Texas Bond Review Board Annual Report 1999

Fiscal Year Ended August 31, 1999

George W. Bush, Governor
Chairman
Rick Perry, Lieutenant Governor
James E. "Pete" Laney, Speaker of the House of Representatives
Carol Keeton Rylander, Comptroller of Public Accounts

Jim Buie
Executive Director

November 1999

Introduction

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

The Texas economy continues to perform well, experiencing employment growth at a rate higher than that of the U.S. Employment opportunities are more diverse across sectors, consumer confidence has increased, and the Gross State Product is increasing at a steady but more sustainable pace than previous years. The performance of the economy is reflected in the state's financial position, with the ending General Revenue Fund balance totaling approximately $4.3 billion, an increase of 30 percent over the fiscal year 1998 balance of $3.3 billion.

Tax-supported debt ratios for Texas rank favorably with other states, including comparisons with the ten most populous states and those rated AAA by the three major rating agencies. Although tax-supported debt outstanding increased modestly during the past fiscal year, due to the increase in unrestricted general revenue, the percentage of theses funds utilized for debt service also increased. Bureau of the Census figures depict the significant level of local debt burden in the state as a percentage of combined state and local debt, and contrasts Texas with the ten most populous states. The state remains well below its constitutional debt limit of 5 percent, with a ratio of 2.2 percent, unchanged from fiscal year 1998.

Approximately $2.4 billion in new-money and refunding bonds and commercial paper was issued by state agencies and institutions of higher education in fiscal 1999. The refunding transactions resulted in net present value savings of approximately $42.6 million for state issuers. Projections for the upcoming fiscal year forecast a similar level of state debt issuance.

Issuance cost data for the transactions that closed in fiscal 1999 reveals the average issuance cost for state bonds was $745,849, or $9.60 per $1,000 in bonds issued. This is an increase in total average costs per issue from last fiscal year, on a per $1,000 basis, due to the average issue size decreasing by 28 percent.

Although the state's private activity bond volume cap increased to $988 million for 1999, the program experienced application demand of $2.82 billion, more than 286 percent of the available authority. Initial applications for the 2000 program year indicate a similar level of requests, $3.16 billion, for bond allocation authority to finance "private activities" such as housing, industrial development, pollution control, and student loans.

The report concludes with four appendices. Appendix A provides a detailed description of each state bond transaction that closed in fiscal 1999. Appendix B reports on commercial paper and variable rate debt programs used by state agencies and universities. Appendix C is a brief discussion of each of the state's bond issuing entities, and Appendix D contains the BRB's current administrative rules.

Acknowledgments

The Board's *1999 Annual Report* is a result of significant contributions and efforts by:

Board Alternates
Bond Finance Office Staff
Texas Comptroller of Public Accounts
Issuers of Texas State Bonds

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Cautionary Statements

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

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

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

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

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

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

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

Chapter 1
Texas In The Bond Market

The improvement of state finances coupled with the diversification of the state's economic base and employment stability has led bond rating agencies and investors to express confidence in the state's creditworthiness. Thus, Texas bonds remain an attractive choice for investors.

Texas' Economic Growth Decelerates

The diversification of the state's economic base allowed it to maintain a healthy rate of economic expansion through fiscal 1999 (year ended June 1999). However, the rate of economic expansion, during the fiscal period, is not as robust as it had been during the preceding fiscal periods. Although the state's non-farm employment maintained a healthy rate of growth at 3.2 percent (creating 286,300 jobs) which is indicative of a healthy rate of economic expansion, other economic indicators revealed that the state's economy is experiencing a modest deceleration *(Table 1)*.

The deceleration becomes evident when all of the economic indicators are viewed as a whole. The most notable change from fiscal 1998 is the meager 1.3 percent increase in consumer confidence. The decline in consumer confidence (from the previous fiscal period) appears to be tied directly to the slowing of the state's economic expansion. During fiscal 1999, the initial unemployment claims increased by 12.9 percent revealing that although the employment sector is creating new jobs, there are periods of temporary unemployment for some Texans. Increased temporary unemployment coupled with the slowing rate of growth in personal income and a 16.1 percent decline in the help-wanted index facilitated a declining rate of growth in retail consumption and housing starts. During fiscal 1999, the growth rate of personal income was only 5.9 percent, compared with the 8.4 percent growth rate for fiscal 1998. Also during the same time period, new housing permits dropped 12.4 percent. The decline in new housing starts appears to be directly related to the less than favorable mortgage conditions. During the previous fiscal period, low and flexible mortgage terms and creative down payment and closing costs programs facilitated substantial growth in the industry; however, those types of programs declined significantly in 1999. In addition to the decline in domestic consumption, during the first half of the calendar year 1999, Texas also experienced a 3.6 percent decline in exports whereas the U.S. exports only declined by 1.6 percent.

The final evidence of a decelerating economy is the lackluster performance of the fourth quarter retail sales results for calendar year 1998. Prior to 1998, retail sales growth outpaced inflation (which is approximately 2 percent per annum) by an average of 1.8 percent. During the fourth quarter of 1996, retail sales increased by 3.6 percent while the growth for the fourth quarter of 1997 was 4 percent. During the fourth quarter 1998, retail sales increased by a mere 1.7 percent. Since neither the first nor second quarter retail sales figure have been published (for 1999), it is difficult to detail the impact during calendar year 1999. However, other evidence suggests that retail sales for the first half of the year are sluggish. The sales tax collections for the first half of the calendar year increased by 3.8 percent. Conversely, during the same time period during 1998, the growth in the sales tax collections exceeded 10 percent.

When the more frequent incidences of temporary unemployment are coupled with the declining rate of growth in personal income and the apparent decline in domestic and international sales, the cumulative impact

Table 1

**NONFARM JOB GROWTH
IN THE TEN MOST POPULOUS STATES
July 1998 through July 1999**

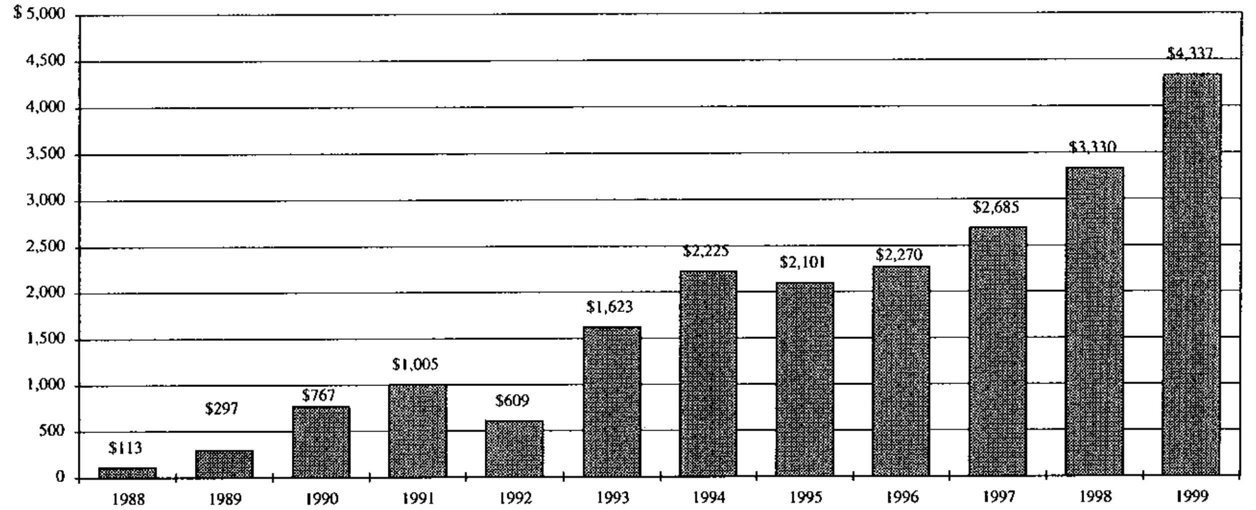
Rank (1)	State	Job Growth	Percent Change	Rank (2)
1	California	370,700	2.7	6
2	**TEXAS**	**286,300**	**3.2**	**7**
3	Florida	239,700	3.6	3
4	New York	150,300	1.8	26
5	Michigan	123,900	2.8	9
6	Georgia	114,100	3.1	4
7	Ohio	86,200	1.6	28
8	New Jersey	70,700	1.9	27
9	Illinois	67,000	1.1	40
10	Pennsylvania	34,100	0.6	44
	UNITED STATES	2,973,000	2.4	

(1) Ranked by the absolute growth of nonagricultural jobs among the ten most populous states.
(2) Rank in percentage job growth among the 50 states.

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

Figure 1

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

appears to be a moderate decline in the state's economic expansion. The declines in the aforementioned areas of the economy can and may have a profound impact on the state's overall financial condition, because retail sales account for 80 percent of the state's revenue and makes up 75 percent of Texas' economy. However, preliminary 1999 economic data (released by the Comptroller's Office) indicates that by the end of calendar year 1999 the impact of the aforementioned conditions may not be as severe as they currently appear to be *(Table 2)*.

Texas' Financial Position Remains Positive

Texas ended the fiscal year on a positive note with a General Revenue Fund cash balance of $4.3 billion *(Figure 1)*. This represents a 30 percent increase over the fiscal 1998 balance of $3.3 billion, and it marks the twelfth straight year that Texas has ended the fiscal year in the black.

Net revenues and other cash sources totaled $72 billion while net expenditures totaled $71 billion *(Table 3)*. Total

Table 2

TEXAS ECONOMIC HISTORY AND OUTLOOK FOR CALENDAR YEARS 1995-2001

	1995	1996	1997	1998	1999*	2000*	2001*
Texas Economy							
Gross State Product							
(billions of 1992 $)	$486.8	$504.3	$535.7	$565.3	$595.9	$617.7	$642.7
Annual Percent Change	4.4	3.6	6.2	5.5	5.4	3.7	4.0
Personal Income (billions of dollars)	$398.6	$425.3	$459.6	$493.1	$526.3	$559.1	$595.4
Annual Percent Change	7.0	6.7	8.1	7.3	6.7	6.2	6.5
Nonfarm Employment (thousands)	8,022.6	8,257.8	8,609.5	8,940.9	9,189.4	9,382.0	9,629.4
Annual Percent Change	3.5	2.9	4.3	3.8	2.8	2.1	2.6
Resident Population (thousands)	18,735.5	19,077.4	19,433.1	19,806.0	20,179.1	20,546.8	20,931.1
Annual Percent Change	1.9	1.8	1.9	1.9	1.9	1.8	1.9
Unemployment Rate (percent)	6.0	5.6	5.4	4.8	4.6	5.2	5.4
Oil Price ($ per barrel)	$16.45	$20.44	$18.79	$12.35	$14.47	$15.44	$15.64
Natural Gas Price ($ per MCF)	$1.39	$2.00	$2.20	$1.78	$1.89	$1.99	$2.11
U.S. Economy							
Gross Domestic Product							
(billions of 1992 $)	$6,761.7	$6,994.7	$7,269.7	$7,552.1	$7,813.8	$7,927.1	$8,077.7
Annual Percent Change	2.0	3.4	3.9	3.9	3.5	1.4	1.9
Consumer Price Index							
(1982-84 = 100)	152.5	156.9	160.6	163.1	165.9	168.8	172.6
Annual Percent Change	2.8	2.9	2.3	1.6	1.7	1.8	2.3
Prime Interest Rate (%)	8.8	8.3	8.4	8.4	7.9	7.6	7.8

*Projected

Sources: Texas Comptroller of Public Accounts "Texas Economic Update" (Spring 1999 Forecast) and WEFA Group.

tax collections received by the General Revenue Fund increased by 4.3 percent over fiscal 1998. During fiscal 1999, the state's primary source of revenue, the sales tax, contributed 55 percent of the total taxes received. Sales taxes increased by 4.9 percent from the previous fiscal year. Two other large contributors to the tax base of the state, the motor vehicle sales and motor fuels tax, increased by 10.5 and 11 percent, respectively.

Strong U.S. Economy Supports States' Economic Expansion

The national economic expansion that began in 1991 has continued, thereby allowing state governments to maintain financial growth and enact tax cuts.

Texas continues to enact tax cuts as the state's economic expansion continues. As of August 31, 1999, Texas' General Revenue Fund cash balance was equal to 6.1 percent of the General Revenue Fund's fiscal 1999 expenditures (a 22 percent increase over fiscal 1998). Data supplied by the National Conference of State Legislatures (NCSL) indicates that all reporting state governments are showing solid financial conditions *(Figure 2)*. None of the states reported a negative balance, and only three states reported positive balances of less than 1 percent. Data was unavailable for the states of Massachusetts and Wisconsin. According to the NCSL figures, Texas' rank among the 48 reported states was 30th.

