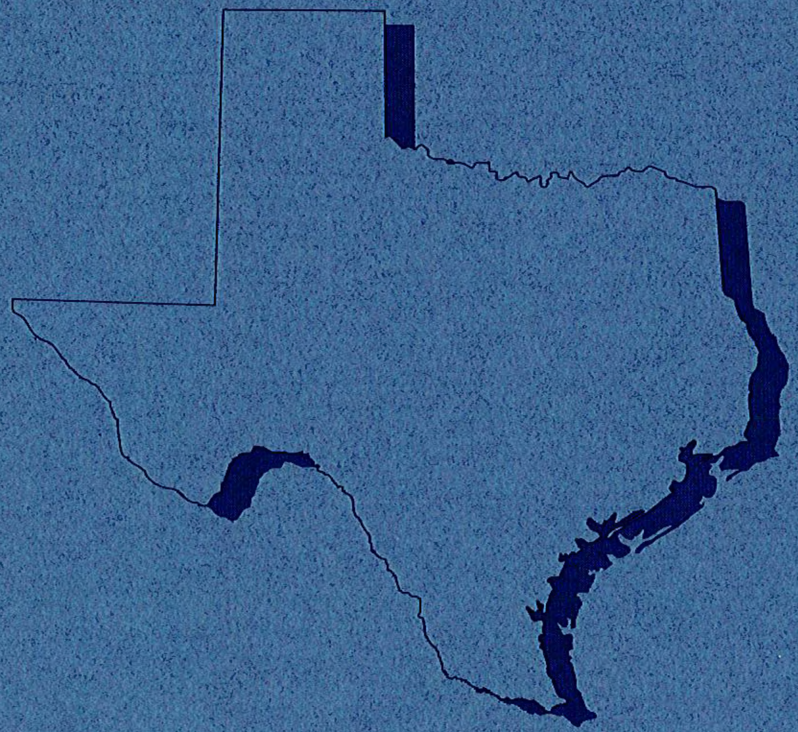
TEXAS BOND REVIEW BOARD



1996 ANNUAL REPORT

TEXAS BOND REVIEW BOARD
ANNUAL REPORT 1996

Fiscal Year Ended August 31, 1996

George W. Bush, Governor
Chairman

Bob Bullock, Lieutenant Governor

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

John Sharp, Comptroller of Public Accounts

Albert L. Bacarisse
Executive Director

November 1996

INTRODUCTION

The Texas Bond Review Board has three direct responsibilities. First, the Board must approve Texas state bonds, unless specifically exempted, prior to issuance. In addition, state agencies and universities must obtain the Board's approval prior to executing certain lease- or installment-purchase agreements. Second, the Board gathers information and reports on various aspects of state and local debt including school districts, cities, counties and special districts. Third, the Board is responsible for the administration of the private activity bond allocation program. The 1996 Annual Report presents an analysis of each of the three areas of responsibility.[1]

Chapter One provides an overview of the state's economic and financial condition. In addition, this chapter describes the state's bond ratings and performance in the bond market. The market for Texas bonds continues to be strong.

Chapter Two is a discussion and analysis of Texas' debt burden. The amount of Texas state debt supported by general revenue continues to increase. However, Texas still has a low debt burden compared to other states.

Chapter Three contains a summary of state debt issued during fiscal year 1996 and a listing of the bonds expected to be issued during fiscal 1997. During fiscal year 1996, Texas state agencies and institutions of higher education issued approximately $1.390 billion in new-money bonds and $1.276 billion in refunding bonds. Debt issued in fiscal 1996 increased substantially from the $770 million in new-money bonds and $507 million in refunding bonds issued during fiscal year 1995. The major part of the increased issuance amount is attributable to $446 million in revenue bonds issued by the Texas Turnpike Authority and a total of $407 million of refunding bonds by the University of Texas.

Chapter Four is a discussion of the various costs and recent trends in issuance costs by size of issue and type of sale. Texas state bond issuers paid average issuance costs of $9.77 per $1,000 of bonds issued during fiscal 1996 compared to $11.47 per $1,000 in 1995.

Chapter Five reports on Texas bonds outstanding. These are reported by type along with the annual debt-service requirements associated with this debt. Also included is a summary of authorized but unissued debt.

Chapter Six is a discussion of Texas local debt and the responsibilities assigned to the Board by Senate Bill Three, 72nd Legislature and House Bill 1564, 74th Legislature. The Board has no oversight responsibilities for local debt. However, under this legislation the report produced is an effort to understand the overlapping debt of the state, counties, cities, school districts and other special districts.

Chapter Seven outlines and reports on the Board's responsibilities under the state's private activity bond allocation program. The program is administered on a calendar year basis and for the year 1996 the state's allocation was $918,900,000.

Appendix A is a summary of each bond issue that was approved by the Board and sold during fiscal 1996. Appendix B is a description of state commercial paper and variable rate note or bond programs. Appendix C provides a description of each program under which state bonds may be issued. Appendix D contains the current administrative rules of the Board.

---

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

CONTENTS

FIGURES

TABLES

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

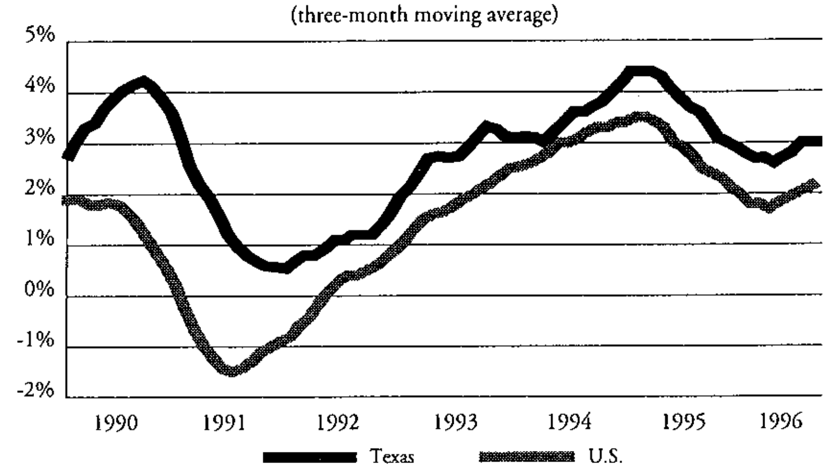
The market for Texas bonds continued to remain robust during fiscal 1996. The Texas economy, while slower than that of fiscal 1995, remains strong, thereby increasing demand for Texas bonds.

Texas Economy Slows Slightly, But Continues to Prosper

The State of Texas economy remains strong, sustaining a trend established in 1989. The state continues to outpace the U.S. in employment growth, the extension of a pattern that began in 1989 (*Figure 1*). This trend is supported by additional economic statistics that reveal Texas' economy to be healthy. New business incorporations continue to increase, rising 7.5 percent from fiscal 1995's record numbers. Additionally, housing permits showed an increase of 14.2 percent and the Texas Retail Sales Index delivered an increase of 6 percent during 1995. While these figures reflect a vibrant economy, other economic figures reveal an economy that has slowed slightly from 1995's outstanding performance. The Texas State Comptroller's Help Wanted Index remained in positive territory during fiscal 1996, but slowed to only a 0.1 percent increase from 1995. The unemployment rate for Texas edged up slightly to 6 percent, a 0.4 percent increase from 1995, and initial claims for unemployment compensation increased 8.1 percent in the same period. Much of this slowdown can be attributed to the general weakening conditions of the manufacturing, trade, and services sectors during fiscal

FIGURE 1

EMPLOYMENT GROWTH FOR TEXAS AND THE U.S.
JANUARY 1990 THROUGH AUGUST 1996
(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
APRIL 1995 THROUGH APRIL 1996

Rank[1]	State	Job Growth	Percentage Change	Rank[2]
1	California	274,700	2.2%	18
2	**TEXAS**	**244,400**	**3.1**	11
3	Florida	186,200	3.1	10
4	Illinois	108,000	1.9	21
5	Ohio	86,800	1.7	29
6	North Carolina	66,500	1.9	22
7	New York	49,400	0.6	46
8	Michigan	47,800	1.1	37
9	New Jersey	32,800	0.9	39
10	Pennsylvania	15,000	0.3	49
	United States	2,341,000	2.0%	

[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.

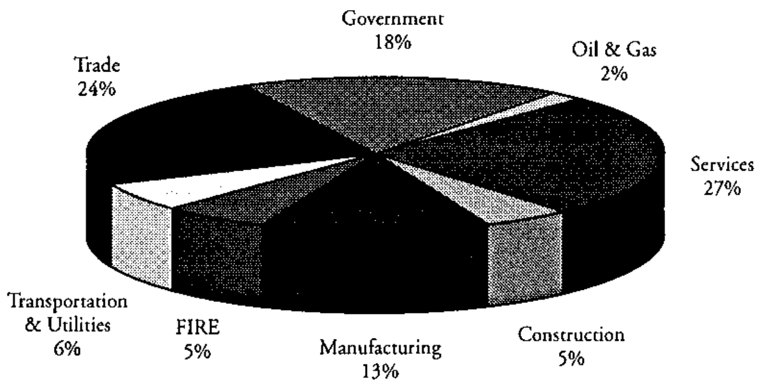
Source: U.S. Bureau of Labor Statistics.

1996. Falling consumer spending and business investment during the year appears to be the reason for much of the slowdown during 1996.

The gross state product for the State of Texas stood at $462.1 billion in 1995, and is estimated to be $476.0 billion for fiscal 1996. The primary contributing components of this gross state product continue to be services, trade, manufacturing, and finance, insurance and real estate (FIRE).

FIGURE 2

TEXAS NONFARM EMPLOYMENT DISTRIBUTION BY INDUSTRY 1996



Source: U.S. Department of Labor, Bureau of Labor Statistics.

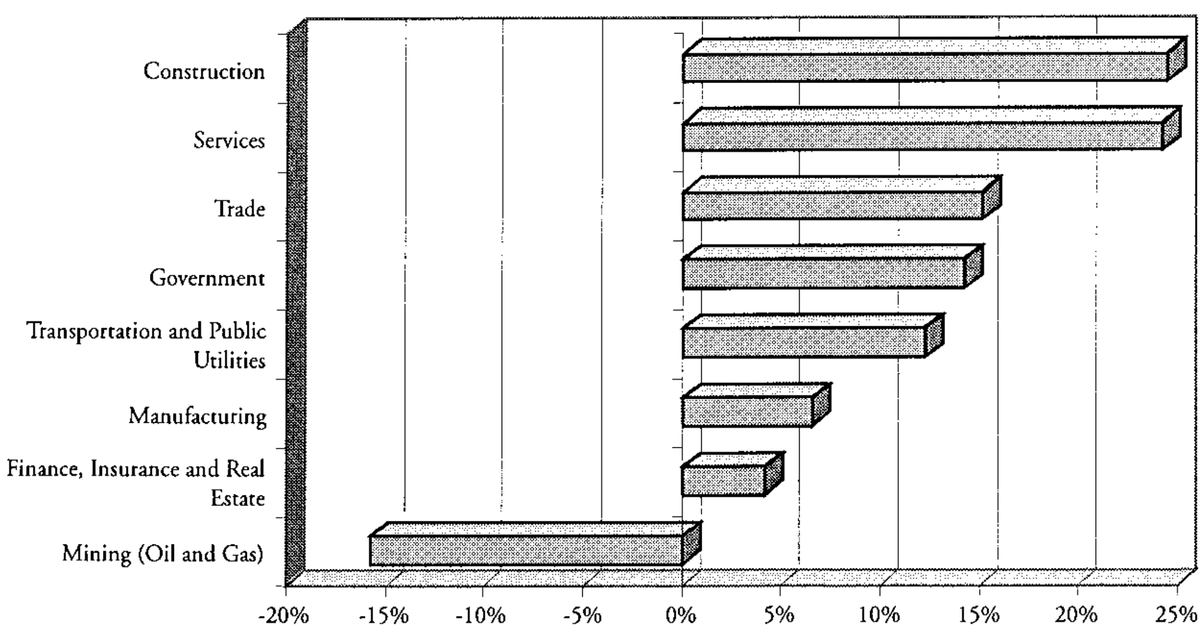
Texas' formidable agricultural industry experienced severe drought conditions during fiscal 1996. In May of 1996, 99 of the state's 254 counties had been declared drought disaster areas by Governor Bush. The Texas Department of Agriculture (TDA) predicted a 40-50 percent decline in production of Texas cotton, wheat, and sorghum. However, significant rainfall finally arrived by late summer and assisted in alleviating the drought conditions. With the ending of the drought, improvement from previous drought-related economic forecasts may be seen. However, losses by agricultural producers, and the downstream economy associated with these producers (transportation, services, and retail), may cause a decline in the gross state product.

Texas nonfarm employment stood at 8.2 million, as of April 1996. This is an increase of 2.5 percent from April 1995 and a 15.1 percent increase from 1991's

FIGURE 3

TEXAS NONFARM EMPLOYMENT CHANGE BY INDUSTRY

PERCENT CHANGE JULY 1991 TO JULY 1996



Source: Texas Workforce Commission, Federal Reserve Bank of Dallas, and Texas Comptroller of Public Accounts.

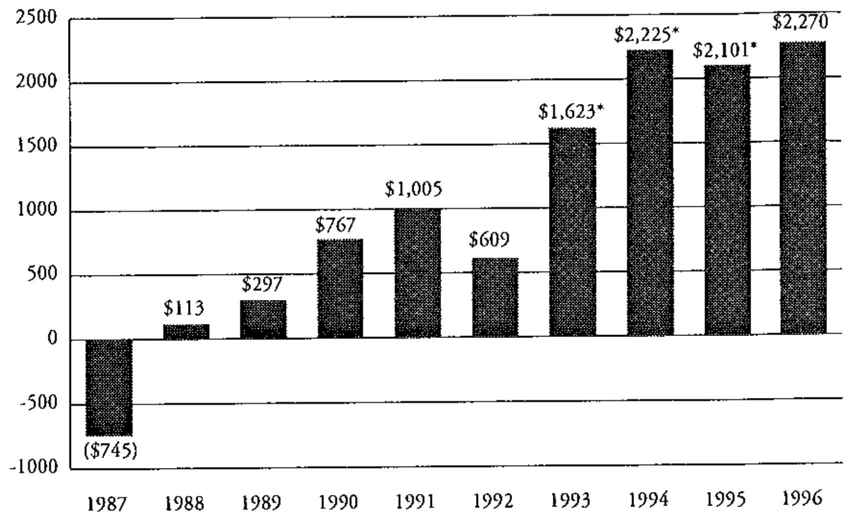
7.2 million. The distribution of Texas' non-farm employment remains stable, with trade and services accounting for over half of the state's total. Manufacturing and construction continue to account for almost 20 percent of nonfarm employment, while mining (oil and gas) has stabilized at 2 percent (*Figure 2, p. 2*).

Texas dropped to second among the fifty states in the number of jobs created in fiscal 1996, adding 244,400 jobs. Previously, Texas led all states in job creation since 1990. It also dropped one rank to 11th in the rate of economic growth during 1996 (*Table 1, p. 1*). Services and construction continue to be the leaders in job growth, with trade also providing a sizable percentage of new jobs (*Figure 3, p. 2*).

While job creation in Texas remains strong, income growth in the state continues to lag behind that of the nation. The services sector, which accounts for

FIGURE 4

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



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

Source: Texas Comptroller of Public Accounts.

TABLE 2

TEXAS ECONOMIC HISTORY AND OUTLOOK
FOR CALENDAR YEARS 1993–1998
FALL 1996 FORECAST

	1993	1994	1995	1996*	1997*	1998*
TEXAS ECONOMY						
Gross State Product (billions of 1992 $)	$430.7	$448.3	$462.1	$476.0	$488.8	$502.0
Annual Percentage Change	3.3	4.1	3.1	3.0	2.7	2.7
Personal Income (billions of dollars)	$342.8	$362.4	$388.2	$410.8	$432.3	$455.6
Annual Percentage Change	5.4	5.7	7.1	5.8	5.2	5.4
Nonfarm Employment (thousands)	7,478.0	7,755.0	8,024.8	8,243.9	8,403.0	8,558.5
Annual Percentage Change	2.9	3.7	3.5	2.7	1.9	1.9
Resident Population (thousands)	18,094.5	18,448.3	18,765.9	19,060.2	19,348.2	19,626.5
Annual Percentage Change	2.0	2.0	1.7	1.6	1.5	1.4
Unemployment Rate (percent)	7.0	6.4	6.0	6.1	6.4	6.6
Oil Price ($ per barrel)	$16.28	$15.15	$16.27	$19.23	$18.46	$18.80
Natural Gas Price ($ per barrel)	$1.89	$1.63	$1.44	$1.81	$1.77	$1.80
Oil/Gas Drilling Rig Count	262	274	251	278	257	244
U.S. ECONOMY						
Gross Domestic Product (billions of 1987 $)	$6,386.3	$6,608.7	$6,742.9	$6,889.5	$7,043.8	$7,205.5
Annual Percentage Change	2.3	3.5	2.0	2.2	2.2	2.3
Consumer Price Index (1982-84 = 100)	144.6	148.3	152.5	156.8	160.8	165.0
Annual Percentage Change	3.0	2.6	2.8	2.8	2.6	2.6
Prime Interest Rate	6.0	7.1	8.8	8.3	8.0	7.8

*Projected

Sources: Texas Comptroller of Public Accounts and The WEFA Group (10/30/96).

27 percent of Texas' nonfarm employment, provides lower-wage jobs than those of the higher wage oil/gas and aerospace jobs that fueled much of Texas' growth during the early 1980's. The Bureau of Economic Analysis reports that in terms of total personal income, Texas ranks third in the nation. However, on a per-capita basis, Texas ranks 33rd.

TABLE 3

STATEMENT OF CASH CONDITION, CONSOLIDATED GENERAL REVENUE FUND

(amounts in thousands)

	Fiscal 1995	Fiscal 1996	Percentage Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$ 2,224,847	$ 2,110,787	-5.13%
Tax Collections			
Sales Tax	10,236,000	10,767,725	5.19%
Oil Production Tax	375,214	376,975	0.47
Natural Gas Production Tax	512,411	447,102	-12.75
Motor Fuels Taxes	2,235,343	2,321,014	3.83
Cigarette and Tobacco Taxes	639,019	566,692	-11.32
Mtr Vehicle Sale/Rental, Mfg. Housing Sale	1,788,449	1,965,269	9.89
Franchise Tax	1,425,077	1,642,134	15.23
Alcoholic Beverages Taxes	406,696	418,698	2.95
Insurance Occupation Taxes	607,974	626,644	3.07
Inheritance Tax	171,606	160,143	-6.68
Hotel and Motel Tax	171,362	176,456	2.97
Utilities Taxes	240,746	240,975	0.10
Other Taxes	25,737	32,043	24.50%
Total Tax Collections	**$ 18,835,634**	**$ 19,741,870**	**4.81%**
Federal Income	$ 10,395,191	$ 10,433,619	0.37%
Interest & Investment Income	56,573	104,673	85.02
Licenses, Fees, Permits, Fines & Penalties	3,104,174	3,071,822	-1.04
Contributions to Employee Benefits	121,647	94,926	-21.97
Sales of Goods and Services	83,828	91,249	8.85
Land Income	22,986	11,287	-50.90
Settlements of Claims	4,886	13,701	180.41
Net Lottery Proceeds	1,662,031	1,718,319	3.39
Other Revenue Sources	485,779	582,699	19.95
Interfund Transfers / Investment Transactions	14,918,284	10,001,344	-32.96
Total Net Revenue and Other Sources	$ 49,691,013	$ 45,865,509	-7.70%
Expenditures and Ending Balance			
General Government	$ 1,435,692	$ 1,406,271	-2.05%
Health and Human Services	13,536,070	13,587,672	0.38
Public Safety and Correction	1,879,302	2,068,393	10.06
Education	6,339,140	6,015,123	-5.11
Employee Benefits	1,514,618	1,592,365	5.13
Lottery Winnings Paid	453,744	380,645	-16.11
Other Expenditures	1,046,018	1,111,853	6.29
Interfund Transfers / Investment Transactions	23,623,784	19,542,545	-17.28
Total Expenditures and Other Uses	$ 49,828,368	$ 45,704,866	-8.28%
Ending Balance, August 31	**$ 2,110,787**	**$ 2,270,847**	

Source: Texas Comptroller of Public Accounts.

It is forecasted that Texas will continue to experience moderate economic growth through the year 2000, with the gross state product expected to grow at an average annual rate of 3.0 percent. Personal income is expected to grow at an average annual rate of 5.7 percent, and nonfarm employment is expected to see approximately 2.1 percent growth annually (*Table 2, p. 3*).

One factor that will effect the rate of economic growth in Texas is Mexico. The country, facing severe economic stress induced by the peso devaluation of December 1994, is slowly emerging from recession. Additionally, political and social unrest have caused uncertainty with investors. Texas exports to the country were $2.1 billion in 1995. This amount was down approximately $2 billion from 1994 levels, but it is still 41 percent higher than in 1991. Economic growth and stability in Mexico will mean economic gains for Texas.

Another factor affecting the Texas economy is that of high-tech manufacturing. This industry, which fueled much of 1995's economic growth, has seen its fortunes decline recently as prices for Dynamic Random Access Memory (DRAM) chips and other computer components have fallen due to oversupply. Additionally, the saturation of computers in both the home and industry has slowed the market for computers. Any major downturn in this industry could hamper economic growth in Texas during fiscal 1997.

Texas Finances Are in the Black

The state ended fiscal year 1996 on August 31 with a General Revenue Fund cash balance of $2.3 billion. This amount is up from 1995's $2.1 billion and 1994's $2.2 billion. This marks the ninth straight year that Texas ended with a positive cash balance in the General Revenue Fund.

During 1996, total net revenues and other cash balances for all funds (excluding trust funds) equaled $40.5 billion. Added to fiscal 1995's opening balance of $4.2 billion, Texas had a total $44.7 billion of net revenue and opening cash balances. Total net expenditures and other uses equaled $39.6 billion during fiscal 1996.

Total tax collections deposited into the General Revenue Fund in fiscal 1996 increased by 4.8 percent; an increase of $906 million. Texas continues to have a sales-tax dominated tax structure, with sales tax accounting for 54 percent of 1996 tax collections.

Texas' Comparative Financial Position Ranks High

Texas' General Revenue Fund cash balance as of August 31, 1996, was equal to 5.0 percent of the General Revenue Fund's fiscal 1996 net expenditures. Based on estimated data collected by the National Conference of State Legislatures (NCSL), the projected average year-end balance as a percentage of general fund spending among all states was 5.6 percent. Texas' year-end balance as a percentage of expenditures for fiscal 1996 ranked 25th among all states.

