states that Texas' rating "reflects a diversifying economy showing good growth, satisfactory financial performance, and a low tax-supported debt burden."

FIGURE 5

ENDING BALANCE IN GENERAL FUND BY STATE,* 1994
AS A PERCENTAGE OF TOTAL STATE GENERAL FUND SPENDING

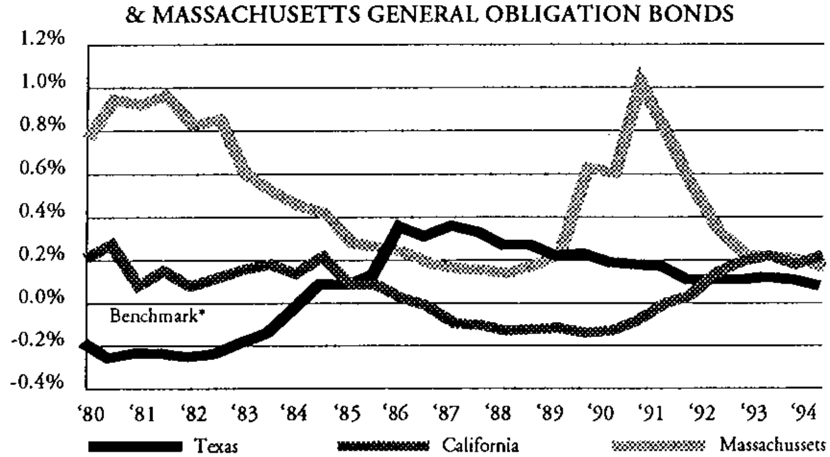


*The figure for Texas was revised to reflect actual year-end amounts rather than the estimates provided to NCSL.

Source: National Conference of State Legislatures.

FIGURE 6

RELATIVE YIELD DIFFERENCES ON TEXAS, CALIFORNIA, & MASSACHUSETTS GENERAL OBLIGATION BONDS



*The Chubb Corporation uses New Jersey general obligation bonds as the benchmark in its relative value study of 20-year general obligation bonds.

Source: The Chubb Corporation.

Only Five States Have AAA Ratings From All Three Rating Agencies

Only five states, Maryland, Missouri, North Carolina, Utah, and Virginia, have AAA ratings from each of the three rating agencies. Three additional states, Georgia, South Carolina and Tennessee, have AAA bond ratings from two of the three rating agencies.

TABLE 4

STATE GENERAL OBLIGATION BOND RATINGS
AUGUST 31, 1994

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

*Not rated.

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

Weakness in state economies and finances has led to rating downgrades for eight states over the last three years. Between September 1991 and September 1994, California, Illinois, Maine, New Hampshire, New Jersey, New York, Rhode Island, and South Carolina saw their bond ratings lowered. Four states, Alaska, Massachusetts, Minnesota and New Mexico, received rating increases *(Table 5, p. 7).*

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

Texas Bonds Trade at Rates 0.15 of a Percentage Point Higher than AAA G.O. Bonds

The final decision regarding the risk and interest rate on bonds is not made, however, at the rating agencies, but on the bond trading floor. Bond ratings are just a broad measure of credit quality. All but eight of the forty-one states rated by Moody's, five of the forty-one states rated by Standard & Poor's, and four of the twenty-nine states rated by Fitch have an AA- rating or better. Nine states have no general obligation debt outstanding. Each bond purchaser assesses the risk involved within these broad categories and demands a commensurate interest rate.

The relative interest rates demanded on Texas bonds have generally declined since 1987 as the state's economy and finances have gained strength. According to a July 1994 survey by the Chubb Corporation, investors are charging Texas an average 0.08 of a percentage point above the interest rate on benchmark general obligation bonds[1] *(Figure 6, p. 5).*

[1] The Chubb Corporation uses New Jersey general obligation bonds as the benchmark in its relative value study of 20-year general obligation bonds.

The relative yields on California and Massachusetts bonds are shown for comparison. This interest rate margin is a measure of the higher risk investors place on Texas' bonds relative to highly rated general obligation bonds.

In the summer of 1987, the interest rate penalty placed on Texas bonds peaked at 0.36 of a percentage point. The margin has been cut by more than three-fourths, due in large part to improvements in the state's economy and the ability of Texas' policy makers to keep state finances sound. As of July 1994, Texas general obligation bonds were trading 0.15 of a percentage point above the average interest rate on general obligation bonds of the five states currently rated AAA by Moody's, Standard & Poor's and Fitch.

Massachusetts' state financial crisis of the late 1980s and early 1990s shows up vividly in the increases in the rates that investors are demanding on that state's bonds. In December 1988, the rate on Massachusetts' bonds was just 0.17 of a percentage point above the benchmark and 0.10 of a percentage point below the rate on Texas bonds. By December 1990, Massachusetts' bonds carried rates averaging 1.02 percentage points above the benchmark and more than 0.85 of a percentage point above Texas' rate. Massachusetts' bond interest rates had not been this much higher than Texas' since late 1981, when oil price increases brought a boom to Texas while the Northeast experienced a deep recession. The interest rates demanded on Massachusetts' bonds have decreased since 1990 as that state's finances have improved. As of July 1994, the interest rate demanded on Massachusetts' bonds was 0.16 of a percentage point above the benchmark.

California, on the other hand, has seen yields on its bonds rise significantly as a result of that state's weakening economy. As late as December 1990, California's general obligation bonds were selling at lower rates than any other state's general obligation bonds. California's bonds went from being 0.18 of a percentage point below the yield on benchmark bonds in late 1989 to being 0.22 of a percentage point above the benchmark as of July 1994. Today, only one state's general obligation bonds trade at higher rates than California, and this is in spite of the downward pressure on California bond rates due to their exemption from that state's income tax.

TABLE 5

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS

SEPTEMBER 1991 TO SEPTEMBER 1994*

State	Rating Change
UPGRADES	
Alaska	AA- to AA by Standard & Poor's
Massachusetts	Baa to A by Moody's BBB to A+ by Standard & Poor's A to A+ by Fitch
Minnesota	Aa to Aa1 by Moody's AA+ to AAA by Fitch
New Mexico	Aa to Aa1 by Moody's AA to AA+ by Standard & Poor's
DOWNGRADES	
California	Aaa to A1 by Moody's AAA to A by Standard and Poor's AAA to A by Fitch
Illinois	Aaa to Aa by Moody's AA to AA- by Standard & Poor's
Maine	Aa1 to Aa by Moody's
New Hampshire	Aa1 to Aa by Moody's AA+ to AA by Fitch
New Jersey	Aaa to Aa1 by Moody's AAA to AA+ by Fitch
New York	A to A- by Standard and Poor's
Rhode Island	Aa to A1 by Moody's AA to AA- by Fitch
South Carolina	AAA to AA+ by Standard & Poor's

*Changes represent the cumulative effect on each state's ratings of all rating actions taken within the period.

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

CHAPTER 2

TEXAS DEBT IN PERSPECTIVE

Although the amount of Texas state debt supported by general revenues has increased significantly since the late 1980s, Texas continues to have a relatively light state debt burden and a relatively heavy local debt burden. Although state debt comprises only about 12 percent of total state and local debt, the recent growth in Texas state debt has intensified the need for prudent debt management by the state. This chapter places Texas debt in perspective and describes several recent policy initiatives aimed at improving debt management in Texas. A final section reviews the state's challenge in funding facilities for Texas' public schools.

Low State Debt Burden

Texas has a relatively low state debt burden compared to other states. Texas ranks 38th among all states and 9th among the ten most populous states in net tax-supported debt per capita according to a 1994 report by Moody's Investors Service. At the time of the report, Texas had $214 in net tax-supported debt per capita compared to a nationwide median of $399 per capita and a median of approximately $547 per capita among the ten most populous states.

Texas' net tax-supported debt outstanding is about 1.2 percent of total state personal income, compared to a nationwide median of 2.1 percent and a median of 2.8 percent among the ten most populous states. On this measure, Moody's ranks Texas 39th among all states and 9th among the ten most populous states *(Table 6, p. 9)*.

Moody's ranks Texas 33rd among all states and 8th among the ten most populous states in net tax-supported debt service as a percentage of revenues. According to Moody's, this measure reflects a state's relative annual burden of supporting its outstanding net tax-supported debt. Texas' net tax-supported debt service percentage was 2.4 percent compared to a nationwide median of 3.6 percent and a median of 4.0 percent among the ten most populous states.

Texas Debt Burden Lower than Most AAA States

Although Texas' general obligation bonds are currently rated Aa/AA/AA+ by Moody's, Standard & Poor's and Fitch, respectively, Texas' debt burden measures are lower than the majority of states currently rated AAA by these rating agencies *(Table 7, p. 10)*. Compared to the five states currently rated AAA, only North Carolina with $100 per capita had a lower net tax-supported debt-per-capita figure than Texas at $214. Maryland had the highest per-capita-debt figure among the AAA-rated states at $754.

In 1994, AAA-rated states had net tax-supported debt expressed as a percentage of personal income ranging from 0.6 percent in North Carolina to 3.3 percent in Maryland. The median for all states rated AAA was 1.6 percent. Texas' net tax-supported debt as a percentage of personal income, as measured by Moody's, equaled 1.2 percent.

Texas' net tax-supported debt service expressed as a percentage of fiscal 1994 revenues totaled 2.4 percent as measured by Moody's. Among the AAA-rated states, only North Carolina at 1.3 percent had a lower net tax-supported debt-service percentage than Texas. Among the states rated AAA, debt service as a percentage of revenues ranged from North Carolina at 1.3 percent to Maryland at 4.1 percent.

Recent Growth in State Debt Supported by General Revenue

State debt service payable from general revenue has grown significantly since 1987. At the end of fiscal 1994, state debt payable from general revenue was approximately $3.1 billion compared to $422 million outstanding as of the end of fiscal 1987.

Debt service from general revenue has grown by an average of 30.7 percent per year since 1988, while unrestricted general revenue collections have increased by an average of 10.1 percent per year. In the 1994–1995 budget period, debt service from general revenue will average $279 million annually, 1.4 percent of general revenue collections, based on debt outstanding as of August 31, 1994. During the 1986–1987 budget period, debt service from general revenue averaged $42.5 million annually, just 0.4 percent of general revenue collections *(Figure 7, p. 11)*.

Authorized but Unissued Bonds Could Add Substantially to Texas' Debt Burden

Texas has the potential to substantially increase its debt burden, considering just the unused bond authorization currently on the books. As of August 31, 1994, approximately $1.9 billion in bonds payable from general revenue had been authorized by the Texas Legislature but had not yet been issued.[2]

With the issuance of all authorized but unissued bonds, debt service from general revenue would increase by an estimated $220 million annually. With the issuance of these authorized bonds, Texas' general revenue debt outstanding would equal $5 billion or 1.4 percent of estimated 1994 personal income.

Texas' low debt burden, even considering currently authorized but unissued bonds, gives the state the flexibility to utilize debt in a prudent manner without threatening the state's financial soundness.

Texas is Within its Statutory Debt Limit

Senate Bill 3 (S.B. 3), passed in 1991, placed a statutory limitation on the authorization of debt. While the limit may be overridden by future legislatures, S.B. 3 states the intent of the 1991 Legislature that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including authorized but unissued bonds and lease purchases greater than $250,000, exceeds five percent of the average annual general fund revenues for the previous three years.

[2]Of the total authorized but unissued debt, $500 million is debt authorized for the Texas National Research Laboratory Commission Superconducting Super Collider (SSC) project. Given the decision by the U.S. Congress to terminate federal funding for the SSC, this debt is not likely to be issued.

TABLE 6

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 1992 Personal Income	Rank	Net Tax-Supported Debt Service as a % of FY94 Revenues	Rank
Hawaii	Aa	12.1%	1	7.3%	5
Connecticut	Aa	9.1	2	11.4	1
Rhode Island	A1	8.9	3	6.9	6
Massachusetts	A	8.2	4	9.3	4
Delaware	Aa	8.0	5	10.4	3
New York	A	6.4	6	5.8	9
Louisiana	Baa1	5.9	7	10.9	2
Kentucky	Aa	5.0	8	5.8	10
Washington	Aa	5.0	9	4.9	14
Vermont	Aa	4.5	10	6.0	7
Maryland	Aaa	3.3	11	4.1	23
West Virginia	A1	3.1	12	4.2	22
California	A1	3.0	13	4.9	13
Georgia	Aaa	3.0	14	4.5	19
Illinois	Aa	3.0	15	4.4	20
Wisconsin	Aa	3.0	16	3.5	26
Florida	Aa	2.9	17	4.6	16
New Hampshire	Aa	2.9	18	4.1	24
New Jersey	Aa1	2.9	19	2.7	32
Pennsylvania	A1	2.7	20	5.3	12
Maine	Aa	2.6	21	5.8	8
Ohio	Aa	2.5	22	3.6	25
Alaska	Aa	2.4	23	2.0	39
South Dakota	*	2.3	24	4.4	21
Nevada	Aa	2.2	25	4.6	17
Mississippi	Aa	2.1	26	3.1	29
New Mexico	Aa1	2.1	27	3.4	27
Alabama	Aa	2.0	28	4.8	15
Kansas	*	2.0	29	1.5	40
Minnesota	Aa1	2.0	30	3.0	30
Montana	Aa	1.9	31	5.4	11
Arizona	*	1.6	32	2.4	35
South Carolina	Aaa	1.6	33	4.5	18
Utah	Aaa	1.6	34	3.4	28
Virginia	Aaa	1.6	35	2.8	31
Michigan	A1	1.5	36	2.2	37
Missouri	Aaa	1.2	37	2.4	34
Oregon	Aa	1.2	38	1.1	42
TEXAS	Aa	1.2	39	2.4	33
North Dakota	Aa	1.1	40	2.2	38
Indiana	*	1.0	41	1.1	43
Oklahoma	Aa	1.0	42	0.6	46
Tennessee	Aaa	0.8	43	2.3	36
Arkansas	Aa	0.7	44	1.0	44
North Carolina	Aaa	0.6	45	1.3	41
Wyoming	*	0.5	46	0.4	50
Iowa	*	0.4	47	0.4	48
Idaho	*	0.3	48	0.4	49
Colorado	*	0.2	49	0.9	45
Nebraska	*	0.2	50	0.5	47
U.S. Median		2.1%		3.6%	
U.S. Mean		3.1%		4.3%	

*No general obligation debt outstanding.

Source: Moody's Medians, 1994.

The debt-limit ratio was 1.9 percent considering debt service on bonds outstanding and lease-purchase payments as of August 31, 1994. The issuance of all bonds authorized by the Legislature, but unissued as of August 31, 1994, would push the debt-limit ratio to an estimated 3.2 percent in 1995.

Texas' Local Debt Burden Is High

Although Texas ranks last among the ten most populous states in state debt per capita, the state ranks first in local debt per capita according to the most recent data available from the U.S. Bureau of the Census *(Table 8)*. Local debt includes debt issued by cities, counties, school districts and special districts.

Texas had local government debt per capita of $3,332 compared to an average of $2,354 per capita for the ten most populous states. The heavy local debt burden combined with the relatively light state debt burden result in Texas being ranked fifth among the ten most populous states based on combined state and local debt. Texas recorded a combined state and local debt-per-capita figure of $3,786 compared to an average of $3,721 per capita among the ten most populous states.

In 1992, local government debt accounted for 88 percent of the $66.8 billion in Texas' total state and local debt outstanding, according to the Census Bureau report. The average of the ten most populous states was 64.1 percent. The high local debt indicates the degree to which responsibility for local capital projects rests with local government and the minor role state government plays in local capital finance (e.g., water and sewer services, local roads, etc.).

TABLE 7

SELECTED 1994 DEBT MEASURES FOR TEXAS AND STATES RATED AAA BY MOODY'S, STANDARD & POOR'S AND FITCH

State	Rating*	Net Tax-Supported Debt as a % of 1992 Personal Income	Net Tax-Supported Debt Service as a % of FY94 Revenues	Net Tax-Supported Debt Per Capita
Maryland	AAA	3.3%	4.1%	$754
Utah	AAA	1.6	3.4	248
Virginia	AAA	1.6	2.8	337
Missouri	AAA	1.2	2.4	236
TEXAS	AA	1.2	2.4	214
North Carolina	AAA	0.6	1.3	100
Median of AAA States		1.2%	2.4%	$248
Mean of AAA States		1.0%	2.0%	$335

*States listed as AAA were rated Aaa/AAA/AAA as of August 31, 1994, by Moody's, S&P and Fitch respectively. Texas was rated Aa/AA/AA+ as of August 31, 1994, by Moody's, S&P and Fitch respectively.

Sources: Moody's Medians, 1994; Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service.

TABLE 8

TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES, 1992

	Total State and Local Debt			State Debt				Local Debt			
State	Per Capita Rank	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount
New York	1	$116,061	$6,406	1	$55,868	48.1%	$3,083	2	$60,193	51.9%	$3,322
New Jersey	2	34,541	4,435	2	19,786	57.3	2,540	7	14,755	42.7	1,894
Florida	3	54,673	4,053	8	12,295	22.5	912	3	42,377	77.5	3,142
Pennsylvania	4	47,413	3,948	7	12,962	27.3	1,079	4	34,541	72.9	2,876
TEXAS	5	66,839	3,786	10	8,001	12.0	453	1	58,838	88.0	3,332
California	6	114,161	3,698	4	37,824	33.1	1,225	5	76,337	66.9	2,473
Illinois	7	40,578	3,489	3	18,742	46.2	1,611	8	21,837	53.8	1,877
Michigan	8	23,911	2,534	6	10,357	43.3	1,097	9	13,554	56.7	1,436
North Carolina	9	17,246	2,520	9	3,819	22.1	558	6	13,427	77.9	1,962
Ohio	10	25,755	2,338	5	12,193	47.3	1,107	10	13,561	52.7	1,231
Average		$54,118	$3,721		$19,185	35.9%	$1,367		$34,933	64.1%	$2,354

Sources: U.S. Department of Commerce, Bureau of the Census: *Government Finances: 1991–1992 (Preliminary Report).*
U.S. Department of Commerce, Bureau of the Census: *Current Population Reports: July 1992.*

The local government portion of total state and local debt in Texas has remained stable, in the 85 to 90 percent range since 1960. This is in contrast to the decline in the percentage of local debt nationwide since 1960 *(Figure 8)*.

Progress Has Been Made in the Debt Issuance Process

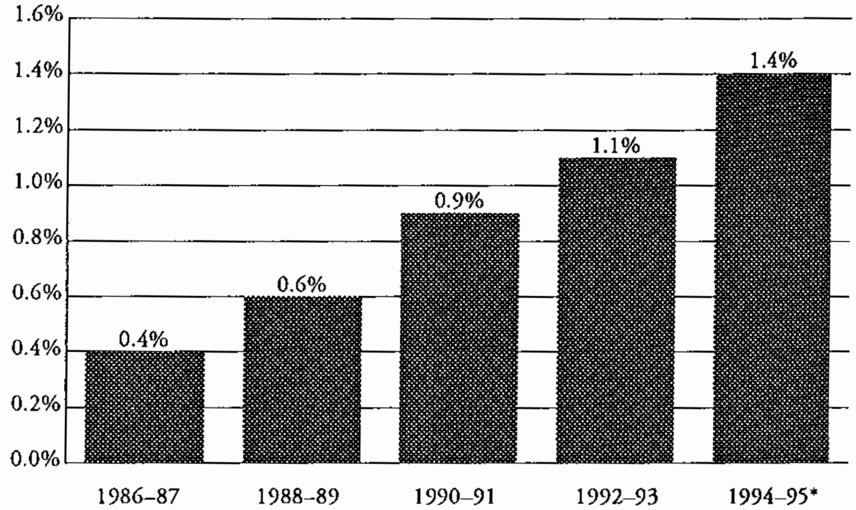
Debt issuance in Texas is a fragmented process at both the state and local levels. There are twenty-two individual state issuers and more than 3,100 local issuers with debt outstanding. However, progress has been made during the past several years in consolidating state debt issuance.

At the state level, some consolidation has occurred through the expansion of the role of the Texas Public Finance Authority (TPFA). The TPFA was created in 1983 to issue revenue bonds to finance state office buildings. In 1987, the Legislature expanded the TPFA's debt issuance authority to include general obligation bonds for correctional and mental health facilities. Consolidation of debt issuance continued in 1991 when the Legislature granted the TPFA the authority to issue bonds for the Texas Workers' Compensation Fund and on behalf of the Texas National Guard Armory Board, the Texas National Research Laboratory Commission, the Texas Parks and Wildlife Department, and Texas State Technical College.

The TPFA's role was further expanded in fiscal 1993 when the Authority established a Master Lease Purchase Program. This program centralizes the financing of most lease purchases of equipment undertaken by state agencies. (See Chapter 3.)