The 76th Legislature Passes $98.1 Billion Budget

The 76th Legislature convened in Austin in January 1999 and developed the budget for the 2000-01 biennium. This budget, House Bill 1, calls for total expenditures of $98.1 billion; an increase of 10.9 percent over actual expenditures for the 1998-99 biennium (Table 4). Included in this all funds amount was $61.4 billion of dedicated and non-dedicated general revenue

Table 3

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

	Fiscal 1998	Fiscal 1999	Percent Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$ 2,685,462	$ 3,329,946	24.00%
Tax Collections			
Sales Tax	12,434,209	13,042,770	4.89%
Oil Production Tax	303,795	210,813	-30.61%
Natural Gas Production Tax	574,584	488,583	-14.97%
Motor Fuels Taxes	2,506,071	2,592,571	3.45%
Cigarette and Tobacco Taxes	560,923	623,569	11.17%
Motor Vehicle Sale/Rental, Mfg. Housing Sale	2,276,722	2,483,240	9.07%
Franchise Tax	1,938,265	2,077,633	7.19%
Alcoholic Beverages Taxes	456,037	483,172	5.95%
Insurance Occupation Taxes	747,196	811,708	8.63%
Inheritance Tax	326,820	256,277	-21.58%
Hotel and Motel Tax	207,179	219,917	6.15%
Utilities Taxes	241,740	265,798	9.95%
Other Taxes	35,814	32,199	-10.09%
Total Tax Collections	$ 22,609,355	$ 23,588,250	4.33%
Federal Income	$11,454,554	$12,335,967	7.69%
Interest & Investment Income	100,968	170,724	69.09%
Licenses, Fees, Permits, Fines, & Penalties	3,095,713	3,244,225	4.80%
Contributions to Employee Benefits	92,864	100,434	8.15%
Sales of Goods and Services	148,575	179,618	20.89%
Land Income	36,320	18,328	-49.54%
Settlements of Claims	9,651	1,108,587	11386.76%
Net Lottery Proceeds	1,649,668	1,421,261	-13.85%
Other Revenue Sources	961,076	1,225,728	27.54%
Interfund Transfers / Investment Transactions	26,855,718	28,632,165	6.61%
Total Net Revenue and Other Sources	$ 67,014,462	$ 72,025,287	7.48%
Expenditures and Ending Balance			
General Government	$1,490,214	$1,541,720	3.46%
Health and Human Services	14,690,798	16,024,537	9.08%
Public Safety and Correction	2,392,952	2,582,088	7.90%
Education	15,059,189	15,573,288	3.41%
Employee Benefits	1,573,120	1,592,676	1.24%
Lottery Winnings Paid	387,845	323,735	-16.53%
Other Expenditures	1,199,477	1,167,124	-2.70%
Interfund Transfers / Investment Transactions	29,576,383	32,213,545	8.92%
Total Expenditures and Other Uses	$ 66,369,978	$ 71,018,713	7.00%
Ending Balance, August 31	$ 3,329,946	$ 4,336,520	30.23%

Source: Texas Comptroller of Public Accounts.

spending. This was an increase of $8.3 billion, or 15.6 percent, over the 1998-99 biennium general revenue funding. As required by the State Constitution, the State Comptroller certified that sufficient revenue is available to pay for the state's 2000-01 budget.

Of the total $98.1 billion (all funds) that will be spent during the biennium, 62.6 percent will come from appropriated general revenue and dedicated general revenue funds. Federal funds will comprise 27.7 percent of the state's available revenues, with the remainder, 9.2 percent, coming from other sources.

Major funding changes from the 1998-99 biennium of dedicated general revenue and non-dedicated general revenue include: (1) a 17.2 percent increase of funding for public education, (2) an increase of 9.9 percent for institutions of higher education and, (3) a 3.9 percent increase of funding for health and human services. The Texas Legislature allocated agencies of education and health and human services 61.5 and 18 percent, respectively of 2000-01 general revenue and dedicated general revenue funds. Public safety and criminal justice is the third largest expenditure of dedicated and non-dedicated general revenue and will consume 10.7 percent of these funds in 2000-01. This amount is an increase of 8.8 percent over 1998-99 funding levels.

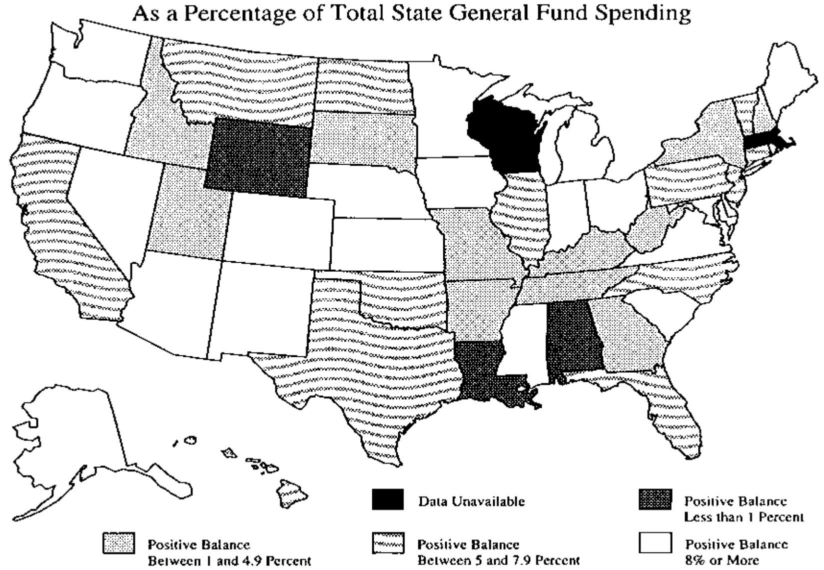
Texas GO Bonds Upgraded from Aa2 to Aa1

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

When making their assessments, rating agencies assess the likelihood of timely repayment of principal and interest. Those entities with the strongest credit quality are assigned a rating of AAA. Ratings of AA or A also indicate good quality credit, but not as strong as AAA ratings *(Table 5).*

Texas' AAA rating was downgraded in 1987 due to the economic recession experienced by the state during

Figure 2
ENDING BALANCE IN GENERAL FUND BY STATE,* 1999
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. Data for Massachusetts and Wisconsin were not available at press time.

Source: National Conference of State Legislatures and Texas Comptroller of Public Accounts

Table 4

THE BUDGET FOR TEXAS STATE GOVERNMENT FOR THE 2000-01 BIENNIUM COMPARED TO ESTIMATED EXPENDITURES FOR THE 1998-99 BIENNIUM - ALL FUNDS
(millions of dollars)

	Expended 1998-99	Budgeted 2000-01	Amount Change	Percent Change
General Government*	$ 2,062.2	$ 2,508.9	$ 446.7	21.7%
Health and Human Services*	26,370.4	27,436.9	1,066.5	4.0
Education*	38,970.4	44,483.2	5,512.8	14.1
Judiciary	321.9	360.4	38.5	12.0
Public Safety and Criminal Justice*	7,331.6	7,645.1	313.5	4.3
Natural Resources*	1,708.6	1,867.2	158.6	9.3
Business and Economic Development	10,965.9	12,012.7	1,046.8	9.5
Regulatory	424.2	470.3	46.1	10.9
General Provisions	110.9	614.6	503.7	454.2
The Legislature	245.7	264.7	19.0	7.7
TOTAL	$88,511.8	$97,664.0	$9,152.2	10.3%
Tobacco Settlement	--	458.1	458.1	N/A
GRAND TOTAL	$88,511.8	$98,122.1	$9,610.3	10.9%

Totals may not add due to rounding.

*1998-99 amounts include emergency appropriations in Senate Bill 472, 76th Legislature.

Source: Texas Legislative Budget Board.

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

In June 1999, Moody's Investor Services upgraded the state's general obligation debt from Aa2 to Aa1. The core factors that led to the increase in the rating are: (1) the state's economic expansion; (2) reduced dependence on oil and gas; (3) debt ratio remains low; (4) states finances are balanced; (5) increasing cash balances; and (6) tobacco settlement funds are targeted for health and higher education. The risks associated with Texas' general obligation credits are: (1) future of internet taxation; (2) the lack of capital planning; and (3) unresolved Y2K issues.

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

Table 5

STATE GENERAL OBLIGATION BOND RATINGS
June 1999

State	Moody's Investors Service	Standard & Poor's Corporation	Fitch IBCA
Alabama	Aa3	AA	AA
Alaska	Aa2	AA	AA
Arkansas	Aa3	AA	*
California	Aa3	A+	AA-
Connecticut	Aa3	AA	AA
Delaware	Aa1	AA+	*
Florida	Aa2	AA+	AA
Georgia	Aaa	AAA	AAA
Hawaii	A1	A+	*
Illinois	Aa2	AA	AA
Louisiana	A2	A-	A
Maine	Aa2	AA+	AA
Maryland	Aaa	AAA	AAA
Massachusetts	Aa3	AA-	AA-
Michigan	Aa1	AA+	AA+
Minnesota	Aaa	AAA	AAA
Mississippi	Aa3	AA	AA
Missouri	Aaa	AAA	AAA
Montana	Aa3	AA	*
Nevada	Aa2	AA	AA
New Hampshire	Aa2	AA+	AA+
New Jersey	Aa1	AA+	AA+
New Mexico	Aa1	AA+	*
New York	A2	A	A+
North Carolina	Aaa	AAA	AAA
Ohio	Aa1	AA+	AA+
Oklahoma	Aa3	AA	AA
Oregon	Aa2	AA	AA
Pennsylvania	Aa3	AA	AA
Rhode Island	A1	AA-	AA-
South Carolina	Aaa	AAA	AAA
Tennessee	Aaa	AAA	AAA
TEXAS	Aa1	AA	AA+
Utah	Aaa	AAA	AAA
Vermont	Aa2	AA	AA
Virginia	Aaa	AAA	AAA
Washington	Aa1	AA+	AA+
West Virginia	Aa3	AA-	AA-
Wisconsin	Aa2	AA	AA+

*Not Rated

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

Eight States Receive Rating Upgrades

The improved financial condition of state governments throughout the United States has led to a number of rating upgrades for state general obligation bonds by two of the three major rating agencies during fiscal year ended June 1999 *(Table 6)*. Texas was one of the eight states receiving a ratings upgrade during this period.

Moody's Investment Services upgraded the general obligation debt for Alaska, California, Texas, and West Virginia during fiscal 1999. Standard & Poor's issued upgrades for Connecticut, Montana, Pennsylvania and Vermont.

Texas Bonds Trading Closer to AAA-Rated Bonds

Investors determine the rate of interest they will demand for the use of their money based upon the credit ratings of the issuer and the economic conditions prevailing at the time of purchase. Those entities with lower credit ratings will be required to pay higher rates of interest.

Of the thirty-nine states that have general obligation debt outstanding, twenty-five have Moody's ratings of Aa2 or better. Standard and Poor's has assigned ratings of AA or better on thirty-two states, and Fitch has assigned ratings of AA or better on twenty-eight states.

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

The Chubb Corporation compiles yield differences from a semi-annual poll of major municipal bond dealers. Traders are asked to express the average yield they demand on the general obligation debt of a number of states relative to the benchmark state. The relative yields of California and Massachusetts are shown for comparison *(Figure 3)*.

According to the July 1999 study, Texas general obligation bonds are trading an average of 0.074 percentage points above the interest rate on the benchmark general obligation bond.[1] This is up from the 0.055 that was recorded the previous year, but down considerably from 1987's 0.36 percentage points. The economic performance of Texas, and therefore its increased tax revenue, is responsible for the improved trading value of Texas' bonds.

Table 6

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS
August 1998 to June 1999

State	Rating Change	Agency
Upgrades		
Alaska	Aa to Aa2	Moody's
California	A1 to Aa3	Moody's
Connecticut	AA- to AA	S&P's
Montana	AA- to AA	S&P's
Pennsylvania	AA- to AA	S&P's
Texas	Aa2 to Aa1	Moody's
Vermont	AA- to AA	S&P's
West Virginia	A1 to Aa3	Moody's

Note: Fitch IBCA reported no ratings changes since August 1998. There were no downgrades in this period.

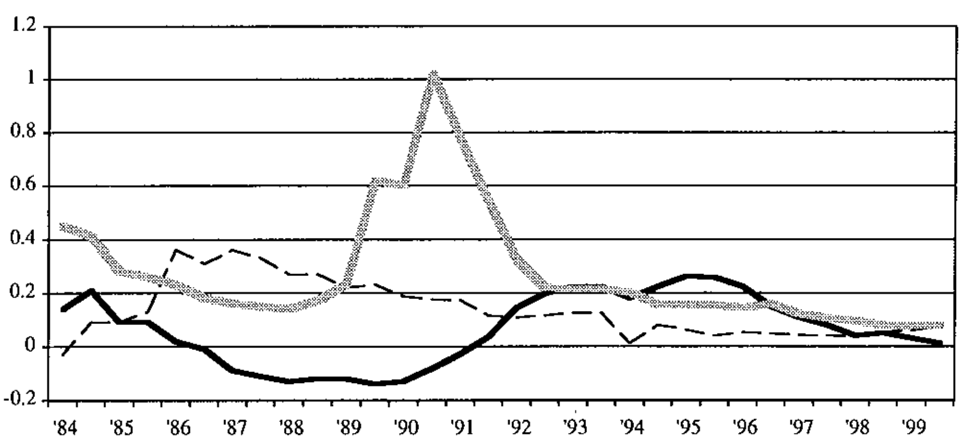
Sources: Moody's Investors Service, Standard & Poor's Ratings Services, and Fitch IBCA.

Texas general obligation bonds were trading 0.11 percentage points above the average of the nine states rated AAA by Moody's, Standard & Poor's, and Fitch. This is an improvement from the 0.12 percentage points recorded in fiscal 1996 and 1995, but a decline from .086 and .091 percentage points posted in fiscal 1997 and 1998, respectively.

[1] The benchmark state used for the Chubb Corporation's survey is New Jersey, which is currently rated Aa1/AA+/AA+ by the three major rating agencies. The survey is a relative value study of 20-year general obligation bonds.

Figure 3

Relative Yield Differences on Texas, California, and 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

Chapter 2
Texas Debt in Perspective

Total debt outstanding in the state of Texas remains concentrated at the local level. State debt continues to account for less than 20 percent of the total state and local debt outstanding. Comparisons with other states reveal that Texas' overall debt position is manageable.

Texas' Debt Ratios Compare Favorably Among the Fifty States and Those Rated AAA

The current debt position for the State of Texas compares favorably to other states. During 1999, Texas continued to rank 36th among all states in net tax-supported debt per capita according to Moody's 1999 State Debt Medians *(Table 7)*. According to the Moody's report, Texas has $296 in net tax-supported debt per capita compared to a national median of $505 and an average of $697. Using the Moody's data to compare Texas' net tax-supported debt per capita among the ten most populous states, the state's $296 compares favorably against a median of $679. The average net tax-supported debt among these ten states was $855.

Another method of comparing Texas' current debt position is to compare it against the 9 states rated Aaa/AAA/AAA by Moody's, Standard and Poor's, and Fitch respectively *(Table 8)*. Ranked against these states, Texas' net tax-supported debt per capita ranks 7th. Maryland had the highest net tax-supported debt at $953 while Tennessee ranked 10th at $214 per capita.