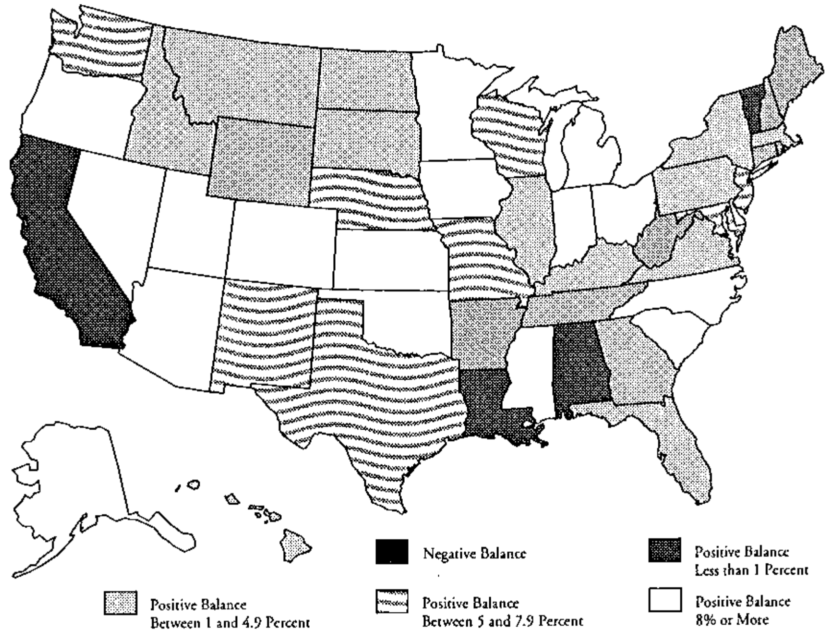
The NCSL generally views balances of five percent or more to indicate strong fiscal conditions. It is projected that at the end of fiscal 1996, twenty-four states held less than five percent in general fund balances and four states held less than one percent. Texas' year-end balance as a percentage of expenditures remains sound.

Texas Legislature Appropriates $79.9 Billion for 1996-97 Biennium

In May 1995, without raising additional taxes, the Texas Legislature passed

FIGURE 5

ENDING BALANCE IN GENERAL FUND BY STATE,* 1996
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.

TABLE 4

THE BUDGET FOR TEXAS STATE GOVERNMENT FOR THE 1996-97 BIENNIUM COMPARED TO ESTIMATED EXPENDITURES FOR THE 1994-95 BIENNIUM ALL FUNDS

(millions of dollars)

	Expended 1994-95	1996-97 Budgeted	Amount Change	Percent Change
General Government	$ 1,938.5	$ 1,825.6	$ (112.9)	(5.8%)
Health and Human Services	24,013.9	26,423.0	2,409.1	10.0
Education	31,293.0	33,592.9	2,300.0	7.3
Judiciary	249.3	257.1	7.8	3.1
Public Safety and Criminal Justice	7,332.6	6,920.4	(412.2)	(5.6)
Natural Resources	1,477.7	1,735.5	257.8	17.4
Business and Economic Development	8,262.9	8,793.1	530.1	6.4
Regulatory	387.0	412.6	25.6	6.6
General Provisions		(327.6)	(327.6)	N/A
The Legislature	219.0	221.2	2.3	1.0
TOTAL	$ 75,173.9	$ 79,853.8	$ 4,679.9	6.2%

Totals may not add due to rounding.

Health and Human Services' 1996-97 amount includes additional $1.5 million appropriated to the Children's Trust Fund of Texas Council House Bill 982. Business and Economic Development's 1996-97 amount does not include the $25 million appropriated to the Texas Workforce Commission pursuant to the enactment of Senate Bill 596.

The 1994-95 amounts include emergency appropriations. The 1996-97 amounts are revised to reflect Governor vetoes.

Source: Legislative Budget Board.

a $79.9 billion budget for the 1996-97 biennium, including $45.1 billion in general revenue related funds *(Table 4, p. 5)*. As required by the State Constitution, the State Comptroller certified that sufficient revenue will be available to pay for the state's 1996-1997 budget.

The 1996-97 budget represented an increase of $8.8 billion, or 12.5 percent, over the all-funds 1994-95 budget and a $4.3 billion, or 10.9 percent, increase in general revenue spending. The largest increases occurred in the areas of education and health and human services, which together represent over 75 percent of the 1996-97 all-funds budget. Federal income is expected to reach $23.4 billion during the 1996-97 biennium.

The Seventy-Fifth Legislature will convene in January 1997. The operating budget for the 1998-99 biennium will be adopted at that time. One event that occurred during fiscal 1996 that may impact future budgets was the Citizen's Committee on Property Tax Relief. The members of this commission, appointed by the Governor, traveled throughout the state obtaining first-hand information on tax-reform from a wide spectrum of Texas residents. At this time, no changes in Texas' tax structure are pending. However, the results of the work of the committee may mean future changes for Texas' tax structure.

TABLE 5

STATE GENERAL OBLIGATION BOND RATINGS
AUGUST 31, 1996

	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	Aa1	AA+	*
Florida	Aa	AA	AA
Georgia	Aaa	AA+	AAA
Hawaii	Aa	AA	*
Illinois	A1	AA-	AA
Louisiana	Baa1	A-	*
Maine	Aa	AA+	AA
Maryland	Aaa	AAA	AAA
Massachusetts	A1	A+	A+
Michigan	Aa	AA	AA
Minnesota	Aaa	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	Aa1	AA	AA+
Oklahoma	Aa	AA	AA
Oregon	Aa	AA-	*
Pennsylvania	A1	AA-	AA-
Rhode Island	A1	AA-	AA-
South Carolina	Aaa	AAA	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	AA-	AA-
Wisconsin	Aa	AA	AA+

*Not rated.

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

Texas GO Bonds Currently Rate Aa/AA/AA+

Rating agencies assess the likelihood of timely repayment of principal and interest due. 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 indicate higher levels of risk. Texas' 1996 general obligation bond ratings remain unchanged from those of 1995: Aa by Moody's Investors Services; AA by Standard and Poor's Corporation; and AA+ by Fitch Investors Service.

Prior to 1987, Texas had a AAA rating; however, the state's economic recession in 1986-87 and the accompanying weakness in state finances led Standard and Poor's and Moody's to decrease the state's rating to Aa in 1987. However, the state has seen a great improvement since that time, including the development of a strong, stable, and well-diversified economy. In June of 1996, Standard and Poor's revised its rating outlook on Texas' GO debt from stable to positive. Citing the reason for the change, the rating agency stated that the improvement reflected "Texas' steadily growing and diversifying economy, its improving financial performance, and the state's low tax-supported debt burden." Similarly, Fitch Investor's Service, in a publication dated July 31, 1996, confirmed that "the credit characteristics of Texas are excellent.... The economy has become more diverse since the oil-induced recession of the mid-1980s and steady, although moderate growth, continues."

Only 6 States Have AAA From All Three Rating Agencies

The number of states with AAA ratings from the three major rating agencies increased to six during fiscal 1996 (*Table 5, p. 6*). The five with AAA ratings in 1995, Maryland, Missouri, North Carolina, Utah and Virginia, were joined by South Carolina, after Standard and Poor's upgraded the state from AA+ to AAA. Three other states, Tennessee, Minnesota and Georgia, hold AAA ratings from two of the three major rating agencies. Minnesota was a new addition to this group, as it received a rating upgrade from Aa1 to Aaa from Moody's (*Table 6*).

The overall strong economic performance of state economies and finances resulted in six rating upgrades over the last year. New Hampshire received an upgrade from AA to AA+ from both Standard and Poor's and Fitch. Additionally, California's emergence from recession resulted in a rating upgrade from A to A+ by Fitch. Illinois was the only state to receive a rating downgrade during 1996.

Bond rating changes are important due to the relationship between bond ratings and borrowing costs. Improved bond ratings decrease the amount of interest a state must pay on its bonds, thereby lowering the state's cost of borrowing money.

TABLE 6

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS
SEPTEMBER 1995 TO AUGUST 1996

UPGRADES

State	Rating Change
California	A to A+ by Fitch
Minnesota	Aa1 to Aaa by Moody's
New Hampshire	AA to AA+ by Fitch AA to AA+ by Standard & Poor's
Ohio	Aa to Aa1 by Moody's
South Carolina	AA+ to AAA by Standard & Poor's
West Virginia	A+ to AA- by Fitch

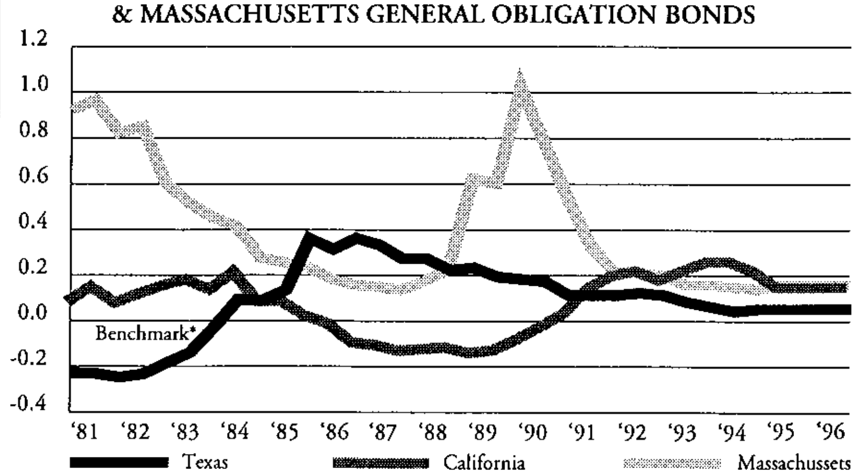
DOWNGRADES

State	Rating Change
Illinois	AAA to AA by Fitch

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

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.

Texas Bonds Trade At Rates 0.12 Percent Higher Than AAA G.O. Bonds

Ratings issued by Moody's, Standard and Poor's, and Fitch assist investors in determining the creditworthiness of the issuer. A state's rating is also a determining factor in the rate of interest that a state must pay on its bonds. However, it is the bond market that has the final choice on what rate of interest the issuer will pay.

Of the forty states that have general obligation debt outstanding, thirty-two are rated AA or better by Moody's, and twenty-five are rated AA or better by both Standard and Poor's and Fitch. Investors, guided by the rating agencies evaluation of creditworthiness of the issuer and current market conditions, determine what rate of interest the issuer will pay.

The relative interest rates demanded on Texas bonds have generally declined since 1987 as the state's economy and finances have gained strength. The Chubb Corporation compiles yield differences from a semi-annual poll of major municipal bond dealers. Traders are asked to express the average yield they demand on the general obligation debt of a number of states relative to a benchmark state. According to a July 1996 survey, investors are charging Texas an average of 0.047 percentage points above the interest rate on benchmark general obligation bonds.[1] *(Figure 6, p. 7)*. This interest rate margin is a measure of the higher risk investors place on Texas' bonds relative to highly-rated general obligation bonds. The relative yields on Massachusetts and California are shown for comparison.

While the interest rate penalty placed on Texas bonds has increased slightly from 1995's 0.04 percentage points, it still remains well below its 1986 rate of 0.36 percentage points. This pricing performance can be attributed to Texas' continued strong economic performance and sound fiscal management.

As of July 1996, Texas general obligation bonds were trading 0.12 percentage points above the average interest rate on general obligation bonds of the six states currently rated AAA by Moody's, Standard and Poor's, and Fitch.

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

CHAPTER 2

TEXAS DEBT IN PERSPECTIVE

The amount of Texas debt supported by general revenues has leveled off after experiencing a major increase in the late 1980s. Texas continues to have a relatively low state debt and a relatively high local debt burden. Currently, state debt comprises 83 percent of the total state and local debt outstanding. This chapter discusses Texas debt in perspective and describes recent policy initiatives and changes that may affect debt management in Texas.

Comparing Texas' Debt Burden Among the Fifty States and Those Rated AAA

Texas has a relatively low state debt burden compared to other states. The state ranks 33rd among all states and 9th among the ten most populous states in net tax-supported debt per capita according to a 1996 report by Moody's Investors Service. At the time of the report, Texas had $331 in net tax-supported debt per capita compared to a nationwide median of $431 per capita and a median of approximately $572 per capita among the ten most populous 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 compare favorably to the states currently rated AAA by these rating agencies *(Tables 7/8, pp. 10 & 11).* Texas' $331 in net tax-supported debt per capita compares agreeably to an average of $365 among the states rated AAA. Maryland had the highest per capita debt figure among the AAA states at $832.

Texas' net tax-supported debt as a percent of 1994 personal income is 1.7 percent, compared to a nationwide median of 2.1 percent and a median of 2.6 percent among the ten most populous states. On this measure, Moody's ranks Texas 32nd among all states in the nation and 6th among the ten most populous states *(Tables 7/8, pp. 10 & 11).*

When compared to AAA-rated states, Texas measures up on this benchmark as well. In 1996, AAA-rated states had net tax-supported debt expressed as a percentage of 1994 personal income ranging from 0.7 percent in North Carolina to 3.4 percent in Maryland. The median for all states rated AAA was 1.6 percent.

Another measure that Texas performs well on is that of net tax-supported debt 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. Moody's ranks Texas 30th among all states and 8th among the ten most populous states on this measure. Texas' 2.6 percent compared to a nationwide median of 3.5 percent and a median of 4.4 percent among the ten most populous states.[2]

When compared to AAA-rated states, Texas once again remains competitive. AAA-rated states with a lower percentage than Texas included North Carolina with 1.4 percent; Virginia with 2.5 percent, and Missouri with 1.7 percent. Debt service as a percentage of revenues among the AAA-rated states ranged from North Carolina's 1.4 percent to 4.3 percent in Maryland. The mean for all AAA-rated states was 2.8 percent.

Continued 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 1996, state debt paid from general revenue was approximately $3.04 billion compared to $422 million outstanding as of the end of fiscal 1987.

In the 1994-1995 budget period, debt service from general revenue averaged $286 million annually, 1.7 percent of available general revenue collections after constitutional and other restrictions. During the 1986-1987 budget period, debt service from general revenue averaged $42.5 million annually, just 0.4 percent of general revenue collections. Since 1991, debt service paid from general revenue as a percent of unrestricted general revenue has more than doubled *(Figure 7, p.12).*

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, 1996, approximately $1.04 billion in bonds payable from general revenue had been authorized by the Legislature but had not yet been issued. Some of these authorized but unissued bonds may be issued at any time without further legislative action and others would require a legislative appropriation of debt service prior to issuance.

Effective September 1, 1995, the remaining $250 million of superconducting super collider (SSC) revenue bond authority was rescinded. Also

[2] *Moody's 1996 Medians* include self-supporting debt.

effective September 1, 1995, $67.5 million in building revenue bond authority for renovation of the state capitol was eliminated.

The remaining $250 million in SSC general obligation bond authority was rescinded by voter approval of a constitutional amendment on November 7, 1995.

With the issuance of all authorized but unissued bonds, debt service from general revenue would increase by an estimated $138.8 million annually. With the issuance of these authorized bonds, Texas' general revenue debt outstanding would equal $4.08 billion or 1 percent of estimated 1996 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, 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 Revenue Fund revenues, excluding revenues constitutionally dedicated for purposes other than payment of state debt, for the previous three fiscal years.

The debt-limit ratio was 1.9 percent considering only bonds outstanding as of August 31, 1996. The issuance of all bonds authorized by the Legislature but unissued as of August 31, 1996, would push the debt-limit ratio to an estimated 2.7 percent in fiscal 1997.

TABLE 7

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 1994 Personal Income	Rank	Net Tax-Supported Debt Service as a % of FY96 Revenues	Rank
Hawaii	Aa	10.3%	1	9.1%	4
Connecticut	Aa	9.7	2	12.0	1
Rhode Island	A1	8.5	3	6.2	10
Massachusetts	A1	8.3	4	8.6	5
Delaware	Aa1	7.6	5	9.3	3
New York	A	6.9	6	6.6	9
Kentucky	*	5.1	7	5.1	13
Vermont	Aa	4.9	8	7.2	8
Louisiana	Baa1	4.9	9	10.1	2
Washington	Aa	4.8	10	4.9	15
New Jersey	Aa1	3.6	11	4.9	14
Maryland	Aaa	3.4	12	4.3	18
Georgia	Aaa	3.3	13	4.0	20
Illinois	A1	3.2	14	4.3	19
Mississippi	Aa	3.0	15	2.5	32
Wisconsin	Aa	2.9	16	3.4	26
New Hampshire	Aa	2.9	17	7.6	6
Florida	Aa	2.9	18	4.9	16
California	A1	2.8	19	5.6	12
Maine	Aa	2.7	20	5.6	11
West Virginia	A1	2.6	21	3.5	25
Ohio	Aa1	2.5	22	3.9	22
Montana	Aa	2.4	23	3.6	24
Arizona	*	2.4	24	2.2	35
New Mexico	Aa1	2.1	25	3.7	23
Kansas	*	2.0	26	2.2	34
Nevada	Aa	2.0	27	7.6	7
Minnesota	Aaa	1.9	28	2.6	29
Utah	Aaa	1.8	29	3.4	27
South Dakota	*	1.8	30	2.4	33
Alabama	Aa	1.8	31	4.0	21
TEXAS	Aa	1.7	32	2.6	30
Virginia	Aaa	1.6	33	2.5	31
South Carolina	Aaa	1.6	34	3.2	28
Michigan	Aa	1.5	35	1.4	41
Oregon	Aa	1.4	36	1.7	38
Missouri	Aaa	1.3	37	1.7	37
North Dakota	Aa	1.1	38	1.6	39
Indiana	*	0.9	39	1.1	44
Alaska	Aa	0.9	40	1.2	42
Tennessee	Aaa	0.9	41	2.1	36
Oklahoma	Aa	0.8	42	1.1	43
North Carolina	Aaa	0.7	43	1.4	40
Arkansas	Aa	0.7	44	1.0	45
Iowa	*	0.6	45	0.5	48
Wyoming	*	0.4	46	0.3	50
Pennsylvania	A1	0.3	47	4.6	17
Idaho	*	0.3	48	0.4	49
Nebraska	*	0.2	49	0.7	47
Colorado	*	0.1	50	0.9	46
U.S. Median		2.1%		3.5%	
U.S. Mean		2.8%		4.4%	

*No general obligation debt outstanding.

Source: Moody's Medians, 1996.

Texas' Local Debt Burden Is High

Although Texas ranks last among the ten most populous states in state debt per capita, the state ranks second in local debt per capita according to the most recent data available from the Bureau of the Census *(Table 9)*. Local debt includes debt issued by cities, counties, school districts and special districts.

Texas had local government debt per capita of $3,261 compared to an average of $2,456 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 sixth among the ten most populous states based on combined state and local debt. Texas had a combined state and local debt per capita figure of $3,771 compared to an average of $3,993 per capita among the ten most populous states, according to the Census Bureau.

TABLE 8

SELECTED 1996 DEBT MEASURES FOR TEXAS AND STATES RATED AAA

State	Rating*	Net Tax-Supported Debt as a % of 1994 Personal Income	Net Tax-Supported Debt Service as a % of FY96 Revenues	Net Tax-Supported Debt Per Capita
Maryland	AAA	3.4%	4.3%	$832
Utah	AAA	1.8	3.4	310
TEXAS	AA	1.7	2.6	331
Virginia	AAA	1.6	2.5	366
South Carolina	AAA	1.6	3.2	287
Missouri	AAA	1.3	1.7	255
North Carolina	AAA	0.7	1.4	142
Median of AAA States		1.6%	2.9%	$299
Mean of AAA States		1.7%	2.8%	$365

*States listed as AAA were rated Aaa/AAA/AAA by Moody's, S&P and Fitch respectively. Texas was rated Aa/AA/AA+ by Moody's, S&P and Fitch respectively. Median and mean figures do not include Texas.

Source: *Moody's Medians, 1996.*

In 1994, local government debt accounted for 86.5 percent of the $69.3 billion in Texas' total state and local debt outstanding, according to the Census Bureau report. The average of the ten most populous states was 62.8 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. schools, water and sewer services, local roads, etc.). A more detailed look at local debt is provided in Chapter 6 and in the Bond Review Board's biennial State and Local Debt Report.

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 importance of local debt nationwide since 1960 *(Figure 8, p. 12)*.

Further Consolidation in the Debt Issuance Process May Occur

Debt issuance in Texas is a fragmented process at both the state and

TABLE 9

TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES

	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	$126,695	$7,083	1	$65,078	50.6%	$3,582	1	$63,617	49.4%	$3,501
New Jersey	2	38,252	4,840	2	22,894	59.9%	2,897	7	15,358	40.1%	1,943
Florida	3	60,060	4,304	8	14,565	24.3%	1,044	2	45,495	75.7%	3,261
Pennsylvania *	4	51,550	4,277	6	13,670	26.5%	1,134	3	37,880	73.5%	3,143
California	5	130,147	4,141	4	48,120	37.0%	1,531	4	82,027	63.0%	2,610
TEXAS	6	69,303	3,771	10	9,378	13.5%	510	2	59,925	86.5%	3,261
Illinois	7	43,935	3,739	3	20,355	46.3%	1,732	6	23,580	53.7%	2,006
Michigan	8	26,856	2,828	5	11,505	42.8%	1,212	8	15,351	57.2%	1,617
North Carolina	9	19,140	2,707	9	4,537	23.7%	642	5	14,603	76.3%	2,065
Ohio	10	26,090	2,350	7	12,117	46.4%	1,091	9	13,973	53.6%	1,259
Mean		**$59,403**	**$4,004**		**$22,222**	**37.1%**	**$1,537**		**$37,181**	**62.9%**	**$2,467**

Detail may not add to total due to rounding.
Source: Bureau of the Census: *State Government Finances* 1993 & 94.
*Amount of Pennsylvania state debt outstanding was estimated using preliminary data.

local levels. There are twenty 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 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 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 TPFA the authority to issue bonds for the Texas Workers' Compensation Fund and on behalf of the Texas National Guard Armory Board, Texas National Research Laboratory Commission, 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 undertaken by state agencies.