FIGURE 7

DEBT SERVICE AS A PERCENTAGE OF UNRESTRICTED GENERAL REVENUE
(per biennium)

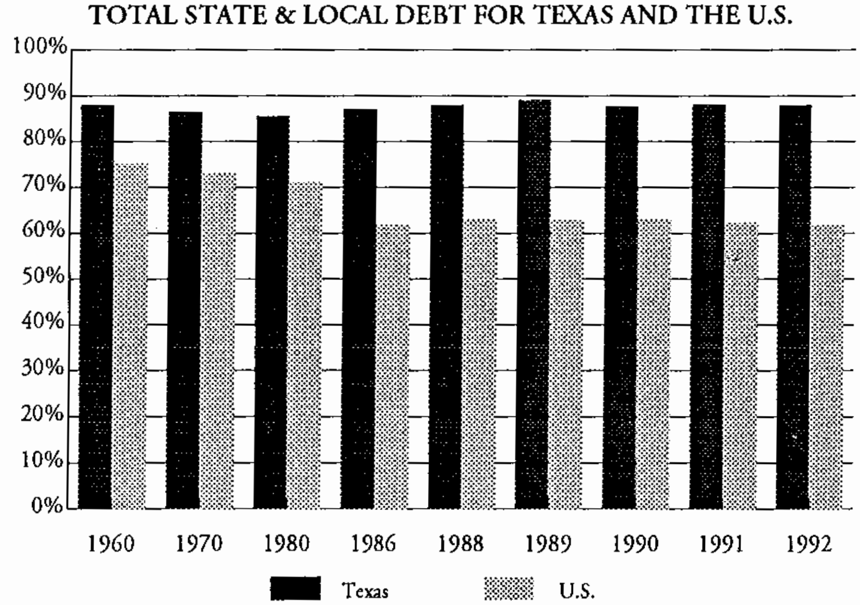


* Projected debt service for 1994–95 based on projected 1995 unrestricted general revenues and debt outstanding as of August 31, 1994, including G.O. commercial paper.

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

FIGURE 8

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



Source: U.S. Department of Commerce, Bureau of the Census: *Government Finances* (various years).

School Finance Equalization Efforts Spotlight Local Public School Debt

The state of Texas has been under court order to fund an "efficient" system of public education that will provide "substantially equal access to similar revenues per pupil at similar levels of tax effort" *(Edgewood Independent School District v. Kirby).* Senate Bill 7 (S.B. 7), adopted by the 73rd Texas Legislature in 1993, was the Legislature's most recent response in this case and subsequent related cases that have challenged the constitutionality of the system of financing school districts in Texas.

The district court in a January 26, 1994, final order, held S.B. 7 to be constitutional with regard to state funding of public school operational and maintenance budgets, but not as to funding for facilities. "With regard to the Texas School Financing System, the legislature has still not met its constitutional responsibility to provide efficiently for facilities." The Attorney General, the Comptroller, and the Commissioner of Education have been ordered to withhold approval and registration of any public school bonds after September 1, 1995, unless the Legislature has provided for an efficient funding mechanism for school facilities.

While the Texas Supreme Court has not yet ruled on the appeals from the district court decision, the Texas Legislature is expected to make school facilities finance a top legislative priority when it convenes in January 1995. The problems and issues associated with public school debt are many and underscore the disparities in state and local debt levels.

Challenges in Public School Facilities Finance

- On August 31, 1994, Texas public school districts had $8.806 billion in voter-approved tax-supported debt outstanding (principal amount at par) *(Table 9).* The state of Texas, in comparison, had $4.375 billion in general obligation debt outstanding, with only $2.422 billion of that amount not self-supporting and requiring the use of general revenues.
- The fiscal 1995 debt-service cost to repay currently outstanding public school debt is $1.112 billion; through fiscal 2000, the debt service on existing debt alone will exceed $1 billion each fiscal year.
- Statewide, public school voter-approved debt per capita is $484; in comparison, the state's tax-supported debt per capita is $214.
- In fiscal 1993, total public school voter-approved debt service to total expenditures was approximately 6.4 percent. If an estimate of the debt service on the then $1.1 billion in authorized but unissued debt were added, the debt service-to-expenditure ratio would climb to an estimated 7.2 percent. This school debt ratio is considerably above the comparable 5 percent debt service-to-revenues limitation the state has set for itself.
- The projected growth in the public school population for the 1996–1997 biennium is approximately 150,000 new students. Housing these students in new space would cost an estimated $1.2 billion. Borrowing to meet such growth needs would increase annual debt service by a minimum of $110 million.
- Historically, property-poor school districts, on a per-student basis, have borrowed considerably less than their more wealthy neighbors. In fiscal 1994, districts with below-median wealth had an average debt-per-student ratio of $1,890; those with above-median wealth had a ratio of $3,148. With increased state aid to supplement property-tax revenues, property-poor school districts may choose to "play catch up" with regard to facilities. This would further increase future debt-service costs.

TABLE 9

TOTAL SCHOOL DISTRICT VOTER-APPROVED DEBT OUTSTANDING

Date	Principal Amount at Par	Increase/Decrease from Prior Year	Percent Increase/Decrease
8/31/94	$8,806,698,155	$435,435,434	5.20%
8/31/93	$8,371,262,721	$102,298,490	1.24%
8/31/92	$8,268,964,231	$641,642,235	8.41%

TOTAL SCHOOL DISTRICT VOTER-APPROVED DEBT ISSUANCE BY FISCAL YEAR

Fiscal Year	Total Par Amount Issued	Par Amount of New-Money Bonds	Par Amount of Refunding Bonds
FY 94	$1,830,062,410	$1,031,355,292	$ 798,707,118
FY 93	$2,787,276,400	$ 650,515,000	$2,136,761,400

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

- The primary public school funding source is property taxes.[3] In the 1985 tax year, effective statewide taxable property values were $702 billion and school districts levied $4.7 billion in debt service and maintenance taxes against these values. The Southwest recession began during 1985 and current property tax values have yet to return to the values of that tax year; school tax levies, on the other hand, continue to increase each year. In the 1993 tax year, effective property values statewide were $627 billion and school districts levied $8.7 billion in taxes against these values, causing tremendous increases in property tax rates over a relatively short period of time. (Effective property values are the taxable values determined by the Property Tax Division of the Comptroller of Public Accounts and use the district's assessed valuations and ratios created from uniform independent appraisals. These values attempt to present uniformly appraised property valuations statewide.)
- In fiscal 1994, 153 Texas school districts sold 164 separate bond issues totaling $1.83 billion; during the same period, state agencies and universities sold 27 separate bond issues totaling $1.5 billion. The average issue size of the school bonds was $11.16 million and the median was $5.75 million. For the state-issued bonds, the average was $58.34 million with a median of $35 million. Total costs of issuance on the state issued bonds were $13 million, or $8.68 per $1,000 of bonds sold. From preliminary analysis on the school bond issues, total issuance costs are expected to be in excess of $26 million and over $14 per $1,000 of bonds sold. (The total costs of issuance per bond were calculated by dividing the total costs of issuance by the total amount of bonds issued).

[3]In fiscal 1994, excluding federal revenues, 55 percent of school district revenues came from local property taxes and 45 percent came from state aid.

Debt-Service Equalization, an Expected Feature of an Efficient School Facilities Funding Program

From study papers prepared by the Senate Interim Committee on Public School Facilities, it is expected that a funding program to provide an "efficient" facilities finance component will build upon and expand the efforts already in place. Currently, the state equalizes property-tax revenues under a basic Tier 1 component and an enrichment Tier 2 component. School districts may use Tier 2 state-aid dollars to enrich their operational program and to build facilities; the state equalizes up to $1.50 in local property tax rates for Tier 1 and Tier 2 components. Tier 2 property tax rates of up to 64¢ are equalized for maintenance and operations (M&O) and/or for debt service (interest and sinking fund). School districts may use these equalized state funds to lower their debt-service tax rate, to fund facilities on a cash basis, or for operational enrichment. Unless a school district receives approval through a special election, it may not levy a total property tax in excess of $1.50; debt service on most bonds issued before September 1992 is exempt from this tax-levy restriction.

Districts, which have wealth-to-student ratios that make them eligible to receive state aid and have debt outstanding, will make debt-service payments totaling $1.047 billion in fiscal 1995. These districts already receive state aid to equalize debt-service payments—the amount of aid they are eligible to receive depends on their property wealth-to-student ratio and on their total debt-service and Tier 2-M&O levies that fall within the maximum Tier 2 equalized amount. (There are 106 districts—out of a total of 1,040 with taxing authority—with wealth ratios that disqualify them from receiving state aid under Tier 1 and Tier 2; districts in this group with debt outstanding have fiscal 1995 debt-service costs of $65 million.)

The Senate Interim Committee in its October 1994 report recommends a new tier for facilities that is separate from Tier 1 and 2; all new debt issuance would be equalized under this new tier. Districts would have the option to finance their existing debt through Tier 2 or through the new facilities program. State aid for the new facilities tier would have to be used to lower the local debt service tax levy—to compress the debt-service tax rate. To ensure that sufficient state dollars are available to meet state equalization requirements each fiscal year, the first state dollars expended for the purpose of financing public education would be dedicated to the facilities funding system.

Texas Permanent School Fund Guarantee Assures Market Access for Locally-Issued Bonds

Paying a percentage of annual debt service is a practical state of Texas solution to the public school facilities funding problem. All school districts with less than a AAA bond rating can be assured of bond market accessibility through the Texas Permanent School Fund guarantee program.

No other state in the nation has an endowment dedicated exclusively to public education that is the size of the Texas Permanent School Fund (PSF). The PSF, created in 1854 by the 5th Legislature of the state, had a book value of $9.01 billion and an $11.33 billion market value, as of August 31, 1994. The constitutionally sole mandated purpose of the PSF is to support the funding of public schools. The Texas Constitution prohibits invasion of the corpus of the PSF except to guarantee bonds issued by school districts of the state. The bond guarantee program was established as an alternative to private bond insurance, but without the cost of private insurance. A school district is charged $300 to apply for the program. No school district using the guarantee program implemented in 1983 has ever been late or has ever defaulted on any payments. A Texas Education Agency Bond Guarantee Program report for October 1994 identified 827 public school bond issues valued at $6.685 billion in principal that are currently guaranteed.

All of the municipal rating services—Moody's Investors Service, Standard and Poor's Corporation, and Fitch Investors Service—give bonds guaranteed by the PSF their highest rating, Aaa, AAA, and AAA, respectively. Fitch, in a March 1994 Special Report, cited these features of the PSF guarantee program to substantiate this highest rating:

- "Leverage: The guaranty program's size is limited by the Texas Constitution so that outstanding par guaranteed may be no more than twice the PSF's book or market value, whichever is less. This 2:1 par guaranteed-to-fund value ratio is extremely conservative....
- External Support: Any draws on the PSF to pay debt service claims are replaced, with interest, from state funds otherwise payable to the school district.
- Underlying Credit Quality: The underlying credit quality of bonds currently guaranteed is strong, with 77% rated 'A' or higher. No school district has defaulted on a bond since the Great Depression.
- Asset Quality: The PSF's investment goal is to maximize total income while preserving the safety of principal. Therefore, the fund pursues a somewhat aggressive strategy, with 22% of its assets currently invested in high-dividend equities. However, investment rules permit no more than 50% of the fund to be invested in equities, with the remainder to be maintained in investment-grade bonds and short-term obligations."

Public School Finance Program Resources

Legislation is in place to provide additional bond issuing support for Texas public school districts. The Public School Finance Program is a pooled bond program that can pool voter-approved bonds, contractual obligations, as well as notes for cash flow purposes. School districts will be able to sell their bonds and notes to the Texas Bond Review Board instead of selling them on the open market. The Texas State Treasury will issue revenue obligations to fund the bonds and notes purchased by the Board. The Internal Revenue Service has confirmed that state revenue bonds may utilize the same Permanent School Fund guarantee that is available to school districts directly.

By selling bonds to a state pool, many school districts will benefit from lower borrowing costs achieved through the economies of the pooled issuance, and from administrative support provided by the Board. With school district per bond costs in excess of $14 while state costs are under $9 per $1,000 of bonds sold, considerable efficiencies are possible through pooled issuance.

CHAPTER 3

TEXAS BOND ISSUANCE

Texas state agencies and universities issued $1.5 billion in bonds during fiscal 1994, $988 million in new-money bonds and $509 million in refunding bonds (Table 10). New-money bond issues raise additional funds for projects or programs and add to the state's outstanding debt, while refunding bonds, for the most part, replace bonds issued previously. Several state agencies and universities also issued variable rate bonds and commercial paper in fiscal 1994.

New-Money Bonds Issued for a Variety of Purposes

Texas state agencies and universities issued $988 million in new-money bonds (not including commercial paper) during fiscal 1994. This represents a slight decrease from the 1993 level

TABLE 10

TEXAS BONDS ISSUED DURING FISCAL 1994

SUMMARIZED BY ISSUER

ISSUER	REFUNDING BONDS	NEW-MONEY BONDS	TOTAL BONDS ISSUED
General Obligation Bonds			
Texas Higher Education Coordinating Board		$ 75,000,000	$ 75,000,000
Texas Public Finance Authority		459,095,000	459,095,000
Texas Water Development Board		45,000,000	45,000,000
Veterans Land Board	$135,020,000	105,000,886	240,020,886
Total General Obligation Bonds	$135,020,000	$684,095,886	$ 819,115,886
Revenue Bonds			
Midwestern State University	$ 350,000		$ 350,000
Texas A&M University System	4,070,000	$ 13,760,000	17,830,000
Texas Department of Housing & Community Affairs	112,965,932	75,250,000	188,215,932
Texas Public Finance Authority	48,225,000		48,225,000
Texas Public Finance Authority—Dept. of Human Services		25,665,000	25,665,000
Texas Public Finance Authority—Nat'l Guard Armory Board	10,100,000	7,250,000	17,350,000
Texas Southern University	8,490,000	12,355,000	20,845,000
Texas State University System	3,400,000	29,700,000	33,100,000
Texas Tech University System	46,420,000		46,420,000
Texas Turnpike Authority	140,135,000		140,135,000
Texas Water Development Board		125,000,000	125,000,000
Texas Woman's University		5,000,000	5,000,000
University of North Texas		10,000,000	10,000,000
Total Revenue Bonds	$374,155,932	$303,980,000	$ 678,135,932
TOTAL TEXAS BONDS ISSUED	$509,175,932	$988,075,886	$1,497,251,818*

*Total does not include amounts for commercial paper or variable rate bonds issued during fiscal year 1994. TPFA issued an aggregate $392.3 million of general obligation commercial paper notes on behalf of TYC, TDCJ, and TDMHMR. TPFA also issued $28.8 million of commercial paper notes in connection with the Master Lease Purchase Program (MLPP). UT issued $40 million of PUF variable rate bonds and $42.2 million of revenue financing system commercial paper notes to finance equipment, facility construction and repair and rehabilitation. A&M issued $40 million of PUF variable rate bonds and $50 million of revenue financing system commercial paper notes to finance facility construction and repair and renovation.

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

of $1.01 billion *(Figure 9)*. The new-money bonds issued in fiscal 1994 financed a variety of purposes, including state facilities and loan programs.

The largest issuer of new-money bonds in fiscal 1994 was the Texas Public Finance Authority (TPFA). The TPFA issued $459 million in new-money general obligation bonds on behalf of the Texas Department of Criminal Justice (TDCJ). This debt is secured by the full faith and credit of the state and will be repaid from general revenues. The TDCJ used the bond proceeds to finance a plan for the accelerated construction of 13,500 prison beds, 16,000 beds at state jail facilities, seven 500-bed and two 1,000-bed substance abuse facilities, one regional center, a regional medical facility, a hospital, an agricultural facility, and various other renovation, repair, and minor construction projects.

The TPFA also issued $25.7 million in new-money equipment revenue bonds on behalf of the Texas Department of Human Services (TDHS). The proceeds were used to finance the acquisition of computer equipment for various programs of the TDHS. The debt will be repaid with general revenue and federal funds.

During fiscal 1994, TPFA issued an additional $7.25 million in new-money revenue bonds on behalf of the National Guard Armory Board (NGAB). These bonds were issued to finance various projects undertaken by the NGAB. This debt is expected to be repaid from general revenues that are subject to appropriation.

The second largest issuer of state new-money debt in fiscal 1994 was the Texas Water Development Board (TWDB). The TWDB issued $38 million in new-money general obligation debt to finance water projects. Approximately $15 million of the total amount was used to make loans to political subdivisions for water supply projects and an additional $20 million was used for loans for water quality enhancement projects. The remaining $3 million, a taxable issue, was used to fund loans to political subdivisions, including non-profit water supply corporations, for water supply purposes. Another taxable general obligation TWDB issue in the amount of $7 million was for a new loan program to finance the purchase of water and energy conserving agricultural equipment.

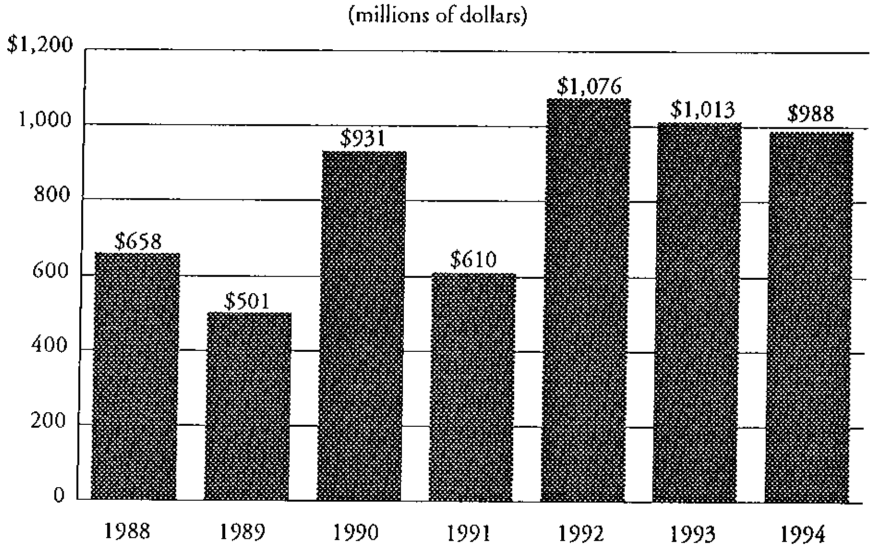
The TWDB general obligation bonds, with the exception of Economically Distressed Area Program (EDAP) bonds, are designed to be self-supporting, *i.e.*, debt service is expected to be repaid from revenue sources associated with the loan programs. A general revenue draw will be necessary to finance the debt service on the grant portion associated with the EDAP bonds. In fiscal 1994, no EDAP bonds were issued, however, up to 90 percent of future issues of EDAP bonds may be used for grants.

The TWDB also issued $125 million in revenue bonds for the State Revolving Fund (SRF) program. The SRF program makes loans at below-market interest rates to political subdivisions for the construction of wastewater treatment projects. The $125 million issue was to be used to finance approximately 20 loans totaling $107 million. The bonds are special obligations of the TWDB, payable primarily from principal and interest on acquired obligations of participating political subdivisions. The bonds do not constitute indebtedness of the state and the state's credit is not pledged.

Another major debt issuer in fiscal 1994 was the Texas Veterans Land Board (VLB). The VLB issued $70 million in housing assistance bonds and $35 million in land bonds. The proceeds from the housing assistance bonds were used to fund the Housing Assistance Program which makes home ownership and home improvement loans to

FIGURE 9

TEXAS NEW-MONEY BOND ISSUES
1988 THROUGH 1994
(millions of dollars)



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

eligible Texas veterans. The proceeds from the land bonds were used to purchase land that will be resold to eligible Texas veterans and surviving spouses. The VLB debt will be repaid with revenues generated by the loan programs.

The Texas Higher Education Coordinating Board (HECB) issued $75 million in college student loan bonds in fiscal 1994 to finance the Hinson-Hazelwood Loan Program. This program provides low-interest loans to students seeking an undergraduate, graduate, or professional education through institutions of higher education in Texas. Although the bonds are backed by a pledge of the state's credit, revenue from repaid student loans has historically been sufficient to pay debt service. No draw on the state's general revenue fund is expected.

The Texas Department of Housing and Community Affairs (TDHCA) had two new-money issues during 1994. The proceeds of the TDHCA's $58.5 million issue of mortgage revenue bonds were used to provide funds to finance low-interest mortgage loans made to first time home buyers of low and moderate income. The proceeds of the second TDHCA issue of $16.8 million were used to finance five multi-family residential rental housing developments to be owned by The National Center for Housing Management, Incorporated.

Increased Usage of Commercial Paper/Variable Rate Bonds

State agencies and universities also issued commercial paper notes and variable rate bonds in fiscal 1994 to finance equipment, interim construction, and loan programs.

The TPFA established a general obligation commercial paper note program in fiscal 1994 that is designed to provide interim construction financing for state agencies that are authorized to use the program. Currently, the TPFA is providing funds for the construction and renovation projects of the TDCJ, the Texas Youth Commission (TYC), and the Texas Department of Mental Health and Mental Retardation (TDMHMR). As of the end of fiscal 1994, the TPFA had issued $392.3 million in general obligation commercial paper.