According to U.S. Department of Commerce figures utilized by the Moody's report, Texas' position in 1997 personal income per capita is 29th among the fifty states at $23,707. This amount is above the national median of $23,629 and below the national average of $23,900 for states rated AAA.

However, when compared against those states rated AAA by the three

Table 7

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 1997 Personal Income	Rank	Net Tax-Supported Debt Per Capita**	Rank
Hawaii	A1	11.2%	1	$2,865	2
Connecticut	Aa3	8.7%	2	3,131	1
Massachusetts	Aa3	7.8%	3	2,436	3
New York	A2	6.6%	4	1,986	4
Rhode Island	A1	6.5%	5	1,670	5
Delaware	Aa1	5.7%	6	1,581	7
New Jersey	Aa1	5.2%	7	1,660	6
Washington	Aa1	4.6%	8	1,185	8
Mississippi	Aa3	4.4%	9	785	12
Vermont	Aa2	4.2%	10	953	10
Kentucky	*	3.7%	11	757	13
Utah	Aaa	3.6%	12	705	15
Florida	Aa2	3.5%	13	863	11
West Virginia	A1	3.4%	14	633	20
Maryland	Aaa	3.3%	15	953	9
Georgia	Aaa	2.9%	16	679	16
Wisconsin	Aa2	2.8%	17	670	18
Ohio	Aa1	2.7%	18	649	19
California	Aa3	2.6%	19	679	17
Illinois	Aa2	2.6%	20	723	14
Louisiana	A2	2.6%	21	528	23
New Mexico	Aa1	2.6%	22	495	26
Pennsylvania	Aa3	2.3%	23	581	22
New Hampshire	Aa2	2.3%	24	620	21
Minnesota	Aaa	2.0%	25	525	24
Kansas	*	2.0%	26	471	27
Virginia	Aaa	2.0%	27	516	25
Maine	Aa2	1.9%	28	418	30
Arizona	*	1.9%	29	388	31
Nevada	Aa2	1.8%	30	456	28
Michigan	Aa1	1.7%	31	434	29
Montana	Aa3	1.7%	32	329	32
South Carolina	Aaa	1.6%	33	321	34
Alabama	Aa3	1.5%	34	317	35
South Dakota	*	1.5%	35	322	33
Texas	Aa2	1.3%	36	296	36
Oklahoma	Aa3	1.2%	37	243	39
North Carolina	Aaa	1.2%	38	273	38
Oregon	Aa2	1.2%	39	281	37
Wyoming	*	1.0%	40	232	41
Missouri	Aaa	1.0%	41	233	40
Tennessee	Aaa	1.0%	42	214	42
Indiana	*	0.9%	43	213	43
Arkansas	Aa3	0.6%	44	125	45
North Dakota	*	0.6%	45	130	44
Iowa	*	0.5%	46	106	46
Idaho	*	0.4%	47	83	48
Alaska	Aa2	0.4%	48	88	47
Nebraska	*	0.1%	49	24	49
Colorado	*	0.0%	50	11	50
U.S. Median		**2.0%**		**$505**	
U.S. Mean		**2.7%**		**$697**	

* No general obligation debt
** Based on 1998 population figures

Sources: Moody's Investors Service *1999 State Debt Medians*, U.S. Bureau of Economic Analysis, and U.S. Census Bureau.

major rating agencies, Texas ranks above five of the states: North Carolina, South Carolina, Tennessee, and Utah, and Missouri.

Examining net tax-supported debt as a percentage of 1997 personal income shows that Texas ranks 36th among the fifty states. Among the 9 states rated AAA, Texas is 7th at 1.3 percent. Only North Carolina, Missouri, and Tennessee had a lower amount of net tax-supported debt as a percentage of personal income. Texas came in below the national median of 2 percent and the national average of 2.7 percent.

Additional data provided by the U.S. Census Bureau shows that Texas' debt status among the ten most populous states is manageable *(Table 9)*. While Texas ranks 4th among the ten most populous states in terms of local debt per capita, it ranks 10th in state debt and 7th in combined state and local debt.

Debt Supported by General Revenue Increases

The use of general obligation debt by the state allows for "the full faith and

Table 8

SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA

State	Rating *	Net Tax-Supported Debt as a % of 1997 Personal Income	Net Tax-Supported Debt Per Capita**	1997 Personal Income Per Capita
Utah	AAA	3.6	$705	$20,185
Maryland	AAA	3.3	953	28,674
Georgia	AAA	2.9	679	23,882
Virginia	AAA	2.0	516	26,109
Minnesota	AAA	2.0	525	26,243
South Carolina	AAA	1.6	321	20,508
TEXAS	AA	1.3	296	23,707
North Carolina	AAA	1.2	273	23,168
Missouri	AAA	1.0	233	23,629
Tennessee	AAA	1.0	214	22,699
Median of AAA States		**2.0**	**$516**	**$23,629**
Mean of AAA States		**2.1**	**$491**	**$23,900**

* States listed as AAA are rated Aaa/AAA/AAA by Moody's, Standard & Poor's, and Fitch respectively. Texas is rated Aa2/AA/AA+ by Moody's, Standard & Poor's, and Fitch respectively. Median and mean figures do not include Texas.

** Based on 1998 population figures.

Sources: Moody's Investors Service *1999 State Debt Medians*, U.S. Census Bureau, and Bureau of Economic Analysis.

Table 9

1995-96 TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES

	Total State and Local Debt				State Debt				Local Debt			
State	Population (thousands)	Per Capita Rank	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount
New York	18,185	1	$149,701	$8,232	1	$73,122	48.8%	$4,021	1	$76,579	51.2%	$4,211
New Jersey	7,988	2	41,630	5,212	2	25,602	61.5%	3,205	8	16,028	38.5%	2,007
Pennsylvania	12,056	3	58,490	4,852	6	15,046	25.7%	1,248	2	43,444	74.3%	3,604
Florida	14,400	4	65,164	4,525	8	15,515	23.8%	1,077	3	49,649	76.2%	3,448
California	31,878	5	143,791	4,511	4	45,859	31.9%	1,439	5	97,932	68.1%	3,072
Illinois	11,847	6	52,419	4,425	3	22,676	43.3%	1,914	6	29,742	56.7%	2,511
TEXAS	**19,128**	**7**	**75,988**	**3,973**	**10**	**14,576**	**19.2%**	**762**	**4**	**61,413**	**80.8%**	**3,211**
Michigan	9,594	8	31,611	3,295	5	13,668	43.2%	1,425	9	17,943	56.8%	1,870
Georgia	7,353	9	23,701	3,223	9	6,200	26.2%	843	7	17,501	73.8%	2,380
Ohio	11,173	10	28,954	2,591	7	12,628	43.6%	1,130	10	16,327	56.4%	1,461
MEAN			**$67,145**	**$4,484**		**$24,489**	**37%**	**$1,706**		**$42,656**	**63%**	**$2,777**

Detail may not add to total due to rounding.

Source: U.S. Census Bureau, State and Local Government Finances by Level of Government: 1995-96.

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

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

State debt service payable from general revenue continues to grow modestly as more general obligation debt is issued by the state. At the end of fiscal 1999, outstanding state debt payable from general revenue was $3.4 billion.

The Texas Legislature has appropriated $947.3 million unrestricted general revenue funds for general obligation and revenue bond debt service during the 2000-01 biennium. Annual debt service as a percent of unrestricted general revenue during fiscal 1999 was 1.49 percent. This is a slight increase from the 1.37 percent paid during fiscal 1998 *(Figure 4)*.

Although the debt outstanding, as well as the corresponding debt service, payable from general revenue has seen a modest increase, the funds accessible to make payments have grown significantly. Unrestricted general revenue is typically considered the source available to make bond debt service payments and to fund appropriations for state operations. As the state's overall economic performance has improved, so has its effect on state finances *(Figure 5)*.

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

Texas continues to have a moderate amount of authorized but unissued debt on the books. This is debt that has been authorized by the Legislature, but has not been issued. As of August 31, 1999, approximately $586.3 million in bonds payable from general revenue had been authorized by the Legislature but remain unissued. Some of these authorized but unissued bonds may be issued at any time without further legislative action and others would require a legislative appropriation of debt service prior to issuance.

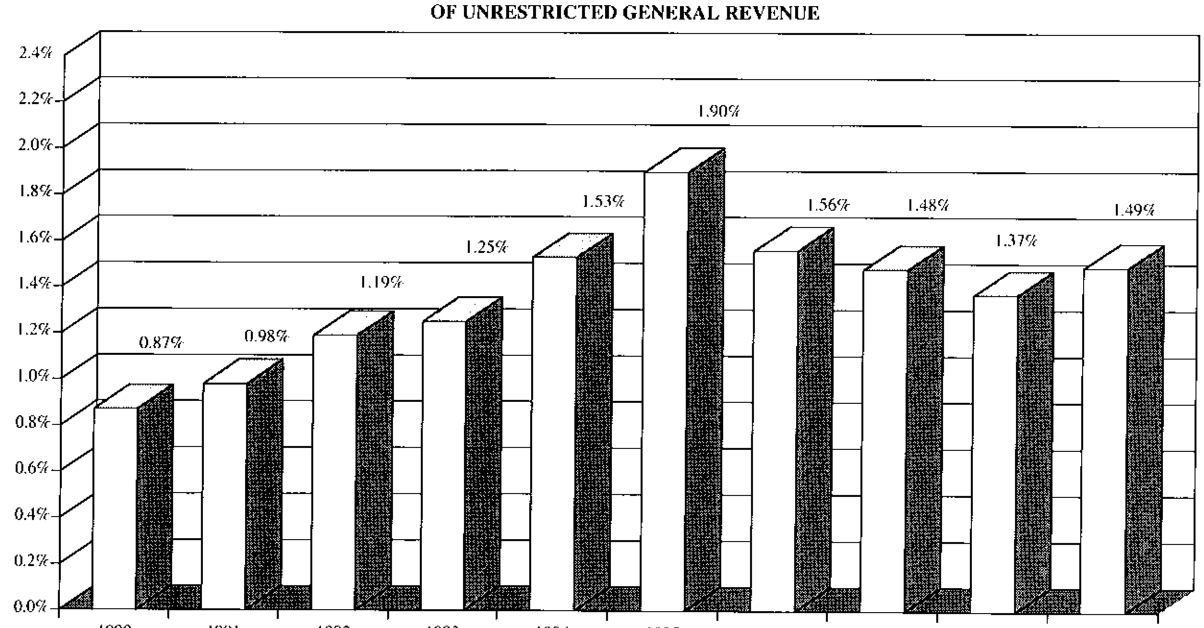
If the state of Texas were to issue all the authorized but unissued debt, debt service from general revenue would increase by an estimated $144.8 million annually. If the above-mentioned bonds were issued, the outstanding general revenue debt would be approximately $4 billion.

Texas' Debt Limit Constitutional

The state of Texas is currently limited by its constitution as to the amount of tax-supported debt that may be issued. The 75th Legislature passed House Joint Resolution 59 which limits the amount of debt that may be issued. The resolution called for a constitutional amendment

Figure 4

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 that was placed on the ballot and approved by the voters in November 1997.

This legislation states that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including authorized but unissued debt, exceeds five percent of the average annual unrestricted General Revenue Fund revenues for the previous three fiscal years.

The debt limit ratio of 1.58 percent is for outstanding debt as of August 31, 1999. With the inclusion of authorized but unissued debt, the ratio increases to 2.20 percent. These figures are almost equivalent to the 1.6 and 2.4 percent recorded during fiscal 1998.

Debt Burden In Texas Remains Unchanged at the Local Level

Data provided by the U.S. Census Bureau reveals that Texas' local debt burden has fallen into the range of 80 to 85 percent. At the national level, the use of local debt remains relatively unchanged *(Figure 6)*.

A breakdown among the ten most populous states shows that Texas ranks 4th in terms of local debt per capita. Local debt includes debt issued by cities, counties, school districts, and special districts.

During 1999, local debt per capita in Texas increased by 7.7 percent to $3,211. The increase in local debt per capita is a direct response to the growing infrastructure needs of the local communities. Due to the state's economic prosperity, many communities are experiencing significant population growth. This net migration to the state has forced many small and medium sized communities to increase financing for infrastructure such as roads, school construction, water and wastewater service, etc. Due to the aforementioned factors, Texas' local debt per capita does not compare favorably to the national average of $2,777. In percentage terms, local debt accounts for 81 percent of the total $75.9 million of state and local debt outstanding in Texas.

When comparing the ten most populous states in terms of state and local debt per capita, the U.S. Census Bureau figures show that Texas ranks 7th on a combined basis at $3,973. The average among these states for this measure was $4,484. The state with the lowest combined state and local debt per capita was Ohio ($2,591).