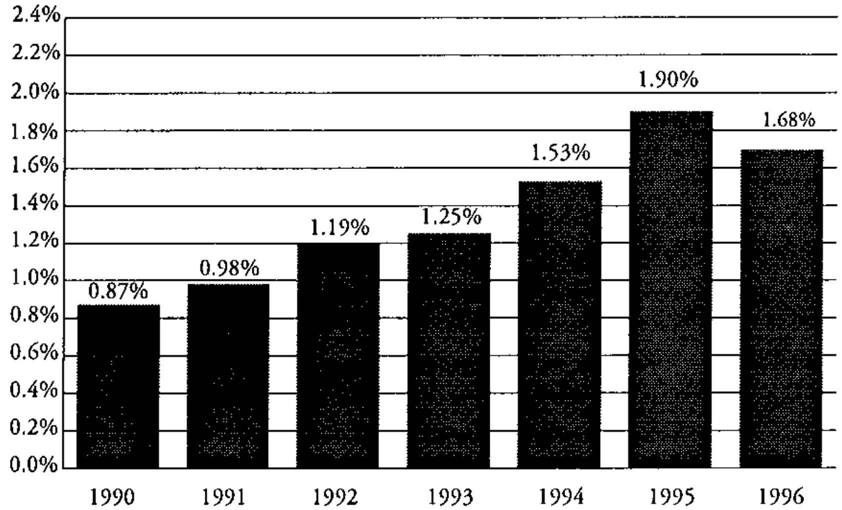
During fiscal 1996, the Texas Sunset Advisory Commission reviewed the TPFA and recommended that the University of North Texas, Midwestern State University, Stephen F. Austin State University, Texas Southern University, Texas Woman's University, and the Texas Low Level Radioactive Waste Disposal Authority issue their bonds through the TPFA. Any such consolidation of bonding authority would require legislative approval. It is possible that the consolidation of debt issuance that occurred with the 72nd Legislature may be continued with the 75th.

Another possible change that was discussed in Texas during 1996 was the merging of the Texas Turnpike Authority (TTA) into the Texas Department of Transportation. This merger, which was suggested by the Sunset Advisory Commission during fiscal 1996, would pass the TTA's bond issuance authority on to the TPFA. The TTA issued $446 million of revenue bonds in fiscal 1996.

In response to the Sunset Advisory Commission's plan, the board of the TTA voted instead to support the development of a four-county regional authority to develop and finance toll roads in the North Texas region.

FIGURE 7

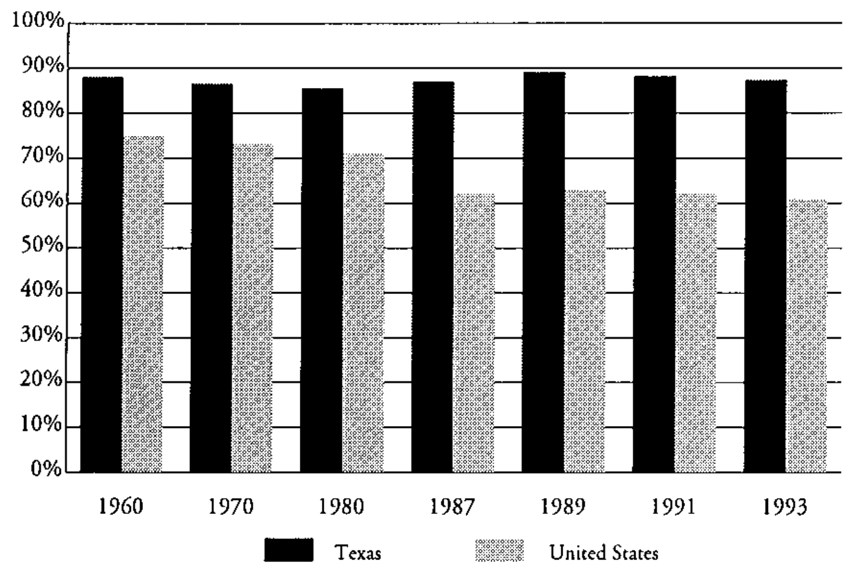
ANNUAL DEBT SERVICE AS A PERCENT OF UNRESTRICTED GENERAL REVENUE



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

FIGURE 8

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



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

TEXAS BOND ISSUANCE IN FISCAL 1996

Texas state agencies and universities issued $2.6 billion in bonds during fiscal 1996, $1.3 billion in new-money bonds and $1.3 billion 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 notes and commercial paper in fiscal 1996.

New-Money Bonds Issued for a Variety of Purposes

Texas state agencies and institutions of higher education issued $1.3 billion in new-money bonds (not including commercial paper) during fiscal 1996. This represents a seventy-seven percent increase from the $770 million issued during 1995 *(Figure 9, p. 14)*. The new-money bonds issued in fiscal 1996 financed a variety of purposes, including state facilities and loan programs.

The issuer with the largest volume of new-money bonds in fiscal 1996 was the Texas Turnpike Authority (TTA). The TTA issued a total of $446 million in new-money bonds. The proceeds from sale of these revenue bonds were used for the purpose of designing and constructing the President George Bush Turnpike, an extension and enlargement of the Dallas North Tollway. The debt will be repaid from toll revenues generated by usage of the Tollway.

The second largest issuer of state new-money debt in fiscal year 1996 was the Texas Water Development Board (TWDB), with a total of $260 million. The TWDB issued $200 million in new-money revenue bonds to provide partial funding for the State Revolving Fund (SRF). The SRF, which also receives funds from the U.S. Environmental Protection Agency and state general obligation bonds, is used for making loans to political subdivisions for the construction of sewer treatment facilities, including treatment plants and collection lines. The issued bonds funded thirty-two commitments to political

TABLE 10

TEXAS BONDS ISSUED DURING FISCAL 1996
SUMMARIZED BY ISSUER

Issuer	Refunding Bonds	New-Money Bonds	Total Bonds Issued
Texas Higher Education Coordinating Board		$ 75,000,000	$ 75,000,000
Texas Public Finance Authority	$ 312,940,000	9,665,000	322,605,000
Texas Water Development Board	19,564,956	60,000,000	79,564,956
Veterans Land Board	245,495,000	69,996,889	315,491,889
Midwestern State University		$ 4,035,000	$ 4,035,000
Stephen F. Austin State University		7,725,000	7,725,000
Texas A&M University System	$ 164,880,000	103,000,000	267,880,000
Texas Department of Housing & Community Affairs	126,011,352	117,515,000	243,526,352
Texas Water Development Board		200,000,000	200,000,000
Texas Public Finance Authority		66,435,000	66,435,000
Texas State University System		4,415,000	4,415,000
Texas Woman's University		24,000,000	24,000,000
Texas Turnpike Authority		446,411,475	446,411,475
University of North Texas		15,000,000	15,000,000
University of Texas System	407,680,000	187,000,000	594,680,000
TOTAL ALL TEXAS BONDS ISSUED	$1,276,571,308	$1,390,198,364	$2,666,769,672*

* Total does not include amounts for commercial paper or variable-rate bonds issued during fiscal year 1996. TPFA issued an aggregate $ 52.7 million of general obligation notes on behalf of TYC, TDCJ, and TDMHMR. TPFA also issued $16.3 million of commercial paper notes in connection with the Master Lease Purchase Program (MLPP). UT issued $26.7 million of revenue financing system commercial paper notes to finance equipment, facility, construction and repair and rehabilitation.

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

subdivisions and seven installment loans totaling over $179 million.

Additionally, the TWDB issued $35 million in general obligation debt to finance water projects. Of this amount, $20 million was used to fund loans to political subdivisions for water supply purposes, $14 million was used to provide matching funds for loans to be made to political subdivisions from the TWDB's SRF, and the remaining $1 million was used to fund loans for water quality enhancement (wastewater) projects and to pay the costs of issuance.

The TWDB also issued $25 million in new-money general obligation debt for the Economically Distressed Areas Program (EDAP). Of these funds, $13 million was used to fund loans and/or grants to political subdivisions in the economically distressed areas of the state for water supply purposes, and $12 million was used for water quality enhancement (sewer) purposes. Of the $12 million issued, $10 million was used to match federal grant funds for the Colonia Wastewater Treatment Assistance Program (CWTAP).

The TWDB general obligation bonds, with the exception of the EDAP bonds, are designed to be self-supporting, *i.e.*, debt service will 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 although none is expected in fiscal year 1997. Up to 90 percent of the EDAP bond proceeds may be used for grants.

The University of Texas System issued new-money bonds in fiscal 1996 in the amount of $187 million. Of this amount, $26 million were Constitutional appropriation bonds. The proceeds of these bonds were used to fund the construction of a Sciences Complex to house specialized laboratory and research areas to support physical sciences at The University of Texas Pan-American campus. An additional $161 million was issued for the construction of buildings and facilities throughout the System.

The Texas A&M University System (TAMU) also issued $267 million of bonds during fiscal 1996, $103 million of which was new money. The proceeds of the new money portion of the issue will be used for the purpose of acquiring, constructing, and enlarging properties and facilities. Revenues generated by the System will be used to pay the debt service on these bonds.

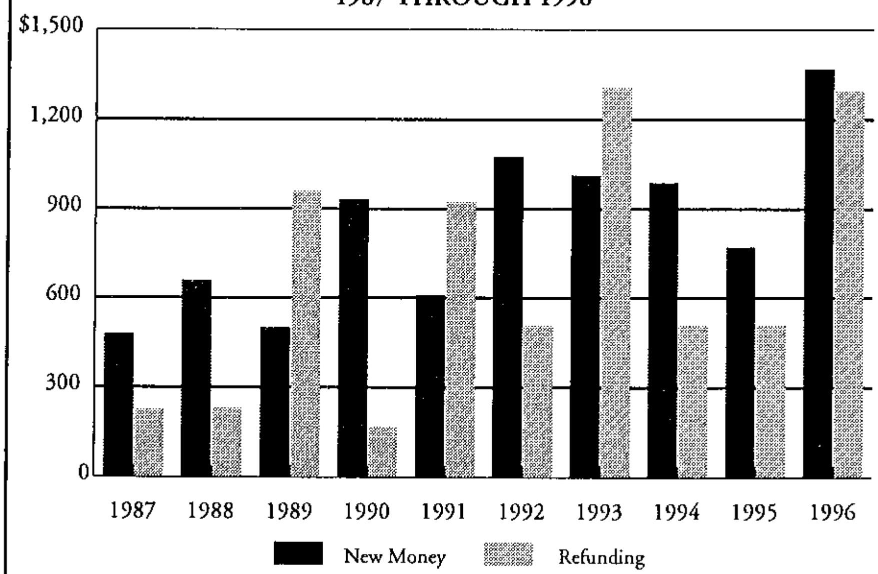
The Texas Department of Housing and Community Affairs (TDHCA) issued $95.3 million of single family mortgage revenue bonds. Proceeds of the issue are being used to provide funds to finance low-interest mortgage loans made to first-time homebuyers of very low, low, and moderate income. Debt service on these bonds is paid from loan payments associated with the agency's single family mortgage loan program.

The Texas Public Finance Authority (TPFA) issued a total of $76.1 million in new-money bonds in fiscal 1996. Of this amount, $9.6 million was issued as general obligation debt for the Texas Parks and Wildlife Department (TPWD). The TPWD used the proceeds to finance construction and renovation projects at existing state parks. An additional $10.3 million of revenue-backed debt was issued by the TPFA to provide funds to the General Services Commission (GSC) for the first phase of construction of a Texas Department of Health (TDH) laboratory. The final portion of the new-money bonds was $56 million of revenue bonds issued for the purpose of constructing an office building for legislative agencies in Austin, construction of a building in Fort Worth, and air quality improvements at various office buildings in Travis County.

The Texas Higher Education Coordinating Board (THECB) issued $75 million in college student loan bonds in fiscal 1996 to finance the Hinson-Hazelwood Loan Program. This program provides low-interest loans to students seeking an undergraduate,

FIGURE 9

TEXAS NEW-MONEY AND REFUNDING BOND ISSUES 1987 THROUGH 1996



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

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 loan repayments and investments has historically been sufficient to pay debt service. No draw on the state's general revenue is expected.

The Texas Veterans' Land Board (VLB) issued a total of $69.9 million in new-money bonds during fiscal 1996. Of this amount, $34.9 million were tax-exempt bonds issued to purchase land to be resold to eligible Texas veterans. Additionally, $35 million of taxable bonds were issued to purchase land that will be resold to eligible Texas veterans. The additional $35 million of taxable bonds allows the VLB to offer loans of up to $40,000 to Texas veterans (and eligible surviving spouses).

Finally, Texas universities issued revenue and constitutional appropriation bonds in an approximate aggregate amount of $55.1 million to finance various construction projects at their respective institutions.

Texas Usage of Commercial Paper/Variable Rate Notes

State agencies and institutions continued to issue substantial amounts of commercial paper and variable rate notes during fiscal 1996 to finance equipment, for interim construction, and for loan programs.

The Texas Public Finance Authority established a general obligation commercial paper note program during fiscal 1994 which 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 Texas Department of Criminal Justice, the Texas Youth Commission, and the Texas Department of Mental Health and Mental Retardation. During fiscal 1996, the TPFA issued $52.7 million in general obligation commercial paper. As of August 31, 1996, the TPFA had $97 million in general obligation commercial paper notes outstanding.

The TPFA also issued $16.3 million in commercial paper in fiscal 1996 to finance the state's Master Lease Purchase Program (MLPP). Under this program, which was initiated in fiscal 1992, TPFA issues debt to finance the purchase of equipment and then leases the equipment to state agencies. TPFA uses the lease payments from the agencies to pay the debt service. The MLPP was expanded in 1994 to permit a maximum of $100 million outstanding and to enable the interim financing of real property. As of August 31, 1996, the program has $58.6 million available for future MLPP financings.

The Texas A&M University System 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 did not issue any commercial paper in fiscal 1996.

During fiscal 1996, The University of Texas System issued $26.7 million of Revenue Financing System commercial paper to provide interim financing for capital projects and to finance equipment, and $25 million of Permanent University Fund (PUF) variable rate notes for interim financing for PUF projects.

The Texas Department of Housing and Community Affairs established a $75 million commercial paper program during fiscal 1995. The TDHCA established the program to recycle certain prepayments of single family mortgage loans and to preserve private activity volume cap allocation under its existing single family programs. Once the TDHCA has issued a substantial aggregate amount of notes, the notes will be refunded with single family mortgage revenue bonds. Funds made available as a result of the program are being used to make qualified mortgage loans to eligible very low, low and moderate income borrowers. During fiscal 1996, the TDHCA issued $14.6 million of commercial paper notes under this program.

The Texas Agricultural Finance Authority (TAFA) received Bond Review Board approval to issue an additional $25 million in taxable commercial paper to fund its Texas Agricultural Fund. This amount, in addition to a previously-approved $25 million, will allow the TAFA to purchase and guarantee loans made to agricultural businesses involved in the production, processing, marketing, and export of Texas agricultural products.

The TAFA also administers the Farm and Ranch Land Acquisition Program. During fiscal 1996, the TAFA issued $100,000 in commercial paper for the purpose of funding loans to eligible Texans for the purchase of farms and ranches. The Authority is authorized to issue up to $100 million for the program.

Refundings Double From Fiscal 1995 Level

During fiscal 1996, Texas state agencies and institutions of higher education issued $1.3 billion in refunding debt. This level of refunding activity was over twice the amount of refunding activity of $507 million during fiscal 1995. Almost half of the refunding bonds issued during 1996 were current refundings.

The largest issuer of refunding bonds during fiscal 1996 was the University of Texas System with a total of $407.6 million in refunding bonds. The System refunded $106.8 million of outstanding Revenue Financing System Commercial Paper Notes. Other refunding transactions for the System refunded an aggregate total of $300.8 million in outstanding bonds.

The TPFA, which refunded $312 million of general obligation commercial paper, was the second largest issuer of refunding bonds. The refunded commercial paper notes were originally issued to provide interim construction financing for projects of the Texas Department of Criminal Justice, the Texas Youth Commission, and the Texas Department of Mental Health and Mental Retardation. The refunding secured long-term, fixed-rate financing for these projects.

The Texas Veterans' Land Board was another large issuer of refunding bonds, refunding a total of $245.4 million in outstanding debt. The largest fiscal 1996 issue for the VLB was $130.8 million of bonds that were issued in five series, including two series of Convertible Option Bonds (COBs) to refund outstanding 1994 bonds. This transaction assisted the VLB in achieving an initial present value savings of $13.8 million, or 10.5 percent of the refunded bonds.

Additional VLB refunding transactions totaled $114.6 million, and included both taxable and non-taxable refundings of previously-issued bonds used for the VLB's Housing Assistance Program. Included in this amount was a current refunding of the 1985 series of housing bonds through the issuance of variable rate refunding bonds. In conjunction with this transaction, the VLB entered into a swap agreement requiring payments at a fixed rate and resulting in a present value savings of approximately $18.1 million, or 20.5 percent of the refunded bonds.

The Texas A&M University System issued $164.8 million in refunding bonds during fiscal 1996, of which $112.4 million was for current refunding purposes. The additional $52.6 million was for the forward refunding of Permanent University Fund refunding bonds issued in 1986.

The Texas Department of Housing and Community Affairs had several refunding transactions in fiscal 1996, the largest of which was for $71.7 million. This transaction provided the Department with present value savings of $8.2 million.

Additional refunding transactions by the TDHCA included an aggregate amount of $54 million, which refunded three different multi-family housing issues, and a $15.3 million Convertible Option Bond (COB) remarketing transaction.

Lease Purchases Down Considerably From Fiscal 1995

The Bond Review Board is required to review all lease and installment purchases in excess of $250,000 in principal 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 1996, the Bond Review Board approved a total of $4.4 million in lease and installment-purchases *(Table 11)*. This total is down considerably from the previous year's approval of $34 million in lease-purchase transactions. Lease purchases for capital goods accounted for the total amount of lease-purchase transactions approved by the Board in fiscal 1996.

Of the six lease-purchase transactions approved by the Bond Review Board, five were financed through the TPFA's Master Lease Purchase Program (MLPP). These transactions totaled $3.3 million. The capital goods purchased in these transactions included automobiles, modular furniture, a gas pipeline, and a remittance processing system.

The largest of the lease-purchase transactions during fiscal 1996, $1.1 million, was for improvements to the energy management system of Midwestern State University.

TABLE 11

LEASE- AND INSTALLMENT-PURCHASE AGREEMENTS APPROVED BY THE BOND REVIEW BOARD
FISCAL 1996

AGENCY/UNIVERSITY	TOTAL	REAL PROPERTY	EQUIPMENT Computer	EQUIPMENT Other
Midwestern State University	$ 1,093,421			$ 1,093,421
Texas Comptroller of Public Accounts	857,000		$ 857,000	
Texas Department of Criminal Justice	849,000			849,000
Texas Alcoholic Beverage Commission	647,850			647,850
Texas Commission on Alcohol and Drug Abuse	395,000			395,000
Texas National Guard Armory Board	615,276			615,276
TOTAL APPROVED LEASE-PURCHASE AGREEMENTS	$ 4,457,547	$ 0	$ 857,000	$ 3,600,547

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

TABLE 12

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 1997

Issuer		Approximate Amount	Purpose	Approximate Issue Date
General Obligation Bonds				
Self-Supporting				
Texas Higher Education Coordinating Board	$	75,000,000	College Student Loans	Apr-97
Texas Veterans Land Board		47,930,000	Veterans Housing Assistance Remarketing	Oct-96
Texas Veterans Land Board		35,000,000	Veterans Housing Assistance Program	May-97
Texas Veterans Land Board		35,000,000	Veterans Land Program	Feb-97
Texas Veterans Land Board		25,000,000	Veterans Land Program	May-97
Texas Water Development Board		7,000,000	Water Conservation	Dec-96
Texas Water Development Board		50,000,000	Water Supply Projects	Mar-97
Texas Water Development Board		25,000,000	Water Quality Enhancement	Mar-97
Total Self-Supporting	**$**	**299,930,000**		
Not Self-Supporting				
Texas Public Finance Authority**	$	124,750,000	Texas Department of Criminal Justice	Dec-96
Texas Public Finance Authority**		9,500,000	Texas Dept. of Mental Health & Mental Retardation	Nov-96
Texas Public Finance Authority**		8,200,000	Texas Dept. of Mental Health & Mental Retardation	Dec-96
Texas Public Finance Authority**		5,000,000	Texas Youth Commission	Jan-97
Texas Public Finance Authority**		21,500,000	Texas Youth Commission	Jun-97
Texas Public Finance Authority**		13,400,000	Texas Dept. of Mental Health & Mental Retardation	Aug-97
Texas Public Finance Authority		37,500,000	Texas Juvenile Probation Commission	Oct-96
Texas Water Development Board		15,000,000	Economically Distressed Areas Program - Water Supply	May-97
Texas Water Development Board		10,000,000	Economically Distressed Areas Program - Water Quality Enhancement	May-97
Total Not Self-Supporting	**$**	**244,850,000**		
Total General Obligation Bonds	$	544,780,000		
Non-General Obligation Bonds				
Self Supporting				
Midwestern State University	$	4,240,000	Building Revenue (Clark Student Center Remodel)	Sep-96
Midwestern State University		1,605,000	Refunding	Sep-96
Texas Dept. of Housing & Community Affairs		15,000,000	Single Family Housing	Oct-96
Texas Dept. of Housing & Community Affairs		42,140,000	Single Family Housing Refunding	Oct-96
Texas Dept. of Housing & Community Affairs		2,000,000	Single Family Housing (Taxable)	Oct-96
Texas Dept. of Housing & Community Affairs		70,760,000	Single Family Housing	Nov-96
Texas Dept. of Housing & Community Affairs		105,000,000	Single Family Housing Refunding	Nov-96
Texas Dept. of Housing & Community Affairs		6,650,000	Single Family Housing (Taxable)	Nov-96
Texas Dept. of Housing & Community Affairs		12,880,000	Multi-Family Housing	Oct-96
Texas Dept. of Housing & Community Affairs		27,435,000	Multi-Family Housing (NHP Program)	Nov-96
Texas Water Development Board		250,000,000	State Water Pollution Control Revolving Fund	Jan-97
Texas Water Development Board		20,000,000	State Revolving Fund - Drinking Water	May-97
The Texas A&M University System-PUF*		20,000,000	Facility Construction & Equipment	As Needed
The Texas A&M University System-RFS*		50,000,000	Facility Construction & Equipment	As Needed
Texas State University System		10,320,000	Refunding	To Be Determined
The University of Houston System		14,000,000	Consolidated Revenue Bonds (UH Victoria building and Refunding)	Aug-97
Texas Tech University		47,000,000	Facility Construction	Nov-96
Texas Tech University		16,500,000	Housing System Revenue Bonds	Nov-96
The University of Texas System-RFS		13,133,000	Facility Const. (South TX Border Initiative Prog.)	Feb-97
The University of Texas System-RFS*		35,000,000	Facility Construction	Oct-96
The University of Texas System-RFS		100,000,000	Facility Construction and Refunding	Feb-97
Total Self-Supporting	**$**	**863,663,000**		
Not-Self Supporting				
Texas Public Finance Authority	$	21,400,000	Building Revenue Bonds	Jan-97
Texas Public Finance Authority		15,000,000	Building Revenue Bonds	Dec-96
Texas State Technical College System		11,660,000	Facility Construction & Equipment	Oct-96
Total Not Self-Supporting	**$**	**48,060,000**		
Total Non-General Obligation Bonds	$	911,723,000		
Total All Bonds	$	1,456,503,000		

* Commercial Paper or Variable Rate Note Program

** These issues assume an initial general obligation commercial paper offering with the potential to subsequently convert to long-term bonds.