The TPFA also issued approximately $28.8 million in commercial paper in fiscal 1994 to finance the state's Master Lease Purchase Program (MLPP). Under this program started in fiscal 1993, the TPFA issues debt to finance the purchase of equipment and then leases the equipment to state agencies. The TPFA uses the lease payments from the agencies to pay debt service. The MLPP was expanded in 1994 to a maximum amount outstanding of $100 million and to enable interim financing of real property construction or acquisition.

The Texas A&M University System (TAMU) replaced a variable rate note program in fiscal 1993 with a commercial paper program to provide financing for equipment acquisition and interim construction. The TAMU System issued approximately $50 million under the commercial paper program in fiscal 1994. The TAMU System also issued approximately $40 million in variable rate bonds in fiscal 1994 that are secured and payable from income of the Permanent University Fund (PUF).

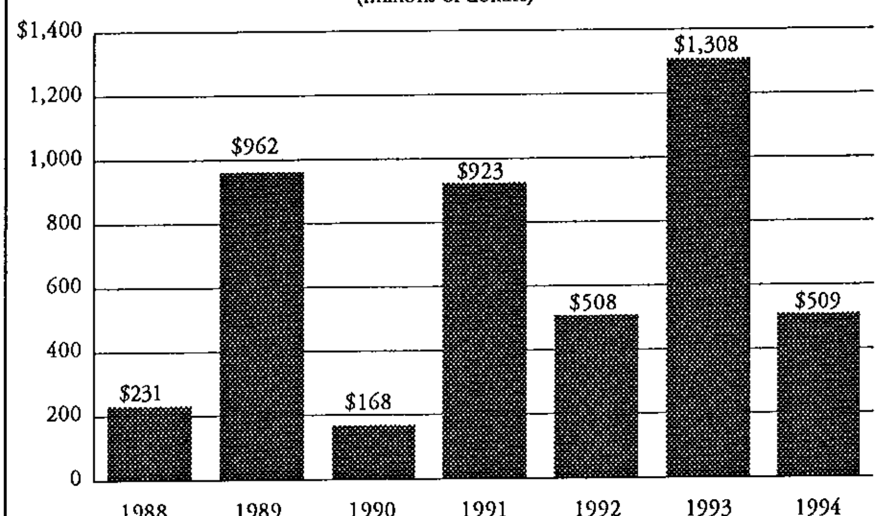
In 1994, The University of Texas System issued approximately $40 million in variable rate bonds secured and payable from income of the PUF and $42.2 million of revenue financing system commercial paper to provide interim financing for capital projects.

Debt Refunding Volume Still Significant

During fiscal 1994, Texas state agencies and universities issued $509 million in refunding debt *(Figure 10)*. This level of refunding activity is down from the $1.3 billion that occurred in fiscal 1993, but still resulted in significant savings to

FIGURE 10

TEXAS REFUNDING BOND ISSUES
1988 THROUGH 1994
(millions of dollars)



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

the state. The majority of this debt was issued to take advantage of low tax-exempt interest rates during the past year, especially in the first half of fiscal 1994. Refunding bonds issued in fiscal 1994 resulted in more than $13.2 million in present value savings to the state *(Table 11)*.

The largest dollar amount of present value savings was obtained through refunding bonds issued by the Texas Turnpike Authority (TTA). Through the issuance of $140.1 million in revenue refunding bonds, the TTA was able to achieve a total present value savings of approximately $5.7 million. The VLB achieved $4.1 million in present value savings through the issuance of $59.6 million of taxable general obligation bonds.

Universities also issued refunding bonds in fiscal 1994 to obtain present value savings. Refunding bonds issued by the TAMU System, the Texas State University System, the Texas Tech University System, Texas Southern University, and Midwestern State University resulted in an aggregate present value savings of approximately $3.1 million.

The other major issuer of refunding bonds was the TDHCA. The TDHCA issued $22 million in bonds in fiscal 1994 to refund bonds associated with two multi-family rental housing developments. The refundings were undertaken to decrease interest costs and enable the borrowers to continue to operate the developments as low-income housing projects while generating sufficient revenues to meet debt-service requirements. The TDHCA also issued $91 million in single-family mortgage revenue refunding bonds that enabled the department to establish a special single-family home mortgage loan purchase program and a special housing assistance initiative to assist nonprofit organizations.

Lease Purchases Approved for Real Property and Equipment

The Bond Review Board is required to review all lease or installment purchases in excess of $250,000 or with a term of greater than five years. Although lease purchases do not necessarily involve the issuance of state bonds, they are similar to bonds in that they result in a series of payments, including an interest component, that must be paid over a period of years.

In fiscal 1994, the Bond Review Board approved a total of $98 million in lease and installment purchases *(Table 12, p. 19)*. Lease purchases of real property accounted for about $84 million, while the lease purchase of computers, telecommunications systems, and other capital equipment accounted for the remaining $14 million.

Three of the lease purchases approved were for the construction of new correctional facilities. The TDCJ received approval to enter into lease purchases for a 2,000-bed detention facility in Henderson ($36.3 million), a 500-bed detention facility in Diboll ($14.8 million), and a 500-bed detention facility in Overton ($13.7 million). Each of these lease purchases was financed through the issuance of revenue bonds

TABLE 11

STATE OF TEXAS REFUNDING BONDS
ISSUED FOR PRESENT VALUE SAVINGS
FISCAL YEAR 1994

Issuer	Refunding Bond Issue	Present Value Savings: Amount	Present Value Savings: As a % of the Refunded Bonds
Midwestern State University	Building Revenue Refunding Bonds, Series 1994	$ 44,202	12.63%
Texas A&M University System	Revenue Financing System Refunding Bonds, Series 1993C	366,235	9.21
Texas Public Finance Authority	Refunding and Armory Improvement Revenue Bonds, Series 1994	293,108	3.10
Texas Southern University	Consolidated Revenue Refunding Bonds, Series 1993	262,771	2.72
Texas State University System	Angelo State University Building Use and Combined Fee Revenue Refunding Bonds, Series 1994	160,463	5.03
Texas Tech University System	Revenue Financing System Refunding Bonds, First Series 1993	2,295,360	5.07
Texas Turnpike Authority	Dallas North Tollway Revenue Refunding Bonds, Series 1993	5,715,758	4.69
Texas Veterans Land Board	Housing Assistance Taxable Refunding Bonds, Series 1994A-1	4,117,932	5.46
TOTAL PRESENT VALUE SAVINGS		$13,255,829	

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

issued by a nonprofit or local government corporation. The TDCJ makes payments to the corporation and the corporation uses the lease payments to pay debt service. At the end of each of the leases, the facility will become the property of the TDCJ.

The other real property lease purchases approved in fiscal 1994 were for the General Services Commission (GSC) to convert several operating leases into leases with the option to purchase. The primary reason for converting the leases was to obtain annual savings. The state also will obtain equity in the buildings if the purchase options are exercised.

One of the GSC lease conversions approved was for a building in Austin that is currently occupied by the Texas Department of Transportation and the Texas Rehabilitation Commission. The total amount to be financed under the lease with the option to purchase was $9.025 million. The purchase option on this building applies only to the building, not the land, since the owner of the building does not own the land. If the state exercised the purchase option, the building would revert to the ground owner in approximately 30 years when the land lease expires, unless other arrangements are made.

The other lease conversions were for a $6.75 million facility in Austin that will be occupied by the Office of the Attorney General and for a $3.085 million building in Tyler that will be jointly occupied by the TDHS and the Texas Department of Protective and Regulatory Services.

A breakdown of the equipment lease purchases approved by type of equipment is shown in *Table 12*. The majority of the dollar amount of equipment lease purchases was for computer equipment. All of the equipment lease purchases approved by the Bond Review Board were to be financed through the MLPP and are included in the commercial paper issuance amount discussed earlier in this chapter.

State Agencies and Institutions Plan to Issue $1.45 Billion in New Money in Fiscal 1995

Texas state agencies and universities plan to issue approximately $2 billion in bonds and commercial paper during fiscal 1995 according to the results of an annual survey by the Bond Review Board *(Table 13, p. 20)*. Approximately $1.45 billion will be issued to finance projects or programs and about $595 million will be issued to refund existing debt.

The Texas Public Finance Authority is expected to be the largest issuer of new-money bonds and commercial paper. The TPFA plans to issue approximately $301 million in new-money general obligation commercial paper on behalf of the TDCJ, TYC, and TDMHMR. Over 96 percent of the total planned issue amount will be used to finance projects to be undertaken by the TDCJ.

The TPFA also plans to issue approximately $37 million in new-money building revenue bonds on behalf of the GSC

TABLE 12

LEASE- AND INSTALLMENT-PURCHASE AGREEMENTS
APPROVED BY THE BOND REVIEW BOARD
FISCAL YEAR 1994

Agency/University	Total	Real Property	Equipment: Computer	Equipment: Other
Real Property				
General Services Commission	$18,860,000	$18,860,000		
Texas Department of Criminal Justice	64,710,000	64,710,000		
Total Real Property	$83,570,000*			
Equipment				
Stephen F. Austin University	$ 400,000		$ 400,000	
Texas Alcoholic Beverage Commission	258,912			$ 258,912
Texas Department of Human Services	9,651,915		9,651,915	
Texas Workers Compensation Commission	608,370		608,370	
U.T. Medical Branch at Galveston	2,266,729			2,266,729
Texas State Technical College	805,875			805,875
Total Equipment	$13,991,801			
TOTAL APPROVED LEASE-PURCHASE AGREEMENTS	$97,561,801	$83,570,000*	$10,660,285	$3,331,516

*Includes amounts approved for purposes of converting operating leases to leases with an option to purchase.

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

TABLE 13

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 1995

Issuer	Approximate Amount	Purpose	Approximate Issue Date
General Obligation Bonds			
Self-Supporting			
Texas Agricultural Finance Authority*	$ 25,000,000	Farm and Ranch Program	Nov–94
Texas Higher Education Coordinating Board	50,000,000	College Student Loans	Jan–95
Texas Veterans Land Board	367,845,000	Veterans Housing Assistance Program	Oct–94
Texas Veterans Land Board	35,000,000	Veterans Land Program	Jul–95
Texas Water Development Board	7,000,000	Agricultural Water Conservation	Oct–94
Texas Water Development Board	55,000,000	Water Supply and Quality Enhancement	Nov–94
Total Self-Supporting	$ 539,845,000		
Not Self-Supporting			
Texas Public Finance Authority	$ 300,000,000	General Obligation Refunding Bonds	Mar–95
Texas Public Finance Authority**	237,000,000	Texas Department of Criminal Justice	Mar–95
Texas Public Finance Authority**	2,700,000	Texas Department of Mental Health & Mental Retardation	Oct–94
Texas Public Finance Authority**	51,900,000	Texas Department of Criminal Justice	Feb–95
Texas Public Finance Authority**	9,500,000	Texas Department of Mental Health & Mental Retardation	Dec–94
Texas Water Development Board	10,000,000	Economically Distressed Areas Program	Nov–94
Total Not Self-Supporting	$ 611,100,000		
Total General Obligation Bonds	$1,150,945,000		
Non-General Obligation Bonds			
Self-Supporting			
Texas Dept. of Housing & Community Affairs	$ 84,000,000	Single Family Housing	Oct–94
Texas Dept. of Housing & Community Affairs	27,000,000	Refunding—Multi-Family Housing	Feb–95
Texas Dept. of Housing & Community Affairs	14,000,000	Multi-Family Housing	Feb–95
Texas Dept. of Housing & Community Affairs	5,000,000	Multi-Family Housing	Mar–95
Texas Dept. of Housing & Community Affairs	5,000,000	Single Family Housing (Contract for Deed)	Apr–95
Texas Dept. of Housing & Community Affairs	5,000,000	Single Family Housing (Contract for Deed)	Jul–95
Texas Dept. of Housing & Community Affairs*	69,000,000	Single Family Housing (Approx. $6 million CP per month)	Continuous
Texas Tech University	25,000,000	Tuition Revenue Bonds	Feb–95
Texas Turnpike Authority	27,500,000	Senior Lien Tollway Revenue Bonds	Nov–94
Texas Water Development Board	150,000,000	State Revolving Fund—Wastewater Projects	Mar–95
The Texas A&M University System—PUF	80,000,000	Refunding	Mar–95
The Texas A&M University System—PUF*	40,000,000	Facilities and Equipment	Mar–95
The Texas A&M University System—RFS	100,000,000	Refunding	Mar–95
The Texas A&M University System—RFS*	100,000,000	Facilities and Equipment	Mar–95
The Texas State University System	13,000,000	Student Fee Revenue Bonds	Mar–95
The Texas State University System	4,000,000	Housing System Revenue Bonds	Mar–95
The University of Houston System	3,925,000	Facility Repair and Renovation	Oct–94
The University of Houston System	22,400,000	Facility Construction	Apr–95
The University of North Texas	10,000,000	Facility Construction and Expansion Projects	Sep–94
The University of Texas System—RFS*	71,273,000	Facility Construction	Continuous
Total Self-Supporting	$ 856,098,000		
Not Self-Supporting			
Texas Public Finance Authority	37,000,000	General Services Commission	Oct–94
Total Not Self-Supporting	$ 37,000,000		
Total Non-General Obligation Bonds	$ 893,098,000		
Total All Bonds	$2,044,043,000		

*Commercial Paper Program or Variable Rate Bond Program

**These issues assume an initial general obligation commercial paper offering and a subsequent conversion to long-term bonds.

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

for various construction, major repairs/ rehabilitation, and building procurement projects.

The Veterans Land Board (VLB) plans two new-money general obligation bond issuances in 1995. The VLB will issue $280 million in housing assistance bonds, followed by a $35 million issue for their land program.

Texas universities also plan to issue a significant amount of new-money debt in fiscal 1995. A total of approximately $290 million in bonds and commercial paper will be issued by higher education institutions to finance various construction projects, improvements, renovations, and equipment.

Another major issuer of new-money bonds in fiscal 1995 will be the Texas Water Development Board. The TWDB plans to issue about $150 million in state revolving fund revenue bonds in the spring of 1995. Proceeds will be used to purchase bonds or other obligations issued by political subdivisions within the state to finance the construction of wastewater treatment projects. The TWDB also plans to issue $65 million in general obligation bonds to finance loans (and grants under the Economically Distressed Areas Program) to political subdivisions in Texas for water and wastewater projects. A final issue for the TWDB will be $7 million to finance loans for the acquisition of agricultural water and energy conservation equipment.

Proceeds from other major new-money issues will be used to finance various state loan programs. The Texas Department of Housing and Community Affairs plans to issue $94 million for single-family housing and $19 million for multi-family housing. The Texas Higher Education Coordinating Board plans to issue $50 million in student loan bonds. The Texas Agricultural Finance Authority is planning to issue $25 million in new-money general obligation commercial paper to be used to make loans to eligible Texans for the purchase of farms and ranches.

The largest issuer of refunding bonds in fiscal 1995, according to the Bond Review Board survey, will be the TPFA. The TPFA plans to issue $300 million in general obligation refunding bonds, which will be used to redeem general obligation commercial paper currently outstanding. The Texas A&M University System plans to issue $100 million in revenue financing system refunding bonds and an additional $80 million in Permanent University Fund refunding bonds. Both of these issues will refund existing commercial paper or variable rate bonds.

The Veterans Land Board plans an $88 million general obligation refunding of outstanding housing assistance bonds, to be issued in conjunction with the previously mentioned new-money issue. Another refunding bond issue planned for fiscal 1995 is a $27 million multi-family refunding by the Texas Department of Housing and Community Affairs.

TEXAS BOND ISSUANCE COSTS

Texas state bond issuers paid an average of $567,940 per issue or $12.37 per $1,000 in issuance costs on bond issues sold during fiscal 1994 (Table 14). Appendix A includes an accounting of the issuance costs for each 1994 issue.

Types of Fees

Issuance costs are composed of the fees and expenses paid to consultants to market Texas bonds to investors. Several types of professional services commonly used in the marketing of all types of municipal securities are listed below:[4]

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

TABLE 14

AVERAGE ISSUANCE COSTS FOR 1994 TEXAS BOND ISSUES

	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Average Issue Size—$58.34 Million		
Underwriter's Spread	$399,824	$ 7.83
Other Issuance Costs:		
Bond Counsel	44,399	1.45
Rating Agencies	30,155	1.10
Financial Advisor	27,826	0.99
Printing	10,866	0.50
Paying Agent/Registrar	730	0.02
Other	54,140	0.48
Total	$567,940	$12.37

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 1994 state bond issue, excluding one private placement issue and one negotiated issue for which issuance costs were not paid by the state. The underwriter's spread average does not include private placement issues, which did not include an underwriting component.

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

[4]Definitions adapted from the Municipal Securities Rulemaking Board's *Glossary of Municipal Securities Terms.*

owners of registered bonds. The paying agent is responsible for transmitting payments of principal and interest from the issuer to the security holders.

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

The underwriting fee, or gross spread, is the largest component of issuance costs, averaging $399,824 per issue and $7.83 per $1,000 of state bonds sold during 1994. This single component accounted for, on average, 70 percent of the total cost of issuance. Bond counsel fees were next in importance, averaging $44,399 per issue and $1.45 per $1,000 of bonds sold. Rating agency fees averaged $30,155 per issue and $1.10 per $1,000 of bonds sold, while financial advisory fees averaged $27,826 per issue and $0.99 per $1,000 of bonds sold.

Gross spreads paid to issue Texas bonds continue to compare favorably to the national average. According to Securities Data Company, nationwide gross spreads averaged $8.28 per $1,000 for all municipal bonds sold either competitively or through negotiation during the first nine months of 1994 *(Figure 11)*.

Economies of Scale

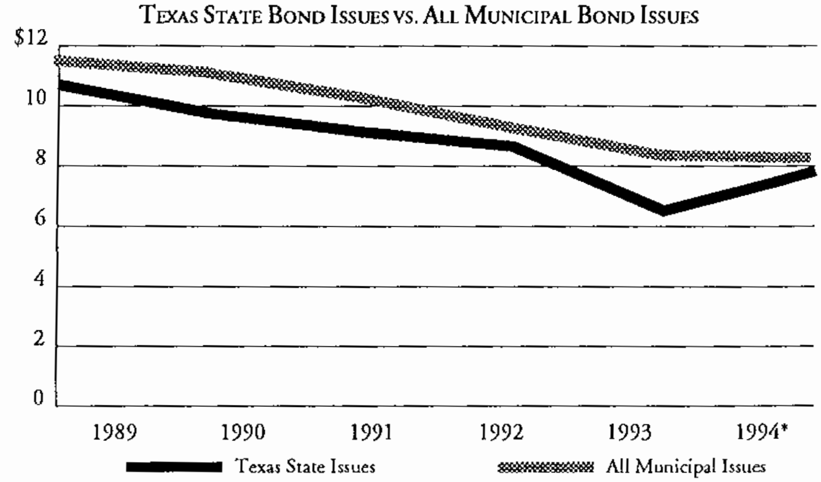
In general, the larger a bond issue, the greater the issuance cost, but the lower the issuance cost as a percentage of the size of the bond issue. This relationship is called economies of scale in bond issuance.

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

As a result, the smallest issues are by far the most costly in percentage terms *(Figure 12)*. At the extreme, total

FIGURE 11

GROSS UNDERWRITING SPREADS: 1989–1994
TEXAS STATE BOND ISSUES VS. ALL MUNICIPAL BOND ISSUES

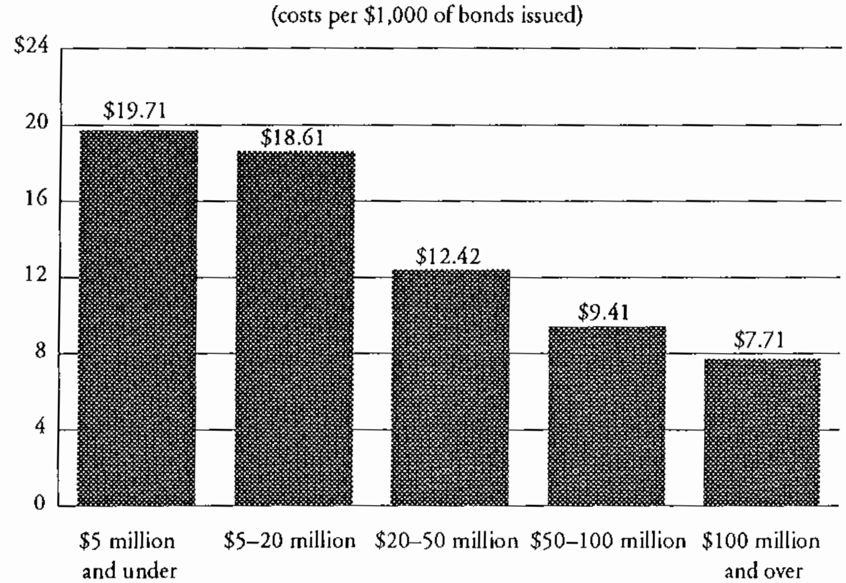


*1994 figures are for the first nine months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.

Sources: Securities Data Company (10/8/94) and Texas Bond Review Board, Office of the Executive Director.