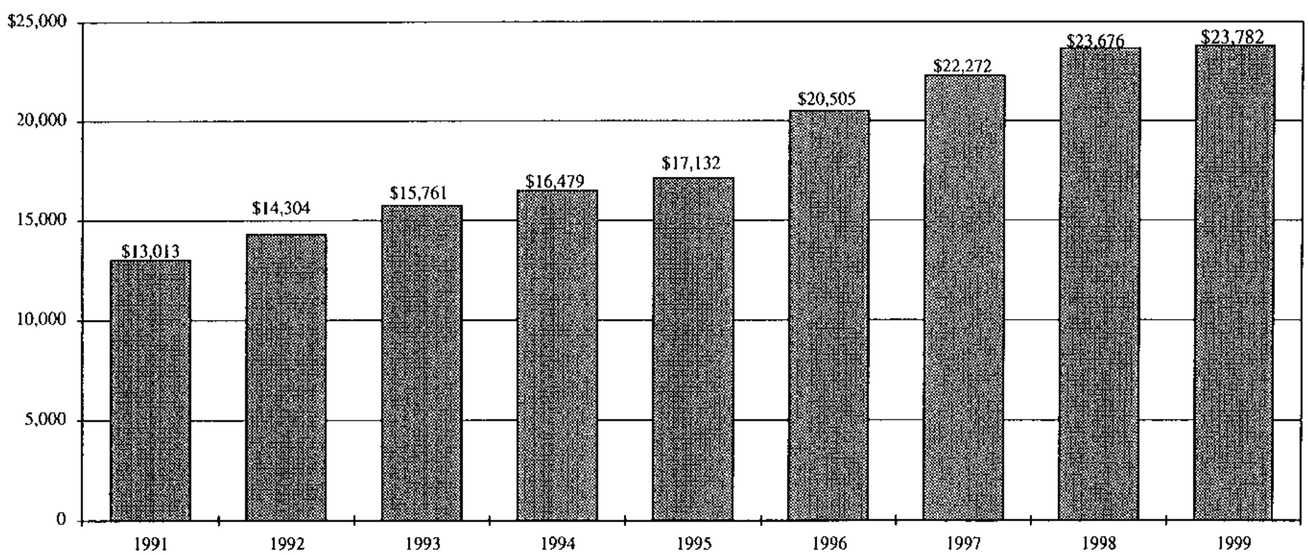
Consolidation of Debt Issuance at the State Level

The debt issuance process in Texas remains fragmented on the local level, while becoming more consolidated at the state level. On the local level, there are more than 3,100 debt issuing entities. At the state level, the number of direct issuers has been reduced to 16.

One contributing factor for this consolidation was House Bill 1077, 75th Legislature. This bill, passed in 1997, added the Texas Low-Level Radioactive Waste Disposal Authority, Midwestern State University, Stephen F. Austin State University, and Texas Southern University to the list of state entities on whose behalf the TPFA will issue bonds. This action follows similar legislation passed by previous Legislatures that also increased the role of this agency.

Figure 5

UNRESTRICTED GENERAL REVENUE
(millions of dollars)



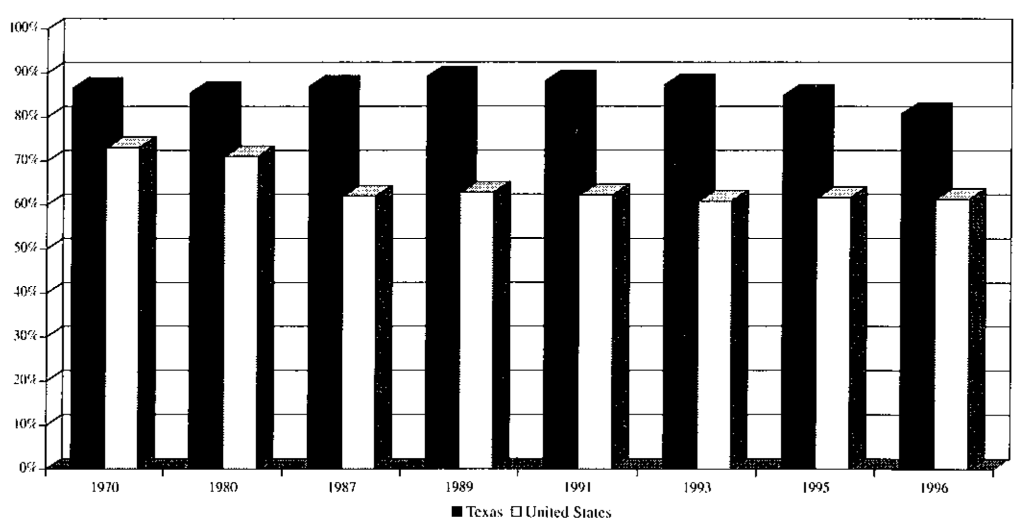
Source: Texas Comptroller of Public Accounts.

Specifically, the TPFA was created in 1983 to issue revenue bonds to finance state office buildings. In 1987, the agency received authority to issue general obligation debt to finance correctional and mental health facilities. The agency received expanded authorization in 1991 to issue bonds to finance the Texas Workers Compensation Fund and on behalf of the Texas Military Facilities Commission (formerly the Texas National Guard Armory Board), the Texas Parks and Wildlife Department, and the Texas State Technical College. The TPFA's Master Lease Purchase Program was established in 1992 and has provided low-cost financing for Texas state agencies to acquire equipment and vehicles. As the role of the TPFA expands, the debt issuance process at the state level continues to consolidate.

Additionally, a rider in House Bill 1, 76th Legislature, has given the Bond Review Board the responsibility for compiling a statewide capital expenditure plan for the 2002-2003 biennium. The legislation calls for the capital plan to identify the state's capital needs and alternatives to finance these needs. The capital needs to be addressed by the plan include: land acquisition, construction of buildings and other facilities, renovation of buildings and other facilities, and major information resource projects estimated to exceed $1 million.

Figure 6

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



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

Chapter 3
Texas Bonds Issued In Fiscal 1999

Texas state agencies and universities issued bonds in an aggregate amount of $1.8 billion during fiscal 1999. This amount is 25 percent less than the $2.4 billion issued during fiscal 1998. The fiscal 1999 bonds issued were comprised of $829 million in new-money bonds and $962 million in refunding bonds (Table 10).

New-Money Bonds Issued Decrease from Fiscal 1998 Levels

New-money bonds issued by Texas state agencies and institutions of higher education totaled $829 million (not including commercial paper) during fiscal 1999. This amount represents a decrease of 31 percent from the $1.2 billion in new-money bonds that were issued during fiscal 1998 *(Figure 7)*. The proceeds of the bond issues provided funds to finance infrastructure, housing, and loan programs.

The state issuer bringing the largest amount of new-money bonds to market was the Texas Water Development Board (TWDB). The TWDB issued $149.7 million in new money, representing 18 percent of the total new-money bonds issued.

These bonds were issued in a single transaction of Water Financial Assistance Bonds. Of the total proceeds, $74.7 million was used to provide financial assistance to political subdivisions for water supply, water quality enhancement and flood control purposes, and for transfers to any state revolving fund administered by the TWDB. Proceeds in the amount of $50 million were used to provide funding for state participation projects, and approximately $25 million was used to provide funds to the Economically Disadvantaged Areas Program (EDAP). This program provides financial assistance to economically distressed areas in the state to develop water and wastewater services. Up to 90 percent of these funds may be used as grants, as opposed to loans.

The Texas Department of Housing and Community Affairs (TDHCA) was, in dollar volume, the second largest state issuer of new money in fiscal 1999. The TDHCA issued new-money bonds in the amount of $127 million in three transactions.

Table 10

TEXAS BONDS ISSUED DURING FISCAL 1999
SUMMARIZED BY ISSUER

ISSUER	REFUNDING BONDS	NEW-MONEY BONDS	TOTAL BONDS ISSUED
Texas A&M University System	$163,803,000	$124,237,000	$288,040,000
Texas Department of Housing & Community Affairs	39,915,000	127,000,000	166,915,000
Texas Higher Education Coordinating Board		75,000,000	75,000,000
Texas Public Finance Authority	245,040,000	103,910,000	348,950,000
Texas State University System	69,425,000	94,540,000	163,965,000
Texas Tech University System	76,460,000	38,640,000	115,100,000
University of Houston		33,350,000	33,350,000
University of North Texas		32,540,000	32,540,000
University of Texas System	113,604,000	31,756,000	145,360,000
Veterans Land Board	40,025,000	9,980,000	50,005,000
Texas Water Development Board		149,730,000	149,730,000
Texas Water Resources Finance Authority	213,825,000		213,825,000
Texas Womans' University		8,500,000	8,500,000
Total Texas Bonds Issued	**$962,097,000**	**$829,183,000**	**$1,791,280,000**

Note: Total does not include amounts for commercial paper or variable-rate notes issued during fiscal year 1999. TPFA issued an aggregate $192.3 million of general obligation notes on behalf of the Texas Department of Criminal Justice ($165.3 million), the Texas Department of Mental Health and Mental Retardation ($20.2 million), and the Texas Youth Comission ($6.8 million). TPFA also issued $40 million of commercial paper notes in connection with the Master Lease Purchase Program (MLPP). UT, TAMU, and TTU issued Revenue Financing System commercial paper notes in the amounts of $145.5 million, $5 million, and $21.7 million, respectively. UT and TAMU also issued PUF variable-rate notes in the amounts of $30 million and $15 million, respectively. TDHCA issued $17.5 million in commercial paper.

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

The TDHCA issued approximately $102 million of new-money bonds for its Single-Family Mortgage Revenue Bond program. The purpose of this program is to finance the purchase of low interest rate mortgage loans made by lenders to first-time homebuyers of very low, low, and moderate income who are acquiring modestly-priced residences.

The TDHCA also acted as a conduit issuer on two new-money multifamily affordable housing transactions. Federal tax law requires the units in these properties to be affordable for low-to-moderate income households.

The first of these transactions financed the construction of a $13.5 million apartment complex (250 units) in Dallas, known as The Greens of Hickory Trail. The second conduit transaction financed the construction of an $11.5 million apartment complex (240 units) in Arlington, known as Mayfield Apartments.

The Texas Public Finance Authority (TPFA) closed on five new-money transactions totaling approximately $104 million. The first three transactions were issued on behalf of higher education institutions for the purpose of financing capital improvement projects. TPFA issued $9 million on behalf of Midwestern State University, $6 million for Stephen F. Austin State University, and approximately $33 million new-money bonds were issued on behalf of Texas Southern University.

The TPFA also issued approximately $39 million in building revenue bonds on behalf of the State Preservation Board for the purpose of financing the second phase of the construction of the State History Museum. Additionally, the TPFA issued $17 million on behalf of the Texas Parks & Wildlife Department for the purpose of financing infrastructure repair and replacement of water and wastewater systems and repairs and renovations to existing facilities.

The Texas Higher Education Coordinating Board (THECB) issued new-money bonds in the amount of $75 million. The proceeds of these bonds were used to make funds available for the Hinson-Hazelwood College Student Loan Program administered by the THECB.

The Texas Veterans Land Board issued approximately $10 million in Veterans Home Revenue Bonds to provide funding for the construction of two skilled nursing care facilities located in Temple and Floresville, Texas.

Educational institutions issued the remainder of the new-money bond transactions during fiscal 1999. The combined total of new-money financing for educational facilities was approximately $363.6 million (excluding those issued by the TPFA).

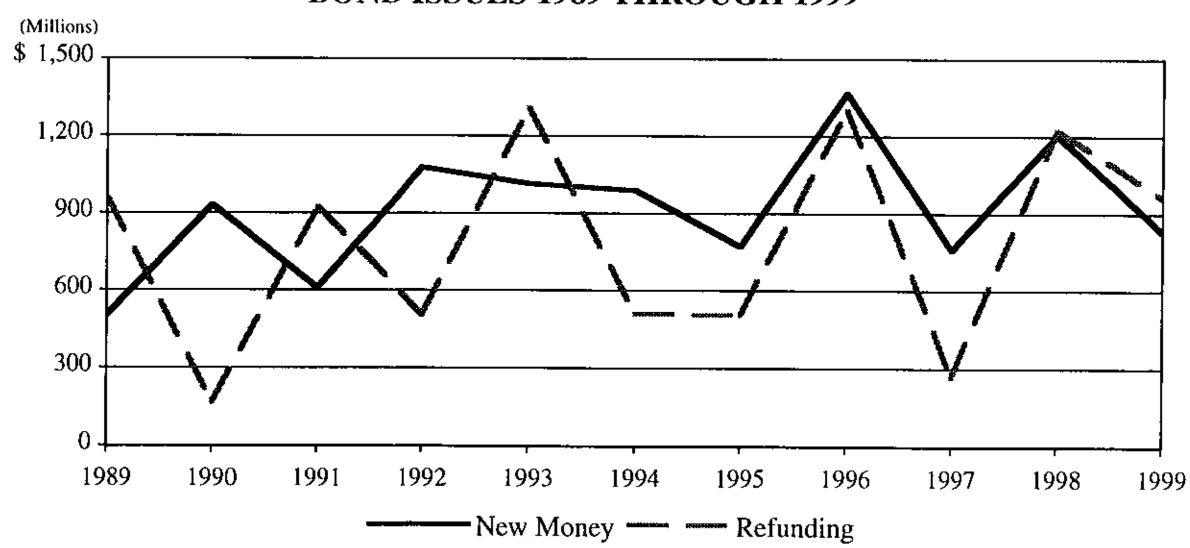
The largest of these financings was for the Texas A&M University System (TAMU). The TAMU System issued $124.2 million of Revenue Financing System bonds. The bond proceeds were used to provide funds for capital improvements at various institutions within the System.

The Texas State University System (TSUS) was the second largest issuer of new-money bonds for educational facilities. The TSUS issued $94.5 million to fund capital projects for TSUS components.

Other new-money bonds issued by state universities for the purpose of financing capital improvements were:

Figure 7

TEXAS NEW-MONEY AND REFUNDING BOND ISSUES 1989 THROUGH 1999



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

Table 11

LEASE-PURCHASE AGREEMENTS
APPROVED BY THE BOND REVIEW BOARD
Fiscal 1999

AGENCY	EQUIPMENT Computer	EQUIPMENT Other	REAL PROPERTY	TOTAL
Texas Alcoholic Beverage Commission		$748,449		$748,449
Texas Department of Mental Health & Mental Retardation		5,945,163		5,945,163
Texas Department of Protective & Regulatory Services	$1,759,500			1,759,500
Texas Department of Public Safety		10,253,990		10,253,990
Total Approved Lease-Purchase Agreements	**$1,759,500**	**$16,947,602**	**$0**	**$18,707,102**

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

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

(1) Texas Tech University System, $38.6 million; (2) University of Houston, $33.4 million; (3) University of North Texas, $32.5 million; (4) University of Texas System, $31.8 million; and (5) Texas Woman's University, $8.5 million.

Texas Commercial Paper - Interim Financing Tool

State agencies and institutions of higher education use commercial paper and variable-rate notes to provide financing for equipment, interim construction, and loans. In fiscal 1999, these entities issued $467 million in commercial paper to fund their respective activities.