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

State Agencies and Institutions Plan to Issue $1.5 Billion in Fiscal 1997

Texas state agencies and institutions of higher education plan to issue approximately $1.5 billion in bonds and commercial paper during fiscal year 1997, according to the results of an annual survey by the Bond Review Board. *(Table 12, p. 17)*. Of this amount, $293 million is not self-supporting. Approximately $1.2 billion of the aggregate amount will be issued to finance projects or programs and about $207 million will be issued to refund existing debt.

The largest issuer of new-money bonds in fiscal 1997 will be the Texas Water Development Board. The TWDB is expecting to issue a total of $377 million in bonds. Of this amount, $250 million will be issued to fund the State Water Pollution Control Revolving Fund. Other bonds issued by the TWDB will fund agricultural conservation, water supply, water quality enhancement, and the Economically Distressed Areas Program.

Another major issuer of new-money bonds in fiscal 1997 will be the Texas Public Finance Authority. The TPFA is expected to issue a total of $288.9 million in bonds and commercial paper in fiscal 1997. The total amount will be new money.

The largest expected issue for the Authority will be $124.7 million of commercial paper. The proceeds of this issue will provide interim financing for facility construction for the Texas Department of Criminal Justice. Other agencies that will receive commercial paper proceeds through the TPFA include the Texas Department of Mental Health and Mental Retardation, which is expected to participate in three different offerings for a total of $31.1 million, and the Texas Youth Commission, which will request two different offerings for a total of $26.5 million.

Bonds issued by the TPFA in fiscal 1997 will include $37.5 million for the Texas Juvenile Probation Commission, and $69.1 million for the General Services Commission for building acquisition and renovation.

The Texas Veteran's Land Board is expected to be a large issuer of new-money debt in fiscal 1997. Sixty-six percent of the VLB's $142.9 million of fiscal 1997 debt issuance will be new money. This money will provide funds for the VLB's Housing and Land programs. These programs, which are self-supporting, allow the VLB to make loans for land and housing (both single-family mortgages and home improvement loans) to eligible Texas veterans and eligible surviving spouses. An additional $47.9 million in outstanding Convertible Option Bonds will be "fixed out" to long-term, fixed-rate bonds. The remarketing of these COBs has already been approved by the Bond Review Board.

The Texas Department of Housing and Community Affairs will be issuing approximately $281 million in debt during fiscal 1997. Of this amount, $147 million will be issued to refund outstanding debt, and the remainder will be used for single family and multi-family projects.

Educational issuers are planning on issuing bonds and commercial paper in fiscal 1997 that will fund both facility expansion and renovation, as well as student loans.

The Texas A&M University System is expecting to issue $50 million in Revenue Financing System commercial paper for facility construction and renovation. The System is also expected to issue $20 million in Permanent University Fund Variable Rate Notes for facility construction and renovation. This latter issue will be financed through funds received from the Available University Fund.

The University of Texas System is expecting three issues in fiscal 1997 for a total of $148.1 million. Of this amount, $35 million will be issued as Permanent University Fund Variable Rate Notes. The proceeds from this issue will fund construction projects that are eligible for PUF financing. Additionally, $113.1 million of Revenue Financing System Bonds will be issued by the System, $100 million of which will be used to current-refund outstanding Commercial Paper Notes and provide new money for construction projects. The remaining $13.1 million will be used to fund construction projects related to the South Texas Border Initiative Program.

Other educational issuers of new-money bonds in fiscal 1997 will include the Texas State Technical College System. The System will issue $11.6 million in new-money bonds to finance construction projects in both Harlingen and Waco.

Midwestern State University will also be issuing bonds during fiscal 1997. Of the $5.8 million in bonds issued by the University, $4.2 million will be new money used for facility renovation, and the remaining $1.6 million will be used for refunding outstanding bonds.

Texas Tech University is expecting to issue a total of $63.5 million in fiscal 1997. Both issues will be financed through the University's Revenue Financing System, and will provide funds for the construction of a special events center and a residence hall.

The University of Houston System is expecting to issue $14 million of bonds in fiscal 1997. This money will be used to purchase a building for the System's Victoria campus, as well as to refund outstanding bonds.

Finally, the Texas Higher Education Coordinating Board is expecting to issue $75 million in new-money bonds in fiscal 1997. The proceeds of this issue will fund the Hinson-Hazelwood student loan program administered by the Board.

CHAPTER 4

TEXAS BOND ISSUANCE COSTS

Texas state bond issuers paid an average of $636,360 per issue or $9.77 per $1,000 in issuance costs on bond issues sold during 1996. Appendix A includes an accounting of the issuance costs for each 1996 issue.[3]

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, disclosure requirements and litigation.
- Financial Advisor — The financial advisor advises the issuer on matters pertinent to a proposed issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. A financial advisor may also be employed to provide advice on subjects unrelated to a new issue of securities, such as advising on cash flow and investment matters.
- Rating Agencies — Rating agencies provide publicly available ratings of the credit quality of securities issuers. These ratings are intended to measure the probability of the timely repayment of principal 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 owners of registered bonds. The paying agent is responsible for transmitting payments of principal and interest from the issuer to the securityholders.

TABLE 13

AVERAGE ISSUANCE COSTS FOR 1996 TEXAS BOND ISSUES

	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Average Issue Size—$84.05 Million		
Underwriter's Spread	$451,936	$ 5.68
Other Issuance Costs:		
Bond Counsel	62,465	1.24
Rating Agencies	33,848	0.85
Financial Advisor	39,150	1.02
Printing	8,849	0.34
Other	40,112	0.64
Total	$636,360	$9.77

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 1996 state bond issue. 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.

[3] Issuance cost calculations do not include issues in which the state acted as a conduit issuer.
[4] Definitions adapted from the Municipal Securities Rulemaking Board's *Glossary of Municipal Securities Terms.*

- 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.

Fiscal 1996 Issuance Costs

The underwriting fee, or gross spread, is the largest component of issuance costs, averaging $451,936 per issue and $5.68 per $1,000 for State of Texas bonds sold during 1996 *(Table 13, p. 19).* This single component accounted for, on average, 71 percent of the total cost of issuance. Legal counsel fees were next in significance, averaging $62,465 per issue and $1.24 per $1,000 of bonds sold. Rating agency fees averaged $33,848 per issue and $0.85 per $1,000 of bonds sold, while financial advisory fees averaged $39,150 per issue and $1.02 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 Corporation, nationwide gross spreads averaged $7.96 per $1,000 for all municipal bonds sold either competitively or through negotiation during the first nine months of 1996 *(Figure 10).*

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.

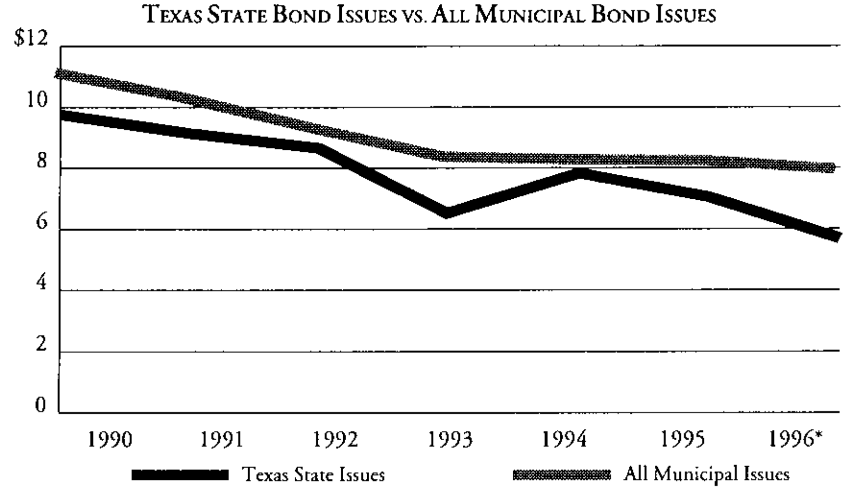
As a result, the smallest issues are by far the most costly in percentage terms *(Figure 11).* At the extreme, total issuance costs for bond issues of less than $5 million averaged $56,766 per issue and $14.13 per $1,000 in bonds issued. Bond issues over $100 million had total costs averaging $1,775,120 per issue and $6.50 per $1,000.

Average issuance costs increased dur-

FIGURE 10

GROSS UNDERWRITING SPREADS: 1990–1996

TEXAS STATE BOND ISSUES VS. ALL MUNICIPAL BOND ISSUES



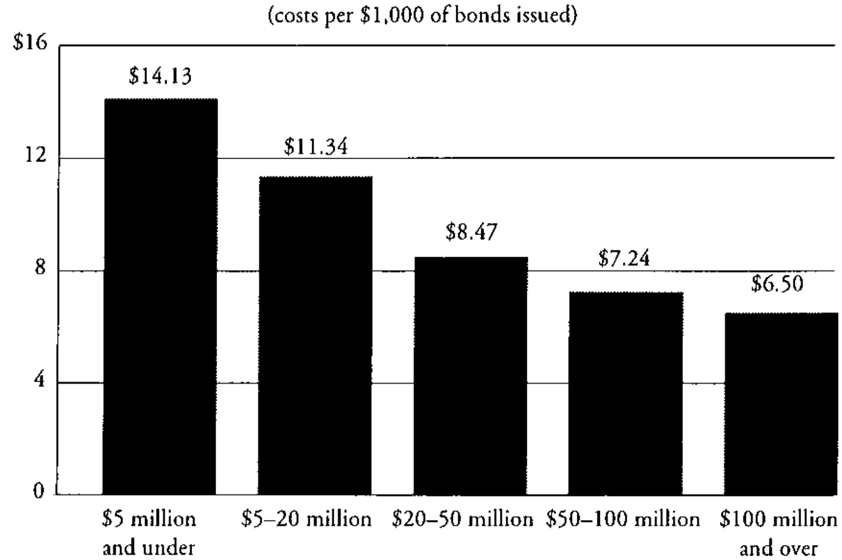
*1996 figures are for the first nine months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.

Sources: Securities Data Company (10/3/96) and Texas Bond Review Board, Office of the Executive Director.

FIGURE 11

AVERAGE 1996 ISSUANCE COSTS FOR TEXAS BOND ISSUES BY SIZE OF ISSUE

(costs per $1,000 of bonds issued)



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

ing 1996 on a per issue basis and decreased on a per $1,000 of bonds issued basis. Average issuance costs increased from $534,193 per issue in 1995 to $636,360 per issue in 1996 while average issuance costs per $1,000 decreased from $11.47 in 1995 to $9.77 per $1,000 in 1996. The average issue size equaled $84.05 million in 1996 compared to $60.83 million in 1995.

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

Negotiated Versus Competitive Sales

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

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

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

In a negotiated sale, an underwriter is chosen by the issuer in advance of the sale date and agrees to buy the state's bonds at some future date and to resell them to investors. With the knowledge that they have the bonds to sell, the underwriter can do whatever presale marketing is necessary to accomplish a successful sale. 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. Conditions favoring a negotiated sale include a volatile market or securities for which market demand is difficult to ascertain.

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

Comparisons of gross underwriting spreads for Texas bonds issued during fiscal 1996 reveals a greater difference than in previous years between the competitive and negotiated methods of sale. For Texas general obligation bonds sold through negotiation during fiscal 1996, the average underwriting spread equaled $5.43 per $1,000 compared to $4.63 per $1,000 for general obligation bonds sold competitively. Conversely, the average underwriting spread on Texas revenue bonds sold competitively equaled $6.12 per $1,000 compared to $5.51 per $1,000 for revenue bonds sold through negotiation. When compared to national figures, the spreads paid on Texas bonds, both negotiated and competitive, contrast favorably *(Figure 12, p. 22)*.

Theoretically, the competitive gross spread provides compensation for risk and for the distribution of bonds, and does not include significant components of a negotiated spread, such as management fees or underwriter's counsel. As negotiated gross spreads are now sometimes below competitive gross spreads, a question arises as to whether bonds sold through negotiation are being priced so as to essentially eliminate the likelihood of loss.

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

Recent Trends in Issuance Costs

To more accurately compare the average issuance costs per bond on negotiated and competitively sold bonds, it is necessary to attempt 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.

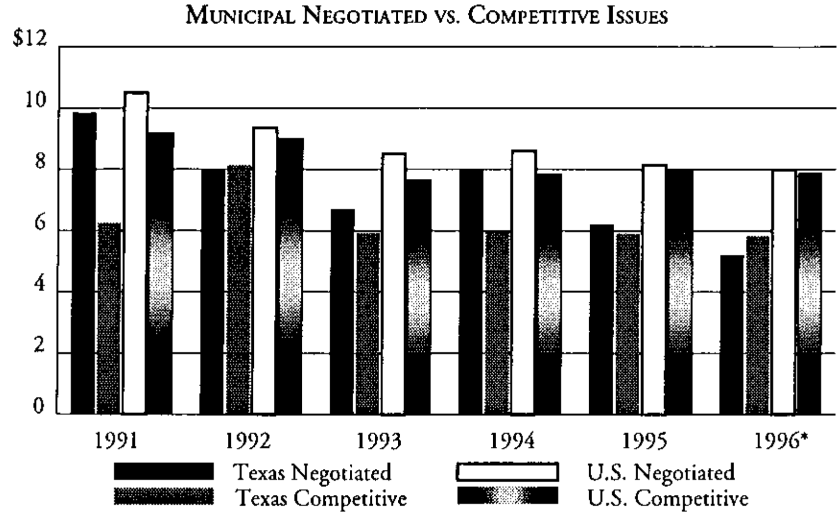
Comparisons of average costs on negotiated and competitive financings for 1996 and past years are, therefore, based only on those issues over $20 million. In the greater than $20 million category, there were five competitively sold issues and fifteen issues that were sold on a negotiated basis. Among bond issues greater than $20 million, total issuance costs, including underwriter's spread, for bonds sold via negotiated sale during fiscal year 1996 averaged $7.82 per $1,000, compared to an average cost of $6.00 per $1,000 for those bonds sold by competitive sale *(Table 14)*.

The average cost per $1,000 of issuing bonds decreased in 1996 compared to 1995, for that group of issues greater than $20 million *(Figure 13, p. 23)*. Total issuance costs, including underwriting spread, averaged $7.34 per $1,000 in 1996 compared to $8.78 per $1,000 in 1995, and $10.25 in 1994.

The average cost per $1,000 of selling bonds through negotiated sale equaled $7.82 in 1996 compared to $8.85 in 1995, and $11.32 in 1994. Underwriting spreads on negotiated state financings declined during 1996 compared to 1995. Average spreads on bonds sold through negotiation equaled $5.49 per $1,000 in 1996, compared to $6.21 in 1995, and $7.99 in 1994. Other issuance costs on bonds sold through negotiation averaged $2.33 per $1,000 in 1996, compared to $2.64 in 1995, and $3.33 in 1994.

FIGURE 12

GROSS UNDERWRITING SPREADS: 1990–1996
MUNICIPAL NEGOTIATED VS. COMPETITIVE ISSUES



*1996 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 (10/3/96) and Texas Bond Review Board, Office of the Executive Director.

TABLE 14

AVERAGE ISSUANCE COSTS FOR 1996 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)	$ 142.94	$ 70.30
Underwriter's Spread	$ 5.49	$ 3.89
Other Issuance Costs:		
Bond Counsel	$ 0.93	$ 0.80
Financial Advisor	0.45	0.39
Rating Agencies	0.44	0.54
Printing	0.13	0.08
Other	0.38	0.30
Total	$ 7.82	$ 6.00

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 1996 state bond issue.

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

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, greater than $20 million, averaged $6.00 per $1,000 in 1996 compared to $8.65 in 1995, and $7.30 in 1994. Underwriting spreads on competitive financings equaled $3.89 in 1996, compared to $5.90 in 1995, and $5.97 in 1994. Other issuance costs on competitively sold bonds averaged $2.11 per $1,000 in 1996, compared to $2.75 in 1995, and $1.33 in 1994.

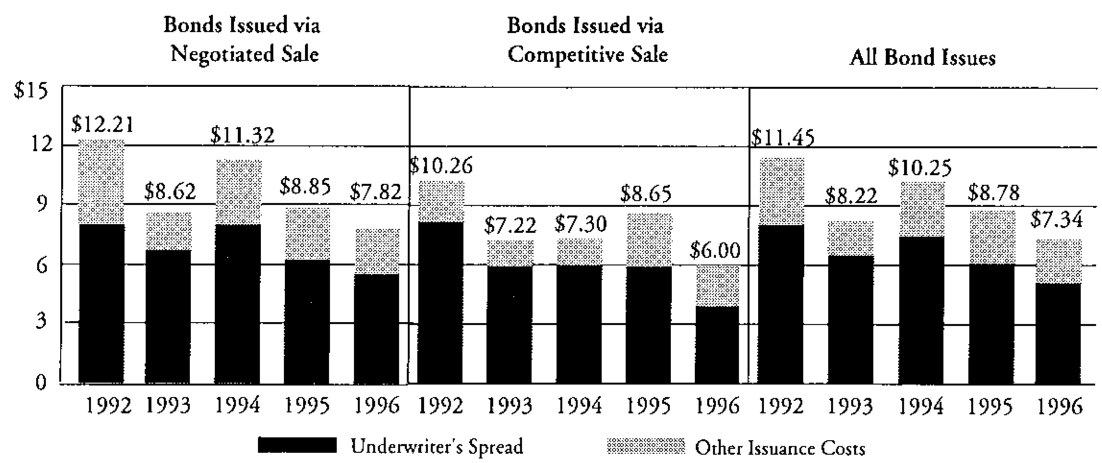
This discussion is not meant to imply that the cost differences between negotiated and competitive financings are unreasonable. A negotiated sale tends to be used on those bond issues that are more difficult and, therefore, more costly to structure and market. Further, a definitive conclusion regarding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

On another reporting note, fiscal 1996 was the first year that the Bond Review Board completed and submitted its semi-annual report on historically underutilized businesses (HUBs) to the Joint Select Committee on Historically Underutilized Businesses as required by House Bill 3109 (74th Legislature, Regular Session). This report details which firms receive fees associated with Texas' debt issuance process. It is hoped that this information will assist Texas in achieving the goals established by the state to ensure greater participation by these firms.

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.

CHAPTER 5

TEXAS BONDS AND NOTES OUTSTANDING

Texas had a total of $11.35 billion in state bonds and notes outstanding on August 31, 1996 - up from $10.44 billion on August 31, 1995 and $9.97 billion outstanding on August 31, 1994.

Slight Increase in General Obligation Bonds Outstanding

Approximately $4.99 billion of Texas' total state debt outstanding on August 31, 1996, carries the general obligation (G.O.) pledge of the state, up $22.6 million from the amount of G.O. bonds outstanding at the end of fiscal 1995 *(Table 15, p. 25).* This small increase in G.O. bonds outstanding was due primarily to self-supporting bonds issued in fiscal 1996 by the Texas Higher Education Coordinating Board and the Texas Water Development Board. (See Chapter 3 for a description of bonds issued in fiscal 1996.)

Texas self-supporting 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.

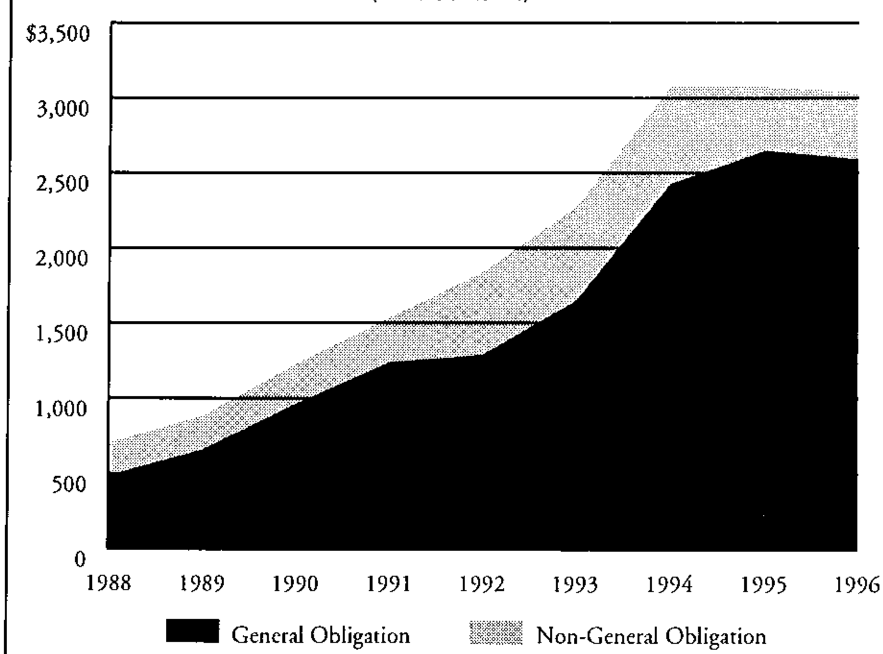
Amount of Debt Supported From General Revenue Is Unchanged From 1995

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 1996 stabilized from a trend toward increased issuance of non-self-supporting Texas bonds, however; the issuance of self-supporting bonds increased substantially *(Figure 14).* The amount of non-self-supporting G.O. bonds outstanding at the end of fiscal 1996 decreased $35.7 million over the amount outstanding at the end of fiscal 1995; however, the

FIGURE 14

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



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

TABLE 15

TEXAS BONDS OUTSTANDING

(amounts in thousands)

	8/31/93	8/31/94	8/31/95	8/31/96
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$1,185,726	$1,238,893	$1,468,760	$1,451,906
Water Development Bonds	193,965	225,935	324,420	355,227
Park Development Bonds	28,883	29,372	28,752	37,326[4]
College Student Loan Bonds	374,348	434,031	466,442	523,494
Farm and Ranch Security Bonds	0	0	0	100
Texas Agricultural Finance Authority*	20,000	18,000	18,500	20,000
Agriculture Water Conservation Bonds	0	7,000	13,370	11,995
Total Self-Supporting	**$1,802,922**	**$1,953,231**	**$2,320,244**	**$2,400,048**
Not Self-Supporting[1]				
Higher Education Constitutional Bonds[2]	$ 67,775	$ 34,970	$ 10,700	$ 52,930
Texas Public Finance Authority Bonds	1,313,934	2,132,432	2,365,140	2,246,431[4]
Texas National Research Laboratory Commission Bonds	243,584	237,822	232,254	226,916[4]
Water Development Bonds—EDAP[3]	17,325	16,940	37,530	62,090
Total Not Self-Supporting	**$1,642,618**	**$2,422,164**	**$2,645,624**	**$2,588,367**
Total General Obligation Bonds	**$3,445,540**	**$4,375,395**	**$4,965,868**	**$4,988,415**
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds				
Texas A&M University System	$ 324,759	$ 355,319	$ 344,659	$ 353,320[4]
University of Texas System	602,630	615,110	586,315	607,885
College and University Revenue Bonds	1,003,426	1,108,257	1,368,096	1,615,356
Texas Hospital Equipment Finance Council Bonds	12,100	11,900	11,650	11,400
Texas Dept. of Housing & Community Affairs Bonds	1,263,584	1,141,609	1,129,816	1,107,302
Texas Small Business IDC Bonds	99,335	99,335	99,335	99,335
Economic Development Program*	25,000	25,000	11,000	9,000
Texas Turnpike Authority Bonds	535,166	395,400	415,370	855,810
Texas Water Resources Finance Authority Bonds	457,820	436,040	412,350	387,715
College Student Loan Bonds	67,343	66,022	64,871	59,952
Texas Workers' Compensation Fund Bonds	288,915	277,255	211,470	200,968
Texas Public Finance Authority Bonds (Special Revenue)	0	0	0	10,380
Texas Water Development Board Bonds (State Revolving Fund)	291,000	409,400	400,170	589,795
Total Self-Supporting	**$4,971,078**	**$4,940,647**	**$5,055,102**	**$5,908,217**
Not Self-Supporting[1]				
Texas Public Finance Authority Bonds	$ 307,320	$ 348,480	$ 351,573	$ 381,372
TPFA Master Lease Purchase Program*	48,600	25,300	47,400	41,400[5]
National Guard Armory Board Bonds	26,955	33,135	31,320	29,085
Texas National Research Laboratory Commission Bonds	250,000	250,000	0	0
Total Not Self-Supporting	**$ 632,875**	**$ 656,915**	**$ 430,293**	**$ 451,857**
Total Non-General Obligation Bonds	**$5,603,953**	**$5,597,562**	**$5,485,395**	**$6,360,074**
Total Bonds	**$8,303,177**	**$9,049,493**	**$9,972,957**	**$11,348,489**

*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. Non self-supporting bonds totalled $3 billion outstanding on August 31, 1996, $3.1 billion outstanding on August 31, 1995, $3.1 billion outstanding on August 31, 1994, and $2.3 billion outstanding on August 31, 1993.