FIGURE 12

AVERAGE 1994 ISSUANCE COSTS BY SIZE OF ISSUE
(costs per $1,000 of bonds issued)



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

issuance costs for bond issues of less than $5 million averaged $73,077 per issue and $19.71 per $1,000 in bonds issued. Bond issues over $100 million had total costs averaging $1,203,689 million per issue and $7.71 per $1,000.

Although average issuance costs declined from $616,611 per issue in 1993 to $567,940 per issue in 1994, average issuance costs on a per $1,000 basis increased. Issuance costs averaged $12.37 per $1,000 in 1994, up from $9.80 per $1,000 in 1993 primarily because average issue size declined to $58 million in 1994 from $97 million in 1993. The average issue size in 1992 is comparable to 1994, $55 million and $58 million, respectively; however, average issuance costs per $1,000 are down from $14.02 in 1992 to $12.37 in 1994.

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

Negotiated vs. Competitive Sales

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

In a negotiated sale, an underwriter is chosen by the issuer in advance of the sale date and agrees to buy the issuer's bonds at some future date and to resell them to investors. With the knowledge that they have the bonds to sell, the underwriter can do whatever presale marketing is necessary to accomplish a successful sale. In more complicated financings, presale marketing can be crucial to obtaining the lowest possible interest cost. In addition, the negotiated method of sale offers issuers timing and structural flexibility, as well as more influence in bond distribution towards selected underwriting firms or customers. Disadvantages of negotiated sales include a lack of competition in pricing and the possible appearance of favoritism. In addition, the chances for wide fluctuation in spread between comparable deals is greater in a negotiated environment.

In a competitive sale, sealed bids from a number of underwriters are opened on a predetermined sale date, with the issuer's bonds being sold to the underwriter submitting the lowest bid meeting the terms of the sale. Underwriters bidding competitively usually do less presale marketing to investors, since in a competitive sale, underwriters cannot be sure they own the bonds until the day the bids are opened. Advantages of the competitive bid include a competitive environment where market forces determine the price, historically lower spreads, and an open process. Disadvantages of the competitive sale include limited timing and flexibility, minimum control over the distribution of bonds, and the possibility of underwriters including a risk premium in their bids to compensate for uncertainty regarding market demand.

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

Comparisons of average costs on negotiated and competitive financings for 1994 and past years are, therefore, based only on those issues over $20 million. In the greater than $20 million category, there were four competitively sold issues and eleven issues that were sold on a negotiated basis. Among bond issues greater than $20 million, total issuance costs, including underwriter's spread, for bonds sold via negotiated sale during fiscal year 1994 averaged $11.32 per $1,000, compared to an average cost of $7.30 per $1,000 for those bonds sold by competitive sale *(Table 15, p. 25)*.

The average underwriting spread on issues sold by negotiated sale was $7.99 per $1,000, while the average spread on competitively sold issues was $5.97 per $1,000.

Bond counsel fees, rating agency fees and financial advisory fees on negotiated financings were also greater, on a per $1,000 basis, than those on competitive financings, reflecting in part the greater complexity of these financings as well as the fact that the average issue size on negotiated transactions was approximately one-half the average issue size of competitive transactions, $70 million and $140 million respectively. The average bond counsel fee was $1.17 per $1,000 on the bond issues sold by negotiated sale, compared to $0.33 per $1,000 on bonds competitively sold, while rating agency fees averaged $0.67 per $1,000 for negotiated transactions and $0.46 per $1,000 on competitively sold issues. Financial advisory fees on negotiated sales averaged $0.60 per $1,000, while the financial advisory fee on competitive sales averaged $0.27 per $1,000.

Recent Trends in Issuance Costs

The average cost per $1,000 of issuing bonds increased in 1994 compared to 1993, for that group of issues greater than $20 million *(Figure 13)*. Total issuance costs, including underwriting spread, averaged $10.25 per $1,000 in 1994, compared to $8.22 in 1993, $11.45 in 1992 and $11.70 in 1991. As mentioned previously, this increase is primarily due to the significant reduction in average issue size.

The average cost per $1,000 of selling bonds through negotiated sale equaled $11.32 in 1994, compared to $8.62 in 1993, $12.21 in 1992, and $13.03 in 1991.

After declining over the last several years because of increased competition, underwriting spreads on negotiated state financings increased during 1994 compared to 1993. Average spreads on bonds sold through negotiation equaled $7.99 per $1,000 in 1994, compared to $6.71 in 1993, $7.99 in 1992 and $9.84 in 1991. This increase is due in part to increased bond market volatility in the latter part of 1994 as well as to the complexity of several state bond financings.

Total issuance costs on competitive financings have consistently been less than costs on negotiated sales, but the margin has fluctuated over time. Issuance costs on competitively sold bonds averaged $7.30 per $1,000 in 1994, compared to $7.22 in 1993, $10.26 in 1992 and $7.27 in 1991. Underwriting

TABLE 15

AVERAGE ISSUANCE COSTS FOR 1994 TEXAS BOND ISSUES GREATER THAN $20 MILLION

BY NEGOTIATED AND COMPETITIVE SALE

	NEGOTIATED PER $1,000	COMPETITIVE PER $1,000
Average Issue Size (in millions)	$70.48	$140.27
Underwriter's Spread	$ 7.99	$ 5.97
Other Issuance Costs:		
Bond Counsel	1.17	0.33
Rating Agencies	0.67	0.46
Financial Advisor	0.60	0.27
Printing	0.29	0.15
Paying Agent/Registrar	0.02	0.00
Other	0.58	0.12
TOTAL	$11.32	$ 7.30

The calculations regarding average issuance costs include only those bond issues of greater than $20 million sold via competitive or negotiated sale. 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 1994 state bond issue.

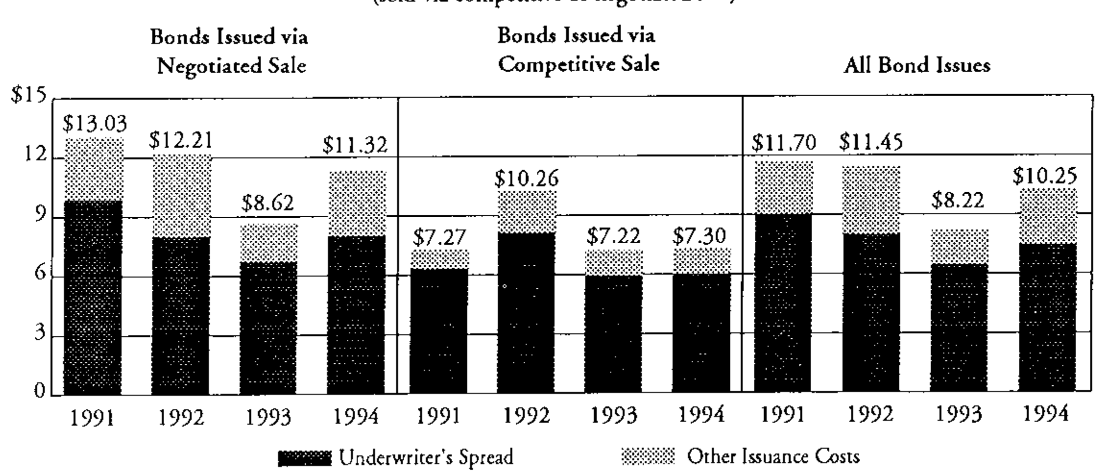
Source: Texas Bond Review Board, Office of the Executive Director.

FIGURE 13

RECENT TRENDS IN ISSUANCE COSTS FOR TEXAS BONDS

AVERAGE COST PER $1,000 FOR ISSUES GREATER THAN $20 MILLION

(sold via competitive or negotiated sale)



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

spreads on competitive financings equaled $5.97 in 1994, compared to $5.92 in 1993, $8.13 in 1992 and $6.35 in 1991. Other issuance costs on competitively sold bonds averaged $1.33 per $1,000 in 1994, compared to $1.30 in 1993, $2.13 in 1992, and $0.92 in 1991.

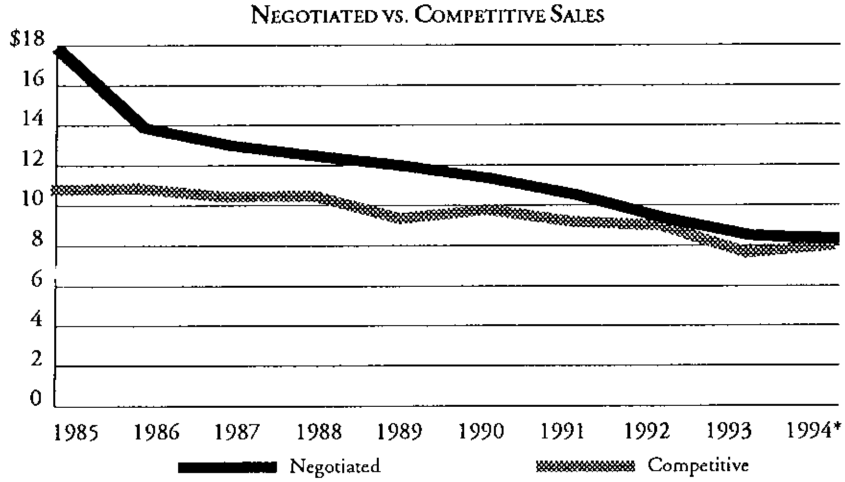
This discussion is not meant to imply that the cost differences between negotiated and competitive financings are unreasonable. A negotiated sale tends to be used on those bond issues which are more difficult and, therefore, more costly to structure and market. Further, on a national basis, the difference in gross underwriting spreads between competitive and negotiated sales has narrowed substantially over the last ten years, with the difference currently only $0.05 per $1,000 *(Figure 14)*. Finally, a definitive conclusion regarding the most efficient method of sale for Texas bonds should not be drawn from such a limited sample number of state bond issues.

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

FIGURE 14

GROSS UNDERWRITING SPREADS: 1985–1994

NEGOTIATED VS. COMPETITIVE SALES



*1994 figures are for the first nine months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.

Source: Securities Data Company (10/8/94).

TEXAS BONDS OUTSTANDING

Texas had a total of $9.97 billion in state bonds and notes outstanding on August 31, 1994—up from $9.05 billion outstanding on August 31, 1993, and $8.30 billion on August 31, 1992 (Table 16, p. 28).

Increase in General Obligation Bonds Outstanding

Approximately $4.4 billion of Texas' total state debt outstanding on August 31, 1994, carries the general obligation (G.O.) pledge of the state, up $930 million from the amount of G.O. bonds outstanding at the end of fiscal 1993. This 27 percent increase in G.O. bonds outstanding was due primarily to bonds issued in fiscal 1994 by the Texas Veterans Land Board, Texas Water Development Board, Texas Higher Education Coordinating Board, and the Texas Public Finance Authority. (See Chapter 3 for a description of bonds issued in fiscal 1994.)

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

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

Investors are willing to assume the added risk of non-G.O. bonds for a price—by charging the state a higher interest rate on such bonds. The rate of interest on a non-G.O. bond issue ranges from 0.1 to 0.5 of a percentage point higher than for a comparable G.O. issue.

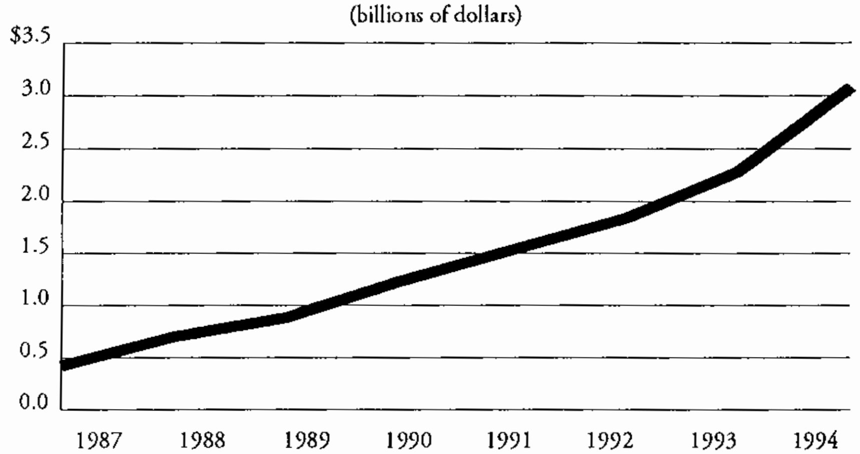
Increase in Bonds Payable from General Revenues

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

Bond issuance during fiscal 1994 continued a trend toward increased issuance of non-self-supporting Texas bonds *(Figure 15)*. On August 31, 1994, Texas had $3.1 billion in bonds outstanding, which must be paid back from the state's general revenue fund. This is up from $2.3 billion in such bonds outstanding at the end of fiscal 1993, $1.8 billion outstanding at the end of fiscal 1992, and $1.5 billion outstanding at the end of 1991.

FIGURE 15

TEXAS STATE BONDS OUTSTANDING BACKED ONLY BY GENERAL REVENUE
(billions of dollars)



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

TABLE 16

TEXAS BONDS OUTSTANDING

(amounts in thousands)

	8/31/91	8/31/92	8/31/93	8/31/94
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$1,311,222	$1,092,330	$1,185,726	$1,238,893
Water Development Bonds	125,310	155,220	193,965	225,935
Park Development Bonds	27,800	26,800	28,883	29,372[4]
College Student Loan Bonds	223,541	313,047	374,348	434,031
Farm and Ranch Security Bonds	10,000	0	0	0
Texas Agricultural Finance Authority*	3,500	17,000	20,000	18,000
Agriculture Water Conservation Bonds	0	0	0	7,000
Total Self-Supporting	$1,701,373	$1,604,397	$1,802,922	$1,953,231
Not Self-Supporting[1]				
Higher Education Constitutional Bonds[2]	$ 128,035	$ 98,800	$ 67,775	$ 34,970
Texas Public Finance Authority Bonds	856,950	930,000	1,313,934	2,132,432[4]
Texas National Research Laboratory Commission Bonds	250,000	250,000	243,584	237,822[4]
Water Development Bonds—EDAP[3]	0	5,435	17,325	16,940
Total Not Self-Supporting	$1,234,985	$1,284,235	$1,642,618	$2,422,164
Total General Obligation Bonds	$2,936,358	$2,888,632	$3,445,540	$4,375,395
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds				
Texas A&M University System	$ 308,300	$ 288,427	$ 324,759	$ 355,319[4]
University of Texas System	551,465	626,840	602,630	615,110
College and University Revenue Bonds	944,372	931,867	1,003,426	1,108,257
Texas Hospital Equipment Finance Council Bonds	12,750	12,500	12,100	11,900
Texas Dept. of Housing & Community Affairs Bonds	1,515,271	1,481,575	1,263,584	1,141,609
Texas Small Business IDC Bonds	99,335	99,335	99,335	99,335
Economic Development Program*	0	0	25,000	25,000
Texas Turnpike Authority Bonds	524,294	528,617	535,166	395,400
Texas Water Resources Finance Authority Bonds	486,645	473,235	457,820	436,040
College Student Loan Bonds	74,989	67,373	67,343	66,022
Texas Workers' Compensation Fund Bonds	0	300,000	288,915	277,255
Texas Water Development Board Bonds (State Revolving Fund)	0	50,000	291,000	409,400
Total Self-Supporting	$4,517,421	$4,859,769	$4,971,078	$4,940,647
Not Self-Supporting[1]				
Texas Public Finance Authority Bonds	$ 275,126	$ 275,311	$ 307,320	$ 348,480
TPFA Master Lease Purchase Program*	0	5,400	48,600	25,300[5]
National Guard Armory Board Bonds	23,905	24,065	26,955	33,135
Texas National Research Laboratory Commission Bonds	0	250,000	250,000	250,000
Total Not Self-Supporting	$ 299,031	$ 554,776	$ 632,875	$ 656,915
Total Non-General Obligation Bonds	$4,816,452	$5,414,545	$5,603,953	$5,597,562
Total Bonds	$7,752,810	$8,303,177	$9,049,493	$9,972,957

*Commercial Paper

[1]Bonds that are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue for debt service. Not self-supporting bonds totalled $3.1 billion outstanding on August 31, 1994, $2.3 billion outstanding on August 31, 1993, $1.8 billion outstanding on August 31, 1992, and $1.5 billion outstanding on August 31, 1991.

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

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

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

[5]This figure reflects only the commercial paper component of the Master Lease Purchase Program (MLPP). An additional $58 million in equipment revenue bonds for the MLPP are included under Texas Public Finance Authority bonds.

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

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

Tremendous growth in the amount of bonds payable from general revenue has occurred over the last seven years, primarily as a result of the issuance of bonds to finance construction of correctional facilities and the initial phase of the Superconducting Super Collider (SSC). At the end of fiscal 1987, before the expansion of correctional facilities and the SSC bonds were approved, Texas had only $422 million in bonds outstanding payable from general revenue. Since that time, the state has issued over $2.1 billion in debt for correctional facilities and $500 million for the SSC, all payable solely from the state's general revenue.

The amount of general revenue that must go to pay debt service is, as expected, increasing along with the amount of bonds outstanding that are not self-supporting *(Table 17, p. 30)*. During the 1994–95 budget period, the state will pay an average $279 million annually from general revenue for debt service based on debt outstanding as of August 31, 1994, up from $183 million annually during 1992–93, $114 million annually during 1990–91, and $62 million annually during 1988–89 *(Figure 16)*.

Texas Debt Remains Well Within Prudent Limits

Even with recent debt issuance, debt service from general revenue remains well within prudent limits.

During the 1994–95 biennium, the state will pay an estimated 1.4 percent of its general revenue budget for debt service, based on debt outstanding as of August 31, 1994. The percentage of general revenue going to debt service remains well below the level found in most other large states. (A more detailed examination of Texas' debt burden is presented in Chapter 2.)

During the 1992–93 budget period, 1.1 percent of general revenue went to pay debt service; in 1990–91, debt-service payments made up about 0.9 percent of general revenue.

Texas Has A Significant Amount of Bonds Authorized But Unissued

Authorized bonds are defined as those bonds which may be issued without further action by the Legislature or voters; however, some of these authorized but unissued bonds may require a legislative appropriation before they can be issued. As of August 31, 1994, Texas had $6.4 billion in authorized but unissued bonds *(Table 18, p. 31)*. Approximately $4.1 billion (65 percent) of these authorized but unissued bonds would be state general obligations. Only $1.9 billion (30 percent) of all authorized but unissued bonds, however, would require the payment of debt service from general revenue. The remainder are in programs that are designed to be self-supporting.

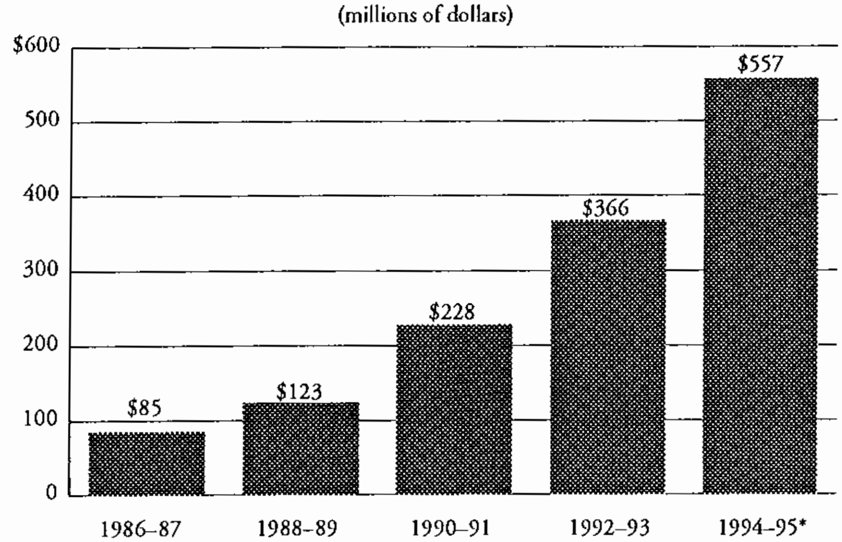
Long-Term Contracts and Lease Purchases Add to Texas' Debt Picture

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, like bonds, are a method of financing capital purchases over time. Payments on these contracts or agreements can be either general obligations of the state or subject to biennial appropriations by the Legislature. These contracts and agreements are not, however, classified as state bonds and must be added to bonds outstanding to get a complete picture of state debt.

The Texas Water Development Board has entered into a long-term contract with the federal government to gain storage rights at a reservoir. The balance due on the contract as of January 1, 1994, was $43.4 million. This contract is a general obligation of the state, but the TWDB does not anticipate a draw on general revenue for contract payments.

FIGURE 16

DEBT SERVICE PAID FROM GENERAL REVENUE DURING TWO-YEAR BUDGET PERIODS
(millions of dollars)



*Projected debt service for 1994–95 based on debt outstanding as of August 31, 1994, including G.O. commercial paper.