The TPFA established its general obligation commercial paper program in 1994. The purpose of the program is to provide interim construction financing for state agencies such as the Texas Department of Criminal Justice, the Texas Youth Commission, and the Texas Department of Mental Health and Mental Retardation. As of August 31, 1999, the TPFA had $336 million in general obligation commercial paper debt outstanding. During fiscal 1999, the agency issued $192.3 million of the outstanding balance.

The TPFA also initiated a revenue commercial paper program in 1993 to finance the agency's Master Lease Purchase Program (MLPP). This program offers low-cost financing for state agencies to purchase items such as computer equipment, automobiles, and real property. Under MLPP procedures, the TPFA purchases the requested equipment and leases it back to the using agency. Upon the completion of lease payments, the title to the equipment is turned over to the lessee. During fiscal 1999, the TPFA issued $40 million in variable-rate debt to fund this program. As of August 31, 1999, a total of $33.8 million of revenue commercial paper debt was outstanding.

The UT System uses commercial paper and variable-rate notes to provide interim financing for construction projects and to purchase equipment. During fiscal 1999, the System issued $145.5 million in Revenue Financing System (RFS) commercial paper notes, and $30 million in Permanent University Fund (PUF) variable-rate notes. As of August 31, 1999, the System had $181.9 million of RFS commercial paper and $30 million of PUF variable-rate notes outstanding. The System also redeemed $16.6 million and refunded $113.6 million of RFS commercial paper and redeemed $36.9 million of PUF variable-rate notes.

The Texas A&M University System also uses commercial paper and variable-rate notes to finance construction projects on its campuses. During fiscal 1999, the System issued approximately $5 million in RFS commercial paper, and $15 million in PUF variable-rate notes. As of August 31, 1999, the System had no RFS commercial paper outstanding and $15 million of PUF variable-rate notes outstanding. The System redeemed approximately $5.4 million of RFS commercial paper during the fiscal year.

The Texas Tech University System established a commercial paper program in 1998 to finance construction projects on its campuses. During fiscal 1999, the System issued $21.7 million in RFS commercial paper, which was subsequently refunded with the RFS Sixth Series Refunding and Improvement Bonds. As of August 31, 1999, TTU System had no commercial paper outstanding.

The Texas Department of Housing and Community Affairs established its commercial paper program in 1996. This program allows the TDHCA to recycle certain prepayments of single-family mortgage loans, thereby preserving the private activity volume cap allocation

Table 12

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 2000

ISSUER	APPROXIMATE AMOUNT	PURPOSE	APPROXIMATE ISSUE DATE
General Obligation Bonds			
Self-Supporting			
Texas Higher Education Coordinating Board	$75,000,000	College Student Loans	Jul-00
Texas Public Finance Authority	16,310,000	Texas Parks and Wildlife Department - Park Acquisition	To Be Determined
Texas Veterans Land Board	300,000,000	Veterans' Housing Assistance Program	Sep-99
Texas Veterans Land Board	36,720,000	Veterans' Land Refunding Bonds	Oct-99
Texas Veterans Land Board	30,050,000	Veterans' Housing Assistance Program	Oct-99
Texas Veterans Land Board	27,000,000	Veterans' Housing Assistance Program	Nov-99
Texas Veterans Land Board	40,000,000	Veterans Land Bonds	Jan-00
Texas Water Development Board	100,000,000	Financial Assistance Bonds	Mar-00
Total Self-Supporting	**$625,080,000**		
Not Self-Supporting			
Texas Public Finance Authority*	$56,500,000	Texas Department of Criminal Justice - Facilities	Jan-00
Texas Public Finance Authority*	6,000,000	Texas Dept. of Mental Health and Mental Retardation - Facility Renov.	Nov-99
Texas Public Finance Authority*	4,000,000	Texas Dept. of Mental Health and Mental Retardation - Facility Renov.	Mar-00
Texas Public Finance Authority*	5,000,000	Texas Youth Commission - Facilities Construction and Renovation	Sep-99
Texas Public Finance Authority*	3,000,000	Texas Youth Commission - Facilities Construction and Renovation	Nov-99
Texas Public Finance Authority*	19,600,000	Texas Youth Commission - Facilities Construction and Renovation	Jul-00
Texas Water Development Board	25,000,000	Economically Distressed Areas Program - Water Financial Assistance	Jul-00
Total Not Self-Supporting	**$119,100,000**		
Total General Obligation Bonds	**$744,180,000**		
Non-General Obligation Bonds			
Self-Supporting			
Texas A&M University System - PUF*	$12,500,000	Facility Construction and Renovation	As Needed
Texas A&M University System - RFS*	32,700,000	Facility Construction and Renovation	As Needed
Texas Department of Housing and Community Affairs	103,735,000	Single Family Housing - Mortgage Revenue Bonds	Dec-99
Texas Department of Housing and Community Affairs	12,150,000	Single Family Housing - Mortgage Revenue Bonds*	Dec-99
Texas Department of Housing and Community Affairs	28,675,000	Single Family Housing - Mortgage Revenue Refunding Bonds	Dec-99
Texas Department of Housing and Community Affairs	50,000,000	Single Family Housing - Mortgage Revenue Bonds	May-00
Texas Department of Housing and Community Affairs	22,580,000	Single Family Housing - Mortgage Revenue Refunding Bonds	May-00
Texas Department of Housing and Community Affairs	36,485,000	Single Family Housing - Mortgage Revenue Refunding Bonds	Jul-00
Texas State University System - RFS	10,000,000	Facility Renovation	Mar-00
Texas Tech University - RFS	21,000,000	Facility Renovation	Nov-99
Texas Veterans Land Board	100,000,000	Veterans' Housing Assistance Program	Jan-00
Texas Veterans Land Board	10,000,000	Veterans Homes Revenue Bonds	Jan-00
Texas Veterans Land Board	80,000,000	Veterans' Housing Assistance Program	Mar-00
Texas Water Development Board	100,000,000	State Water Pollution Control Revolving Fund	Sep-99
Texas Water Development Board	150,000,000	State Water Pollution Control Revolving Fund	Dec-99
Texas Water Development Board	100,000,000	State Water Pollution Control Revolving Fund	Apr-00
The University of Texas System - PUF*	50,000,000	Facility Construction	Feb-00
The University of Texas System - RFS	282,575,000	Facility Construction and Refinancing Short-term Debt	Sep-99
The University of Texas System - RFS*	150,000,000	Facility Construction	As Needed
University of Houston System	47,000,000	Facility Construction	Jun-00
University of North Texas System	16,690,000	Facility Construction and Refunding	Sep-99
Total Self-Supporting	**$1,416,090,000**		
Not Self-Supporting			
Texas Public Finance Authority	$55,000,000	Building Revenue Bonds	Mar-00
Texas Public Finance Authority	7,100,000	Building Revenue Bonds	To Be Determined
Texas Public Finance Authority	20,000,000	Building Revenue Bonds	Jan-00
Texas Public Finance Authority	9,800,000	Texas Integrated Eligibility Redesign System	To Be Determined
Texas Public Finance Authority	6,100,000	Electronic Benefits Transfer System	To Be Determined
Texas Public Finance Authority*	600,000,000	Texas Municipal Power Agency	To Be Determined
Total Not Self-Supporting	**$698,000,000**		
Total Non-General Obligation Bonds	**$2,114,090,000**		
Total All Bonds	**$2,858,270,000**		

*Commercial Paper or Variable-Rate Note program.

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

under its single-family programs. Once the TDHCA has issued a substantial aggregate amount of notes, the notes are refunded with single-family mortgage revenue bonds. The preservation of the volume cap facilitates the extension of additional mortgage loans for modestly priced housing. The program targets first-time homebuyers of very-low, low, and moderate income. During fiscal 1999, the TDHCA issued $17.5 million in commercial paper to finance this program. The total amount of commercial paper outstanding as of August 31, 1999 was $12.15 million.

Texas Issued More Refunding Debt than New Money in Fiscal 1999

Refunding bonds accounted for more than fifty percent of the total bonds issued during fiscal 1999. The refunding bonds issued by state agencies and universities totaled $962 million, achieving net present value savings of approximately $42.6 million.

The TPFA was the largest issuer of refunding bonds, issuing an aggregate amount of $245 million and achieving net present value savings of approximately $8.7 million. The largest refunding transaction issued by the TPFA was for $223.9 million. The proceeds of the bonds were used to refund certain outstanding TPFA general obligations. The TPFA also issued refunding bonds on behalf of Texas Southern University in the amount of $20.3 million and Midwestern State University in the amount of $815,000.

The Texas Water Resources Finance Authority (TWRFA) was the second largest issuer of refunding bonds in fiscal 1999. The TWRFA issued approximately $214 million to refund all of its outstanding Revenue Bonds, Series 1989, thereby allowing political subdivisions in its portfolio to refund their bonds. This transaction generated net present value savings of approximately $21.5 million.

The Texas A&M University (TAMU) System also issued a significant amount of refunding bonds. The TAMU System issued $92.5 million Permanent University Fund (PUF) Refunding Bonds to current refund its outstanding PUF Subordinate Lien Notes and advance refund $27.9 million PUF Bonds, Series 1992B. The TAMU System also closed on a $195.5 million Revenue Financing System Transaction that included approximately $71.3 million in proceeds to refund its outstanding RFS commercial paper. The TAMU System achieved net present value savings of $1.6 million through these transactions.

The University of Texas System refunded its Revenue Financing System commercial paper with $113.6 million of refunding bond proceeds.

The Texas Tech University issued approximately $77 million refunding bonds in a $115.1 million transaction. Of this amount, $54.8 million was used to refund Revenue Financing System (RFS) bonds and $22 million was used to current refund its outstanding RFS commercial paper notes. The University achieved net present value savings of approximately $1.3 million.

The Texas State University System issued refunding bonds in a $164 million transaction. Proceeds of approximately $69.4 million were used to refinance a portion of the System's outstanding bonds.

The Texas Department of Housing and Community Affairs (TDHCA) closed on a $142 million transaction with a refunding component. This transaction included $25.6 million of refunding proceeds, which were used to refund outstanding Texas Housing Agency Residential Mortgage Revenue Bonds. Additionally, $14.3 million of TDHCA's outstanding Residential Mortgage Revenue Commercial Paper Notes were refunded, thereby allowing TDHCA to recycle prepayments and acquire additional funds for residential loans. This transaction enabled the TDHCA to achieve net present value savings of approximately $2.5 million.

The Texas Veterans Land Board issued $40 million of refunding bonds to redeem the principal amount of the Series 1985 Land Bonds. This transaction resulted in $7 million of present value savings.

Texas Lease Purchases

Lease purchases of $250,000 and greater or with a term of more than five years are required to be approved by the Bond Review Board. In fiscal 1999, the Texas Bond Review Board approved $18.7 million of lease purchases *(Table 11)*. The acquisitions were financed through the Texas Public Finance Authority's Master Lease Purchase Program (MLPP). The program assists state agencies and universities in obtaining competitive, low-interest, short-term acquisition financing.

The largest lease-purchase transaction approved by the board in fiscal 1999 was for $10.3 million for the Texas Department of Public Safety (DPS). The DPS used the MLPP program to finance the purchase of hardware and software necessary to support increased bandwidth and functionality of the Texas Law Enforcement Telecommunications System (TLETS). This purchase would begin the first phase of a multi-phase project designed to upgrade TLETS in support of the Federal Bureau of Investigation's National Crime Information Center (NCIC2000) Project.

The Texas Department of Mental Health and Mental Retardation (MHMR) received approval, under the MLPP Program, for various projects aggregating approximately $5.9 million. The MHMR financed approximately $5 million for the purchase of vehicles. Other projects financed with the MLPP authority include the purchase of furniture and equipment for the Mexia State School and telecommunications equipment installed at various facilities.

Other MLPP approvals by the Board were to the Texas Department of Protective and Regulatory Services for the lease purchase of computer equipment and the Texas Alcoholic Beverage Commission for the purchase of police automobiles.

Bond Review Board Survey Shows Increased Debt Issuance Expected in Fiscal Year 2000

The results of an annual survey conducted by the Bond Review Board show that Texas state agencies and institutions of higher education are planning to issue approximately $2.8 billion of bonds and commercial paper during fiscal 2000 *(Table 12)*. Of this amount, approximately $2.7 billion will be used to finance projects, programs, and facilities and $124 million will be used to refund outstanding debt.

It is expected that the state agency issuing the most new debt is the Texas Public Finance Authority (TPFA). The TPFA plans to issue $82.1 million in revenue bonds to renovate state office buildings, provide infrastructure improvements for the Texas Parks and Wildlife Department, and fund the third phase of construction of the State History Museum.

The TPFA will also be issuing approximately $16.3 million in general obligation bonds for the acquisition of a park for the Texas Parks and Wildlife Department. Moreover, TPFA anticipates issuance of about $94.1 million in general obligation commercial paper to finance facilities construction for the Texas Department of Mental Health and Mental Retardation, the Texas Youth Commission, and the Texas Department of Criminal Justice.

The TPFA has been delegated the authority to issue for the Texas Municipal Power Agency under the Electric Deregulation Bill passed by the 76th Legislature. Although a sale date has not been determined, the TPFA may issue $600 million in revenue bonds on behalf of the Texas Municipal Power Agency. The TPFA may also issue revenue bonds for the Texas Integrated Eligibility Redesign System Project ($9.8 million) and the Electronic Benefits Transfer System ($6.1 million).

The Texas Veterans Land Board (VLB) is expected to issue $587 million of new-money debt during fiscal 2000. Of this amount, approximately $537 million will be issued to fund the Veterans Housing Assistance Program. The Veterans Land Board has reported increased demand for this program due to the recent passage of legislation that increased the amount that eligible veterans may borrow for a home from $40,000 to $150,000.

The VLB also expects to issue $40 million to fund the Veterans Land Program, and $10 million will be issued for the Veterans Home Program. Additionally, the VLB anticipates refunding approximately $36.7 million of its general obligation debt in the Veterans Land Program.