[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 $16.8 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.

amount of non-self-supporting revenue bonds outstanding increased by $21.6 million, mainly as a result of the issuance of lease revenue bonds issued to fund the construction and renovation of state office buildings. As a result, Texas had $3.04 billion in outstanding bonds that must be paid back from the state's general revenue fund, as of August 31, 1996, nearly the same amount of such bonds outstanding at the end of fiscal 1995, $3.08 billion. This figure compares to $3.1 billion at the end of fiscal 1994, and $2.3 billion outstanding at the end of fiscal 1993.

Tremendous growth in the amount of bonds payable from general revenue has occurred over the prior 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 project. 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 $2.4 billion in debt for correctional facilities and $500 million for the SSC, all payable solely from the state's general revenue. As mentioned previously, the $250 million in SSC project revenue bonds were defeased June 1, 1995. Additionally, the General Appropriations Act contains provisions for the defeasance of all or a portion of the outstanding general obligation bonds issued for the SSC project.

The amount of general revenue that must go to pay debt service has, as expected, increased along with the amount of bonds outstanding that are not self-supporting *(Table 16, p. 27)*. During the 1994-95 budget period, the state paid an average $578 million from general revenue for debt service, up from $366 million during 1992-93, and $228 million during 1990-91 *(Figure 15)*.

Texas Debt Remains Well Within Prudent Limits

Even with recent debt issuance, debt service from general revenue remains well within prudent limits. During 1994–95, the state paid 1.7 percent of its unrestricted general revenues for debt service compared to the 1992–93 biennium in which debt-service payments made up 1.2 percent of unrestricted general revenue. 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.)

Texas Bonds Authorized But Unissued

Authorized bonds are defined as those bonds which may be issued without further action by the Legislature. As of August 31, 1996, Texas had $5.9 billion in authorized but unissued bonds *(Table 17, p. 28)*. As of August 31, 1996, approximately $3.7 billion (58 percent) of the authorized but unissued bonds would be state general obligations. At the end of fiscal 1996, only $1.04 billion (17 percent) of all of the authorized but unissued bonds would require the payment of debt service from general revenue. The remainder are in programs that are designed to be self-supporting.

Effective September 1, 1995, the remaining $250 million in revenue bond authority for the SSC project and $67.5 million in building revenue bond authority for the state capitol renovation was rescinded. Further, the remaining $250 million in general obligation bond authority was revoked by voter approval of a constitutional amendment on November 7, 1995.

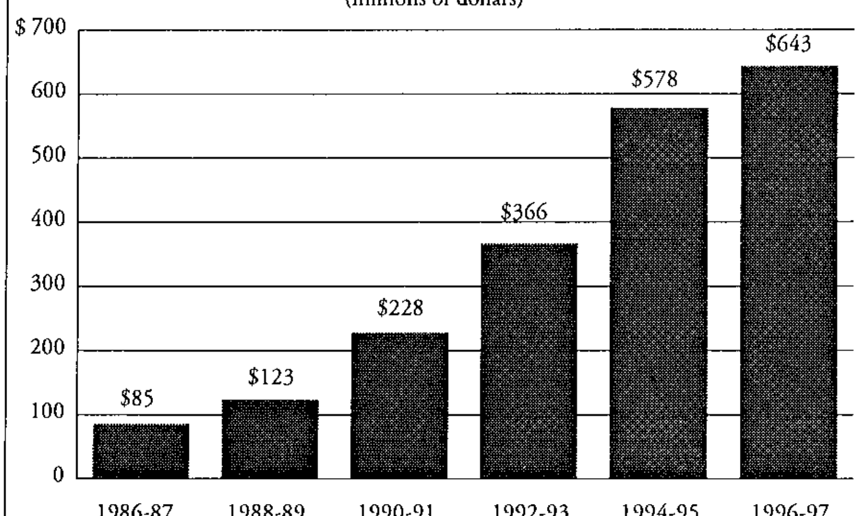
New General Obligation Bond Authority-November 1995

Texans approved two constitutional amendments in November 1995 that authorized another $800 million in G.O. bond issuance.

FIGURE 15

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

(millions of dollars)



* Projected debt service for 1996-97 based on debt outstanding as of August 31, 1996, including G.O. commercial paper.

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

TABLE 16

DEBT SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR

(amounts in thousands)

	1996	1997	1998	1999	2000	2001 plus
GENERAL OBLIGATION BONDS						
Self-Supporting						
Veterans Land and Housing Bonds	$ 148,625	$ 156,336	$ 159,282	$ 160,517	$ 161,271	$ 2,184,723
Water Development Bonds	29,112	31,964	32,293	33,292	33,358	510,816
Park Development Bonds	2,995	3,812	4,123	4,203	4,200	40,587
College Student Loan Bonds	48,970	54,704	58,725	55,283	57,505	578,181
Farm and Ranch Loan Bonds	2	7	7	7	7	338
Texas Agricultural Finance Authority	1,167	1,400	1,400	1,400	1,400	64,800
Agriculture Water Conservation Bonds	2,264	2,301	2,331	2,359	2,375	5,998
Total Self-Supporting	**$ 233,136**	**$ 250,524**	**$ 258,161**	**$ 257,061**	**$ 260,117**	**$ 3,385,442**
Not Self-Supporting[1]						
Higher Education Constitutional Bonds[2]	$ 10,263	$ 7,662	$ 7,770	$ 7,794	$ 7,827	$ 35,500
Texas Public Finance Authority Bonds	209,402	221,034	220,555	219,346	218,644	2,887,007
Texas Nat'l Research Laboratory Commission Bonds	20,382	20,370	20,368	20,362	20,364	410,061
Water Development Bonds—EDAP[3]	2,687	4,581	5,187	5,249	5,281	90,392
Total Not Self-Supporting	**$ 242,734**	**$ 253,648**	**$ 253,880**	**$ 252,752**	**$ 252,116**	**$ 3,422,960**
TOTAL GENERAL OBLIGATION BONDS	**$ 475,870**	**$ 504,172**	**$ 512,041**	**$ 509,813**	**$ 512,233**	**$ 6,808,402**
NON-GENERAL OBLIGATION BONDS						
Self-Supporting						
Permanent University Fund Bonds						
Texas A&M University System	$ 30,115	$ 32,702	$ 33,966	$ 34,745	$ 35,023	$ 373,482
University of Texas System	56,442	59,269	59,267	59,272	59,269	829,740
College and University Revenue Bonds	160,797	185,508	185,168	179,180	176,217	1,862,037
Texas Hospital Equipment Finance Council Bonds	691	435	435	435	435	13,577
Texas Department of Housing & Community Affairs Bonds	96,498	104,660	92,091	91,845	95,951	2,282,369
Texas Small Business Industrial Development Corporation Notes	3,645	4,967	4,967	4,967	4,967	227,643
Economic Development Program	677	630	630	630	630	23,490
Texas Turnpike Authority Bonds	53,140	62,195	62,603	62,605	54,400	1,542,483
Texas Water Resources Finance Authority Bonds	55,026	54,949	53,186	50,872	47,714	419,667
College Student Loan Bonds	5,576	6,236	6,918	6,497	7,405	84,806
Texas Workers' Compensation Fund Bonds	29,062	29,016	28,970	28,922	28,865	200,031
Texas Public Finance Authority Bonds (Special Revenue)	295	836	838	839	835	13,382
Texas Water Development Board Bonds (State Revolving Fund)	34,927	47,386	47,294	47,783	49,053	808,782
Total Self-Supporting	**$ 526,890**	**$ 588,789**	**$ 576,332**	**$ 568,592**	**$ 560,762**	**$ 8,681,490**
Not Self-Supporting[1]						
Texas Public Finance Authority Bonds	$ 48,828	$ 45,198	$ 42,736	$ 35,208	$ 35,276	$ 456,466
TPFA Master Lease Purchase Program	24,125	20,324	13,493	6,873	2,237	247
National Guard Armory Board Bonds	4,000	4,005	3,992	4,002	4,006	23,822
Total Not Self-Supporting	**$ 76,953**	**$ 69,526**	**$ 60,221**	**$ 46,083**	**$ 41,519**	**$ 480,534**
TOTAL NON-GENERAL OBLIGATION BONDS	**$ 603,843**	**$ 658,315**	**$ 636,554**	**$ 614,675**	**$ 602,281**	**$ 9,162,024**
TOTAL ALL BONDS	**$1,079,714**	**$ 1,162,487**	**$ 1,148,595**	**$ 1,124,488**	**$ 1,114,514**	**$ 15,970,426**

[1]Bonds that are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totalled $319.7 million during fiscal 1996 and will total approximately $323.2 million in fiscal 1997.

[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 Comptroller of Public Accounts - Treasury Operations 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. Totals may not add due to rounding.

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

TABLE 17

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

	8/31/94	8/31/95	8/31/96
General Obligation Bonds			
Self-Supporting			
Veterans Land and Housing Bonds	$ 854,999	$ 574,999	$1,005,002
Water Development Bonds	1,186,245	1,081,245	1,046,245
Farm and Ranch Loan Bonds[5]	500,000	500,000	474,900
Park Development Bonds	25,975	25,975	16,310
College Student Loan Bonds	50,001	1	224,823
Texas Department of Commerce Bonds	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	12,000	11,500	35,000
Agriculture Water Conservation Bonds	193,000	186,000	186,000
Total Self-Supporting	**$2,867,220**	**$2,424,720**	**$3,033,280**
Not Self-Supporting[1]			
Higher Education Constitutional Bonds	*	*	*
Texas Public Finance Authority Bonds	$ 773,540	$ 487,440$	$ 434,740[2]
Texas National Research Laboratory Commission Bonds	250,000	250,000	0
Water Development Bonds—EDAP[3]	232,565	211,565	186,563
Total Not Self-Supporting	**$1,256,105**	**$ 949,005**	**$ 621,305**
Total General Obligation Bonds	**$4,123,325**	**$3,373,725**	**$3,654,585**
Non-General Obligation Bonds			
Self-Supporting			
Permanent University Fund Bonds[4]			
Texas A&M University System	$ 67,178	$ 94,822	$ 110,514
The University of Texas System	227,385	288,850	319,782
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	50,000	50,000	50,000
Texas Public Finance Authority Bonds (Special Revenue)	0	0	53,070
Texas Water Development Board (State Revolving Fund)	**	**	**
Total Self-Supporting	**$1,594,563**	**$1,683,672**	**$1,783,366**
Not Self-Supporting[1]			
Texas Public Finance Authority Bonds	$ 340,495	$ 435,310	$ 355,109
TPFA Master Lease Purchase Program—Commercial Paper	74,700	52,600	58,600
National Guard Armory Board Bonds	**	**	**
Texas National Research Laboratory Commission Bonds	250,000	250,000	0
Total Not Self-Supporting	**$ 665,195**	**$ 737,910**	**$ 413,709**
Total Non-General Obligation Bonds	**$2,259,758**	**$2,421,582**	**$2,197,075**
Total All Bonds	**$6,383,083**	**$5,795,307**	**$5,851,660**

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 $87.5 million per year.

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

[1] Bonds 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 $382.2 million from the unissued amount; the remaining $52.5 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, 1996.

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

One amendment authorized the issuance of an additional $500 million to augment the Veterans Housing Assistance Fund II, which provides low interest loans to qualified Texas veterans for the purchase of a home or for home improvement.

The passage of a second amendment authorized $300 million to augment the state's Hinson-Hazelwood College Student Loan Program, which provides loans to Texas residents to attend public or private institutions of higher education in Texas.

Though both of these amendments authorize the issuance of general obligation bonds, the likelihood that either of these bonds will draw on general revenue is remote. Program revenues, primarily loan repayments from veterans or college students, respectively, have been sufficient to pay debt service in the past, and it is expected that this will continue.

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 are generally subject to biennial appropriations by the Legislature. These contracts and agreements are not, however, classified as state bonds and must be added to bonds outstanding to get a complete picture of state debt.

An exception to contracts which are subject to biennial appropriation is a contract by the Texas Water Development Board (TWDB). The TWDB 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 September 1, 1995, was $43.6 million. This contract is a general obligation of the state; however, the TWDB does not anticipate a draw on general revenue for contract payments.

As of August 31, 1995, state capital leases outstanding for furniture and equipment totaled approximately $108.4 million. Approximately $79.6 million of the total leases were financed through the Master Lease Purchase Program (MLPP) and therefore are already reflected in the bond outstanding figures shown in Table 15.

Lease-purchase agreements for prison facilities have greatly increased the significance of this type of debt. As of the end of fiscal 1996, the Texas Department of Criminal Justice was party to twelve long-term lease-purchase agreements for the purchase or construction of prison facilities. The TDCJ lease purchases had a total principal amount equal to $219 million outstanding as of August 31, 1995. 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 18).*

Lease purchases as of August 31, 1995, including furniture, equipment (excluding lease-purchases financed through MLPP) and prison facilities, totaled $247.8 million. Inclusion of just the lease purchases of facilities approved by the Bond Review Board during 1996 would add another $4.4 million to the total amount of lease purchases outstanding. All of the equipment lease purchases approved by the Bond Review Board in 1996, with one exception, were financed through MLPP and therefore are shown as bonds outstanding.

TABLE 18

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

(amounts in thousands)

	1996	1997	1998	1999	2000	2001 and Beyond
General Services Commission	$ 3,396	$ 3,394	$ 3,395	$ 3,395	$ 3,393	$ 59,138
Texas Department of Criminal Justice	21,574	21,279	21,483	21,456	21,470	200,549
TOTAL	**$24,970**	**$24,673**	**$24,878**	**$24,851**	**$24,863**	**$259,687**

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

CHAPTER 6

TEXAS LOCAL GOVERNMENT DEBT IN PERSPECTIVE

With the enactment of H.B. 1564, the Bond Review Board is able to report in detail about local government debt issuance. H.B. 1564 requires the Attorney General to collect bond information at the time of transaction review and approval, and to make specific information available to the Bond Review Board. Debt issuance information in this section was obtained by this method. This year the debt of Texas water districts and authorities was compiled and verified. In prior years, the debt of

TABLE 19

TEXAS LOCAL GOVERNMENTS LONG-TERM DEBT
As of August 31, 1996

TYPE OF ISSUER	TAX-SUPPORTED DEBT	REVENUE DEBT
Cities, Towns, Villages		
Tax (estimate)*	$8,707,398,898	
Revenue (estimate)*		$13,938,477,106
Community and Junior Colleges		
Tax	380,525,250	
Revenue		320,290,095
Counties		
Tax	3,321,334,029	
Revenue		954,587,000
Conduit revenue		31,255,000
Lease-purchase contracts		87,120,773
Public School Districts		
Voter-approved tax (ed. facilities)	10,921,468,647	
Maintenance tax (ed. equipment)	256,037,899	
Lease-purchase contracts (ed. facilities)	99,601,000	
Athletic facilities (athletic facilities)		2,875,000
Water Districts and Authorities		
Tax	3,713,933,038	
Revenue		4,337,031,692
Conduit revenue		6,004,390,815
Health / Hospital Districts		
Tax (estimate)*	358,608,594	
Revenue (estimate)*		920,779,337
Other Special Districts and Authorities (Road, power, housing, fire)		
Tax (estimate)*	62,621,000	
Revenue (estimate)*		1,979,185,235
TOTALS	$27,821,190,099	$28,575,992,053

*Estimates based on available information. The Texas Bond Review Board has not verified the debt of these governments. Not included are obligations of less than one-year maturity and special obligations not requiring Attorney General approval.

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

school districts, counties and community/junior colleges was verified; this data is updated annually. Detailed information about Texas local government debt is provided in the Bond Review Board's publication, TEXAS STATE AND LOCAL DEBT REPORT.

$57 Billion - An Estimate of Local Government Debt Outstanding

The long-term debt outstanding for Texas local governments is approximately $57 billion, an estimated $3 billion increase over last year. This debt is nearly evenly divided between tax and revenue debt. Tax debt includes debt to be repaid by ad valorem and sales taxes, as well as debt issued as combination tax and revenue debt. Texas cities, followed by water districts and school districts, have the most debt outstanding (*Table 19, p. 30*). This information is based on a combination of verified and estimated data, as noted on the table. Only long-term debt approved by the Attorney General, State of Texas, is included in this overall estimate of local government debt outstanding.

Texas public school districts continue to lead in the volume of tax-supported debt outstanding. With $11.28 billion in tax debt outstanding, which includes voter-approved tax debt for facilities, lease-purchase contracts for facilities, along with maintenance tax debt for equipment, school districts carry 40 percent of all tax-supported local debt on their books. Unlike other local governments, public school districts are limited to tax receipts to finance educational facilities. At the local level, school districts levy ad valorem taxes; at the state level, districts, on the basis of property wealth and tax effort, receive Tier II state aid, which comes from state general revenues.

Other local governments have access to project revenues, such as water and sewer fees, electric fees, building use fees, and toll road fees, to lessen the volume of tax debt issued. Texas cities lead in the volume of revenue debt outstanding, an estimated $13.9 billion. Water districts follow with $4.34 billion in revenue debt and $6 billion in conduit revenue obligations. The conduit financing is primarily issuance by river authorities on behalf of third parties, mostly private businesses that pledge the repayment of debt. A common type of issuance is financing for air pollution control (*Table 19/ Figure 16, pp. 30 & 32*).

$8.23 Billion in Debt Obligations Issued by Local Governments in Fiscal 1996

In fiscal 1996, local governments issued $8.23 billion in debt obligations, $5.80 billion for new money and $2.43 billion to refund existing debt. Texas cities issued the greatest volume of debt among local governments, with $3.55 billion and 318 transactions closed in fiscal 1996; school districts followed with $2.7 billion and 229 transactions closed; and water districts and authorities were third with $1.32 billion and 180 transactions issued (*Table 21, p. 33*).

School Districts Issued 58 Percent of New-Money Tax Debt

Local governments borrowed $3.7 billion in tax-backed new-money bonds; this includes obligations issued as combination tax and revenue bonds. The $2.15 billion in new-money school bonds issued in fiscal 1996 represents 58 percent of all local tax debt issued. School districts primarily issue voter-approved tax debt, debt requiring a specific bond election before bonds can be issued. In fiscal 1996, 93 percent of all school district tax debt issued was also voter-approved tax debt.

TABLE 20

TOTAL SCHOOL DISTRICT
VOTER-APPROVED TAX DEBT OUTSTANDING

FY End Date	Principal Amount at Par	Increase from Prior Year	Percent Increase
8/31/96	$10,921,468,647	$1,389,499,785	14.58%
8/31/95	$9,531,968,862	$725,270,707	8.24%
8/31/94	$8,806,698,155	$435,590,434	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 TAX DEBT ISSUANCE BY FISCAL YEAR

Fiscal Year	Total Par Amount Issued	Par Amount of New-Money Bonds	Par Amount of Refunding Bonds
1996	$2,550,906.253	$2,000,227,592	$550,678,661
1995	$1,536,510,512	$1,339,130,960	$197,379,552
1994	$1,830,062,410	$1,031,355,292	$798,707,118
1993	$2,787,276,400	$650,515,000	$2,136,761,400

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

In each of the last three fiscal years, voter-approved school debt was issued in record amounts. In fiscal 1996, school districts borrowed $2 billion in voter-approved tax debt for new-money issuance; this amount represents a 49 percent increase in one year. The largest amounts of new-money bond issuance include: $150 million by Austin ISD, $150 million by Dallas ISD, $56.74 million by Plano ISD, $52.9 million by Bryan ISD, and $50.9 million by Carrollton-Farmers Branch ISD. Districts also refunded $550 million in tax debt to lower debt-service costs, but more importantly and more frequently, to restructure debt, thereby extending the repayment period of existing debt.

The voter-approved tax debt outstanding increased from $9.5 billion at August 31, 1995, to $10.9 billion at August 31, 1996, a 14.6 percent increase in one year. This represents the largest increase in voter-approved debt since the Bond Review Board began maintaining records about public school debt. In one year's time, the debt per capita statewide increased from $509 per capita to $572 per capita (*Tables 20/23, pp. 31 & 35*).