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

TABLE 17

DEBT SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR

(amounts in thousands)

	1994	1995	1996	1997	1998	1999 plus
GENERAL OBLIGATION BONDS						
Self-Supporting						
Veterans Land and Housing Bonds	$ 145,364	$ 145,344	$140,158	$143,441	$142,318	$ 1,755,567
Water Development Bonds	21,170	21,871	21,905	21,985	22,024	318,441
Park Development Bonds	1,339	2,498	2,995	3,242	3,347	34,323
College Student Loan Bonds	40,097	43,391	44,021	47,969	51,990	494,393
Texas Agricultural Finance Authority Bonds*	2,706	1,170	1,170	1,170	1,170	58,467
Agriculture Water Conservation Bonds	189	1,009	1,052	1,090	1,122	4,684
Total Self-Supporting	$ 210,865	$ 215,283	$211,301	$218,897	$221,971	$ 2,665,875
Not Self-Supporting[1]						
Higher Education Constitutional Bonds[2]	$ 35,450	$ 35,865	$ 0	$ 0	$ 0	$ 0
Texas Public Finance Authority Bonds	114,416	175,313	193,978	198,959	200,267	2,827,133
Texas Nat'l Research Laboratory Commission Bonds	20,404	20,393	20,382	20,370	20,368	450,787
Water Development Bonds—EDAP[3]	1,742	1,395	1,399	1,402	1,406	24,307
Total Not Self-Supporting	$ 172,012	$ 232,966	$215,759	$220,731	$222,041	$ 3,302,227
TOTAL GENERAL OBLIGATION BONDS	$ 382,877	$ 448,249	$427,060	$439,628	$444,012	$ 5,968,102
NON-GENERAL OBLIGATION BONDS						
Self-Supporting						
Permanent University Fund Bonds						
Texas A&M University System	$ 26,648	$ 30,766	$ 31,786	$ 32,277	$ 33,536	$ 529,200
University of Texas System	66,042	67,513	57,395	57,395	57,397	808,190
College and University Revenue Bonds	124,684	130,757	130,687	128,741	129,957	1,302,498
Texas Hospital Equipment Finance Council Bonds	497	476	476	476	476	15,032
Texas Department of Housing & Community Affairs Bonds	273,972	84,939	89,302	88,896	88,689	2,373,876
Texas Small Business Industrial Development Corporation Notes	2,742	4,967	4,967	4,967	4,967	238,411
Economic Development Program*	926	1,625	1,625	1,625	1,625	65,422
Texas Turnpike Authority Bonds	34,859	31,988	40,357	38,712	38,711	669,402
Texas Water Resources Finance Authority Bonds	53,946	55,448	55,236	55,151	53,394	519,583
College Student Loan Bonds	3,971	3,970	5,622	6,408	7,142	109,033
Texas Workers' Compensation Fund Bonds	36,645	36,594	36,404	36,347	36,289	322,960
Texas Water Development Board Bonds (State Revolving Fund)	27,251	31,701	32,444	34,662	34,501	563,995
Total Self-Supporting	$ 652,183	$ 480,744	$486,301	$485,657	$486,684	$ 7,517,602
Not Self-Supporting[1]						
Texas Public Finance Authority Bonds	$ 48,056	$ 49,248	$ 38,292	$ 31,773	$ 29,315	$ 391,132
TPFA Master Lease Purchase Program*	5,243	8,268	8,286	6,073	3,587	1,864
National Guard Armory Board Bonds	3,404	3,620	4,000	4,005	3,992	31,830
Texas Nat'l Research Laboratory Commission Bonds	17,335	17,335	20,150	20,158	20,160	522,632
Total Not Self-Supporting	$ 74,038	$ 78,471	$ 70,728	$ 62,009	$ 57,054	$947,458
TOTAL NON-GENERAL OBLIGATION BONDS	$ 726,221	$ 559,215	$557,029	$547,666	$543,738	$ 8,465,060
TOTAL ALL BONDS	$1,109,098	$1,007,464	$984,089	$987,294	$987,750	$14,433,162

*Commercial Paper

[1] Bonds that are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totalled $246 million during fiscal 1994 and will reach $311 million in fiscal 1995.

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

[3] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, effective September 1, 1993, up to 90 percent of the bonds issued may be used for grants.

Note: The debt-service figures do not include the early redemption of bonds under the state's various loan programs. The future debt-service figures for variable rate bonds and commercial paper programs are estimated amounts.

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

TABLE 18

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

	8/31/92	8/31/93	8/31/94
GENERAL OBLIGATION BONDS			
Self-Supporting			
Veterans Land and Housing Bonds	$ 370,000	$ 210,000	$ 854,999
Water Development Bonds	1,266,245	1,224,245	1,186,245
Farm and Ranch Loan Bonds	500,000	500,000	500,000
Park Development Bonds	29,250	25,975	25,975
College Student Loan Bonds	200,001	125,001	50,001
Texas Department of Commerce Bonds	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	13,000	10,000	12,000
Agriculture Water Conservation Bonds	200,000	200,000	193,000
Total Self-Supporting	**$2,623,496**	**$2,340,221**	**$2,867,220**
Not Self-Supporting[1]			
Higher Education Constitutional Bonds	*	*	*
Texas Public Finance Authority Bonds	$1,032,400	$ 624,935	$ 773,540[2]
Texas National Research Laboratory Commission Bonds	250,000	250,000	250,000
Water Development Bonds—EDAP[3]	244,565	232,565	232,565
Total Not Self-Supporting	**$1,526,965**	**$1,107,500**	**$1,256,105**
TOTAL GENERAL OBLIGATION BONDS	**$4,150,461**	**$3,447,721**	**$4,123,325**
NON-GENERAL OBLIGATION BONDS			
Self-Supporting			
Permanent University Fund Bonds[4]			
Texas A&M University System	$ 76,369	$ 79,238	$ 67,178
The University of Texas System	102,398	204,006	227,385
College and University Revenue Bonds	**	**	**
Texas Department of Housing & Community Affairs Bonds	**	**	**
Texas Turnpike Authority Bonds	**	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000	500,000
Texas Department of Commerce Bonds	**	**	**
Texas Water Resources Finance Authority Bonds	**	**	**
Texas School Facilities Finance Program	750,000	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**	**
College Student Loan Bonds	0	0	0
Low-Level Radioactive Waste Disposal Authority Bonds	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**
Alternative Fuels Program	0	0	50,000
Texas Water Development Board (State Revolving Fund)	**	**	**
Total Self-Supporting	**$1,428,767**	**$1,533,244**	**$1,594,563**
Not Self-Supporting[1]			
Texas Public Finance Authority Bonds	$ 294,129	$ 272,020	$ 340,495
TPFA Master Lease Purchase Program—Commercial Paper	44,600	26,400	74,700
National Guard Armory Board Bonds	**	**	**
Texas National Research Laboratory Commission Bonds	250,000	250,000	250,000
Total Not Self-Supporting	**$ 588,729**	**$ 548,420**	**$ 665,195**
TOTAL NON-GENERAL OBLIGATION BONDS	**$2,017,496**	**$2,081,664**	**$2,259,758**
TOTAL ALL BONDS	**$6,167,957**	**$5,529,385**	**$6,383,083**

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

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

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

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

[2] This figure represents bonds that have been approved by the voters but have not been issued. The Legislature has appropriated $108.7 million from the unissued amount; the remaining $664.8 million cannot be issued until appropriated by the Legislature.

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

[4] Issuance of PUF bonds by A&M is limited to 10 percent, and issuance by UT is limited to 20 percent of the cost value of investments and other assets of the PUF, except real estate. The PUF value used in this table is as of August 31, 1994.

As of August 31, 1993, state capital leases outstanding for furniture and equipment totaled approximately $65.7 million. Approximately $48.6 million of the total leases were financed through the Master Lease Purchase Program, and therefore are already reflected in the bond outstanding figures shown in *Table 16, p. 28.*

Lease-purchase agreements for prison facilities have greatly increased the significance of this type of debt. As of the end of fiscal 1994, the Texas Department of Criminal Justice was party to eleven long-term lease-purchase agreements for the purchase or construction of prison facilities. The TDCJ lease purchases had a total principal amount equal to $143.2 million outstanding as of August 31, 1993. The lease-purchase payments for the prisons will come totally from appropriations of general revenue by the Legislature to the Texas Department of Criminal Justice *(Table 19).*

Lease purchases as of August 31, 1993, including furniture, equipment (excluding lease purchases financed through MLPP) and prison facilities, totaled $160.3 million. Inclusion of lease purchases of facilities approved by the Bond Review Board during 1994 (excluding conversions of operating leases to leases with option to purchase) would add another $64.7 million to the total amount of lease purchases outstanding. The equipment lease purchases approved by the Bond Review Board in 1994 were all financed through MLPP and therefore are shown as bonds outstanding.

TABLE 19

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

(amounts in thousands)

	1994	1995	1996	1997	1998	1999 and Beyond
General Services Commission	$ 2,802	$ 3,392	$ 3,396	$ 3,394	$ 3,395	$ 65,926
Texas Department of Criminal Justice	14,198	19,076	21,574	21,279	21,483	243,474
TOTAL	$17,000	$22,468	$24,970	$24,673	$24,878	$309,400

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

APPENDIX A

SUMMARY OF BONDS ISSUED

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of The Texas A&M University System, Revenue Financing System Bonds, Series 1993B—$13,760,000.

Purpose: The proceeds of the bonds, together with other available funds, were used to construct a new wastewater treatment facility for the Texas A&M University campus and to pay the costs of issuing the bonds.

Dates: Board Approval—August 19, 1993
Private Placement—September 17, 1993
Delivery Date—October 26, 1993

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2014. The bonds were purchased by the Texas Water Development Board through the State Revolving Fund program. The bonds are revenue obligations payable from pledged revenues which include the pledged tuition fee, pledged general fee, and other revenues, funds, and balances available to the Board of Regents from any and all components of The Texas A&M System.

Bond Rating: Not Rated

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—First Southwest Company
Purchaser—Texas Water Development Board

Interest Rates: True Interest Cost—4.23%
Net Interest Cost—4.26%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$11,361	$0.83
Financial Advisor	16,171	1.18
Printing	714	0.05
CUSIP Service Bureau	52	0.00
Paying Agent/Registrar	200	0.01
	$28,498	**$2.07**
Underwriter's Spread	N/A	N/A

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of The Texas A&M University System, Revenue Financing System Refunding Bonds, Series 1993C—$4,070,000.

Purpose: The proceeds of the bonds were used to refund all of the outstanding principal amounts of Texas A&M University Tuition Revenue Bonds, Series 1973 and Series 1974, and to pay the costs of issuing the bonds.

Dates: Board Approval—September 23, 1993
Negotiated Sale—September 29, 1993
Delivery Date—November 1, 1993

Structure: The bonds were sold as fixed-rate tax-exempt securities maturing serially with a final maturity in 2004. Both the Series 1973 and the Series 1974 bonds were redeemed at par on November 1, 1993. The bonds are revenue obligations payable from pledged revenues including pledged tuition fees, pledged general fees, and other revenues, funds, and balances available to the Board of Regents from any and all components of The Texas A&M System.

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

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—First Southwest Company
Senior Underwriter—George K. Baum & Company

Interest Rates: True Interest Cost—4.42%
Net Interest Cost—4.28%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 6,376	$ 1.57
Financial Advisor	20,863	5.13
Paying Agent/Registrar	250	0.06
Rating Agencies	12,500	3.07
Printing	3,220	0.79
	$43,209	**$10.62**
Underwriter's Spread	**$33,374**	**$ 8.20**

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: Texas Higher Education Coordinating Board, College Student Loan Bonds, Series 1994—$75,000,000.

Purpose: The proceeds of the bonds were used to fund the Hinson-Hazelwood Loan Program. The program provides low interest loans to students seeking an undergraduate, graduate or professional education at institutions of higher education in Texas. The amount of a loan an individual may receive is determined by the student's financial need.

Dates: Board Approval—April 20, 1994
Competitive Sale—April 28, 1994
Delivery Date—June 1, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities with a final maturity in 2019. The bonds are general obligations of the state. As such, the state's full faith and credit are pledged to the repayment of the bonds. The program is designed to be self-supporting by providing funding through the repayment of student loans and investment interest sufficient to meet the debt service and reserve requirements without drawing funds from the state's General Revenue Fund.

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

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—First Southwest Company
Senior Underwriter—Lehman Brothers

Interest Rates: True Interest Cost—5.84%
Net Interest Cost—5.91%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 25,000*	$0.33*
Financial Advisor	37,500	0.50
Rating Agencies	25,000	0.33
Printing	5,488	0.07
Miscellaneous	22,947	0.31
	$115,935*	$1.54*
Underwriter's Spread	$356,250	$4.75

*Estimated amounts.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs Single Family Mortgage Revenue Bonds, Series 1993—$58,475,000.

Purpose: The proceeds of the bonds were used to provide funds to finance low-interest mortgage loans made to first-time home buyers of low and moderate income.

Dates: Board Approval—October 21, 1993
Private Placement—November 19, 1993
Delivery Date—November 23, 1993

Structure: The TDHCA is participating in the Federal National Mortgage Association's (FNMA) Mortgage Revenue Bond Express Program. Bonds are issued as convertible option bonds (COBs) with an initial interest period of one year and have fixed rates negotiated with FNMA. Proceeds of the COBs are invested in a AAA-rated guaranteed investment contract that has an interest rate equal to or greater than the rate on the COBs. As mortgage loans are originated and pooled, the COBs are converted into long-term debt and an equivalent amount of proceeds are used to purchase the mortgage certificates. The fixed rate on the bonds is predetermined and corresponds to the rate on the mortgage loans. The bonds will mature not later than December 1, 2025. The TDHCA has the option of converting the interest rate on any portion of the COBs to a new fixed rate on a monthly basis. The revenue bonds are secured by a pledge of the mortgage certificates, including mortgage loan payments and guaranty payments made by GNMA and FNMA respectively. The bonds are also secured by a pledge of the money in the funds and accounts created under the trust indenture.

Bond Ratings: Standard & Poor's—SP-1+ COBs
Standard & Poor's—AAA (Insured)
Fixed Rate

Consultants:
Co-Bond Counsel—Vinson & Elkins L.L.P.
Sherman E. Stimley and Associates
Financial Advisor—Rauscher Pierce Refsnes, Inc.

Interest Rate: Variable Rate Program
(First year rate of 3.35%)

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$148,611	$2.54
Disclosure Counsel	22,500	0.38
FNMA Counsel	60,000	1.03
Servicer Counsel	10,000	0.17
Financial Advisor	48,833	0.84
Rating Agencies	5,848	0.10
Trustee	27,733	0.47
Department Marketing	20,000	0.34
Private Activity Allocation	14,619	0.25
Servicer Administration	3,500	0.06
Attorney General	1,250	0.02
	$362,894	$6.20
Underwriter's Spread	N/A	N/A

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs Residential Rental Project Revenue Bonds (National Center for Housing Management, Inc. Project), Series 1993—$16,775,000.

Purpose: The proceeds of the bonds were used to provide funds to finance the following five multi-family residential rental housing developments: Arrowood Apartments, Houston; Aspen Chase Apartments, Dallas; Redbud Trail Apartments, McKinney; Stone Creek Apartments, Lewisville; and Waterchase Apartments, Dallas. Under the Resolution Trust Corporation's (RTC) Affordable Housing Disposition Program, occupancy in each property is restricted such that 57% of the units must be rented to persons earning not more than 50% of the area median income. The remaining 43% of the units must be rented to persons earning not more than 80% of the area median income. RTC's restrictions on these properties extend to 2031 and are binding on subsequent owners of the properties.

Dates: Board Approval—October 21, 1993
Negotiated Sale—December 21, 1993
Delivery Date—December 29, 1993

Structure: The proceeds from the bonds issued by the TDHCA were loaned to the National Center for Housing Management, Inc. to finance the purchase of the properties from the Transactions Funding Corporation, a subsidiary of General Electric Capital Corporation. The bonds are qualified 501(c)(3) bonds, the interest on which is excludable for federal income tax purposes, and did not require an allocation of the state private activity ceiling. The bonds will be amortized over 30 years with a final maturity in 2023. The bonds are insured.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's—AAA (Insured)

Consultants:
Co-Bond Counsel—Vinson & Elkins L.L.P.
Sherman E. Stimley and Associates
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Underwriter—John Nuveen & Co. Inc.

Interest Rates: True Interest Cost—5.69%
Net Interest Cost—5.72%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$112,000	$ 6.68
Disclosure Counsel	20,000	1.19
Developer's Counsel	34,500	2.06
Real Estate Counsel	10,000	0.60
Financial Advisor	15,000	0.89
Rating Agencies	85,000	5.07
Trustee	14,900	0.89
Printing	14,901	0.89
Department Financing	55,500	3.31
	$361,801	**$21.58**
Underwriter's Spread	**$178,318**	**$10.63**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs Junior Lien Single Family Mortgage Revenue Refunding Bonds, Series 1994A $35,000,931.95 and Series 1994B—$55,995,000.

Purpose: The proceeds of the bonds were used to: (a) refund the Texas Housing Agency Single Family Mortgage Revenue Bonds, Series 1983A, (b) establish a special single-family home mortgage loan purchase program, and (c) establish a special housing assistance initiative to provide funds from time to time to assist certain nonprofit organizations, for-profit organizations and governmental entities and other individuals or entities deemed to have special need.

Dates: Board Approval—January 20, 1994
Negotiated Sale—May 19, 1994
Delivery Date—June 8, 1994

Structure: Of the Series 1994A bonds, $30,000,931.95 was issued as capital appreciation bonds and $5,000,000 was issued as current interest bonds. All of the Series 1994A bonds are tax-exempt and mature in 2015. The Series 1994B bonds were issued as taxable bonds with a coupon of 9.50% maturing in 2016. The bonds are secured by a pledge of the surplus revenues consisting of the revenues under the 1980 Indenture after payment of all debt service on the bonds issued thereunder and all program costs.

Bond Ratings: Moody's—A1
Standard & Poor's—A+

Consultants:
Co-Bond Counsel—Vinson & Elkins L.L.P.
Sherman E. Stimley and Associates
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—George K. Baum & Company

Interest Rates: True Interest Cost—7.83%
Net Interest Cost—CABs distort N.I.C.

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$151,719	$ 1.67
Disclosure Counsel	54,966	0.60
Financial Advisor	45,000	0.49
Rating Agencies	57,000	0.63
Trustee	45,463	0.50
Verification Agent	20,000	0.22
Printing	16,972	0.19
MGIC Endorsement	51,240	0.56
Attorney General	2,500	0.03
Miscellaneous	16,087	0.18
	$460,948	**$ 5.07**
Underwriter's Spread	**$978,206**	**$10.75**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs Multi-Family Housing Refunding Revenue Bonds (Summer Meadows and Summers' Crossing Developments), Series 1994A—$12,580,000 and Series 1994B—$9,390,000.

Purpose: The proceeds of the bonds were used to refund bonds issued in 1988, which in turn refunded bonds issued in 1984 to finance two multi-family rental housing developments located in Plano, Texas. Through this refinancing, the TDHCA proposes to increase the set-aside requirements for low-income units to 25% of the units in each development and require that the developer use its best efforts to ensure that at least 10% of the units meet the applicable standards of accessibility to persons with special needs and are occupied by such persons who also meet the income eligibility standards.

Dates: Board Approval—May 19, 1994
Private Placement—June 23, 1994
Delivery Date—June 23, 1994

Structure: The bonds were sold as tax-exempt securities in fully registered form, initially with interest payable monthly and principal payable at maturity. The bonds were neither rated nor credit enhanced. The bonds do not create an obligation, debt or liability of the state, or pledge or loan the faith, credit or taxing power of the state. Each series of bonds will be payable from and secured by payments received by the trustee from the borrowers on the loan made by the department, all funds held under the indentures, including any investment earnings, and a first mortgage on each of the developments.

Bond Rating: Not Rated

Consultants:
Co-Bond Counsel—Vinson & Elkins L.L.P.
Sherman E. Stimley and Associates
Financial Advisor—Rauscher Pierce Refsnes, Inc.

Interest Rate: Variable

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$121,691	$ 5.54
Department Real Estate Counsel	3,707	0.17
Trustee Counsel	16,000	0.73
Financial Advisor	20,000	0.91
Department Financing	69,925	3.18
	$231,323	**$10.53**
Underwriter's Spread	N/A	N/A

MIDWESTERN STATE UNIVERSITY

Issue: Board of Regents of Midwestern State University, University Building Revenue Refunding Bonds, Series 1994—$350,000.

Purpose: The proceeds of the bonds were used to current refund the outstanding Building Revenue Bonds, Series 1983 and to pay the costs of issuing the bonds. The refunding bonds were privately placed with a local (Wichita Falls) financial institution.

Dates: Board Approval—April 20, 1994
Private Placement—April 25, 1994
Delivery Date—May 30, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 1999. The bonds are secured by and payable from an irrevocable first lien on and pledge of the net revenues of the university building system and the student center building use fees.

Bond Rating: Not Rated

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

Interest Rates: True Interest Cost—5.15%
Net Interest Cost—5.16%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$2,384	$ 6.81
Financial Advisor	1,500*	4.29*
	$3,884*	**$11.10***
Underwriter's Spread	N/A	N/A

*Estimated amounts.