The Texas Water Development Board (TWDB) anticipates that it will issue $475 million in new money. The majority of this new debt, $350 million, will provide funds for the State Water Pollution Control Revolving Fund to provide financial assistance to local government jurisdictions in Texas that seek to improve their wastewater infrastructure. Additionally, the TWDB plans to issue $100 million for water quality enhancement purposes and $25 million for the agency's Economically Distressed Areas Program.

The Texas Department of Housing and Community Affairs expects to issue $166 million of new-money debt during fiscal 2000. The proceeds will be used to finance the Department's Residential Mortgage Revenue Bond Program. Additionally, the TDHCA expects to issue refunding bonds of approximately $88 million to refund some of its outstanding residential mortgage revenue bonds.

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

Educational institutions in Texas will also be issuing bonds and commercial paper during fiscal 2000. The proceeds of these issues will be used to fund facility expansion and renovation.

The University of Texas System expects to issue $483 million of debt during the fiscal year. Of this amount, approximately $182.6 million will be used to refund previously issued Revenue Financing System (RFS) commercial paper. The System expects to issue an additional $100 million of new-money RFS bonds, $150 million of RFS variable-rate notes, and $50 million of Permanent University Fund variable-rate notes to fund construction projects.

The Texas A&M University System will be issuing $32.7 million of Revenue Financing System commercial paper and $12.5 million of Permanent University Fund commercial paper to fund the construction and equipping of university facilities.

The Texas Tech University System and the Texas State University System plan to issue $21 million and $10 million in new-money bonds, respectively. The bond proceeds will provide funds for facility renovation and improvements.

The University of Houston System and the University of North Texas will be issuing bonded debt for the construction of campus facilities. The University of Houston System plans to issue $47 million in revenue bonds and the University of North Texas plans to issue $16.7 million.

Highlights from the 76th Legislature

The 76th Legislature enacted new legislation that will have an impact on Texas bond issuance in fiscal year 2000 and beyond. Three of the bills passed by the legislature were constitutional amendments that were approved by Texas voters in November 1999.

The Texas Legislature and voters approved a constitutional amendment giving $400 million additional general obligation bonding authority to the Texas Higher Education Coordinating Board (SJR 16). The proceeds of the bonds will provide financing for the Hinson-Hazelwood Student Loan Program administered by the Texas Higher Education Coordinating Board.

Another constitutional amendment passed pertains to the Permanent University Fund (PUF) and the Board of Regents of the University of Texas (UT) System (HJR 58).

The constitutional amendment authorizes the UT System Board of Regents to determine the annual Permanent University Fund distributions to the Available University Fund (AUF) based on the total return on all PUF investments, including a limited portion of capital gains.

In managing the PUF assets, the UT System was given the authority to invest assets under a "prudent investor" standard. The UT System Board of Regents may invest in investments that a prudent investor exercising reasonable care, skill, and caution would acquire or retain, taking into consideration the investment of all assets of the fund rather than a single investment.

The third debt-related constitutional amendment passed by the legislature and the voters pertains to updating the Texas Constitution (HJR 62). This legislation was passed to streamline the Texas Constitution by deleting obsolete provisions and renumbering provisions with duplicate numbering. It will make no substantive changes but merely update the fundamental law of Texas.

Legislation passed by the 76th Legislature that required no further action by the voters relates to the deregulation of the electric utility industry, authorized agreements between Texas and Mexico, and the authority of certain universities to form university systems.

The Electric Deregulation Bill (SB 7) took effect on September 1, 1999. Enactment of Senate Bill 7 permits issuance of bonds to recover stranded costs, including authorizing the Texas Public Finance Authority to issue such bonds at the request of a municipal power agency or member thereof.

Senate Bill 77 authorizes state agencies and political subdivisions to enter into legal agreements with Mexico or a political subdivision of Mexico, as well as with agencies or entities created by treaties or agreements between the U.S. and Mexico. Such agreements permit the acquisition or disposition of real property in the U.S. or Mexico, but would not be permitted to obligate a Texas entity on a bond or other obligation issued by a Mexican entity.

Senate Bill 77 also authorizes certain Texas entities to issue bonds. These entities include the Texas Department of Agriculture, the Texas Department of Economic Development, the Texas Department of Housing and Community Affairs, the Texas Public Finance Authority, and the Texas Water Development Board. If the agreement involves the use of money appropriated from the State, the agreement must be approved by the Governor and the Legislative Budget Board.

Other legislation enacted by the 76th legislature includes the authorization for the creation of the University of North Texas System, composed of the University of North Texas and the University of North Texas Health Science Center at Fort Worth (SB 751). Senate Bill 1088 authorizes the creation of the Texas Tech University System, to be comprised of all the entities currently under the governance of Texas Tech University and such other institutions assigned by specific legislative act. Senate Bills 751 and 1088 require approval by the Texas Higher Education Coordinating Board.

Chapter 4
Texas Bond Issuance Costs

Texas' state bond issuers spent an average of $745,849 per issue or $9.60 per $1,000 on bond issues sold during the 1999 fiscal year.[1] *Appendix A of this report details the issuance costs associated with each of these issues.*

The Costs of Issuing Bonds

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

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

Issuance Costs for Texas Bond Issues

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

Table 13

AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES

	1998		1999	
	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Average Issue Size (In Millions)	$113.1		$88.3	
Underwriter's Spread	$557,038	$5.52	$527,721	$6.29
Other Issuance Costs:				
Bond Counsel	64,377	0.95	62,877	1.30
Financial Advisor	47,737	0.60	48,962	0.88
Rating Agencies	46,236	0.64	39,037	0.56
Printing	10,038	0.21	9,933	0.21
Other	43,033	0.37	57,319	0.36
Total	**$768,459**	**$8.29**	**$745,849**	**$9.60**

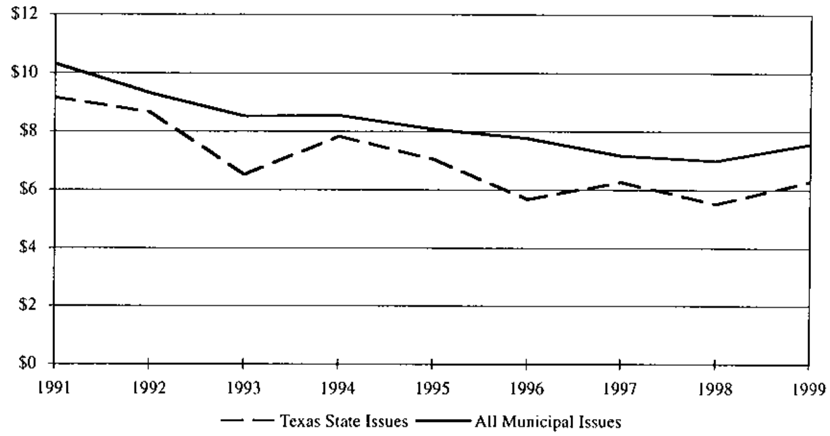
Note: Bond insurance premiums are not included for purposes of average cost calculations. The figures are simple averages of the dollar costs and costs per $1,000 associated with each state bond issue exclusive of conduit issues.

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

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

Figure 8

Gross Underwriting Spreads: 1991-1999
Texas State Bond Issues vs. All Municipal Bond Issues



Note: 1999 figures are for the first six months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.
Sources: The *Bond Buyer* (8/23/99), Securities Data Company (7/10/99), and Texas Bond Review Board, Office of the Executive Director.

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

In 1998, the underwriter's spread accounted for 71 percent of all issuance costs *(Table 13)*. This fee averaged $527,721 per issue, slightly lower than the $557,038 recorded the previous year. However, when measured on a per $1,000 basis, the $6.29 average spread paid in fiscal 1999 is up from the $5.52 reported in fiscal 1998. This increase is mostly attributable to the smaller average issue size in fiscal 1999 of $88.3 million compared to the average issue size of $113.1 million reported in fiscal 1998. A smaller average issue size requires the costs associated with each issue to be spread over a smaller total.

Other costs of issuance primarily consist of bond counsel fees, financial advisor fees, rating agency fees, and printing costs. These costs averaged $218,128 per issue or $3.31 per 1,000 in fiscal 1999 compared to $211,421 or $2.77 per $1,000 in fiscal 1998. Overall, average issuance costs per $1,000 increased by $1.31 in 1999.

A comparison of gross spreads paid to underwriters on a national basis to those paid by Texas issuers reveals that the state's bond issuers paid lower underwriting fees than the national average *(Figure 8)*. Data published by the Securities Data Company shows that spreads paid by issuers nationally have averaged $7.57 per $1,000 compared to Texas' average of $6.29 per $1,000.

Comparison of Issuance Costs by Size

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 occurs because there are costs of issuance that do not vary proportionately with the size of a bond issue. For example, professional fees for legal services, financial advisory services, and document drafting must be paid no matter how small the size of the bond issue.

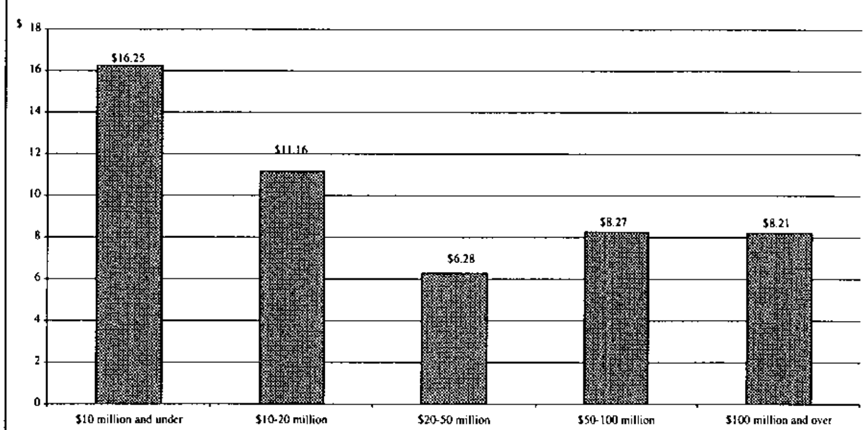
Texas bond issues followed the above-mentioned pattern, the smaller issues were more costly than the larger issues *(Figure 9)*. In fiscal 1999, total issuance costs for bond issues of less than $10 million averaged $149,379 per issue or $16.25 per $1,000. Costs for the larger issues of $100 million and over averaged $1,387,458 per issue or $8.21 per $1,000.

Negotiated Versus Competitive Sales

One of the most important decisions an issuer of municipal securities has to

Figure 9

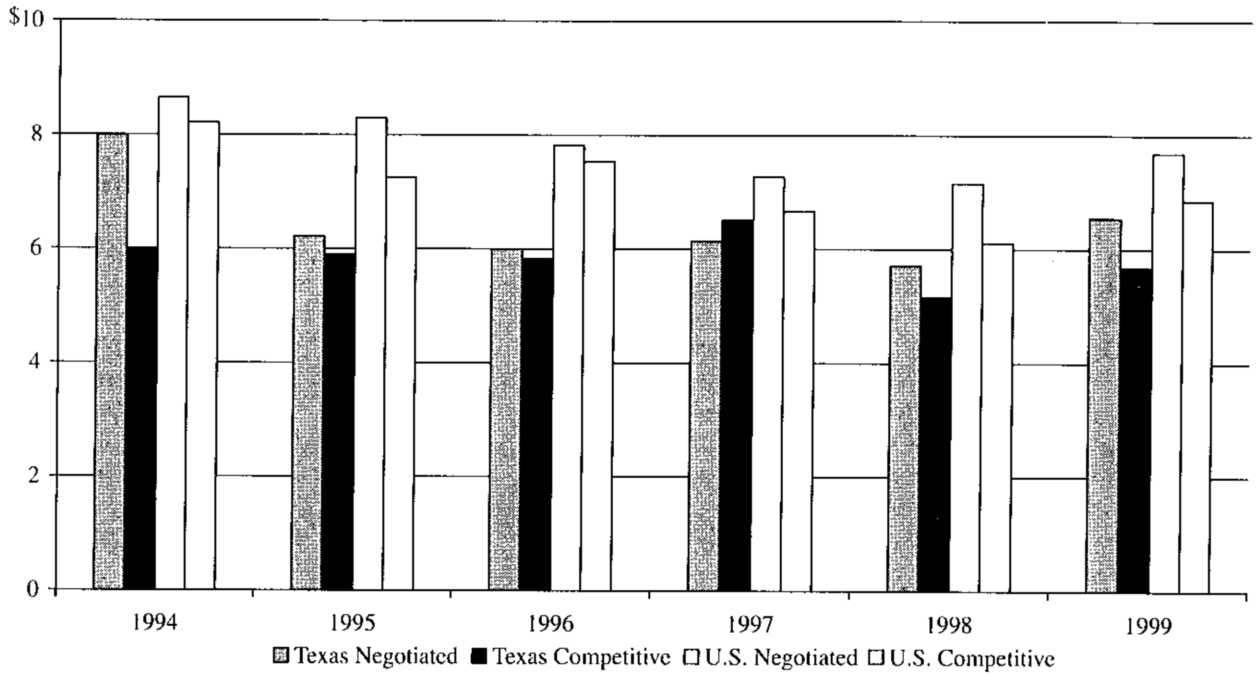
AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES BY SIZE OF ISSUE
(costs per $1,000 of bonds issued)



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

Figure 10

GROSS UNDERWRITING SPREADS: 1994-1999
Negotiated vs. Competitive Municipal Issues



Note: 1999 figures are for the first six months only. Amounts represent dollars per $1,000 fee value of bond issues. Gross spreads include manager's fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.

Sources: The *Bond Buyer* (8/23/99), Securities Data Company (7/10/99), and Texas Bond Review Board, Office of the Executive Director.

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. The bonds are then awarded to the underwriter submitting the lowest bid that meets the terms and conditions of the sale. Generally, underwriters that bid competitively perform less presale marketing because they cannot be sure (until the day the bids are opened) that they have been awarded the contract.