Cities Lead in Revenue Debt Issuance in Fiscal 1996 - $1.6 Billion

In fiscal 1996, Texas cities borrowed a total of $2.44 billion for construction and renovation, $1.6 billion in revenue bonds and $848 million in tax bonds. As might be predicted, Texas' largest cities led in the volume of new-money debt issuance. The City of Houston executed a $500 million commercial paper program, a revenue program for water and sewer system improvements. San Antonio borrowed $396 million, of which $345 million was for a variety of revenue projects, including airport improvements, expansion of the convention center, and gas and electric system expansions. San Antonio also executed a $100 million commercial paper program, a revenue program for its water system. Financing a new airport was the primary focus for the City of Austin's $409.3 million in total new-money issuance; $362.2 million in revenue bonds for the airport and $47.1 million in tax bonds for other city improvements. Dallas borrowed $98.8 million, with all but $25 million to be used for a variety of tax-supported projects.

Debt refundings represented $1.1 billion of city issuance in fiscal 1996 – the largest volume among local governments. These refundings were issued primarily to achieve savings to convert short-term debt to long-term debt.

Texas cities sold $172 million of their obligations in private placements to the Texas Water Development Board, $110 million for new money and $62.3 million in refunding bonds. (The Bond Review Board does not have trend information about Texas cities, nor has it verified their debt outstanding.)

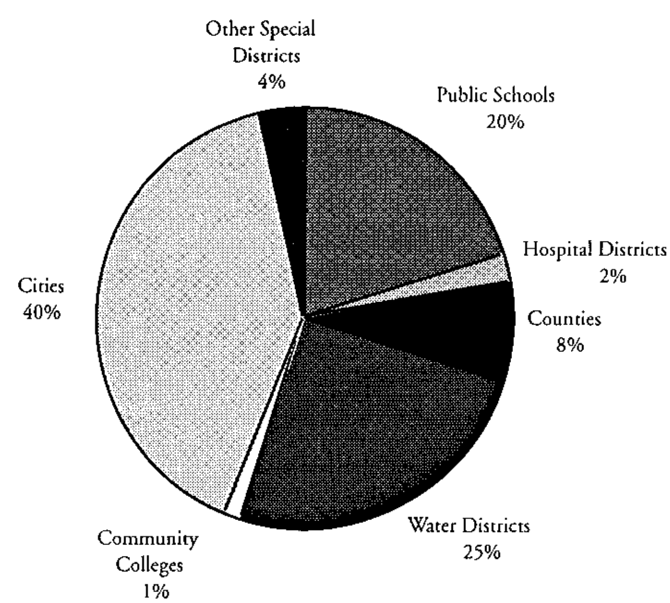
Water District Tax Debt Concentrated in Metro Houston Area

Texas water districts and authorities borrowed $690 million in new-money bonds for improvement projects, which include water and sewer construction, solid waste facilities and port and navigation improvements. The split between tax bonds and revenue bonds, was $252.4 million, or 36.6 percent with a tax pledge, and $437.8 million, or 63.4 percent with a pledge of project revenues. Some $632.5 million of existing debt was refunded, the majority for savings to lower overall debt-service costs.

The largest issuers of new-money bonds in fiscal 1996 were the Gulf Coast Waste Disposal Authority ($111 million), the Port of Houston

FIGURE 16

TEXAS LOCAL GOVERNMENT TAX AND REVENUE DEBT OUTSTANDING



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

Authority ($64 million) and the Trinity River Authority of Texas ($47.3 million). The Texas Water Development Board purchased $120 million in bonds sold by municipal utility, conservation and improvement districts - $113.8 million for new-money projects and $6 million in refunding bonds.

The tax-supported debt for these districts as of August 31, 1996, is $3.34 billion; this debt is concentrated in the metropolitan Houston area (*Table 22, p. 34*). Harris County is home to water districts that carry 55 percent of all water district debt on their books. Harris County, along with Fort Bend, Montgomery and Galveston Counties, is home to districts that have 79 percent of all water district tax debt outstanding statewide.

Table 21

TEXAS LOCAL GOVERNMENTS
Debt Issued in Fiscal 1996
September 1, 1995 - August 31, 1996

By governments (authorities)

		New-Money	Refunding	Total Par Issued
Cities, Towns, Villages				
115	Tax	$ 499,403,000	$ 206,250,432	$ 705,653,432
122	Combination Tax/Revenue	349,394,959	17,675,000	367,069,959
81	Revenue	1,590,452,481	885,283,192	2,475,735,673
318	Issues	$2,439,250,440	$1,109,208,624	$3,548,459,065
Community and Junior Colleges				
8	Tax	77,040,000	11,549,987	88,589,987
9	Revenue	38,711,257	20,233,328	58,944,585
17	Issues	$115,751,257	$31,783,315	$147,534,573
Counties				
45	Tax	340,620,000	53,524,978	394,144,978
8	Combination Tax/Revenue	15,045,000	25,215,000	40,260,000
53	Issues	$355,665,000	$78,739,978	$434,404,978
Public School Districts				
150	Voter-Approved Tax	2,000,227,592	550,678,660	2,550,906,252
62	M&O Tax	82,095,000	1,474,000	83,569,000
3	Revenue	1,980,000		1,980,000
14	Lease-Purchase Tax	68,000,000		68,000,000
229	Issues	$2,152,302,592	$552,152,660	$2,704,455,252
Water Districts and Authorities				
90	Tax	182,670,000	138,654,355	321,324,355
36	Combination Tax/Revenue	69,767,892	12,539,007	82,306,899
54	Revenue	437,779,763	481,356,736	919,136,500
180	Issues	$690,217,656	$632,550,099	$1,322,767,755
Health / Hospital Districts				
4	Tax	9,845,000	3,975,000	13,820,000
3	Revenue	23,450,000	750,000	24,200,000
7	Issues	$33,295,000	$4,725,000	$38,020,000
Other Special Districts and Authorities				
4	Tax	10,230,000	13,970,000	24,200,000
6	Revenue	9,085,000	1,958,500	11,043,500
10	Issues	$19,315,000	$15,928,500	$35,243,500
814	**Issues GRAND TOTALS**	**$5,805,796,946**	**$2,425,088,179**	**$8,230,885,125**

Note: Commercial paper programs are listed at the authorized dollar amount (City of Houston-$500 million, City of San Antonio-$100 million, and Harris County-$100 million.

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

Tax debt-per-capita ratios are not available on a district-by-district basis. Water district tax debt is primarily municipal utility district debt, the debt of governments outside incorporated city areas. Table 22 provides county-wide tax debt-per-capita ratios. If tax debt per capita could be further disaggregated, it would undoubtedly result in high (over $800 per capita) tax debt ratios for the majority of these metro Houston districts.

Trend information is not yet available for water districts and authorities, although the Bond Review Board has recently verified the debt outstanding for these districts with the help of the districts and their consultants.

Table 22

TEXAS WATER DISTRICTS AND AUTHORITIES
TAX DEBT OUTSTANDING BY COUNTY

Individual debt-per-capita ratios are not available for water districts. Note that on a county-wide basis, city population numbers have not been removed from the county population totals. Water district debt is primarily debt of districts outside incorporated city areas. As an example, if one subtracted the population of the City of Houston, alone, from the Harris County total, the debt per capita on the population remaining would grow to over $1,400, rather than the $650.97 shown below.

County	Principal Outstanding at 8/31/96	Number of Governments in County with Tax Debt	Population of County	County-wide Debt Per Capita
Harris	$2,053,139,450	295	3,153,977	$650.97
Fort Bend	500,565,023	60	278,495	1,797.39
Montgomery	249,731,529	47	210,337	1,187.29
Dallas	246,656,459	7	2,075,920	118.82
Galveston	103,219,986	18	235,156	438.94
Travis	101,524,986	24	637,912	159.15
All other counties	458,757,349	148	12,511,790	36.67
				Statewide
Total Tax Debt	$3,713,594,782	599	19,103,587	$194.41

Source: Texas Bond Review Board, Office of the Executive Director, and Texas Comptroller of Public Accounts for population estimate (Winter 1995-96 forecast).

Texas Counties - Tax Debt Increase Modest - Revenue Debt Declines

Borrowings by Texas counties were limited to tax-supported obligations, a total of $355 million in bonds and notes. An additional $78.7 million was refunded to reduce debt-service costs. Harris County was the largest issuer of new-money bonds, closing on $80 million, in addition to a $100 million commercial paper program. Harris County was followed by Collin County, with $30.5 million issued, and Travis County, with $29.2 million issued.

At the end of fiscal 1996, total tax-supported debt outstanding for Texas counties was $3.3 billion, a modest 1.4 percent increase over the prior year. Total revenue debt outstanding actually declined 2.8 percent to $954.5 million. It should be noted that 44 percent of total tax debt outstanding and 86 percent of total revenue debt outstanding is debt of Harris County, including debt of the Harris County toll roads. Tax debt per capita for Texas counties statewide is $173, and for counties with tax debt only, it is $185.

Texas Community/ Junior Colleges

Texas community/junior college districts borrowed $115.7 million in new-money bonds during fiscal 1996; of this total, 67 percent is tax-supported and 33 percent is backed by project revenues, which include building use fees and dormitory fees. These colleges also borrowed $31.7 million to refund existing debt, primarily to lower debt-service costs. The largest new-money bond sales in fiscal 1996 were entirely tax-backed: $24 million by Tarrant County Junior College District, $21 million by North Harris Montgomery Community College District and $20 million by the newly-created South Texas Community College District.

At the end of fiscal 1996, Texas' 50 community/junior colleges carried $380 million in tax-supported debt on their books, a 15.8 percent increase over the prior year, and carried $320 million in revenue debt, a 9 percent increase over the prior year. The tax debt per capita statewide is $19; for districts with tax-debt only, it is $37.

Government Debt Burdens

How indebted are Texas governments? One measure of debt burden is debt per capita. (*Table 23, p. 35*). A ratio of direct tax debt per capita of $800 or more is generally considered high, especially if the debt is to be repaid by taxing residences and individuals primarily, rather than industrial and commercial entities. Texas school districts have the highest statewide ratio for tax-supported debt per capita, $589; followed by cities, $455 (estimated); and the state of Texas, $284. This statewide ratio is the weighted average, the total debt by type of government divided by the total Texas population.

Weighted average ratios for governments with debt only, and some individual government ratios, will be much higher. Water districts exhibit a modest $194 of tax debt per capita statewide, but on a district-by-district basis, are expected to generate among the highest debt-per-capita ratios for Texas local governments. This is so because the majority of water districts with tax debt outstanding are concentrated in the Houston metropolitan area.

Information was compiled about federal government debt per capita to complete the picture of public debt outstanding. Once all Texas local debt is verified, few, if any, Texas governments will be found that have a debt-per-capita ratio as high as that of the federal government ($19,216). On a statewide basis, Texas state and local tax-supported debt combined is an estimated $1,735 per capita.

Table 23

TAX DEBT PER CAPITA FOR TEXAS STATE AND LOCAL GOVERNMENTS AT AUGUST 31, 1996

	Debt Per Capita Govts with Debt	Debt Per Capita Statewide
Cities		
($8,707,398,898/19,103,587) estimate	NA	$455
Community and Junior Colleges		
($380,525,250/10,301,850)	$37	
($380,525,250/19,103,587)		$19
Counties		
($3,321,334,029/17,950,781)	$185	
($3,321,334,029/19,103,587)		$173
Public School Districts		
Voter-approved tax:		
($10,921,468,647/16,584,537)	$659	
($10,921,468,647/19,103,587)		$571
Maintenance tax:		
($256,037,899/8,070,087)	$32	
($256,037,899/19,103,587)		$13
Lease-purchase contracts:		
($99,601,000/1,237,985)	$80	
($99,601,000/19,103,587)		$5
Water Districts and Authorities		
($3,713,594,782/not available)	See Table 22 for	
($3,713,594,782/19,103,587)	county-wide ratios	$194
Health / Hospital Districts		
($358,608,594/19,103,587) estimate	NA	$18
Other Special Districts and Authorities		
($62,621,000/19,103,587) estimate	NA	$3
State of Texas		
($5,440,272,000/19,103,587)	$284	$284
Estimate of Texas State and Local Tax Debt—TOTAL		$1,735
Federal Government		
($5,100,000,000,000/265,410,000)	$19,216	$19,216

State of Texas Population Source: Texas Comptroller of Public Accounts, winter 1995-96 forecast. Federal Government Information Source: Office of Management & Budget and U.S. Department of Commerce, Bureau of the Census, with assistance from the Texas Office of State-Federal Relations. (Tax debt includes self-supporting and not self-supporting debt as well as combination tax and revenue debt.)

CHAPTER 7

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 that 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 will be used to make or finance loans to persons other than governmental units.

The Tax Act also restricts the types of privately-owned public purpose projects that 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), certain state-voted bond issues, student loan bonds, and those for a variety of "exempt facilities," including qualified residential rental projects (multi-family housing), sewage facilities, solid waste disposal facilities and hazardous waste disposal facilities.

Additionally, the Tax Act imposes 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 ceiling, imposed by the Tax Act, is $50 per capita or $150 million, whichever is greater. Section 146(e) of the Internal Revenue Code provides for 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.

State legislation, Texas Revised Civil Statutes, as amended, Article 5190.9a (the "Act"), mandates the allocation process for the State of Texas. The Private Activity Bond Allocation Program (as it is commonly referred to) regulates this volume ceiling and monitors the amount of demand for and the use of private activity bonds each year. Since January 1, 1992, the program has been administered by the Texas Bond Review Board.

In an effort to address high demand for most types of private activity bond financing, Texas has devised a system

TABLE 24

1996 SET-ASIDE ALLOCATION AMOUNTS vs. ISSUED ALLOCATION AMOUNTS

Subceilings	Allocation Set Aside	% of Total Volume Cap	Allocation Issued	% of Total Volume Cap
Single Family Housing	$257,292,000	28.00%	$288,509,975	31.40%
State-Voted Issues	160,807,500	17.50	110,175,311	11.99
Small Issue IDBs	68,917,500	7.50	59,820,973	6.51
Multi-Family Housing	45,945,000	5.00	45,945,000	5.00
All Other Issues	385,938,000	42.00	414,448,741	45.10
Total	$918,900,000	100.00%	$918,900,000	100.00%

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

that ensures an opportunity for some allocation for each eligible project 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.

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 Texas Department of Housing and Community Affairs (TDHCA) and two-thirds is available for local issuers. Additionally, for the 1996 and 1997 program years the TDHCA has a $20 million set-aside from the single family subceiling, to be used specifically in the colonias for assisting with restructuring contract-for-deeds.
- 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 and empowerment zone bonds (EZ bonds) for use in federally designated empowerment zones and enterprise communities.
- 5 percent is to be made available for issuers of qualified residential rental project issue bonds (multi-family housing).
- 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 covered by 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-served 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, regardless of project type. Several of the 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 another applicant. This often results in an actual distribution that varies from the predetermined set asides at the beginning of the program year *(Table 24, p. 36)*.

The 1996 volume cap remained at the same amount as the 1995 volume cap. The Tax Code requires each state to calculate its cap based on the last available population estimates released by the Bureau of the Census prior to the upcoming program year. Due to the federal government shut down, census figures were not released until January of 1996, forcing the states to use the previous year's figures. Based on the population estimate for Texas of 18,378,000, the 1996 volume cap was set at $918,900,000.

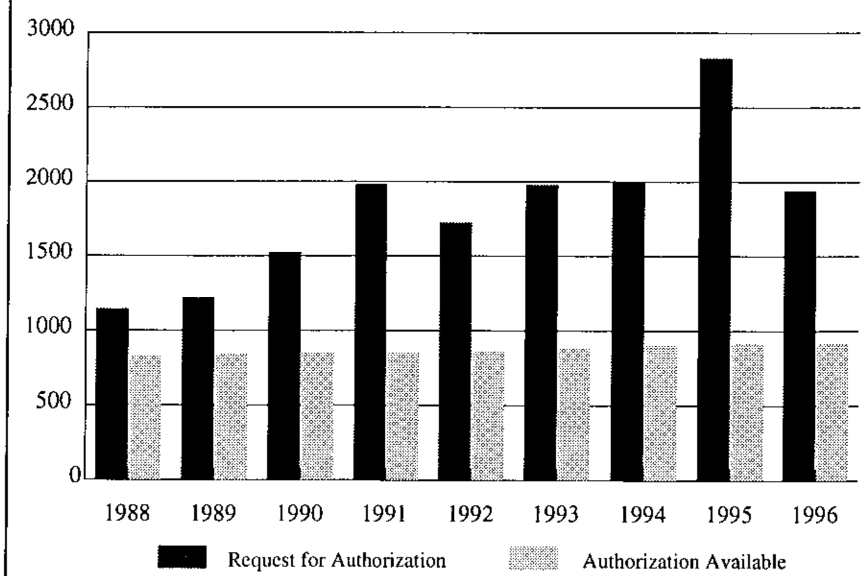
Had the new population figures of 18,723,991 been used to calculate the 1996 volume cap, Texas would have had a 1996 cap of $936,199,550. This 1.89 percent increase over 1995 would have added another $17.3 million for the 1996 year. The 1997 volume cap should realize this previous increase, in addition to an increase due to this year's population growth.

The 74th Legislature made significant amendments to the statute to provide for a broader distribution of the limited volume cap beginning in the 1996 program year:

FIGURE 17

PRIVATE ACTIVITY BOND AUTHORIZATION AVAILABLE vs. AUTHORIZATION REQUESTED

(millions of dollars)



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

• In most categories the maximum application amount was reduced to allow a greater number of applications to receive some allocation.

• The number of applications that can be filed for projects at any one project site was limited to one to allow more companies to access allocation.

• All single-family housing programs must create a set-aside of fifty percent of their non-targeted funds for the first six months to be available for families with an income of 80 percent or less of the area median income.

• Additionally, the Texas Housing Finance Corporations Act is amended to require that an annual report be filed with the Texas Department of Housing and Community Affairs for each single-family or multi-family housing issue financed with tax-exempt, private activity bonds and all mortgage certificate programs. The data obtained from these reports can be used to track the use of proceeds and determine the population receiving benefit from the proceeds.

As expected, the 1996 program year experienced less overall demand (in terms of applications filed) and a greater percentage of successful applicants. It is important to remember that the demand appears to be less due to the newly imposed application restrictions. Actual demand probably increased rather than decreased in 1996.

The allocation program in Texas has been over-subscribed each year since 1988 *(Figure 17, p. 37)*. Applications received in 1996 totaled $1.9 billion or 211 percent of the available allocation amount *(Table 25)*. The 1996 program year will end leaving $793 million in requests for allocation outstanding.

Texas has a growing economy, critical affordable housing needs, an enormous student population, and increasing environmental demands. Demand for private activity bond cap allocation will certainly continue to increase. 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.

TABLE 25

1996 APPLICATIONS FOR STATE PRIVATE ACTIVITY BOND AUTHORIZATION BY SUBCEILING

(as of November 1, 1996)

Subceiling	Authorization Available	Authorization Requested	Request as a % of Availability
Mortgage Revenue Bonds	$257,292,000	$ 590,827,775	229.63%
State-Voted Bonds	160,807,500	110,178,422	68.52
Qualified Small Issue Bonds	68,917,500	150,225,000	217.98
Residential Rental Project Bonds	45,945,000	119,075,000	259.17
All Other Bonds Requiring Allocation	385,938,000	967,900,000	250.79
Total	$918,900,000	$1,938,206,197	210.93%

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 1996 - $165,000,000

Purpose: The proceeds of the bonds were used to convert $62,000,000 of outstanding revenue financing commercial paper notes to long-term debt, to acquire, construct, improve, and enlarge various properties of the System, and to pay the costs of issuance.

Dates: Board Approval - February 22, 1996
Competitive Sale - March 14, 1996
Delivery - April 16, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in May 1997 with a final maturity of May 2016. The bonds are revenue obligations payable from the pledged revenues of the Texas A&M University System Revenue Financing System.

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

Interest Cost: True Interest Cost (TIC) - 5.44%
Net Interest Cost (NIC) - 5.41%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$117,460	$.71
Financial Advisor	84,254	.51
Rating Agencies	56,000	.34
Printing	3,091	.02
Paying Agent/Registrar	350	.00
Attorney General	1,250	.01
	$262,406	**$1.59**
Underwriter's Spread	**$415,800**	**$2.52**

Note: Numbers may not add due to rounding.

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of The Texas A&M University System, Permanent University Fund (PUF) Bonds, Series 1996 - $52,385,000

Purpose: The bonds were issued for the purpose of refunding a portion of the Board's Permanent University Fund Refunding Bonds, Series 1986, maturing on July 1 in the years 1997 through 2000, and in the years 2003 through 2005, which are currently outstanding in the principal amount of $52,670,000, and to pay for the costs of issuance of the bonds.

Dates: Board Approval - N/A
Negotiated Sale - September 13, 1995
Delivery - April 3, 1996

Structure: The bonds were issued as fixed rate, tax-exempt securities and will mature serially beginning in July 1997 with a final maturity of July 2005. The bonds are secured by the Available University Fund.

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

Interest Cost: True Interest Cost (TIC) - 5.03%
Net Interest Cost (NIC) - 5.12%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$40,653	$.78
Financial Advisor	37,046	.71
Rating Agencies	37,000	.71
Printing	1,806	.03
Paying Agent/Registrar	185	.01
Escrow Agent	2,500	.05
Attorney General	1,250	.02
Miscellaneous	1,600	.03
	$122,040	**$2.34**
Underwriter's Spread	**$204,301**	**$3.90**

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of The Texas A&M University System, Permanent University Fund (PUF) Bonds, Series 1996A - $50,495,000.

Purpose: The bonds were issued for the purpose of currently refunding a portion of the Board's Permanent University Fund Subordinate Lien Notes, and to pay for the costs of issuance of the bonds.

Dates: Board Approval - N/A
Competitive Sale - February 8, 1996
Delivery - March 14, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities and will mature serially beginning in July 1997 with a final maturity of July 2011. The bonds are secured by the Available University Fund.

Bond Ratings: Moody's - Aaa
Fitch - AAA

Interest Cost: True Interest Cost (TIC) - 4.86%
Net Interest Cost (NIC) - 4.98%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$39,860	$.79
Financial Advisor	25,896	.51
Rating Agencies	45,300	.90
Printing	3,075	.06
Paying Agent/Registrar	350	.01
Attorney General	1,250	.02
	$115,731	**$2.29**
Underwriter's Spread	**$181,782**	**$3.60**

MIDWESTERN STATE UNIVERSITY

Issue: Board of Regents of Midwestern State University, Constitutional Appropriation Bonds, Series 1996 - $4,035,000

Purpose: The proceeds of the bonds were used for the remodeling and renovation of the University's science building, Bolin Science Hall. Renovations included offices, classrooms, laboratories, electrical systems, heating-ventilation systems, code and ADA accessibility compliance. Proceeds were also used to pay the costs of issuance.