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, (Texas National Guard Armory Board), Refunding and Armory Improvement Revenue Bonds, Series 1994—$17,350,000.

Purpose: The proceeds of the bonds were used to refund certain outstanding bonds in the amount of $15,630,000 and to finance construction, renovation and roofing projects at various locations in the amount of $7,219,269.

Dates: Board Approval—April 20, 1994
Negotiated Sale—May 18, 1994
Delivery Date—June 8, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities with $12,760,000 of serial bonds maturing 1995–2005 and term bonds of $1,465,000 maturing in 2008 and $3,125,000 maturing in 2014. The bonds are special obligations of the NGAB and are not general obligations of the state.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's—AAA (Insured)

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Co-Bond Counsel—Walker & Satterthwaite
Co-Financial Advisor—Masterson Moreland Sauer Whisman, Inc.
Berean Capital, Inc.
Senior Underwriter—Grigsby Brandford & Co., Inc.

Interest Rates: True Interest Cost—5.92%
Net Interest Cost—5.75%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$34,300	$1.98
Financial Advisor	28,000	1.61
Rating Agencies	23,000	1.33
Printing	4,948	0.29
Verification	3,200	0.18
Attorney General	1,250	0.07
Miscellaneous	5,295	0.31
	$99,993	**$5.77**
Underwriter's Spread	**$76,340**	**$4.40**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Equipment Revenue and Revenue Refunding Bonds, Series 1993A—$73,890,000.

Purpose: The proceeds of the bonds were used to refund approximately $47.6 million of commercial paper notes outstanding and issued under the Master Lease Purchase Program (MLPP). Additionally, new money in an amount not to exceed $25.665 million was used to purchase equipment (previously approved by the Board) for use by the Texas Department of Human Services as a participant in the MLPP.

Dates: Board Approval—August 19, 1993
Negotiated Sale—October 7, 1993
Delivery Date—October 28, 1993

Structure: The bonds were issued as fixed-rate tax-exempt securities. The Equipment Revenue and Revenue Refunding bonds will mature serially with a final maturity in 1998. The bonds are payable from rent payments received from the state agencies and universities participating in the lease program.

Bond Ratings: Moody's—A
Standard & Poor's—A+

Consultants:
Bond Counsel—Ferchill & Webb, P.C.
Financial Advisor—Masterson Moreland Sauer Whisman, Inc.
Senior Underwriter—Lehman Brothers

Interest Rates: True Interest Cost—4.14%
Net Interest Cost—3.84%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 22,062	$0.30
Financial Advisor	37,949	0.51
Rating Agencies	32,000	0.43
Dealer	7,865	0.11
Printing	5,731	0.08
Escrow Verification	5,000	0.07
Escrow Agent	526	0.01
Attorney General	1,250	0.02
Miscellaneous	2,742	0.04
	$115,125	**$1.57**
Underwriter's Spread	**$336,938**	**$4.56**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority (TPFA), State of Texas General Obligation Bonds, Series 1994A—$317,230,000.

Purpose: The proceeds of the bonds were used by the Texas Department of Criminal Justice (TDCJ) for the construction of various detention facilities and to pay the costs of issuing the bonds.

Dates: Board Approval—March 17, 1994
Competitive Sale—April 20, 1994
Delivery Date—May 11, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with final maturity in 2014. The bonds are general obligations of the state. The state's full faith and credit are pledged to the repayment of the bonds.

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

Consultants:
Bond Counsel—Fulbright & Jaworski L.L.P.
Co-Bond Counsel—Batchan & Scott, P.C.
Co-Financial Advisor—Masterson Moreland Sauer Whisman, Inc.
M.R. Beal & Company
Senior Underwriter—Goldman, Sachs & Co.

Interest Rates: True Interest Cost—5.84%
Net Interest Cost—5.87%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 31,451	$0.10
Financial Advisor	31,090	0.10
Rating Agencies	50,600	0.16
Printing	5,779	0.02
Attorney General	1,250	0.00
Miscellaneous	9	0.00
	$ 120,179	**$0.38**
Underwriter's Spread	**$1,148,373**	**$3.62**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas General Obligation Bonds, Series 1994B—$141,865,000.

Purpose: The proceeds of the bonds will be used by the Texas Department of Criminal Justice to pay expenses incurred in the design, construction and major repair or renovation of various detention facilities and to pay the costs of issuing the bonds.

Dates: Board Approval—June 23, 1994
Competitive Sale—July 20, 1994
Delivery Date—August 10, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with final maturity in 2014. The bonds are general obligations of the state. The state's full faith and credit are pledged to the repayment of the bonds.

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

Consultants:
Bond Counsel—Fulbright & Jaworski L.L.P.
Co-Bond Counsel—Wickliff & Hall
Co-Financial Advisor—Masterson Moreland Sauer Whisman, Inc.
Friedman, Luzzatto & Co.
Senior Underwriter—Merrill Lynch & Co.

Interest Rates: True Interest Cost—5.74%
Net Interest Cost—5.72%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 14,764*	$0.10
Financial Advisor	28,078	0.20
Rating Agencies	41,000	0.29
Printing	4,647	0.03
Attorney General	1,250	0.01
Miscellaneous	469*	0.00
	$ 90,208	**$0.63**
Underwriter's Spread	**$639,109**	**$4.51**

*Estimated amounts.

TEXAS SOUTHERN UNIVERSITY

Issue: Board of Regents of Texas Southern University, Consolidated Revenue Refunding Bonds, Series 1993, and Consolidated Revenue Bonds, Series 1993A—$20,845,000.

Purpose: The proceeds of the Series 1993 bonds were used to refund $9.653 million in outstanding Board of Regents of Texas Southern University bonds and to pay the costs of issuing and insuring the bonds. The bonds being refunded include the Building Revenue Bonds of 1963, Series A and B; General Fee Revenue Bonds, Series 1973; and Combined Fee Revenue Refunding Bonds, Series 1978. Proceeds of the Series 1993A bonds were used to provide funding for renovations and capital improvements at the university.

Dates: Board Approval—November 18, 1993
Negotiated Sale—December 1, 1993
Delivery Date—January 11, 1994

Structure: The bonds are fixed-rate tax-exempt securities. The refunding bonds have a par amount of $8,490,000 and have a final maturity in 2008. The new-money bonds have a par amount of $12,355,000 and have a final maturity in 2018. The bonds are insured and a debt-service reserve surety fund bond has been issued. The bonds are special obligations of the Board of Regents and are payable from pledged revenues, which include the general fee, the tuition fee, and other fees and charges for services collected by the University.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's—AAA (Insured)

Consultants:
Bond Counsel—Vinson & Elkins L.L.P.
Co-Bond Counsel—Batchan & Scott, P.C.
Financial Advisor—Masterson Moreland Sauer Whisman, Inc.
Senior Underwriter—Grigsby Brandford & Co., Inc.

Interest Rates: True Interest Cost—5.80%
Net Interest Cost—5.50%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 42,947	$2.06
Financial Advisor	22,353	1.07
Rating Agencies	24,200	1.16
Printing	8,105	0.39
Paying Agent/Registrar	1,000	0.05
Escrow Agent	19,130	0.92
Verification Agent	5,350	0.26
	$123,085	**$5.91**
Underwriter's Spread	**$174,056**	**$8.35**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Tuition Revenue Bonds, Series 1993—$27,000,000.

Purpose: The proceeds of the bonds were used for two new construction projects at Angelo State and Sam Houston State Universities, the acquisition of Aquarena Springs Resort by Southwest Texas State University, and the renovation of Lawrence Hall at Sul Ross State University.

Dates: Board Approval—October 21, 1993
Competitive Sale—December 2, 1993
Delivery Date—January 5, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2014. The bonds are revenue obligations payable from pledged revenues including pledged general tuition, all interest, income and earnings derived from the deposit and investment of the interest and sinking fund established from this transaction, and any additional revenues, income, receipts or other resources received which may be pledged to the payment of the bonds.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's—AAA (Insured)

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—Goldman, Sachs & Co.

Interest Rates: True Interest Cost—5.30%
Net Interest Cost—5.20%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 21,000	$ 0.78
Financial Advisor	7,375	0.27
Rating Agencies	28,800	1.07
Printing	13,140	0.49
Paying Agent/Registrar	200	0.01
Attorney General	1,250	0.05
Miscellaneous	2,246	0.08
	$ 74,011	**$ 2.75**
Underwriter's Spread	**$297,194**	**$11.01**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Angelo State University Building Use Fee and Combined Fee Revenue Refunding Bonds, Series 1994—$3,400,000.

Purpose: The proceeds of the bonds were used to refund certain maturities from four outstanding bond issues: Building Use Fee Revenue, Series 1970 ($1,060,000); Building Use Fee Revenue, Series 1973 ($895,000); Building Use Fee Revenue, Series 1974 ($500,000); and Combined Use Fee Revenue, Series 1987 ($735,000).

Dates: Board Approval—February 17, 1994
Negotiated Sale—March 1, 1994
Delivery Date—March 28, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2004. The refunding bonds are secured by pledged revenues, which include (1) the gross collections of the Building Use Fees; (2) all interest and other investment earnings resulting from the deposit or investment of money credited to the Revenue Fund and the Interest and Sinking Fund; (3) the net collections of the Tuition Fee; (4) all debt-service subsidy and interest grants received from the United States government in connection with the bonds and additional bonds; and (5) any additional revenues, income, receipts or other sources. The bonds are not general obligations of the state. The bonds are insured.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's—AAA (Insured)

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—Masterson Moreland Sauer Whisman, Inc.

Interest Rates: True Interest Cost—4.68%
Net Interest Cost—4.54%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 3,300	$0.97
Financial Advisor	3,380	0.99
Rating Agencies	11,400	3.35
Printing	6,716	1.98
Paying Agent/Registrar	200	0.06
Miscellaneous	2,275	0.67
Attorney General	750	0.22
	$28,021	**$8.24**
Underwriter's Spread	**$26,248**	**$7.72**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Southwest Texas State University Student Housing System Revenue Bonds, Series 1994—$2,700,000.

Purpose: The proceeds of the bonds were used to provide funds to pay the cost of acquiring an 85-unit apartment complex in San Marcos, Texas, known as Clear Springs Apartments, and pay issuance costs. The apartments were acquired for the purpose of providing housing facilities to serve Southwest Texas State University.

Dates: Board Approval—July 21, 1994
Competitive Sale—August 4, 1994
Delivery Date—August 30, 1994

Structure: The bonds were sold through competitive sale as fixed-rate tax-exempt securities. The bonds mature serially beginning in October 1995 and ending in October 2014. The bonds were issued in book-entry form. The bonds are special obligations of the Board of Regents and are secured by and payable from pledged revenues, which include the net revenues of the housing system; the interest income from the revenue fund, the interest and sinking fund, the reserve fund, and the university housing system maintenance and equipment reserve account; and any additional revenues which may be pledged to the payment of all parity bonds. The bonds are not general obligations of the state. The bonds are insured.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's—AAA (Insured)

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—Prudential Securities Incorporated

Interest Rates: True Interest Cost—5.91%
Net Interest Cost—5.87%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 3,000	$ 1.11
Financial Advisor	1,300	0.48
Rating Agencies	10,700	3.96
Printing	4,688	1.74
Paying Agent/Registrar	200	0.07
Attorney General	750	0.28
Miscellaneous	1,108	0.41
	$21,746	**$ 8.05**
Underwriter's Spread	**$50,662**	**$18.76**

TEXAS TECH UNIVERSITY

Issue: Board of Regents of Texas Tech University, Revenue Financing System Refunding Bonds, First Series 1993—$46,420,000.

Purpose: The proceeds of the bonds were used to current refund and advance refund all of the outstanding principal amounts of Texas Tech University Revenue Bonds, with the exception of the outstanding housing revenue bonds, and to pay the costs of issuing the bonds.

Dates: Board Approval—October 21, 1993
Negotiated Sale—October 26, 1993
Delivery Date—November 30, 1993

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2007. The bonds are revenue obligations payable from pledged revenues including pledged general tuition; all interest income and earnings derived from the deposit and investment of the interest and sinking fund established from this transaction; and any additional revenues, income, receipts or other resources received which may be pledged to the payment of the bonds.

Bond Ratings: Moody's—A1
Standard & Poor's—AA
Fitch—AA (Private Credit Opinion)

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—First Southwest Company
Senior Underwriter—Merrill Lynch & Co.

Interest Rates: True Interest Cost—4.49%
Net Interest Cost—4.46%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 37,101	$0.80
Financial Advisor	36,598	0.79
Rating Agencies	46,000	0.99
Printing	11,095	0.24
Paying Agent/Registrar	5,222	0.11
Escrow Agent	4,500	0.09
Verification Agent	4,000	0.09
	$144,516	**$3.11**
Underwriter's Spread	**$290,125**	**$6.25**

TEXAS TURNPIKE AUTHORITY

Issue: Texas Turnpike Authority, Dallas North Tollway Revenue Refunding Bonds, Series 1993—$140,135,000.

Purpose: The proceeds of the bonds were used to advance refund a portion of the outstanding principal amounts of the TTA's Dallas North Tollway Revenue Bonds, Series 1990, and to pay the costs of issuing the bonds.

Dates: Board Approval—September 23, 1993
Negotiated Sale—October 5, 1993
Delivery Date—November 3, 1993

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2020. The bonds are revenue obligations payable from net revenues of the Dallas North Tollway Project. The bonds are insured.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's— AAA (Insured)

Consultants:
Co-Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Law Office–Sherman E. Stimley
Financial Advisor—First Southwest Company
Senior Underwriter—PaineWebber Incorporated
Lehman Brothers

Interest Rates: True Interest Cost—5.24%
Net Interest Cost—5.12%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 124,810	$0.89
Financial Advisor	130,101	0.93
Rating Agencies	70,000	0.50
Printing	30,502	0.22
Verification Agent	5,000	0.04
Issuer's Counsel	61,608	0.44
Engineering	50,791	0.36
CPA	12,500	0.09
Trustee/Escrow Agent	6,000	0.04
Miscellaneous	12,141	0.09
	$ 503,453	**$3.60**
Underwriter's Spread	**$1,121,080**	**$8.00**

TEXAS WOMAN'S UNIVERSITY

Issue: Board of Regents of Texas Woman's University, Combined Fee Revenue Bonds, Series 1994—$5,000,000.

Purpose: The proceeds of the bonds were used for the purpose of upgrading facilities, including classroom renovations, deferred maintenance of four buildings, and general improvements of educational facilities for Texas Woman's University.

Dates: Board Approval—April 20, 1994
Competitive Sale—May 19, 1994
Delivery Date—June 9, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2003. The bonds are secured by and payable from pledged revenues, which include the building use fee; the general fee; the pledged student tuition; the annual interest grants or interest subsidies received from the successor to the U.S. Department of Health, Education and Welfare in connection with the Series 1971-A bonds; and any additional revenues, income, receipts, or other resources. The bonds are not general obligations of the state.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's— AAA (Insured)

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—Merrill Lynch & Co.

Interest Rates: True Interest Cost—5.19%
Net Interest Cost—5.18%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$11,160	$2.23
Financial Advisor	5,075	1.02
Rating Agencies	16,800	3.36
Printing	7,362	1.47
Paying Agent/Registrar	350	0.07
Miscellaneous	528	0.11
	$41,275	**$8.26**
Underwriter's Spread	**$44,569**	**$8.91**

UNIVERSITY OF NORTH TEXAS

Issue: Board of Regents of The University of North Texas, Consolidated University Revenue Bonds, Series 1994—$10,000,000.

Purpose: The proceeds of the bonds were used for the purpose of purchasing and renovating a storage area for library materials and surplus property, providing a work area for library staff, renovating the library and constructing an Advanced Learning and Student Services Center for the University of North Texas.

Dates: Board Approval—January 20, 1994
Competitive Sale—February 2, 1994
Delivery Date—February 23, 1994

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2014. The bonds are secured by a first lien on and pledge of the Gross Revenues of the University Building System; the General Fee; the Pledged Student Tuition; University Center Fee; investment income, if any, on moneys on deposit in the Interest and Sinking Fund, the Reserve Fund, and any other Fund maintained pursuant to the Resolution; annual interest grants received from the United States Department of Education; and any additional revenues, income receipts or other sources. The bonds are not general obligations of the state.

Bond Ratings: Moody's—Aaa (Insured)
Standard & Poor's—AAA (Insured)

Consultants:
Co-Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Walker & Satterthwaite
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—Rauscher Pierce Refsnes, Inc.

Interest Rates: True Interest Cost—5.49%
Net Interest Cost—4.92%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$12,056	$1.21
Financial Advisor	5,900	0.59
Rating Agencies	22,700	2.27
Paying Agent/Registrar	250	0.03
Printing	7,418	0.74
Miscellaneous	442	0.04
	$48,766	**$4.88**
Underwriter's Spread	**$74,811**	**$7.48**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Bonds, Series 1994A-1—$10,000,000, 1994B-1—$13,000,000, 1994B-2—$6,000,000 and 1994B-3—$6,000,000.

Purpose: Proceeds of the bonds were used to make loans under the Housing Assistance Program, which makes home ownership (up to $45,000) and home improvement (up to $25,000) loans to eligible Texas veterans.

Dates: Board Approval—January 20, 1994
Negotiated Sale—February 16, 1994
Delivery Date—Series A–February 24, 1994
Series B–March 15, 1994

Structure: The Series 1994A-1 bonds were issued as variable rate bonds, initially in a weekly interest rate mode. The Series 1994A-1 bonds have a final maturity of 2023. Of the Series 1994B-1 bonds, $5,140,000 was issued as serial bonds maturing 1999–2005 with coupons ranging from 4.50% to 5.20% and $7,860,000 was issued as a term bond maturing in 2014 with a coupon of 5.70%. The Series 1994B-2 bonds were issued as floating rate bonds with a final maturity of 2023. The Series 1994B-3 bonds were issued as inverse floating rate bonds also having a final maturity of 2023. The combined rate of the floaters and the inverse floaters results in a synthetic fixed rate of 5.70%. The bonds are general obligations of the state. The program is designed to be self-supporting, with revenues from loan payments and investment income being sufficient to pay debt service on the bonds.

Bond Ratings: Moody's—Aa/VMIG 1
Standard and Poor's—AA/A-1+

Consultants:
Bond Counsel—Vinson & Elkins L.L.P.
Co-Bond Counsel—Lannen & Oliver, P.C.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—CS First Boston Corporation

Interest Rate: Variable Rate

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 70,618	$ 2.02
Financial Advisor	12,712	0.36
Rating Agencies	36,100	1.03
Printing	20,640	0.59
Paying Agent/Registrar	1,000	0.03
Miscellaneous	14,067	0.40
	$155,137	$ 4.43
Underwriter's Spread		
Fixed	$261,250	$10.45
Variable	$ 44,500	$ 4.45

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Bonds, Series 1994B-4—$35,000,000.

Purpose: Proceeds of the bonds were used to make loans under the Housing Assistance Program, which makes home ownership (up to $45,000) and home improvement (up to $25,000) loans to eligible Texas veterans.

Dates: Board Approval—January 20, 1994
Negotiated Sale—June 23, 1994
Delivery Date—June 29, 1994

Structure: The Series 1994B-4 bonds were issued as fixed-rate tax exempt securities. Of the total, $9,595,000 was issued as serial bonds maturing 1995–2006, $8,870,000 was issued as a term bond maturing 2014, and the remaining $16,535,000 as a term bond maturing 2024. The bonds are general obligations of the state. The program is designed to be self-supporting, with revenues from loan payments and investment income being sufficient to pay debt service on the bonds.

Bond Ratings: Moody's—Aa
Standard and Poor's—AA

Consultants:
Bond Counsel—Vinson & Elkins L.L.P.
Co-Bond Counsel—Lannen & Oliver, P.C.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—CS First Boston Corporation

Interest Rates: True Interest Cost—6.52%
Net Interest Cost—6.48%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 45,572	$1.30
Financial Advisor	19,750	0.56
Rating Agencies	16,000	0.46
Printing	5,000	0.14
Miscellaneous	4,750	0.14
	$ 91,072	$2.60
Underwriter's Spread	$343,150	$9.80

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Taxable Refunding Bonds, Series 1994A-1—$75,420,000 and Series 1994A-2—$59,600,000.

Purpose: Proceeds of the bonds were used to refund the outstanding debt of the Series 1984A Housing bonds and a portion of the unoriginated proceeds of the Series 1993 Housing bonds. The refunding will provide a larger pool of funds available to serve eligible Texas veterans.

Dates: Board Approval—March 17, 1994
Negotiated Sale—April 19, 1994
Delivery Date—April 28, 1994

Structure: The Series 1994A-1 bonds were issued as fixed-rate, taxable serial bonds maturing 1995–2003 with coupons ranging from 5.375% to 7.85%. The Series 1994A-2 bonds were issued as variable rate bonds, initially in a weekly interest rate mode. The final maturity of the Series 1994A-2 bonds is 2033. Both the Series 1994A-1 and Series 1994A-2 are general obligations of the state. The program is designed to be self-supporting, with revenues from loan payments and investment income being sufficient to pay debt service on the bonds.