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

The conditions that favor a competitive sale are a stable, predictable market in which market demand for the securities can be readily ascertained. Stable market conditions lessen the bidder's risk of holding unsold balances. Market demand is generally easier to assess for securities issued by a well-known, highly-rated issuer that regularly borrows in the public market, securities which 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 and agrees to buy the bonds at some future date for resale. Thereafter, the underwriter will try to ensure a successful sale by marketing the bonds. In more complicated financings, presale marketing can be crucial to obtaining the lowest possible interest cost. In addition, the negotiated method of sale offers issuers timing and structural flexibility as well as more influence in bond distribution directed to selected underwriting firms or customers.

Disadvantages of negotiated sales

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

Market demand is generally more difficult to assess for securities issued by an infrequent issuer or problem credits, securities 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 the spreads paid on Texas negotiated and competitive transactions in 1999 reveal that bond issues sold in the competitive market had lower underwriting costs than the negotiated transactions *(Figure 10)*. During fiscal 1999, Texas bond issuers paid an average of $6.55 per $1,000 through negotiated sales, and $5.68 per $1,000 through competitive bids. These figures are lower than the national averages compiled by Securities Data Corporation, which recorded averages of $7.68 per $1,000 for negotiated transactions and $6.85 per $1,000 for competitive transactions.

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

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

Table 14

AVERAGE ISSUANCE COSTS FOR 1999 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)	$124.70	$85.76
Underwriter's Spread	$5.74	$4.99
Other Issuance Costs:		
Bond Counsel	0.74	0.77
Financial Advisor	0.54	0.53
Rating Agencies	0.47	0.48
Printing	0.12	0.10
Other	0.35	0.14
Total	**$7.96**	**$7.01**

Note: 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 fiscal 1999 state bond issue.

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

Recent Trends in Issuance Costs

Before a more accurate comparison of the average issuance costs per $1,000 on negotiated and competitively bid contracts can be ascertained, it is necessary to attempt to correct the size differences between the negotiated and competitively bid issues. Since smaller bond issues tend to be more costly on a per $1,000 basis, comparisons of competitive and negotiated transactions greater than $20 million are helpful in gauging trends in issuance costs *(Table 14)*.

During fiscal 1999, fifteen out of twenty bond issues (exclusive of conduit issues) had a par amount greater than $20 million. Four of those issues were sold via competitive bids and eleven were negotiated transactions. Among those bond issues, total issuance costs for bonds issued via negotiated sale averaged $7.96 per $1,000, whereas bonds issued via competitive bid had an average cost of $7.01 per $1,000.

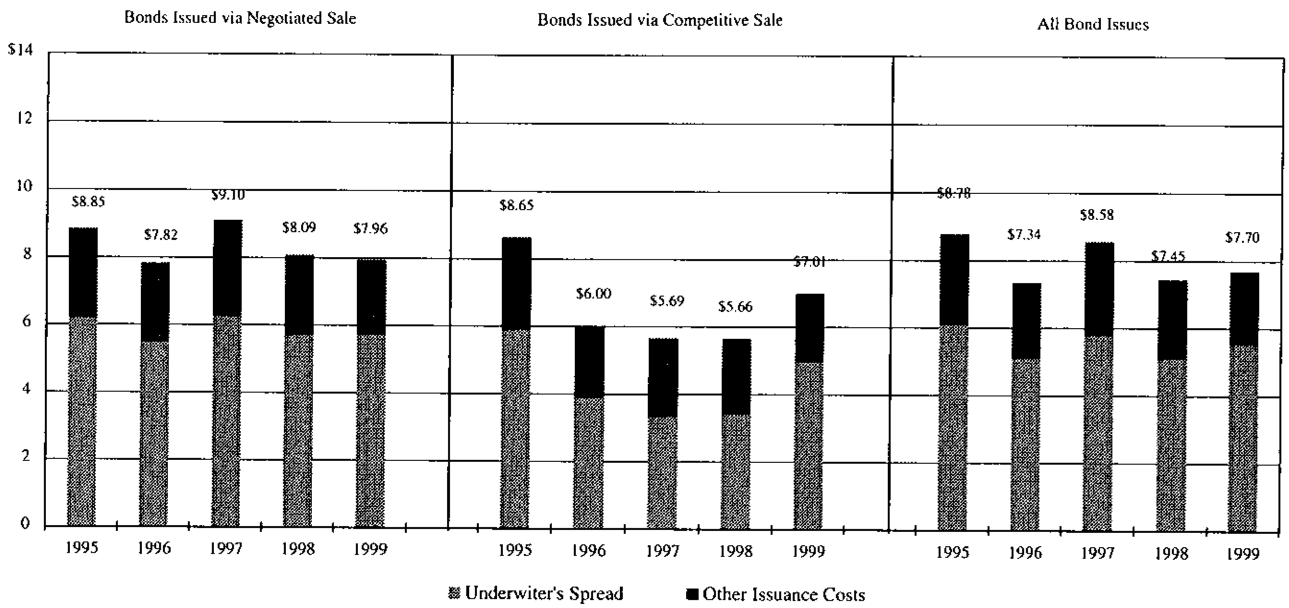
On a combined basis, all issuance costs for all transactions greater than $20 million averaged $7.70 per $1,000 *(Figure 11)*. This figure is slightly higher than the $7.45 recorded in fiscal 1998, but below the $8.58 recorded in fiscal 1997.

A breakout comparison of all issuance costs for competitive and negotiated transactions in fiscal 1999 reveals that on a total cost basis, costs for competitive sales were higher than those paid in 1998, while those for negotiated transactions were slightly lower than the fees paid last year.

Of the four competitive transactions that were greater than $20 million in fiscal 1999, an average of $2.02 per $1,000 was paid for professional fees and the remainder, $4.99 per $1,000, was the average underwriter's spread paid. The average costs associated with

Figure 11

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.

the eleven negotiated transactions greater than $20 million were $2.22 per $1,000 for professional fees and $5.74 per $1,000 for the underwriter's spread. In total, of the fifteen transactions issued in fiscal 1999 of $20 million or more, an average of $2.16 per $1,000 issued was paid for professional fees, and $5.54 per $1,000 for underwriter's spread.

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

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

Chapter 5
Texas Bonds and Notes Outstanding

Texas had a total of $12.2 billion in state bonds and notes outstanding on August 31, 1999 - up from $11.8 billion on August 31, 1998 and 1997.

General Obligation Bonds Outstanding Increase in Fiscal 1999

Approximately $5.3 billion of Texas' total state debt outstanding on August 31, 1999 carries the general obligation (G.O.) pledge of the state, up $97 million from the $5.19 billion of G.O. bonds outstanding at the end of fiscal 1998 *(Table 15)*. This small increase in G.O. bonds outstanding is primarily attributable to the issuance of various not-self supporting bonds by the Texas Water Development Board and the issuance of commercial paper issued by the Texas Public Finance Authority. (See Chapter 3 for a description of bonds issued in fiscal 1999.)

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

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 may range from 0.1 to 0.5 of a percentage point higher than for a comparable G.O. issue.

General Revenue Supported Debt Increases Slightly From 1998

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.

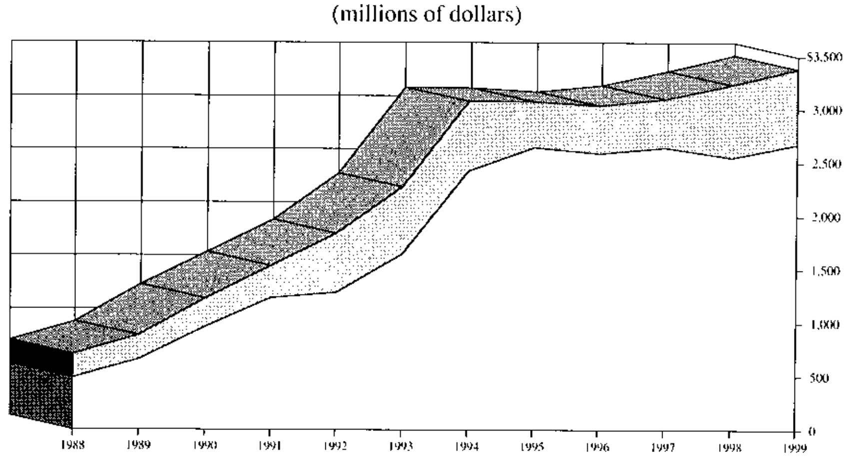
Bond issuance of non-self- supporting general obligation and revenue bonds increased modestly during fiscal 1999 *(Figure 12)*. The amount of non-self-supporting G.O. bonds outstanding at the end of fiscal 1999 increased $124.8 million over the amount outstanding at the end of fiscal 1999. Moreover, the amount of non-self-supporting revenue bonds outstanding increased by $24.5 million. As a result, Texas had $3.4 billion in outstanding bonds that must be paid back from the state's general revenue fund, as of August 31, 1999-up $149.3 million from the $3.24 billion of such bonds outstanding at the end of fiscal 1998. This figure compares to $3.1 billion at the end of fiscal 1997, and $3.04 billion outstanding at the end of fiscal 1996.

Significant growth in the amount of bonds payable from general revenue occurred over the 1988-94 time period, primarily as a result of the issuance of bonds to finance construction of correctional facilities and the initial phase of the Superconducting Super Collider (SSC) project. At the end of fiscal 1987, before the expansion of correctional facilities and 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. The $250 million in SSC project revenue bonds were defeased June 1, 1995. In fiscal

Figure 12

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)

	8/31/96	8/31/97	8/31/98	8/31/99
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$1,451,906	$1,419,053	$1,465,715	$1,324,332
Water Development Bonds	355,227	465,953	560,740	624,665
Park Development Bonds	37,326	36,000	34,284	32,563[4]
College Student Loan Bonds	523,494	500,521	547,127	595,606
Farm and Ranch Security Bonds*	100	100	0	1,000
Texas Agricultural Finance Authority*	20,000	22,000	21,500	26,000
Agriculture Water Conservation Bonds	11,995	15,505	13,470	11,230
Total, Self-Supporting	**$2,400,048**	**$2,459,132**	**$2,642,836**	**$2,615,396**
Not Self-Supporting[1]				
Higher Education Constitutional Bonds[2]	$52,930	$72,125	$90,605	$78,970
Texas Public Finance Authority Bonds	2,246,431	2,355,761	2,284,653	2,368,192[4,7]
Texas National Research Laboratory Commission Bonds	226,916	132,315	67,136	47,739[4]
Water Development Bonds—EDAP[3]	62,090	86,050	107,400	129,710
Water Development Bonds—State Participation Bonds	0	0	0	50,000
Total, Not Self-Supporting	**$2,588,367**	**$2,646,251**	**$2,549,794**	**$2,674,611**
Total General Obligation Bonds	**$4,988,415**	**$5,105,383**	**$5,192,630**	**$5,290,007**
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds				
A&M	$353,320	$355,703	$336,809	$331,117[4,7]
UT	607,885	669,200	661,030	623,625[7]
College and University Revenue Bonds	1,615,356	1,727,552	1,805,646	2,255,736[7]
Texas Hospital Equip. Finance Council Bonds	11,400	11,150	10,900	0
Texas Department of Housing & Community Affairs Bonds	1,107,302	1,129,259	1,209,362	1,227,762[7]
Texas Small Business I.D.C. Bonds	99,335	99,335	99,335	99,335
Economic Development Program*	9,000	5,400	4,700	6,100
Texas Turnpike Authority Bonds	855,810	844,780	0	0[5]
Texas Water Resources Finance Authority Bonds	382,560	341,570	293,515	169,100
College Student Loan Bonds	59,952	53,078	45,547	37,311
Texas Workers' Compensation Fund Bonds	200,968	189,524	158,250	146,095
Veterans' Financial Assistance Bonds	0	0	0	9,980
Texas Public Finance Authority Bonds (Special Revenue)	10,380	10,050	38,800	37,505
Texas Water Development Board Bonds (State Revolving Fund)	589,795	809,820	1,244,260	1,226,045
Total, Self-Supporting	**$5,903,062**	**$6,246,421**	**$5,908,154**	**$6,169,711**
Not Self-Supporting[1]				
Texas Public Finance Authority Bonds	$381,372	$399,771	$617,876	$626,646
TPFA Master Lease Purchase Program*	41,400	27,500	32,100	33,800[6]
Texas Military Facilities Commission	29,085	26,710	24,205	21,540
Parks and Wildlife Improvement Bonds	0	0	11,460	28,165
Total, Not Self-Supporting	**$451,857**	**$453,981**	**$685,641**	**$710,151**
Total Non-General Obligation Bonds	**$6,354,919**	**$6,700,402**	**$6,593,795**	**$6,879,862**
Total Bonds	**$11,343,334**	**$11,805,785**	**$11,786,425**	**$12,169,869**

* commercial paper

[1] Bonds which are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue fund for debt service. Not self-supporting bonds totaled $3.4 billion outstanding on August 31, 1999, $3.2 billion outstanding on August 31, 1998, $3.1 billion outstanding on August 31, 1997, and $3 billion outstanding on August 31, 1996.
[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] Effective September 1, 1997, the outstanding assets and liabilities of the Texas Turnpike Authority were transferred to a regional tollway authority.
[6] This figure reflects only the commercial paper component of the Master Lease Purchase Program (MLPP).
[7] Includes commercial paper notes outstanding.

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.

1997, through provisions contained in the General Appropriations Act, the TPFA defeased $89.6 million of the outstanding general revenue bonds issued for the SSC project. An additional $58.6 million and $16.3 million of SSC bonds were defeased in fiscal 1998 and 1999, respectively. Additionally, the 76th Legislature appropriated funds to defease the remaining balance of the SSC bonds in September of 1999 (FY 2000).

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)*. During the 1998-99 budget period, the state paid an average $339.5 million annually from general revenue for debt service, up from $324 million annually during 1996-97, and $289 million annually during 1994-95 *(Figure 13)*.