Dates: Board Approval - January 18, 1996
Competitive Sale - February 9, 1996
Delivery - March 7, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in March 1997 with a final maturity of March 2001. The bonds are non-callable.

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

Interest Cost: True Interest Cost (TIC) - 4.01%
Net Interest Cost (NIC) - 4.01%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$7,352	$1.82
Financial Advisor	12,560	3.11
Rating Agencies	9,300	2.30
Printing	6,986	1.73
Paying Agent/Registrar	400	.10
Attorney General	1,000	.25
Miscellaneous	122	.03
	$37,720	**$9.34**
Underwriter's Spread	**$11,483**	**$2.85**

STEPHEN F. AUSTIN STATE UNIVERSITY

Issue: Board of Regents of Stephen F. Austin University, Consolidated University Revenue Bonds, Series 1996 - $4,135,000

Purpose: The proceeds of the bonds were used for the purpose of constructing and renovating certain University campus projects, including the North and South Residence Halls, intramural field lighting, a utility system, air handlers for certain dorms, and ADA-auxillary services capital improvement projects. Proceeds were also used to pay the costs of issuance.

Dates: Board Approval - December 21, 1995
Competitive Sale - January 11, 1996
Delivery - February 15, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in October 1996 with a final maturity of October 2005. The bonds are non-callable. The bonds are insured.

Bond Ratings: Moody's - Aaa
Fitch - AAA

Interest Cost: True Interest Cost (TIC) - 4.62%
Net Interest Cost (NIC) - 4.59%

Consultants:
Co-Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - First Southwest Company
Senior Underwriter - Rauscher Pierce Refsnes, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$8,946	$2.16
Financial Advisor	15,394	3.72
Rating Agencies	5,000	1.21
Printing	6,091	1.47
Paying Agent/Registrar	200	.05
Attorney General	750	.18
	$36,381	**$8.79**
Underwriter's Spread	**$26,265**	**$6.35**

STEPHEN F. AUSTIN STATE UNIVERSITY

Issue: Board of Regents of Stephen F. Austin University, State of Texas Constitutional Appropriation Bonds, Series 1996 - $3,590,000

Purpose: The proceeds of the bonds were used for the purpose of constructing and renovating certain University campus projects, including the Austin Building renovation, a utility loop, and paying costs of issuance.

Dates: Board Approval - December 21, 1995
Competitive Sale - January 11, 1996
Delivery - February 15, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in October 1996 with a final maturity of October 2005. The bonds are non-callable.

Bond Ratings: Moody's - Aa
Fitch - AA

Interest Cost: True Interest Cost (TIC) - 4.60%
Net Interest Cost (NIC) - 4.58%

Consultants:
Co-Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - First Southwest Company
Senior Underwriter - Rauscher Pierce Refsnes, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$9,009	$2.50
Financial Advisor	15,868	4.42
Rating Agencies	6,600	1.84
Printing	3,016	.84
Paying Agent/Registrar	200	.06
Attorney General	750	.21
	$35,443	**$9.87**
Underwriter's Spread	**$23,570**	**$6.56**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Bonds, Series 1995 A-1 & B-1 - $95,365,000

Purpose: The proceeds of the bonds were used to provide funds to finance low-interest mortgage loans made to first-time homebuyers of very low, low, and moderate income, who are acquiring modestly-priced residences.

Dates: Board Approval - September 21, 1995
Negotiated Sale - November 2, 1995
Delivery - November 16, 1995

Structure: The 1995 Series A-1& B-1 bonds are fixed-rate, tax-exempt securities consisting of both serial and term bonds. The serial bonds mature beginning in September 1997 with a final maturity of March 2008. The Series A-1 bonds include three term bonds maturing in 2015, 2018, and 2027. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.96%
Net Interest Cost (NIC) - 5.99%

Consultants:
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Co-Bond Counsel - Sherman E. Stimley & Associates
Financial Advisor - Rauscher Pierce Refsnes, Inc.
Senior Underwriter - Goldman, Sachs & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$168,960	$1.78
Financial Advisor	50,000	.52
Rating Agencies	40,000	.42
Trustee's Counsel	14,667	.15
Trustee Acceptance	19,016	.20
Department Financing	13,500	.14
Disclosure Counsel	55,000	.58
Bond Ins. Counsel	5,706	.06
FNMA Counsel	5,000	.05
Verification Agent	14,800	.16
Printing	18,000	.19
Private Activity Fee	21,440	.22
Attorney General	2,500	.03
Miscellaneous	9,560	.10
	$438,149	**$4.60**
Underwriter's Spread	**$688,154**	**$7.22**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Bonds, Series 1995C - $71,760,000

Purpose: The taxable 1995 Series C Bonds were used to refund outstanding Series 1985 A&B bonds. The resulting long-term cash benefits will be made available periodically to the department.

Dates: Board Approval - September 21, 1995
Negotiated Sale - November 2, 1995
Delivery - November 16, 1995

Structure: The bonds were issued as fixed-rate, taxable term bonds. The bonds will mature in September of 2006, 2014, and 2017. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 7.39%
Net Interest Cost (NIC) - 7.35%

Consultants:
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Co-Bond Counsel - Sherman E. Stimley & Associates
Financial Advisor - Rauscher Pierce Refsnes, Inc.
Senior Underwriter - Goldman, Sachs & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$ 111,439	$ 1.55
Financial Advisor	45,000	.63
Rating Agencies	40,300	.56
Trustee's Counsel	5,500	.08
Trustee Acceptance	17,233	.24
Department Financing	11,500	.16
Disclosure Counsel	25,000	.35
Bond Ins. Counsel	4,194	.06
MGIC Endorsement	31,675	.44
Verification Agent	10,000	.14
Printing	6,000	.08
Attorney General	1,250	.02
Miscellaneous	5,685	.08
	$314,776	**$4.39**
Underwriter's Spread	**$517,820**	**$7.22**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Bonds, Series 1994C - $15,360,000

Purpose: The bonds were issued for the purpose of converting Convertible Option Bonds (COBs) to fixed-rate, tax-exempt securities. The original COBs were issued in 1994 with a par amount of $84,140,000. On February 22, 1995, $35,395,000 of the COBs were converted. On April 26, 1995, an additional $33,385,000 were converted. This transaction is the final COB conversion for the issue.

Dates: Board Approval - September 22, 1994
Private Placement - June 5, 1996
Delivery - June 27, 1996

Structure: The COBs were converted to fixed-rate, tax-exempt securities bearing an interest rate of 6.25 percent through a private placement to the Federal National Mortgage Association (FNMA). The bonds will mature on November 1, 2026. Interest is payable on the bonds on the first business day of each month, commencing August 1, 1996.

Bond Ratings: Standard & Poor's - AAA

Interest Cost: True Interest Cost (TIC) - 6.24%
Net Interest Cost (NIC) - 6.25%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$ 25,112	$ 1.63
Financial Advisor	13,020	.85
Rating Agencies	4,200	.27
Escrow Verification	1,000	.06
Trustee	5,900	.38
Trustee's Counsel	3,000	.19
FNMA Counsel	3,500	.23
Miscellaneous	5,500	.36
	$61,232	**$3.97**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Dallas/Fort Worth, Series 1996A-D - $22,150,000

Purpose: The proceeds of the bonds were used to provide funds for four multi-family residential rental housing properties in the Dallas-Fort Worth metroplex. Under federal tax law, at least 40 percent of the units in each project must be occupied by households with an aggregate annual income that is not greater than 60 percent of the median income for the area.

Dates: Board Approval - June 20, 1996
Negotiated Sale - July 22, 1996
Delivery - August 15,1996

Structure: The bonds were issued in four separate series. Series A, C and D were issued as fixed-rate, tax-exempt bonds. The Series B bonds were issued as fixed-rate, taxable bonds.

Bond Ratings: Standard & Poor's - 1996A - A
1996B - A
1996C - BBB
1996D - NR

Interest Cost: Net Interest Cost (NIC) - 7.1490%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$103,900	$4.69
Financial Advisor	17,000	.77
Rating Agencies	60,000	2.71
Trustee	19,390	.87
Trustee's Counsel	16,500	.74
Department Financing	175,413	7.92
Disclosure Counsel	7,500	.34
Owner's Counsel	25,000	1.13
Printing	15,000	.68
Attorney General	2,500	.11
Miscellaneous	25,000	1.13
	$467,203	**$21.09**
Underwriter's Spread	**$302,348**	**$13.65**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi Family Refunding Bonds -
Brighton's Mark - Series 1996 - $9,748,140
Braxton's Mark, Series 1996 - $14,273,700
Marks of Los Colinas, Series 1996 - $14,273,700

Purpose: Through the issuance of these refunding bonds, totaling $38,295,540, the TDHCA provided funds to refund bonds originally issued to finance the three different multifamily rental housing properties. The original bonds went into default in 1991 when the guarantor and co-general partner, Mutual Benefit Life, was forced into rehabilitation.

Dates: Board Approval - June 20, 1996
Private Placement - August 12, 1996
Delivery - August 24,1996

Structure: The bonds were issued in Series A and B for each unit. The Series A bonds were issued as fixed-rate, tax exempt securities. The Series B bonds were issued as fixed-rate, taxable securities. The bonds were privately placed with a partnership of General Electric Capital Corporation and Bailey Capital Corporation (GEBAM).

Consultants:
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Co-Bond Counsel - Sherman E. Stimley & Associates
Financial Advisor - Rauscher Pierce Refsnes, Inc.
Senior Underwriter - None

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$195,000	$5.02
Financial Advisor	44,000	1.13
Department Financing	227,650	5.85
Disclosure Counsel	5,000	.13
Attorney General	7,500	.19
Miscellaneous	15,000	.39
	$494,150	**$12.71**

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: Texas Higher Education Coordinating Board, State of Texas General Obligation College Student Loan Bonds, Series 1996 - $75,000,000

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

Dates: Board Approval - December 21, 1995
Competitive Sale - January 18, 1996
Delivery - February 21, 1996

Structure: The bonds were structured as fixed-rate, tax-exempt securities, maturing serially beginning in August 2000 with a final maturity in August 2021. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.18%
Net Interest Cost (NIC) - 5.16%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Co-Financial Advisor - First Southwest Company
Co-Financial Advisor - Howard Gary & Company
Senior Underwriter - J.P. Morgan Securities, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$27,175	$.36
Financial Advisor	40,757	.55
Rating Agencies	28,400	.38
Computer Structuring	3,525	.05
Private Activity Fee	18,750	.25
Paying Agent	400	.01
Notice of Sale Publication	906	.01
Printing	5,400	.07
Attorney General	1,250	.02
Miscellaneous	617	.01
	$127,180	**$1.71**
Underwriter's Spread	**$266,250**	**$3.55**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas Building Revenue Bonds, Series 1996A - $56,055,000

Purpose: The proceeds of the bonds were used for the construction of a legislative office building and parking facility in Austin, construction of an office building in Fort Worth, and air quality improvement projects in various state office buildings in Travis County.

Dates: Board Approval - November 22, 1995
Negotiated Sale - January 17, 1996
Delivery - January 25, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in August 1997 with a final maturity of August 2016. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.38%
Net Interest Cost (NIC) - 5.19%

Consultants:
Co-Bond Counsel - Winstead, Sechrest & Minick, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Co-Financial Advisor - Masterson Moreland Sauer Whisman, Inc.
Co-Financial Advisor - Taylor, Pruitt & Sylvestor, Inc.
Senior Underwriter - PaineWebber, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$31,164	$.56
Financial Advisor	45,476	.81
Rating Agencies	36,500	.65
Printing	8,839	.16
Attorney General	1,250	.02
Miscellaneous	369	.01
	$123,598	**$2.21**
Underwriter's Spread	**$212,448**	**$3.79**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas Special Revenue Bonds, Series 1996B - $10,380,000

Purpose: The proceeds of the bonds were used to provide funds for the first phase of construction of a Texas Department of Health (TDH) laboratory, which included the construction of a parking garage and professional design services for the project, and to pay the costs of issuance.

Dates: Board Approval - November 22, 1995
Negotiated Sale - January 17, 1996
Delivery - January 25, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in August 1997 with a final maturity in August 2016. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.28%
Net Interest Cost (NIC) - 5.15%

Consultants:
Co-Bond Counsel - Winstead, Sechrest & Minick, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Co-Financial Advisor - Masterson Moreland Sauer Whisman, Inc.
Co-Financial Advisor - Taylor, Pruitt & Sylvestor, Inc.
Senior Underwriter - PaineWebber, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$31,183	$3.00
Financial Advisor	21,461	2.06
Rating Agencies	5,000	.48
Underwriter's Counsel	15,600	1.50
Printing	10,191	.98
Attorney General	1,000	.10
Miscellaneous	845	.08
	$85,280	**$8.20**
Underwriter's Spread	**$39,340**	**$3.79**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas General Obligation Park Development Bonds, Series 1996A - $9,665,000

Purpose: The proceeds of the bonds were used to provide funds to the Texas Parks and Wildlife Department for construction and development of new state parks, renovation of existing state parks that will include wastewater improvements, and to pay the costs of issuance.

Dates: Board Approval - January 18, 1996
Competitive Sale - February 21, 1996
Delivery - March 12, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in October 1997 with a final maturity in October 2016. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.09%
Net Interest Cost (NIC) - 5.11%

Consultants:
Co-Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Yava D. Scott
Co-Financial Advisor - First Southwest Company
Co-Financial Advisor - Freidman Luzzatto
Senior Underwriter - Grigsby Brandford & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$27,362	$2.83
Financial Advisor	21,040	2.18
Rating Agencies	13,000	1.34
Printing	4,994	.52
Attorney General	1,000	.10
	$67,396	**$6.97**
Underwriter's Spread	**$29,704**	**$3.07**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas General Obligation Refunding Bonds, Series 1996B - $312,940,000

Purpose: The proceeds of the bonds were used to currently refund G.O. commercial paper notes issued on behalf of the Texas Department of Criminal Justice, the Texas Youth Commission, and the Texas Department of Mental Health and Mental Retardation, and to pay the costs of issuance.

Dates: Board Approval - March 21, 1996
Negotiated Sale - April 10, 1996
Delivery - May 9, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in October 1997 with a final maturity in October 2015. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.61%
Net Interest Cost (NIC) - 5.65%

Consultants:
Co-Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Yava D. Scott
Co-Financial Advisor - First Southwest Company
Co-Financial Advisor - Taylor Pruitt & Company
Senior Underwriter - A.G. Edwards & Sons, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$31,238	$.10
Financial Advisor	37,287	.12
Rating Agencies	59,000	.19
Printing	5,273	.02
Escrow Agent	1,000	.01
Escrow Verification	1,500	.01
Attorney General	1,250	.01
Miscellaneous	2,249	.01
	$138,797	**$0.47**
Underwriter's Spread	**$860,585**	**$2.75**

TEXAS TURNPIKE AUTHORITY

Issue: Texas Turnpike Authority, Dallas North Tollway Revenue Bonds (President George Bush Turnpike), Series 1995 - $446,411,475

Purpose: The proceeds of the bonds were used for the purpose of designing and constructing the President George Bush Turnpike, an extension and enlargement of the Dallas North Tollway. Proceeds also paid for the costs of issuance.

Dates: Board Approval - December 4, 1995
Negotiated Sale - December 12, 1995
Delivery - January 23, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities, including serial, term, and capital appreciation bonds. The bonds will mature serially beginning January 2006 with a final maturity of January 2025. With the exception of the 2016 maturity, the bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.57%
Net Interest Cost (NIC) - 5.47%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Lannen & Oliver, P.C.
Financial Advisor - First Southwest Company
Senior Underwriter - Smith Barney, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$374,472	$.84
Financial Advisor	334,809	.75
Rating Agencies	115,077	.26
Printing	47,610	.11
Trustee/Escrow Agent	5,575	.01
Issuer's Counsel	39,259	.09
Computer Fee	45,000	.10
Rating Meeting/Closing	17,674	.04
Consulting Engineer	85,541	.19
Traffic Engineer	42,550	.10
CPA Fee	3,970	.01
Attorney General	1,500	.00
	$1,113,037	**$2.50**
Underwriter's Spread	**$3,085,696**	**$6.91**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Southwest Texas State University, Utility System Revenue Bonds, Series 1996 - $4,415,000

Purpose: The proceeds of the bonds were used to provide funds to improve and enlarge the utility system of the University and to pay the costs of issuance.

Dates: Board Approval - January 18, 1996
Competitive Sale - February 22, 1996
Delivery - March 21, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in August 1997 with a final maturity of August 2011. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 4.89%
Net Interest Cost (NIC) - 4.92%

Consultants:
Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Financial Advisor - Rauscher Pierce Refsnes, Inc.
Senior Underwriter - First Southwest Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$6,604	$1.50
Financial Advisor	2,229	.50
Rating Agencies	12,800	2.90
Printing	3,974	.90
Paying Agent	350	.08
Attorney General	750	.17
Miscellaneous	405	.09
	$27,112	**$6.14**
Underwriter's Spread	**$28,565**	**$6.47**

TEXAS WOMAN'S UNIVERSITY

Issue: Board of Regents of Texas Woman's University, Combined Fee Revenue Bonds, Series 1995 - $7,000,000

Purpose: The proceeds of the bonds were used for the renovation of the TWU Denton Campus Central Dining Hall Facility, Hubbard Hall, major repairs and renovations of residence halls and other auxiliary buildings, and for paying costs of issuance.

Dates: Board Approval - July 20, 1995
Competitive Sale - September 7, 1995
Delivery - October 4, 1995

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in July 1996 with a final maturity of July 2010. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.28%
Net Interest Cost (NIC) - 5.27%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$10,925	$1.56
Financial Advisor	6,232	.89
Rating Agencies	19,700	2.81
Printing	4,129	.59
Paying Agent	450	.06
Attorney General	1,000	.14
	$42,436	$6.05
Underwriter's Spread	$90,435	$12.92

TEXAS WOMAN'S UNIVERSITY

Issue: Board of Regents of Texas Woman's University, Constitutional Appropriation Bonds, Series 1995 - $17,000,000

Purpose: The proceeds of the bonds were used for the construction of a new academic facility, the Movement Science Complex, other improvements in Education and General Buildings, and for paying the costs of issuance.

Dates: Board Approval - July 20, 1995
Competitive Sale - September 7, 1995
Delivery - October 4, 1995

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in April 1996 with a final maturity of October 2004.

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

Interest Cost: True Interest Cost (TIC) - 4.59%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$12,891	$.76
Financial Advisor	10,114	.59
Rating Agencies	15,300	.90
Printing	5,523	.32
Paying Agent	450	.03
Attorney General	1,000	.06
	$45,278	$2.66
Underwriter's Spread	$79,151	$4.66

THE UNIVERSITY OF NORTH TEXAS

Issue: Board of Regents of The University of North Texas, Consolidated University Revenue Bonds, Series 1996 - $15,000,000

Purpose: The proceeds of the bonds were used to provide funds for the construction of a music and fine arts center and to pay the costs of issuance.

Dates: Board Approval - January 18, 1996
Competitive Sale - February 9, 1996
Delivery - February 28, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in April 1996 with a final maturity of October 2015. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.05%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Sherman E. Stimley & Associates
Financial Advisor - Rauscher Pierce Refsnes, Inc.
Senior Underwriter - Southwest Securities Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$14,880	$.99
Financial Advisor	8,747	.58
Rating Agencies	27,400	1.83
Printing	4,808	.32
Attorney General	1,000	.07
Miscellaneous	355	.02
	$57,190	**$3.81**
Underwriter's Spread	**$190,879**	**$12.73**

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995 - $26,000,000

Purpose: The proceeds of the bonds were used to fund the construction of the Sciences Complex. The building will house specialized laboratory and research areas to support physical sciences. Funds were also used to pay costs of issuance.

Dates: Board Approval - November 22, 1995
Competitive Sale - December 14, 1995
Delivery - January 10, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in August 1996 with a final maturity of August 2005.

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

Interest Cost: True Interest Cost (TIC) - 4.63%
Net Interest Cost (NIC) - 4.83%

Consultants:
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Co-Bond Counsel - Rafael Quintanilla, Jr.
Senior Underwriter - Smith Barney, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$35,884	$1.38
Rating Agencies	18,300	.70
Printing	1,900	.07
Attorney General	1,250	.05
Miscellaneous	959	.04
	$58,293	**$2.24**
Underwriter's Spread	**$65,000**	**$2.50**

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Revenue Financing System Bonds, Series 1996 A&B - $304,735,000

Purpose: The proceeds of the 1996A bonds, $72,600,000, were used to fund the construction of buildings and facilities. Proceeds from the 1996B bonds, $232,135,000, were used to: (1) refund outstanding Revenue Financing System Commercial Paper Notes, Series A; (2) advance refund outstanding Revenue Financing System Revenue Bonds, Series 1991 A&B; (3) fund construction and acquisition costs of eligible projects at various UT campuses; and (4) pay costs of issuance.

Dates: Board Approval - January 22, 1996
Negotiated Sale - February 8, 1996
Delivery - February 29, 1996

Structure: The bonds are fixed-rate, tax-exempt securities maturing serially beginning in August 1997 with a final maturity of August 2014. Series A&B also each have a term bond, payable in August 2016.

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

Interest Cost: True Interest Cost (TIC) - 4.92%
Net Interest Cost (NIC) - 4.98%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Senior Underwriter - Lehman Brothers

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$127,593	$.41
Rating Agencies	86,400	.28
Printing	14,464	.05
Paying Agent	9,000	.03
Escrow Agent	1,500	.01
Escrow Verification	1,975	.01
Disclosure Counsel	15,245	.05
Attorney General	2,500	.00
Miscellaneous	3,733	.01
	$262,410	**$0.85**
Underwriter's Spread	**$1,657,586**	**$5.44**

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Permanent University Fund (PUF) Refunding Bonds, Series 1996 - $263,945,000

Purpose: The bonds were issued for the purpose of refunding a portion of the Board's Permanent University Fund Refunding Bonds, Series 1988 and Series 1991, and a portion of the Board's Permanent University Fund, Series 1992B, and to pay for the costs of issuance of the bonds.

Dates: Board Approval - N/A
Negotiated Sale - February 14, 1996
Delivery - March 7, 1996

Structure: The bonds were sold as fixed-rate, tax-exempt securities and will mature serially beginning in July 1996 with a final maturity of July 2013. The bonds are secured by the Available University Fund.