Bond Ratings: Moody's—Aa
Standard and Poor's—AA

Consultants:
Bond Counsel—Vinson & Elkins L.L.P.
Co-Bond Counsel— Lannen & Oliver, P.C.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—Bear, Stearns & Co., Inc.

Interest Rates: Series 1994A-1
True Interest Cost—7.38%
Net Interest Cost—7.42%

Series 1994A-2
Variable Interest Rate

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$131,885	$0.98
Financial Advisor	52,257	0.39
Rating Agencies	50,000	0.37
Printing	15,000	0.11
Miscellaneous	24,622	0.18
	$273,764	**$2.03**
Underwriter's Spread		
Fixed	**$610,200**	**$8.09**
Variable	**$247,091**	**$4.14**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Land Bonds, Series 1994—$35,000,886.04.

Purpose: Proceeds of the bonds were used to purchase land to be resold to eligible Texas veterans (and certain surviving spouses). Each contract for resale of land to veterans is limited to a maximum amount of $20,000 with a maximum maturity of 30 years.

Dates: Board Approval—March 17, 1994
Negotiated Sale—April 28, 1994
Delivery Date—May 5, 1994

Structure: The Series 1994 bonds were issued with $5,470,000 of serial bonds maturing 1996–2006 with coupons ranging from 5.25% to 6.00% and $23,930,000 of term bonds maturing in the rates and amounts as follows: $1,430,000 in 2009 at 6.00%, $3,055,000 in 2014 at 6.30%, and $19,445,000 in 2024 at 6.40%. The remaining $5,600,886.04 was issued as Capital Appreciation College Savings Bonds with maturities ranging from 1999–2014. The bonds are general obligations of the state. The program is designed to be self-supporting, with revenues from loan payments and investment income being sufficient to pay debt service on the bonds.

Bond Ratings: Moody's—Aa
Standard and Poor's—AA

Consultants:
Bond Counsel—Johnson & Gibbs, P.C.
Financial Advisor—Rauscher Pierce Refsnes, Inc.
Senior Underwriter—Grigsby Brandford & Co., Inc.
Merrill Lynch & Co.
(College Savings Bonds)

Interest Rates: True Interest Cost—6.31%
Net Interest Cost—CABs distort NIC

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 39,554	$1.13
Financial Advisor	13,649	0.39
Rating Agencies	22,700	0.65
Printing	23,502	0.67
Private Activity Allocation	9,250	0.26
College Savings Bond Marketing	12,000	0.34
Paying Agent/Registrar	450	0.01
Miscellaneous	10,000	0.29
	$131,105	**$3.74**
Underwriter's Spread	**$313,247**	**$8.95**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, State Revolving Fund Senior Lien Revenue Bonds, Series 1993—$125,000,000.

Purpose: The proceeds of the bonds were used to provide partial funding for the State Revolving Fund (SRF), which receives funding from the Environmental Protection Agency and state bond proceeds. The SRF will be used to make loans at below-market interest rates to political subdivisions to construct sewer treatment projects.

Dates: Board Approval—November 18, 1993
Negotiated Sale—December 1, 1993
Delivery Date—December 21, 1993

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially with a final maturity in 2015. The revenue bonds are special obligations of the TWDB and do not constitute indebtedness of the state.

Bond Ratings: Moody's—Aa
Standard & Poor's—AAA

Consultants:
Bond Counsel—Vinson & Elkins L.L.P.
Financial Advisor—First Southwest Company
Senior Underwriter—Goldman, Sachs & Co.

Interest Rates: True Interest Cost—5.27%
Net Interest Cost—5.22%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 46,611	$0.37
Financial Advisor	61,342	0.49
Rating Agencies	62,320	0.50
Printing	23,817	0.19
Paying Agent	180	0.00
Attorney General	1,250	0.01
	$195,520	**$1.56**
Underwriter's Spread	**$981,711**	**$7.85**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Tax-Exempt General Obligation Bonds, Series 1993G and 1993I—$35,000,000.
Texas Water Development Board, Taxable General Obligation Bonds, Series 1993J—$3,000,000.

Purpose: The proceeds of the bonds were used to make funds available to various political subdivisions and nonprofit water supply corporations for water projects. Specific issues will be used as follows:
Series G—to fund loans to political subdivisions for water supply purposes ($15,000,000);
Series I—to fund loans to political subdivisions for water quality enhancement purposes ($20,000,000);
Series J—to fund loans to political subdivisions, including nonprofit water supply corporations, for water supply purposes ($3,000,000).

Dates: Board Approval—November 18, 1993
Negotiated Sale—December 8, 1993
Delivery Date—December 22, 1993

Structure: Series G and I were tax-exempt. Series J was taxable. The bonds mature serially with a final maturity in 2015. The bonds are a general obligation of the state; however, debt service is expected to be repaid from principal and interest collected on loans made under the programs and investment earnings.

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

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P. (water supply and storage participation bonds)
Vinson & Elkins L.L.P. (water quality enhancement and flood control bonds)
Financial Advisor—First Southwest Company
Senior Underwriter—M.R. Beal & Company

Interest Rates: True Interest Cost—
5.15% Series G and I ($35,000,000)
6.85% Series J ($3,000,000)
Net Interest Cost—
5.10% Series G and I ($35,000,000)
6.81% Series J ($3,000,000)

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$ 52,211	$1.38
Financial Advisor	22,863	0.60
Rating Agencies	22,900	0.60
Printing	14,879	0.39
Attorney General	3,500	0.09
Paying Agent	540	0.02
	$116,893	**$3.08**
Underwriter's Spread	**$312,655**	**$8.23**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Agricultural Water Conservation Bonds, Taxable Series 1994-A—$7,000,000.

Purpose: The proceeds of the bonds were used to make funds available to finance conservation loans directly to borrower districts, to make loans to lender districts, and to pay the cost of bond issuance.

Dates: Board Approval—January 20, 1994
Negotiated Sale—February 2, 1994
Delivery Date—February 24, 1994

Structure: The bonds are taxable and are not redeemable prior to maturity. The bonds have a final maturity in 2002. The bonds are a general obligation of the state; however, the Agricultural Water Conservation Bonds program is designed to be self-supporting and it is anticipated that monies generated by the repayment of loans will be sufficient to pay the debt service on the bonds.

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

Consultants:
Bond Counsel—McCall, Parkhurst & Horton L.L.P.
Financial Advisor—First Southwest Company
Senior Underwriter—Estrada Hinojosa & Company, Inc.

Interest Rates: True Interest Cost—5.81%
Net Interest Cost—5.80%

Issuance Costs:	Fees	Per $1,000
Bond Counsel	$20,129	$2.88
Financial Advisor	6,000	0.86
Rating Agencies	6,000	0.86
Printing	10,562	1.51
Attorney General	1,000	0.14
Paying Agent	180	0.02
	$43,871	**$6.27**
Underwriter's Spread	**$35,000**	**$5.00**

DEFINITION OF TERMS

Call: The exercise of the right of the issuer to prepay its debt prior to the specified maturity date on a specified date at a specified price at or above par.

Capital Appreciation Bonds (CABs): A long-term security sold at a large discount. The yield, or accretion, is reinvested at a stated rate until maturity at which time the investor receives total payment. The payment represents both principal and interest.

Commercial Paper: Short-term promissory notes with maturities of substantially less than one year, usually from 1 to 270 days. Most instruments are discounted, although some are interest bearing. Commercial paper may be rolled over through the issuance of new notes or reissued, as needed. Remarketing and liquidity facilities are generally included as part of the transaction.

Convertible Option Bonds (COBs): A long-term security issued with an initial interest period, usually less than two years. During the initial interest period, the bonds bear interest at a short-term rate. The issuer has the option during the initial interest period to convert the interest rate on any portion of the bonds to a long-term fixed rate.

Current Interest Bonds: Bonds in which periodic interest payments are made.

Floaters/Inverse Floaters: A bond issue which is sold in two variable rate portions, one of which varies with interest rates (the "floater") and the other which varies inversely with interest rates (the "inverse"). The issuer of the bonds pays a synthetic fixed rate which is allocated between the variable rate portions.

Liquidity Facility: A provision whereby an entity agrees to lend funds in the event that a remarketing agent is unable to remarket obligations. The provider of a liquidity facility is normally a bank that extends a letter or line of credit to an issuer of variable rate debt or commercial paper. However, in some cases, an institution of higher education or the State Treasurer may provide the liquidity facility.

Net Interest Cost (NIC): A measure of interest cost that is distinguished from the true interest cost (TIC) in that the NIC does not take into account the time value of money. The interest cost is derived by dividing the sum of all interest payments payable over the life of the issue by the sum of the product of each year's maturity value and the number of years to its maturity. If the bonds are issued at a discount, the amount of the discount is added to the interest total. If the bonds are issued at a premium, that amount is subtracted from the interest total.

Refunding Bond: A bond issued to retire or defease a bond that is already outstanding. If the new bonds are issued within 90 days of the call date or maturity date on the old bonds, the refunding is called a "current refunding;" otherwise, the refunding is called an "advance refunding."

Remarketing Agent: The firm that buys back and resells to investors variable rate obligations that have been "put" or commercial paper that has matured.

Serial Bonds: A bond issue in which some bonds mature each year over a period of years.

Super Sinker Bond: A long-term bond with a potentially short maturity. A super sinker is typically a housing bond associated with home financing. A super sinker bond has a specifically identified long-term maturity, but may be redeemed early with mortgage prepayments received by the issuer of the bonds.

Term Bonds: Bonds that have a single stated maturity date. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

True Interest Cost (TIC): A measure of the interest cost of an issue that takes into account the time value of money. The TIC is the rate that will discount all future payments so that the sum of their present values equals the original purchase price of the bonds.

Variable Rate Obligations: A note or bond upon which the interest rate is periodically changed according to the rise and fall of either a certain interest rate index or a specified fixed-income security. These obligations may be issued with interest rates subject to daily, weekly, or longer adjustments. The bondholder has the right on specified dates, upon notice, to demand that the obligation be purchased (or redeemed) by the issuer (the "put").

Verification Agent: A firm that verifies the adequacy of the federal securities in the escrow used to pay the debt service on refunded bonds that have been defeased.

APPENDIX B

TEXAS COMMERCIAL PAPER AND VARIABLE RATE BOND PROGRAMS

During the past several years, several state agencies and higher education institutions have established variable rate debt financing programs that provide financing for equipment or capital projects or provide loans to eligible entities.

As of August 31, 1994, a total of $1.370 billion was authorized for state commercial paper or variable rate bond programs. Of this amount, $826 million was outstanding as of the end of fiscal 1994 *(Table 20)*. (The figures shown in *Table 20* were included in the bond outstanding and authorized but unissued figures reported in Chapter 5.) A brief summary of each variable rate debt program is provided below.

The University of Texas System

The University of Texas System has authorized two variable rate financing programs: a variable rate bond program secured and payable by the income from the Permanent University Fund (PUF) and a commercial paper program secured and payable by revenues of The University of Texas System. The System has the authority to issue up to $250 million in PUF variable rate notes; as of August 31, 1994, there was $40 million of PUF variable rate bonds outstanding.

The System's commercial paper program was established in 1990 to provide interim financing for capital projects, including construction, acquisition, renovation, or equipping of facilities. The commercial paper is secured by a pledge of all legally available revenues of The University of Texas System, including pledged tuition fees, general fees, and other revenue sources. In fiscal 1994, the System increased the authorized amount of commercial paper from $100 million to $150 million, converted to self-liquidity and expanded the pledge to include tuition revenues.

TABLE 20

TEXAS COMMERCIAL PAPER AND VARIABLE RATE BOND PROGRAMS
AS OF 8/31/94

Issuer	Type of Program	Authorized Amount	Amount Outstanding
The University of Texas System			
Permanent University Fund	Variable Rate Bonds	$ 250,000,000	$ 40,000,000
Revenue Financing System	Commercial Paper	150,000,000	95,050,000
The Texas A&M University System			
Permanent University Fund	Variable Rate Bonds	95,000,000	80,000,000
Revenue Financing System	Commercial Paper	125,000,000	100,000,000
Texas Department of Agriculture	Commercial Paper	25,000,000	18,000,000
Texas Department of Commerce	Commercial Paper	25,000,000	25,000,000
Texas Public Finance Authority			
Revenue	Commercial Paper	100,000,000	25,300,000
General Obligation	Commercial Paper	500,000,000	392,300,000
Texas Water Development Board	Variable Rate Bonds	100,000,000	50,000,000
TOTAL		$1,370,000,000	$825,650,000

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

Texas A&M University System

The Texas A&M University System has also authorized two variable rate financing programs: a variable rate bond program secured by PUF interest earnings and a commercial paper program secured by university system revenues. The A&M PUF bond program was established in 1988 to provide interim financing for eligible construction projects.

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

Texas Department of Agriculture

In 1991, the Texas Department of Agriculture was authorized to establish a $25 million commercial paper program through the Texas Agricultural Finance Authority (TAFA). As of August 31, 1994, there was $18 million of TAFA commercial paper outstanding. The Authority issues taxable commercial paper to purchase and guarantee loans made to businesses involved in the production, processing, marketing, and export of Texas agricultural products. The commercial paper is a general obligation of the state; however, the program is designed to be self-supporting.

Texas Department of Commerce

In 1992, the Texas Department of Commerce (TDOC) was granted the authority to issue up to $25 million in commercial paper to fund loans to Texas businesses under the following three programs: (1) loans to local industrial development corporations secured by revenues from a local optional one-half cent sales tax for economic development, (2) the purchase of small business loans which are fully guaranteed by the Small Business Administration, and (3) loans made directly to businesses from program reserves. Currently, TDOC is focusing on loans to local industrial development corporations. The commercial paper issued by TDOC is taxable. The program is designed to be self-supporting.

Texas Public Finance Authority

In 1992, the Texas Public Finance Authority (TPFA) established a master lease-purchase program (MLPP) that is funded through commercial paper. The commercial paper issued to date has been used to finance the purchase of equipment, primarily computers and telecommunications equipment. The TPFA also has the authority to use the commercial paper to provide interim financing for capital projects undertaken on behalf of state agencies. The TPFA's MLPP commercial paper is a special revenue obligation of the state, payable only from legislative appropriations to the participating agencies for lease payments. In fiscal 1994, the authorized limit of the MLPP was raised to $100 million.

During fiscal 1993, the TPFA established a variable rate financing program that is secured by the state's general obligation pledge. The proceeds are used to provide interim financing for capital projects that have been constitutionally authorized to be financed through general obligation bonds. The liquidity facility is provided by the State Treasury. In fiscal 1995, the TPFA plans to convert a portion of the outstanding commercial paper into fixed-rate bonds in order to use the commercial paper authorization to finance new projects.

Texas Water Development Board

As part of the State Revolving Fund program, the Texas Water Development Board (TWDB) is authorized to issue up to $100 million in subordinate lien variable rate demand revenue bonds (VRDBs). The proceeds from the VRDBs go into the State Revolving Fund, which is used to buy bonds of political subdivisions issued to finance sewage treatment capital projects. The State Revolving Fund also receives funds from the Environmental Protection Agency, state general obligation bond proceeds, and senior lien long-term revenue bond proceeds.

Legislation Passed to Enable State Treasurer to Serve as Liquidity Facility Provider

The 73rd Legislature passed legislation in 1993 which allows the State Treasurer to enter into agreements to provide liquidity for obligations issued for governmental purposes by an agency of the state as long as the agreements do not conflict with the liquidity needs of the Treasury. Eligible obligations include commercial paper, variable rate demand obligations, and bonds. Although Treasury funds are not sufficient to cover all state variable rate debt programs, the use of state funds for liquidity provision has resulted in significant savings.

APPENDIX C

TEXAS PRIVATE ACTIVITY BOND ALLOCATION PROGRAM

Tax-exempt financing of "private activities" has been limited by federal law since the passage of the Tax Reform Act of 1986 (the "Tax Act"). Private activity bonds are those which have met any or all of the following tests: 1) Private Business Use Test—more than 10 percent of the proceeds are to be used for any private business use; 2) Private Security or Payment Test—payment on principal or interest of more than 10 percent of the proceeds is directly, or indirectly secured by or payments are derived from, a private business use; and 3) Private Loan Financing Test—proceeds are used to make or finance loans to persons other than governmental units.

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

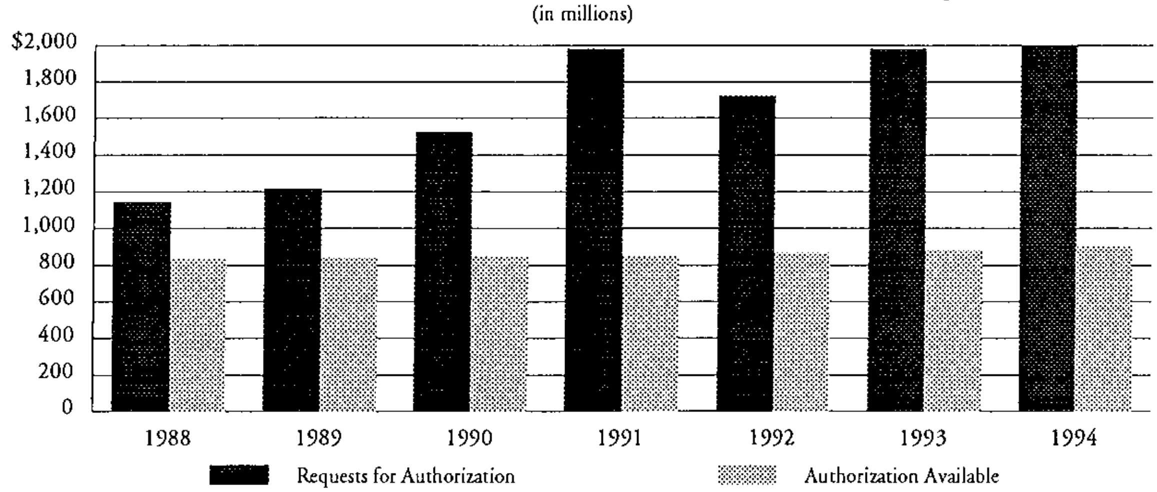
Additionally, the Tax Act imposed a volume ceiling on the aggregate principal amount of tax-exempt, private activity bonds that may be issued within each state during any calendar year. The state ceiling for Texas, imposed by the Tax Act, is $50 per capita. Section 146(e) of the Internal Revenue Code allows each state to devise an allocation formula or process for allocating the state's ceiling. This provision has given each state the ability to allocate this limited resource in a manner consistent with the needs of that state. Since different states have different needs and demands, there are many varied allocation systems in place. Some states find that their state ceiling is adequate to meet their needs and others have more demand than volume cap. According to information received from *The Bond Buyer* and the Public Securities Association, 45 states (out of the 48 states providing data) exhausted their volume cap completely in 1993 by issuing allocations and carryforward reservations. The allocation program in Texas has been oversubscribed each year since 1988 *(Figure 17)*.

In Texas, the Private Activity Bond Allocation Program regulates this volume ceiling and monitors the amount of

FIGURE 17

PRIVATE ACTIVITY BOND AUTHORIZATION AVAILABLE VS. REQUESTS

(in millions)



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

demand and use of private activity bonds each year. Since January 1, 1992, the program has been administered by the Texas Bond Review Board.

On June 30, 1992, federal authorization to issue MRBs and IDBs expired. The "sunset" remained until Congress reauthorized the issuance of these bonds effective in August 1993. Due to the "sunset," the distribution of allocation for 1993 was unusual *(Table 21)*, but the oversubscription was not. After exhausting the 1993 volume cap, over $714.4 million of demand was not met.

Compared to all states, Texas experienced one of the largest increases of volume cap for the 1994 Private Activity Bond Allocation Program. Based on the population estimate for Texas of 18,031,000, the 1994 volume cap was set at $901.55 million, an increase of $18.75 million (over 2 percent) from the 1993 cap of $882.8 million. However, the increase falls far short of the demand expressed for the program. Applications received in 1994 totalled $1.995 billion, or 221 percent of the available amount *(Table 22, p. 52)*. The 1994 program year will end leaving $853.4 million in requests for allocation outstanding.

In an effort to address high demand for most types of private activity financing, Texas has devised a system that ensures an opportunity for some allocation to each type. Because of the limited state ceiling, it is impossible to meet all the demands, but a system must be in place that ensures an equitable method of allocation. State legislation, Texas Revised Civil Statutes, as amended, Article 5190.9a (the "Act"), mandates the allocation process for the state of Texas.

The Act specifies that for the first eight months of the year, the state's ceiling must be set aside as follows:

- 28 percent is to be made available for single-family housing to issuers of qualified mortgage bonds (MRBs), and of that amount, one-third is available to the Housing Finance Division of the Texas Department of Housing and Community Affairs and two-thirds is available for local issuers;
- 17.5 percent is to be made available for issues authorized by a state constitutional amendment;
- 7.5 percent is to be made available for issuers of qualified small issue IDBs;
- 5 percent is to be made available for issuers of qualified residential rental project issue bonds (multi-family housing); and
- 42 percent is to be made available for issuers of "all other" bonds requiring an allocation. This final subceiling receives applications from local issuers of student loan bonds and exempt facility bonds not included in other subceilings.

Generally, with the exception of single-family housing, the state ceiling is allocated by lottery for applications received from January 2–January 10, and thereafter on a first-come, first-serve basis. Single-family housing has a separate priority system based on prior applications and prior bond issues. This system, used exclusively within the single family subceiling, is in place from January until August 31 of each year. Unreserved allocation from all subceilings is combined on September 1 and redistributed by lot order,

TABLE 21

1993 AND 1994 DISTRIBUTION OF STATE PRIVATE ACTIVITY BOND AUTHORIZATION BY PURPOSE

Purpose	1993 Volume Cap = $882,800,000 Amount Issued	% of Total Volume Cap	1994 Volume Cap = $901,550,000 Amount Issued	% of Total Volume Cap
Housing				
Single/Multi-Family—State/Locally Issued	$171,436,250	19.42%	$355,899,114	39.48%
State Voted				
Veterans' Land Bonds	35,000,000	3.97	35,000,886	3.88
Student Loans				
State Voted & Locally Issued	294,975,000	33.41	148,650,000	16.49
Qualified Small Issues				
Industrial Development Bonds	0	0.00	57,000,000	6.32
Exempt Facility Bonds				
Sewage, Solid Waste, Pollution Control, etc.	381,388,750	43.20	305,000,000	33.83
Total	$882,800,000	100.00%	$901,550,000	100.00%

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

regardless of project type. Frequently, applicants that receive reservations for allocation are unable to complete the transaction, or close for a lesser amount than anticipated. In these cases, the original request is considered satisfied, but unused, and the excess allocation is redistributed and used by other applicants.

Since the state ceiling is based on population with no adjustment for inflation, the $50 per person allocation will decrease in real value over time, increasing demand relative to the available ceiling. Additionally, increasing economic activity in Texas is expected to increase the demand for private activity bond cap allocation.

TABLE 22

1994 APPLICATIONS FOR STATE PRIVATE ACTIVITY BOND AUTHORIZATION BY SUBCEILING

(as of November 1, 1994)

Subceiling	Authorization Available	Authorization Requested	Request as a % of Availability
Mortgage Revenue Bonds	$252,434,000	$ 634,686,400	251.43%
State-Voted Bonds	157,771,250	125,000,000	79.23
Qualified Small Issue Bonds	67,616,250	64,250,000	95.02
Residential Rental Project Bonds	45,077,500	152,585,000	338.49
All Other Bonds Requiring Allocation	378,651,000	1,018,500,000	268.98
Total	$901,550,000	$1,995,021,400	221.29%

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

APPENDIX D

TEXAS STATE BOND PROGRAMS

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

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

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

Security: Revenue bonds are obligations of the Authority and are payable from revenues, income, and property of the Authority and its programs. The Authority's revenue bonds are not an obligation of the state of Texas, and neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds. The Authority is also authorized to issue general obligation debt, which is payable from revenues and income of the Authority. In the event that such income is insufficient to repay the debt, the first monies coming into the State Treasury not otherwise appropriated are pledged to repay the bonds.

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

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

COLLEGE STUDENT LOAN BONDS

Statutory/Constitutional Authority: Article III, Sections 50b and 50b1, b2, and b3 of the Texas Constitution, adopted in 1965, 1969, 1989, and 1991, authorize the issuance of general obligation bonds by the Texas Higher Education Coordinating Board. In 1991, legislation was enacted giving the Coordinating Board authority to issue revenue bonds.

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

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

Dedicated/Project Revenue: Principal and interest payments on the loans are pledged to pay debt service on the bonds issued by the Coordinating Board. The majority of loans made through the Texas College Student Loan Program are guaranteed either by the U.S. Department of Education or the U.S. Department of Health and Human Services. No draw on general revenue is anticipated.

Contact:
James McWhorter
Assistant Commissioner for Administration
Texas Higher Education Coordinating Board
(512) 483-6160

COLLEGE AND UNIVERSITY REVENUE BONDS

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

The 1991 Texas Legislature authorized the Texas Public Finance Authority, effective January 1, 1992, to issue bonds on behalf of all institutions of higher education authorized to issue bonds under Chapter 55, Education Code, with the exception of The University of Texas System, The Texas A&M

University System, a component of those systems, and higher education institutions authorized to issue bonds under Article VII, Section 17, of the Texas Constitution. As a result of the exceptions, the only higher education institution for which the Texas Public Finance Authority issues bonds is the Texas State Technical College.

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 not an obligation of the state of Texas. Neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds.

Dedicated/Project Revenue: Bonds are to be repaid from income from special fees of the institutions, including student-use fees, a portion of tuition, dormitory fees, etc. and, effective September 1, 1993, all tuition revenues (H.B. 2058).

Contact:
Individual colleges and universities.

TEXAS DEPARTMENT OF COMMERCE BONDS

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

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

Security: Revenue bonds are obligations of the Department and are payable from funds of the Department. The Department's revenue bonds are not an obligation of the state of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the Department's bonds. The Department is also authorized to issue general obligation debt, which is payable from revenues, income, etc. In the event that such income is insufficient to repay the debt, the first monies not otherwise appropriated that come into the State Treasury are pledged to repay the bonds.

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

Contact:
W. Lane Lanford
Deputy Director, Capital Development
Texas Department of Commerce
(512) 320-9653

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS

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

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

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

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

Contacts:

Scott McGuire	Natalia Sanchez
Director of Housing Finance	Chief Financial Officer
Texas Dept. of Housing	Texas Dept. of Housing
& Community Affairs	& Community Affairs
(512) 475-2122	(512) 475-3345

FARM AND RANCH LOAN BONDS

Statutory/Constitutional Authority: Article III, Section 49f of the Texas Constitution, adopted in 1985, authorizes the issuance of general obligation bonds for the purposes described below.

Purpose: Proceeds from the sale of the general obligation bonds may be used to make loans of up to $150,000 to eligible Texans for the purchase of farms and ranches. The program has been dormant. The program was transferred from the Veterans Land Board to the Texas Agricultural Finance Authority (TAFA) with the passage of House Bill 1684 by the 73rd session of the Legislature. TAFA is to administer the program, and the Veterans Land Board will administer the Fund.

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 Texas Agricultural Finance Authority. The program is designed to be self-supporting. No draw on general revenue is anticipated.

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

HIGHER EDUCATION CONSTITUTIONAL BONDS

Statutory Authority: Article VII, Section 17 of the Texas Constitution, adopted in 1985, authorizes the issuance of constitutional appropriation bonds by institutions of higher education not eligible to issue bonds payable from and secured by the income of the Permanent University Fund. Legislative approval of bond issues is not required. Approval of the Bond Review Board and the Attorney General is required for bond issues, and the bonds must be registered with the Comptroller of Public Accounts.

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

Security: The first $100 million coming into the State Treasury not otherwise dedicated by the Constitution goes to qualified institutions of higher education to fund certain land acquisition, construction, and repair projects. Fifty percent of this amount may be pledged to pay debt service on any bonds or notes issued. While not explicitly a general obligation or full faith and credit bond, the stated pledge has the same effect. (Effective September 1, 1995, the constitutional appropriation will increase from $100 million to $175 million.)

Dedicated/Project Revenue: None. Debt service is payable solely from the state's General Revenue Fund.

Contact:
Individual colleges and universities.

TEXAS HOSPITAL EQUIPMENT FINANCING COUNCIL BONDS

Statutory Authority: The Texas Hospital Equipment Financing Council was created as a state agency in 1983 (Art. 4437e-3, Tex.Rev.Civ.Stat.Ann.) and authorized to issue revenue bonds. The authority of the Council to issue bonds was repealed by the 71st Legislature (S.B. 1387), effective September 1, 1989.

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

Security: The bonds are obligations of the Council and are payable from lease or other project revenues. The Council's bonds are not an obligation of the state of Texas, and neither the state's full faith and credit nor its taxing power is pledged toward payment of the 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:
Jim Howell
General Counsel
Texas State Treasury
(512) 463-5971

TEXAS LOW-LEVEL RADIOACTIVE WASTE DISPOSAL AUTHORITY

Statutory Authority: The Texas Low-Level Radioactive Waste Disposal Authority was created in 1982 (Health and Safety Code, Chapter 402) and authorized to issue revenue bonds in 1987 (Health and Safety Code, Chapter 402.291). 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 reimburse the general revenue fund for the expenses incurred and paid by the Authority, to pay the expenses of selecting, licensing, constructing a disposal site, provide required reserve fund and capitalized interest and operating costs of the Authority that were not paid from the general revenue fund.

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

Contact:
Lee Mathews
General Counsel
Texas Low-Level Radioactive Waste Disposal Authority
(512) 451-5292

NATIONAL GUARD ARMORY BOARD BONDS

Statutory Authority: The National Guard Armory Board was created as a state agency in 1935 by Title 4, Chapter 435, of the Government Code, 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.

S.B. 3, 72nd Legislature, authorized the Texas Public Finance Authority to issue bonds on behalf of the National Guard Armory Board.

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 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 Armory Board bonds.

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

Contact:
William E. Beaty
Executive Director
Texas National Guard Armory Board
(512) 406-6905

PARK DEVELOPMENT BONDS

Statutory/Constitutional Authority: Article III, Section 49e of the Texas Constitution, adopted in 1967, authorized the Texas Parks and Wildlife Department to issue general obligation bonds for the purposes described below. Senate Bill 3, 72nd Legislature, authorized the Texas Public Finance Authority to issue bonds on behalf of the Parks and Wildlife Department.

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 park-development bonds. The program is designed to be self-supporting. No draw on general revenue is anticipated.

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

PERMANENT UNIVERSITY FUND BONDS

Statutory/Constitutional Authority: Article VII, Section 18 of the Texas Constitution, initially adopted in 1947, as amended in November 1984, authorizes the Boards of Regents of The University of Texas and Texas A&M University systems to issue revenue bonds payable from and secured by the income of the Permanent University Fund (PUF). 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 University of Texas and Texas 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. The total amount of PUF bonds outstanding is limited to 30 percent of the book value of the Fund, exclusive of land.

Contacts:

John A. Roan	Greg Anderson
Assistant Vice Chancellor	Director of
for Finance	Treasury Services
University of Tx System	Tx A&M University System
(512) 499-4323	(409) 845-4046

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, Tex.Rev.Civ.Stat.Ann.) and given the authority to issue revenue bonds to finance state office buildings. 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.

With the passage of Tex.Rev.Civ.Stat.Ann., Art. 601d, 9A in 1989, the Authority was authorized to establish a Master Lease Purchase Program. This program was created to finance the purchase of equipment on behalf of various state agencies through the General Services Commission at tax-exempt interest rates.

In 1991, the Authority was given the responsibility of issuing revenue bonds for the Texas Workers' Compensation Fund under Subchapter G, Chapter 5, of the Insurance Code.

The 1991 Texas Legislature authorized the Authority, effective January 1, 1992, to issue bonds on behalf of the Texas National Guard Armory Board, Texas National Research Laboratory Commission, Parks and Wildlife Department, and the only higher education institution for which the Texas Public Finance Authority issues bonds, the Texas State Technical College.

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

Purpose: Proceeds from the sale of general obligation bonds for correctional and mental health facilities are used to finance the cost of constructing, acquiring, and/or renovating prison facilities, youth correction facilities, and mental health/mental retardation facilities. Proceeds from the sale of building revenue bonds are used to purchase, construct, renovate, and maintain state buildings. Proceeds from the sale of bonds for the Workers' Compensation Fund are used to raise funds to provide Workers' Compensation insurance coverage through the Fund. Proceeds from the issuance of commercial paper for the Master Lease Purchase Program are used to finance equipment, and may also be used to finance construction and renovation of buildings for various state agencies. For a description of the use of funds for bonds issued on behalf of the Texas National Guard Armory Board, Texas National Research Laboratory Commission (superconducting super collider bonds), Parks and Wildlife Department, and higher education institutions, see the applicable sections in this Appendix.

Security: Building revenue bonds issued are obligations of the Authority and are payable from "rents, issues, and profits" resulting from leasing projects to the state. These sources of revenue come primarily from legislative appropriations. The general obligation bonds issued for correctional and mental health facilities pledge the first monies not otherwise appropriated by the Constitution that come into the State Treasury each fiscal year to pay debt service on the bonds. Bonds issued on behalf of the Workers' Compensation Insurance Fund are secured solely by pledged revenues of the Fund. Revenue bonds issued for the Master Lease Purchase Program are secured by lease-purchase payments from state agencies, a large portion of which come from state appropriations. For a description of the security for bonds issued on behalf of the Texas National Guard Armory Board, Texas National Research Laboratory Commission (superconducting super collider bonds), Parks and Wildlife Department, and higher education institutions, see the applicable sections in this Appendix.

Dedicated/Project Revenue: Debt service on the general obligation bonds for correctional and mental health facilities is payable solely from the state's General Revenue Fund. Debt service on the revenue bonds is also payable from general revenue appropriated by the Legislature. The Legislature, however, has the option to appropriate debt-service payments on the bonds from any other source of funds that is lawfully available. Bonds issued on behalf of the Workers' Compensation Fund are payable solely from maintenance-tax surcharges and other fees the Fund is authorized to levy. The bonds will be self-supporting, and the state's credit is not pledged. For a description of the dedicated/project revenues for bonds issued on behalf of the Texas National Guard Armory Board, Texas National Research Laboratory Commission (superconducting super collider bonds), Parks and Wildlife Department, and higher education institutions, see the applicable sections in this Appendix.

Contact:
Anne L. Schwartz
Executive Director
Texas Public Finance Authority
(512) 463-5544

PUBLIC SCHOOL FINANCE PROGRAM

Statutory/Constitutional Authority: The 1989 Texas Legislature adopted the Public School Facilities Funding Act (S.B. 951, 71st Legislature, amended in S.B. 3, 71st Legislature, Sixth Called Session and H.B. 1608, 73rd 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; for equipment and minor repair; for cash management purposes; and for refunding of school district bonds.

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

Dedicated/Project Revenue: Repayment of principal and interest on local school district loans is pledged to pay debt service on the state bonds. In the event of a loan delinquency, the program may draw on the state Foundation School Fund payment otherwise due the school district for bonds issued under Subchapter A, Chapter 271, Local Government Code, and Chapter 20.49 of the Texas Education Code. Bonds issued with the guarantee of the Texas Permanent School Fund may draw on the principal of the Fund in the event of a pending default.

Contacts:

Mike Doyle	Sonja Suessenbach
Deputy Treasurer	Director of Public School
Texas State Treasury	Facilities Funding Program
(512) 305-9112	Texas Bond Review Board
	(512) 463-1741

TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

Statutory Authority: The Texas Small Business Industrial Development Corporation (TSBIDC) was created as a private non-profit corporation in 1983 (Art. 5190.6, Secs. 4-37, Tex.Rev.Civ.Stat.Ann.) pursuant to the Development Corporation Act of 1979 and was authorized to issue revenue bonds. The authority of TSBIDC to issue bonds was repealed by the Legislature, effective September 1, 1987.

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

Security: The bonds are obligations of the Corporation. The Corporation's bonds are not an obligation of the state of Texas or any political subdivision of the state, and neither the state's full faith and credit nor its taxing power is pledged toward payment of Corporation bonds.

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

Contact:
W. Lane Lanford
Deputy Director, Capital Development
Texas Department of Commerce
(512) 320-9653

TEXAS NATIONAL RESEARCH LABORATORY COMMISSION BONDS

Statutory/Constitutional Authority: The Texas National Research Laboratory Commission was created in 1987 by the 70th Legislature and given the authority to issue both revenue and general obligation bonds. Art. 4413, Section 47g, Tex.Rev.Civ.Stat.Ann., authorizes the Commission to issue revenue bonds. Article III, Section 49g of the Texas Constitution, authorizes the Commission to issue general obligation bonds. Senate Bill 3, 72nd Legislature, authorizes the Texas Public Finance Authority to issue bonds on behalf of the Texas National Research Laboratory Commission.

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 can 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 not otherwise appropriated by the Constitution that come into the State Treasury each fiscal year.

Revenue bonds are sole obligations of the Commission and are payable from funds of the Commission, which includes appropriations from the Legislature.

Dedicated/Project Revenue: Debt service on the general obligation bonds is payable from the state's general revenue fund. Debt service on the revenue bonds is payable solely from rental payments made by the Commission under the lease-purchase agreement. 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:
Robert P. Carpenter
Director for Fiscal Affairs
Texas National Research Laboratory Commission
(214) 935-7800

TEXAS TURNPIKE AUTHORITY BONDS

Statutory Authority: The Texas Turnpike Authority was created as a state agency in 1953 (Art. 6674V, Tex.Rev. Civ.Stat.Ann.) 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 to finance toll roads, bridges, and tunnels.

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

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

Contact:
Susan Buse
Secretary/Treasurer
Texas Turnpike Authority
(214) 522-6200

VETERANS LAND AND HOUSING BONDS

Statutory/Constitutional Authority: Article III, Section 49b of the Texas Constitution, initially adopted in 1946, authorized the issuance of general obligation bonds to finance the Veterans Land Program. Article III, Section 49b-2 of the Texas Constitution, adopted in 1993, authorized additional land bonds and the issuance of general obligation bonds to finance the Veterans Housing Assistance Program, Fund II.

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

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

Dedicated/Project Revenue: Principal and interest payments on the loans to veterans are pledged to pay debt service on the bonds. The programs are designed to be self-supporting and have never had to rely on the General Revenue Fund.

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

TEXAS WATER DEVELOPMENT BONDS

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

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

Article III, Sections 49c, 49d, 49d-1, 49d-2, 49d-4, 49d-6, 49d-7, 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.

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

Further legislative approval of specific bond issues is not required. 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 (and grants under the Economically Distressed Areas Program) to political subdivisions of Texas for the performance of various projects related to water conservation, transportation, storage, and treatment.

Security: Any revenue bonds issued are obligations of the Board and are payable solely from the income of the program, including the repayment of loans to political subdivisions. The general obligation bonds pledge, in addition to program revenues, the first monies coming into the 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, with the exception of the Economically Distressed Areas Program, are designed to be self-supporting. No draw on general revenue has been made since 1980, and no future draws are anticipated, except for the Economically Distressed Areas Program.

Contact:
Kevin Ward
Development Fund Director
Texas Water Development Board
(512) 463-7867

TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS

Statutory Authority: The Texas Water Resources Finance Authority was created in 1987 (Texas Water Code, Chapter 20) and given the authority to issue revenue bonds. The Authority is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

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

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

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

Contact:
Kevin Ward
Development Fund Director
Texas Water Development Board
(512) 463-7867

APPENDIX E

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:

(1) a state agency;

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

(3) any other entity issuing a bond or other obligation on behalf of the state or on behalf of any entity listed in clause (1) or (2) of this subparagraph; or

(b) an installment sale or lease-purchase obligation issued by or on behalf of an entity listed in clauses (1), (2), or (3) 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 the first Tuesday of the month in which the applicant requests board consideration.

(c) An issuer may reschedule the date requested for board consideration of the state 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 to the issuer as soon as possible. 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 Bond Review Board to obtain a private activity bond allocation.

Sec. 181.3. Application for Board Approval of State Bond Issuance.

(a) An officer or entity may not issue state 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 nine 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 Subsections (c) or (d) of this section, an application under this section may include any other relevant information the applicant wants to submit to the board.

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

Sec. 181.4. Meetings.

(a) The regular meeting of the board shall be held the Thursday following the third Tuesday of each month.

(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 second Tuesday of each month. 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 that are specified in the approval letter. Such changes may prompt reconsideration of the application by the Bond Review Board. A copy of the approval letter shall be forwarded to the attorney general.

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

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

Sec. 181.5. Submission of Final Report.

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

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

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

(1) all actual costs of issuance, including, as applicable, the specific items listed in Secs. 181.3(d)(8) and

(9), as well as the underwriting spread for competitive financings and the private placement fee for private placements, all closing costs, and any other costs incurred during the issuance process; and

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

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

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

Sec. 181.6. Official Statement.

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

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

Sec. 181.7. Designation of Representation.

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

Sec. 181.8. Assistance of Agencies.

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

Sec. 181.9. Exemptions.

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

Sec. 181.10. Annual Issuer Report.

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

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

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

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

Sec. 181.11. Filing of Requests for Proposal.

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

Sec. 181.12. Charges for Public Records.

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

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

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

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

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

(5) All requests will be treated equally. The executive director may waive charges at his/her discretion.

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

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

(8) All open records requests will be referred to the executive director or designee before the agency staff will release the information.

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TEXAS BOND REVIEW BOARD

300 W. 15th St., Ste. 409
Austin, Texas 78701
or
P.O. Box 13292
Austin, Texas 78711-3292

1-512-463-1741
or
1-800-732-6637