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

Interest Cost: True Interest Cost (TIC) - 4.64%
Net Interest Cost (NIC) - 4.71%

Consultants:
Bond Counsel - Vinson & Elkins, L.L.P.
Senior Underwriter - J.P. Morgan Securities, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$97,156	$.37
Rating Agencies	88,400	.33
Printing	9,997	.04
Escrow Agent	3,100	.01
Escrow Verification	2,275	.01
Escrow Agent Counsel	3,000	.01
Attorney General	1,250	.00
Miscellaneous	2,411	.01
	$207,589	**$0.78**
Underwriter's Spread	**$1,422,663**	**$5.39**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Program, Fund I, Series 1995A-E Refunding Bonds - $130,860,000

Purpose: Proceeds of the 1995A bonds were used to refund outstanding Fund I, Series 1994C bonds. Proceeds from the 1995B bonds were used to refund Fund I, Series 1994D bonds. The proceeds from the sale of the Series 1995C, D & E bonds were used to refund Fund II, Series 1994A bonds, and pay costs of issuance.

Dates: Board Approval - September 21, 1995
Negotiated Sale - October 25, 1995*
Delivery - October 26, 1995

* Pricing date of 10/25/95 for Series A,B, & C bonds. Pricing date of 6/25/96 for the Series D and 11/2/95 for Series E issues.

Structure: The bonds are structured with a fixed-rate portion, a convertible option bond (COB) with a six-month term, and a COB with a nine-month term, each in approximately equal principal amounts. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) * - 6.069%
Net Interest Cost (NIC) * - 6.074%

* Fixed-rate portion. Does not include COBs. Interest cost is estimated.

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$205,576	$1.57
Financial Advisor	65,486	.50
Rating Agencies	43,000	.33
Printing	28,498	.22
Attorney General	2,500	.02
Miscellaneous	1,250	.01
	** **$346,310**	**$2.65**
Underwriter's Spread	**$670,243**	**$5.12**

** Issuance costs include cost of Series D COB remarketing.

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Program, Fund II, Series 1996 Taxable Refunding Bonds - $26,145,000

Purpose: Proceeds of the Series 1996 bonds were used to refund outstanding, Fund II, Series 1994B taxable bonds. The refunding enabled the VLB to lower the interest rate on home loans originated from the unexpended proceeds of the Series 1994B bonds.

Dates: Board Approval - December 21, 1995
Negotiated Sale - January 25, 1996
Delivery - February 8, 1996

Structure: The bonds are structured as fixed-rate, taxable securities comprised of both serial and term bonds. The serial bonds are scheduled to mature annually beginning in December 1998 with a final maturity of December 2006. The term bonds will have final maturities of December 2016, 2021, and 2027. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 7.40%
Net Interest Cost (NIC) - 7.36%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$36,972	$1.41
Financial Advisor	11,584	.44
Rating Agencies	11,133	.43
Printing	6,007	.23
Escrow Agent	1,000	.04
Attorney General	1,250	.05
Miscellaneous	1,473	.06
	$69,419	**$2.66**
Underwriter's Spread	**$187,721**	**$7.18**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Program, Fund I, Series 1995 Refunding Bonds - $88,490,000

Purpose: The proceeds of the bonds were used to refund the outstanding State of Texas Veterans Bonds, Series 1985, maturing on and after December 1, 1996. The refunding enabled the VLB to lower the interest rate on home loans originated from the Series 1985 bonds.

Dates: Board Approval - November 18, 1993
Negotiated Sale - February 18, 1994
Delivery - November 1, 1995

Structure: The bonds were structured as variable rate bonds bearing interest at a weekly interest rate. The bonds are scheduled to mature on December 1, 2016. In connection with the bonds, the VLB has entered into a swap agreement to make fixed rate payments and receive floating rate payments equal to the interest rate on the bonds. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.68%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$79,364	$.90
Financial Advisor	32,359	.37
Rating Agencies	24,000	.27
Printing	6,138	.07
Paying Agent/Registrar	1,000	.01
Attorney General	1,250	.01
Miscellaneous	15,712	.18
	$159,823	**$1.81**
Underwriter's Spread	**$376,083**	**$4.25**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Land Bonds, Series 1996 - $34,996,889

Purpose: The proceeds of the bonds were used to purchase land to be resold to eligible Texas veterans (and certain surviving spouses). Each contract of resale of land to veterans from tax-exempt proceeds is currently limited to a maximum amount of $20,000 by federal tax law. The VLB also structured $5,000,000 of College Savings Bonds into the issue.

Dates: Board Approval - December 21, 1995
Negotiated Sale - February 14, 1996
Delivery - March 6, 1996

Structure: The bonds are structured as fixed-rate, tax-exempt securities. The issue is composed of serial bonds, capital appreciation bonds (CABs), and term bonds. The serial bonds will mature semi-annually beginning December 1996 and ending December 2010. The CABs will mature semi-annually beginning June 2001 and ending June 2016. The two term bonds will mature in December of 2016 and 2026. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.42%

Consultants:
Co-Bond Counsel - Akin, Gump, Strauss, Hauer & Feld, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - Rauscher Pierce Refsnes, Inc.
Senior Underwriter - Prudential Securities

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$26,568	$.76
Financial Advisor	14,451	.41
Rating Agencies	16,133	.46
Printing	13,382	.38
Attorney General	1,250	.03
Miscellaneous	29,638	.85
	$101,422	**$2.89**
Underwriter's Spread	**$238,678**	**$6.82**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Land Bonds, Taxable Series 1996 - $35,000,000

Purpose: The proceeds of the bonds were used to purchase land to be resold to eligible Texas veterans (and certain surviving spouses). Through the issuance of taxable bonds, veterans will be able to obtain contracts for the resale of land in an amount of up to $40,000. This $40,000 is the maximum threshold imposed by the Texas Legislature.

Dates: Board Approval - December 21, 1995
Competitive Sale - January 18, 1996
Delivery - February 7, 1996

Structure: The bonds are structured as fixed-rate, taxable securities comprised of both serial and term bonds. The serial bonds are scheduled to mature beginning in December 1998 and ending in December 2007. The term bonds will mature semi-annually in June and December beginning in 2014 with a final maturity of 2027. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 6.91%
Net Interest Cost (NIC) - 6.93%

Consultants:
Co-Bond Counsel - Akin, Gump, Strauss, Hauer & Feld, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - Rauscher Pierce Refsnes, Inc.
Senior Underwriter - Wheat First Butcher Singer

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$26,525	$.76
Financial Advisor	13,836	.40
Rating Agencies	13,633	.39
O.S. Prep/Printing	21,290	.61
Attorney General	1,250	.04
	$76,534	**$2.20**
Underwriter's Spread	**$254,407**	**$7.27**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, General Obligation Texas Water Development Bonds, Series 1996 A&B - $35,000,000

Purpose: The proceeds of the bonds were used to augment the Texas Water Development Fund established as a special revolving fund in the Treasury. The Series 1996A proceeds, $20,000,000, were for water-supply purposes and to pay costs of issuance. The Series 1996B proceeds, $15,000,000, were used to provide matching funds for loans to political subdivisions from the Board's State Revolving Fund, to fund loans to political subdivisions for water-quality enhancement (wastewater) purposes, and to pay costs of issuance.

Dates: Board Approval - February 22, 1996
Negotiated Sale - March 5, 1996
Delivery - April 16, 1996

Structure: The bonds are structured as fixed-rate, tax-exempt securities maturing serially beginning in August 1999 with a final maturity of August 2016. Both Series A & B also include term bonds that mature in August 2021. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.41%
Net Interest Cost (NIC) - 5.33%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - Smith Barney, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$41,990	$1.20
Financial Advisor	20,000	.57
Rating Agencies	21,000	.60
Printing	7,434	.21
Attorney General	2,000	.06
	$92,424	**$2.64**
Underwriter's Spread	**$234,850**	**$6.71**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Water Development Refunding Bonds, Taxable Series 1995 - $19,564,956

Purpose: The proceeds of the bonds were used to refund previously issued taxable Water Development Bonds, Series 1988C, 1989A, and 1989B. The refunding will achieve debt-service savings and pay issuance costs.

Dates: Board Approval - August 17, 1995
Negotiated Sale - August 28, 1995
Delivery - September 28, 1995

Structure: The bonds are fixed-rate, taxable securities including both current interest bonds and capital appreciation bonds. The capital appreciation bonds mature serially beginning in August 1996 and ending in August 2001. The current interest bonds mature serially beginning in August 2002 with a final maturity in August 2011. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 7.22%
Net Interest Cost (NIC) - 7.25%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - Rauscher Pierce Refsnes, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$37,042	$1.63
Financial Advisor	16,282	.72
Rating Agencies	25,500	1.12
Printing	4,310	.19
Escrow Agent	3,750	.17
Escrow Verification	1,475	.06
Attorney General	1,000	.04
Miscellaneous	750	.03
	$90,109	**$3.96**
Underwriter's Spread	**$158,723**	**$6.99**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, State Revolving Fund, Senior Lien Revenue Bonds, Series 1996A - $200,000,000

Purpose: The proceeds of the bonds were used to provide partial funding for the State Revolving Fund (SRF). The SRF also receives funds from the U.S. Environmental Protection Agency and state G.O. bonds. The TWDB used the proceeds from this issue to make loans to political subdivisions for the construction of sewer-treatment facilities, including treatment plants and collection lines.

Dates: Board Approval - February 22, 1996
Negotiated Sale - March 19, 1996
Delivery - April 16, 1996

Structure: The bonds are structured as fixed-rate, tax-exempt securities maturing serially beginning in July 1997 with a final maturity of July 2017.

Bond Ratings: Moody's - Aa1
Standard & Poor's - AAA
Fitch - AAA

Interest Cost: True Interest Cost (TIC) - 5.70%
Net Interest Cost (NIC) - 5.58%

Consultants:
Bond Counsel - Vinson & Elkins, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - Smith Barney, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$87,931	$.44
Financial Advisor	79,633	.40
Rating Agencies	113,400	.57
Printing	13,788	.07
Attorney General	1,250	.01
Miscellaneous	3,109	.01
	$299,111	**$1.50**
Underwriter's Spread	**$1,196,000**	**$5.98**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Economically Distressed Areas (EDAP), Series 1996 C&D Bonds - $25,000,000

Purpose: The proceeds of the bonds were used to fund loans and/or grants to political subdivisions in the economically-distressed areas of the state for water-supply and water-quality enhancement purposes. Included in the Series D issue was $10,000,000, which was used to match federal grant funds for the Colonia Wastewater Treatment Assistance Program.

Dates: Board Approval - July 18, 1996
Negotiated Sale - July 30, 1996
Delivery - August 29, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in August 1997 with a final maturity of 2016. Also included in the issue was one term bond with a final maturity of August, 2018. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.61%
Net Interest Cost (NIC) - 5.58%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - Bear Stearns & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$ 37,121	$ 1.48
Financial Advisor	15,373	.62
Rating Agencies	12,500	.50
Printing	4,448	.18
Attorney General	1,477	.06
	$70,919	**$2.84**
Underwriter's Spread	**$143,750**	**$5.75**

APPENDIX B

TEXAS COMMERCIAL PAPER AND VARIABLE RATE NOTE/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, 1996, a total of $1.595 billion was authorized for state commercial paper or variable rate bond programs. Of this amount, $444 million was outstanding as of the end of fiscal 1996 *(Table 26)*. (The figures shown in *Table 26* 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 note program secured by the income from the Permanent University Fund (PUF) and a commercial paper program secured by revenues of The University of Texas System.

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 to 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. During fiscal 1995, the System increased the authorized amount of commercial paper from $150 million to $250 million.

TEXAS A&M UNIVERSITY SYSTEM

The Texas A&M University System has also authorized two variable rate financing programs: a variable rate note program secured by PUF interest earnings and a commercial paper program secured by university system revenues. The A&M PUF note 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

TABLE 26

TEXAS COMMERCIAL PAPER AND VARIABLE RATE NOTE/BOND PROGRAMS
AS OF AUGUST 31, 1996

ISSUER	TYPE OF PROGRAM	AUTHORIZED AMOUNT	AMOUNT OUTSTANDING
The University of Texas System			
Permanent University Fund	Variable Rate Bonds	$250,000,000	$65,000,000
Revenue Financing System	Commercial Paper	250,000,000	72,982,000
The Texas A&M University System			
Permanent University Fund	Variable Rate Bonds	95,000,000	30,000,000
Revenue Financing System	Commercial Paper	125,000,000	38,000,000
Texas Department of Agriculture	Commercial Paper	50,000,000	20,000,000
	Commercial Paper *	25,000,000	100,000
Texas Department of Commerce	Commercial Paper	25,000,000	9,000,000
Texas Department of Housing and Community Affairs	Commercial Paper	75,000,000	20,250,000
Texas Water Development Board	Variable Rate Demand Bonds	100,000,000	50,000,000
Texas Public Finance Authority			
Revenue	Commercial Paper	100,000,000	41,400,000
General Obligation	Commercial Paper	500,000,000	97,000,000
TOTAL		**$1,595,000,000**	**$443,732,000**

* Represents issuance amount approved by Bond Review Board. TAFA Board has approved a $100 million program amount.
Source: Texas Bond Review Board, Office of the Executive Director.

secured by a pledge of all legally available revenues to 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 commercial paper program through the Texas Agricultural Finance Authority (TAFA). The TAFA issues 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.

During fiscal 1995, the TAFA established a second general obligation commercial paper program with authority to issue up to $100 million. Proceeds from this program will be used to make funds available for the Farm and Ranch Finance Program administered by TAFA. The program was established to provide loans and other financial assistance to eligible borrowers to purchase farm or ranch land.

TEXAS DEPARTMENT OF COMMERCE

In 1992, the Texas Department of Commerce (TDOC) was granted the authority to issue 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 that 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 WATER DEVELOPMENT BOARD

As part of the State Revolving Fund program, the Texas Water Development Board (TWDB) is authorized to issue 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.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

During the 1995 fiscal year, the Texas Department of Housing and Community Affairs (TDHCA) established a single family mortgage revenue commercial paper program to enable the department to capture mortgage prepayments and recycle them into mortgage loans. By issuing commercial paper to satisfy the mandatory redemption provisions of outstanding single family mortgage revenue bonds instead of using the prepayments to redeem bonds, the TDHCA is able to preserve private activity volume cap and generate new mortgage loans with the prepayments. Once the new loans are originated, the commercial paper is refunded and the new loan revenues repay the refunding bonds.

TEXAS PUBLIC FINANCE AUTHORITY

In 1992, the Texas Public Finance Authority (TPFA) established a master lease-purchase program (MLPP) that is funded through commercial paper. The commercial paper issued to date has been used to finance the purchase of equipment, primarily computers and telecommunications equipment. TPFA also has the authority to use the commercial paper to provide interim financing for capital projects undertaken on behalf of state agencies. 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.

During fiscal 1993, TPFA established a variable rate financing program that is secured by the state's general obligation pledge. The proceeds are used to provide interim financing for capital projects that have been authorized by the Legislature to be financed through general obligation bonds. The liquidity facility is provided by the State Comptroller of Public Accounts - Treasury Operations. In fiscal 1996, TPFA converted $312.94 million of outstanding commercial paper into fixed-rate bonds in order to use the commercial paper authorization to finance new projects.

OTHER STATE ISSUERS OF VARIABLE RATE DEBT

Many other state issuers have the authority to issue debt in variable rate form. State issuers may utilize variable rate debt in order to diversify their debt portfolio and to take the opportunity of lower short-term interest rates that may be available. The Veterans Land Board, for instance, has issued variable rate housing assistance bonds in order to introduce this structure as a component of their total debt portfolio mix.

LIQUIDITY FACILITY PROVIDER DUTIES TRANSFERRED TO THE COMPTROLLER OF PUBLIC ACCOUNTS

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

The office of the State Treasurer was abolished by the voters, effective September 1, 1996. The duties of this office have since been transferred to the Comptroller of Public Accounts - Treasury Operations.

APPENDIX C

TEXAS STATE BOND PROGRAMS

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

Statutory Authority: The Texas Agricultural Finance Authority 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 under Article III, Section 49-f of the Texas Constitution was approved. In 1993, a constitutional amendment authorized the issuance of general obligation bonds under Article III, Section 49-f of the Texas Constitution in an amount not to exceed $200 million. Legislative approval 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 from 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 Comptroller of Public Accounts - Treasury Operations, 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:
Robert Kennedy
Deputy Assistant Commissioner
for Finance and Agribusiness Development
(512) 463-7639

COLLEGE STUDENT LOAN BONDS

Statutory/Constitutional Authority: Article III, Sections 50b and 50b1, b2, b3, and b4 of the Texas Constitution, adopted in 1965, 1969, 1989, 1991, and 1995 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 Comptroller of Public Accounts - Treasury Operations, not otherwise dedicated by the Constitution, are pledged to pay debt service on the general obligation bonds. Revenue bonds will be repaid solely from program revenues.

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 pledged revenues, collectively: the pledged tuition fee; the pledged general fee; the pledged practice plan funds; any or all of the revenues, funds and balances now or hereafter lawfully available to the Board and derived from or attributable to any member of the Revenue Financing System, etc.; and, effective September 1, 1993, all tuition revenues (Chapter 55, Texas Education Code and Articles 717k and 717q, Vernon's Annotated Texas Civil Statutes as amended).

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 Comptroller of Public Accounts - Treasury Operations 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:
Jim Albright
Finance Team Manager
Texas Department of Commerce
(512) 936-0268

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS

Statutory Authority: The Texas Department of Housing and Community Affairs, a public and official governmental agency of the state and a body corporate and politic, was created pursuant to the Act of June 16, 1991, ch. 762, 1991 Tex.Sess.Law Serv.2672, Sections 2 of which has been codified as Chapter 2306, Texas Government Code. The Department is the successor agency to the Texas Housing Agency and the Texas Department of Community Affairs, both of which were abolished by the Act and their functions and obligations transferred to the Department. Pursuant to the Act, the Department may issue bonds, notes or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Agency, the Department or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the Agency become revenue bonds of the Department. Legislative approval of bond issues is not required. The Department is required to obtain the approval of the Bond Review Board and Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

Purpose: Proceeds from the sale of bonds are used to provide assistance to individuals and families of low and very low income and families of moderate income and persons with special needs to obtain decent, safe and sanitary housing.

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

Dedicated/Project Revenue: Revenue 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:

Lorie Mason	Melinda Smith
Director of Bond Finance	Chief Financial Officer
Texas Dept. of Housing	Texas Dept. of Housing
& Community Affairs	& Community Affairs
(512) 475-3856	(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 by the Veterans Land Board. The program was transferred from the Veterans Land Board to the Texas Agricultural Finance Authority with the passage of House Bill 1684 by the 73rd session of the Legislature. In 1993, a constitutional amendment was authorized and approved that transfers the constitutional authority for the program from the Veterans Land Board to the Texas Agricultural Finance Authority and allows no more than $200 million of the authorized authority to be used for the purposes defined in article III, Section 49-I of the Texas Constitution.

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.

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

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

Contact:
Robert Kennedy
Deputy Assistant Commissioner
for Finance and Agribusiness Development
(512) 463-7639

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 $175 million coming into the Comptroller of Public Accounts - Treasury Operations not otherwise dedicated by the Constitution goes to qualified institutions of higher education to fund certain land acquisition, construction, and repair projects. Fifty percent of this amount may be pledged to pay debt service on any bonds or notes issued. While not explicitly a general obligation or full faith and credit bond, the stated pledge has the same effect.

Dedicated/Project Revenue: 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
Legal Counsel
Comptroller of Public Accounts - Treasury Operations
(512) 463-5971

TEXAS LOW-LEVEL RADIOACTIVE WASTE DISPOSAL AUTHORITY

Statutory Authority: The Texas Low-Level Radioactive Waste Disposal Authority was created in 1981 (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, and constructing a disposal site; to provide required reserve fund; and to pay 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:
Michael Huff, Ph.D.
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 Comptroller of Public Accounts - Treasury Operations 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. Additionally, Sporting Goods Sales Tax Revenue in Capital Account 5004 may also be used to pay debt service on 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	Assistant Vice Chancellor
for Finance	and Treasurer
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 initially created by the Legislature in 1983 (Tex.Rev.Civ.Stat.Ann, Article 601d) and given the authority to issue revenue bonds to finance state office buildings. The Legislature approves each project and the amount of bonds to be issued by the Authority.

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

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 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 Texas State Technical College. The Authority received authorization to issue bonds on behalf of the Texas Juvenile Probation Commission in 1995.

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 were 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 the Texas State Technical College, 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 Comptroller of Public Accounts - Treasury Operations 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 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 the Texas State Technical College, 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 are 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 the Texas State Technical College, see the applicable sections in this Appendix.

Contact:
Lee Deviney
Director of Operations
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 Comptroller of Public Accounts - Treasury Operations 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
Texas Comptroller of Public	Local Government Services
Accounts - Treasury Operations	Texas Bond Review Board
(512) 305-9112	(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:
Jim Albright
Finance Team Manager
Texas Department of Commerce
(512) 936-0268

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 termination of the superconducting super collider project.

Security: The general obligation bonds pledge the first monies not otherwise appropriated by the Constitution that come into the Comptroller of Public Accounts - Treasury Operations each fiscal year.

Revenue bonds are sole obligations of the Commission and are payable from funds of the Commission, which include 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.

Current Status: The remaining general obligation and revenue bonds are fully funded by defeasance portfolios administered in trust accounts by the Texas Public Finance Authority. Only the general obligation bonds have unspent proceeds still available for use in terminating the superconducting super collider project.

Contact:
Robert P. Carpenter
Director for Fiscal Affairs
Texas National Research Laboratory Commission
(972) 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 Comptroller of Public Accounts - Treasury Operations not otherwise dedicated by the Constitution are pledged to pay debt service on the bonds.

Dedicated/Project Revenue: Principal and interest payments on the 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:
Rusty Martin
Director of Funds Management
General Land Office
(512) 463-5120

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 Comptroller of Public Accounts - Treasury Operations not otherwise dedicated by the Constitution.

Dedicated/Project Revenue: Principal and interest payments on the loans to political subdivisions for water projects are pledged to pay debt service on the bonds issued by the Board. The Water Development Bond Programs, with the exception of the Economically Distressed Areas Program, 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:
J. Kevin Ward
Development Fund Manager
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:
J. Kevin Ward
Development Fund Manager
Texas Water Development Board
(512) 463-7867

APPENDIX D

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.

The Texas Bond Review Board is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment, or in the provision of services, programs, or activities.

In compliance with the Americans with Disabilities Act, this document may be requested in alternate formats by contacting or visiting the:

TEXAS BOND REVIEW BOARD

300 West 15th Street, Suite 409
Austin, Texas 78701

P.O. Box 13292
Austin, Texas 78711-3292

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

bonds@brb.state.tx.us

From:
Texas Bond Review Board
P.O. Box 13292
Austin, TX 78711-3292

FIRST CLASS