Texas Debt Remains Well Within Prudent Limits

Even with recent debt issuance, debt service from general revenue remains well within prudent limits. During the 1998-99 biennium, 1.4 percent of unrestricted general revenue was utilized for payment of debt service compared to the 1996-97 biennium in which the debt service payments made up 1.5 percent of its unrestricted general revenues. During the 1994-95 biennium, debt-service payments made up 1.7 percent of unrestricted general revenue. The underlying reason for the decline in the percentage of general revenue utilized for debt service is the performance of the Texas economy and its corresponding positive effect on state finances. Combined with the stabilization of debt payable from general revenue, the growth in unrestricted general revenue has led to this favorable result.

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, 1999, Texas had $5.3 billion in authorized but unissued bonds *(Table 17)*. As of the same date, approximately $2.5 billion (48 percent) of the authorized but unissued bonds would be state general obligations. At the end of fiscal 1999, only $586 million (11 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.

New Bond Authority - 76th Texas Legislature

Texans approved a constitutional amendment in November 1999, authorizing $400 million of additional general obligation bond issuance by the Texas Higher Education Coordinating Board. The bond proceeds will provide financing for the Hinson-Hazelwood Student Loan Program which provides loans to Texas residents to attend public or private institutions of higher education in Texas.

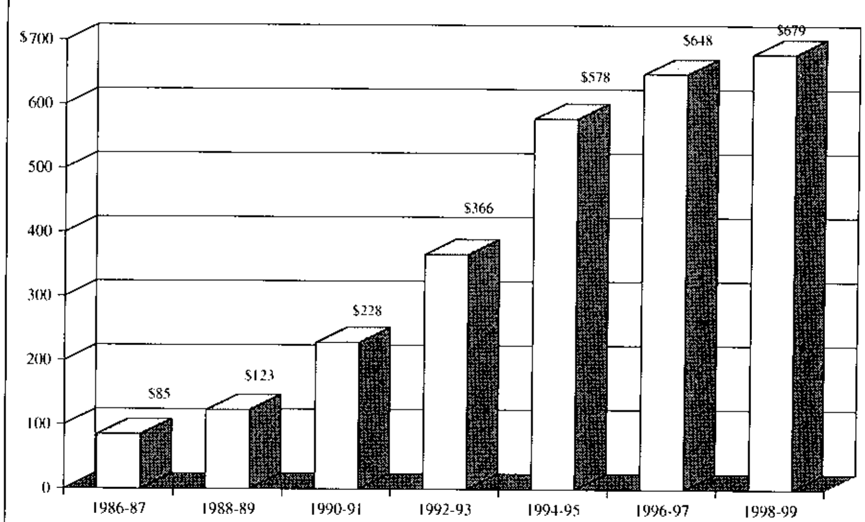
Although the authorized bonds are backed by the general obligation pledge of the state, the likelihood that the bonds will draw on the general revenue is remote. Historically, program revenues have been sufficient to pay debt service on the obligations.

The Texas Water Development Board was authorized to issue and sell an amount not to exceed $50 million in state participation bonds during the 2000-01 biennium. The bonds will be issued under its existing general obligation bonding authority. The bonds will initially depend solely on the general revenue fund for debt service; thus the legislature appropriated funds to pay debt service on these bonds.

Other Legislation passed giving certain state agencies authority to issue revenue bonds which required no further action by the voters (This legislation is discussed in detail in Chapter 3). Senate Bill 7 authorizes the Texas Public Finance Authority to issue revenue

Figure 13

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



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

Table 16

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

	1999	2000	2001	2002	2003	2004 beyond
General Obigation Bonds						
Self-Supporting						
Veterans' Land and Housing Bonds	$172,533	$155,603	$155,264	$151,040	$145,572	$1,895,639
Water Development Bonds	44,501	48,579	49,443	53,031	54,935	864,770
Park Development Bonds	3,978	4,134	4,139	4,136	4,133	27,654
College Student Loan Bonds	59,092	65,272	69,457	74,258	74,970	580,913
Farm and Ranch Loan Bonds	4	70	70	70	70	1,980
Texas Agricultural Finance Authority	759	1,820	1,820	1,820	1,820	53,300
Agriculture Water Conservation Bonds	3,109	3,133	3,153	3,162	1,975	2,214
Total Self-Supporting	**$283,977**	**$278,612**	**$283,345**	**$287,517**	**$283,475**	**$3,426,470**
Not Self-Supporting[1]						
Higher Education Constitutional Bonds[2]	$16,506	$16,139	$16,139	$15,181	$15,153	$30,640
Texas Public Finance Authority Bonds	229,112	236,731	241,013	240,541	240,563	2,582,163
Texas National Research Laboratory Commission	10,213	12,101	12,106	12,111	12,106	22,444
Water Development EDAP Bonds[3]	9,040	10,050	10,746	10,734	10,769	166,676
Water Development State Participation Bonds	0	2,740	2,740	2,740	2,740	120,418
Total Not Self-Supporting	**$264,871**	**$277,761**	**$282,744**	**$281,306**	**$281,331**	**$2,922,340**
Total General Obligation Bonds	**$548,847**	**$556,373**	**$566,089**	**$568,823**	**$564,806**	**$6,348,810**
Non-General Obligation Bonds						
Self-Supporting						
Permanent University Fund Bonds						
A&M	$39,915	$39,013	$39,071	$39,045	$38,070	$341,303
UT	66,136	66,729	67,232	63,375	63,376	659,080
College and University Revenue Bonds	219,280	232,500	226,676	223,298	215,901	2,595,728
Texas Hospital Equip. Finance Council Bonds[4]	0	0	0	0	0	0
Texas Dept. of Housing & Community Affairs	94,324	88,041	87,010	85,476	84,026	2,478,507
Texas Small Business I.D.C. Bonds	3,227	4,967	4,967	4,967	4,967	212,742
Economic Development Program	306	427	427	427	427	12,588
Texas Water Resources Finance Authority	65,538	31,320	25,181	23,858	22,578	115,242
College Student Loan Bonds	5,558"	4,408	5,088	5,778	5,897	48,187
Texas Workers' Compensation Fund Bonds[5]	25,851	25,799	25,746	25,689	25,624	101,733
Veterans' Financial Assistance Bonds	253	619	619	615	607	10,705
Texas Public Finance Authority Bonds (Special Revenue)	3,144	3,140	3,138	3,143	3,141	45,438
Texas Water Development Board (State Revolving Fund)	82,521	88,551	88,951	88,948	91,402	1,714,939
Total Self Supporting	**$606,052**	**$585,514**	**$574,105**	**$564,618**	**$556,017**	**$8,336,193**
Not Self-Supporting[1]						
Texas Public Finance Authority Bonds	$66,039	$65,535	$65,582	$65,344	$64,668	$667,430
TPFA Master Lease Purchase Program	18,480	12,131	9,585	6,045	2,682	6,590
Military Facilities Commission Bonds	4,002	4,006	4,009	4,016	4,005	11,792
Parks and Wildlife Improvement Bonds	1,390	2,243	2,245	2,239	2,235	34,688
Total Not Self-Supporting	**$89,911**	**$83,917**	**$81,421**	**$77,643**	**$73,590**	**$720,500**
Total Non-General Obligation Bonds	**$695,963**	**$669,430**	**$655,526**	**$642,262**	**$629,607**	**$9,056,693**
Total All Bonds	**$1,244,810**	**$1,225,803**	**$1,221,615**	**$1,211,085**	**$1,194,413**	**$15,405,503**

[1] Bonds which are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totaled $324.6 million during fiscal 1998, and will total approximately $354.8 million in fiscal 1999.
[2] While not explicitly a general obligation or full faith and credit bond, the revenue pledge has the same effect. Debt service is paid from an annual constitutional appropriation to qualified institutions of higher education from first monies coming into the state treasury not otherwise dedicated by the Constitution.
[3] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, effective September 1, 1993, up to 90 percent of the bonds issued may be used for grants.
[4] Texas Hospital Equipment Finance Council Bonds were legally defeased on October 7, 1998.
[5] Texas Workers' Compensation Fund Bonds were economically defeased. Full legal debt service requirements are reflected in this table.

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

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

Table 17

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

	08/31/97	08/31/98	08/31/99
General Obligation Bonds			
Self-Supporting			
Veterans Land and Housing Bonds	$955,002	$805,002	$805,002
Water Development Bonds	926,245	759,065	684,330
Farm and Ranch Loan Bonds[5]	474,900	475,000	474,000
Park Development Bonds	16,310	16,310	16,310
College Student Loan Bonds	224,822	149,822	74,822[2]
Texas Department of Economic Development Bonds	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	33,000	33,500	29,000
Agriculture Water Conservation Bonds	181,000	181,000	181,000
Total Self-Supporting	**$2,856,279**	**$2,464,699**	**$2,309,464**
Not Self-Supporting[1]			
Higher Education Constitutional Bonds	*	*	*
Texas Public Finance Authority Bonds	$338,340	$320,240	$127,940
Water Development Bonds-EDAP[3]	161,565	136,700	111,705
Water Development Bonds-State Participation Bonds	0	50,000	0
Total Not Self-Supporting	**$499,905**	**$506,940**	**$239,645**
Total General Obligation Bonds	**$3,356,184**	**$2,971,639**	**$2,549,109**
Non-General Obligation Bonds			
Self-Supporting			
Permanent University Fund Bonds[4]			
A&M	$141,994	$215,351	$269,365
UT	325,703	443,291	577,338
College and University Revenue Bonds	**	**	**
Texas Department of Housing & Community Affairs	**	**	**
Texas Turnpike Authority Bonds	**	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000	500,000
Texas Department of Economic Development Bonds	**	**	**
Texas Water Resources Finance Authority Bonds	**	**	**
Texas School Facilities Finance Program	750,000	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**	**
Low-Level Radioactive Waste Disposal Authority	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**
Alternative Fuels Program	50,000	50,000	50,000
Texas Public Finance Authority Bonds (Special Revenue)	53,070	0	0
Veterans' Financial Assistance Bonds	250,000	250,000	240,020
Texas Water Development Board (State Revolving Fund)	**	**	**
Total Self-Supporting	**$2,070,767**	**$2,208,642**	**$2,386,723**
Not Self Supporting[1]			
Texas Public Finance Authority Bonds	$148,900	$279,100	$248,997
TPFA Master Lease Purchase Program—commercial paper	72,500	67,900	66,200
Texas Military Facilities Commission Bonds	**	**	**
Parks and Wildlife Improvement Bonds	0	48,540	31,485
Total Not Self-Supporting	**$221,400**	**$395,540**	**$346,682**
Total Non-General Obligation Bonds	**$2,292,167**	**$2,604,182**	**$2,733,405**
Total All Bonds	**$5,648,351**	**$5,575,821**	**$5,282,514**

* 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] An additional $400 million bonding authority was passed by the 76th Legislature and approved by the voters in November 1999.

[3] Ecomically 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, 1999.

[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.

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

Table 18

SCHEDULED REAL PROPERTY LEASE-PURCHASE PAYMENTS FROM GENERAL REVENUE BY FISCAL YEAR
(amounts in thousands)

	1999	2000	2001	2002	2003	2004 and Beyond
General Services Commission	$3,395	$3,393	$3,390	$3,387	$3,389	$48,972
TOTAL	$3,395	$3,393	$3,390	$3,387	$3,389	$48,972

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

bonds on behalf of a municipal power agency for the recovery of stranded costs and Senate Bill 77 authorizes certain state agencies to issue revenue bonds to finance projects resulting from agreements with Mexico or a political subdivision of Mexico.

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.

Prior to the end of the 1998 fiscal year, lease-purchase agreements for prison facilities had increased the significance of lease-purchase debt for the state. As of the end of fiscal 1997, the Texas Department of Criminal Justice (TDCJ) 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 $197.6 million outstanding as of August 31, 1997. The existing local conduit debt underlying the lease-purchase obligations for the prisons was defeased with the proceeds of Texas Public Finance Authority building revenue bonds in July 1998. Lease payments from appropriations of general revenue by the Legislature to the Texas Department of Criminal Justice will be forwarded to the TPFA for debt service on the new bonds.

The state General Services Commission is party to six lease- with-option-to-purchase agreements for state agency office and warehouse facilities. Depending on the occupying agency, either all or a portion of these leases are paid from appropriated general revenue funds. *(Table 18).*

There were no lease purchases of facilities approved by the Bond Review Board during 1999. All of the equipment lease purchases approved by the Bond Review Board in 1999 were financed through the Master Lease Purchase Program and are shown as bonds outstanding.

Chapter 6
Texas Private Activity Bond Allocation Program

Tax-exempt financing of "private activities" has been limited by federal law since the passage of the Tax Reform Act of 1986 (the "Tax Act"). Private activity bonds are those which have met any or all of the following tests: 1) Private Business Use Test - more than 10 percent of the proceeds are to be used for any private business use; 2) Private Security or Payment Test - payment on principal or interest of more than 10 percent of the proceeds is directly or indirectly secured by, or payments are derived from, a private business use; and 3) Private Loan Financing Test - proceeds 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 which can take advantage of tax-exempt financing. The types of issues authorized, which are relevant to this section, are: mortgage revenue bonds (MRBs); small-issue industrial development bonds (IDBs); 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 a 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.

Texas Revised Civil Statutes, as amended, Article 5190.9a and Chapter 1372, Government Code (the "Act"), mandates the allocation process for the State of Texas. The Private Activity Bond Allocation Program (as it is commonly referred to) regulates the 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 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.

For the 1999 program year, the Act specified that, for the first eight months of the year, the state's ceiling must be set aside as follows:

- 31.5 percent is to be made available for single-family housing to issuers of qualified mortgage revenue bonds (MRBs). 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. A local issuer may apply for an amount determined by a formula which is based on their population, but in no event for more than $25,000,000.
- 13 percent is to be made available for issues authorized by a state constitutional amendment. The Texas Higher Education Coordinating Board may apply for a maximum of $75,000,000 but other issuers eligible in this category are limited to a maximum of $50,000,000.
- 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. The maximum application amount in this subceiling is $10,000,000.

Table 19

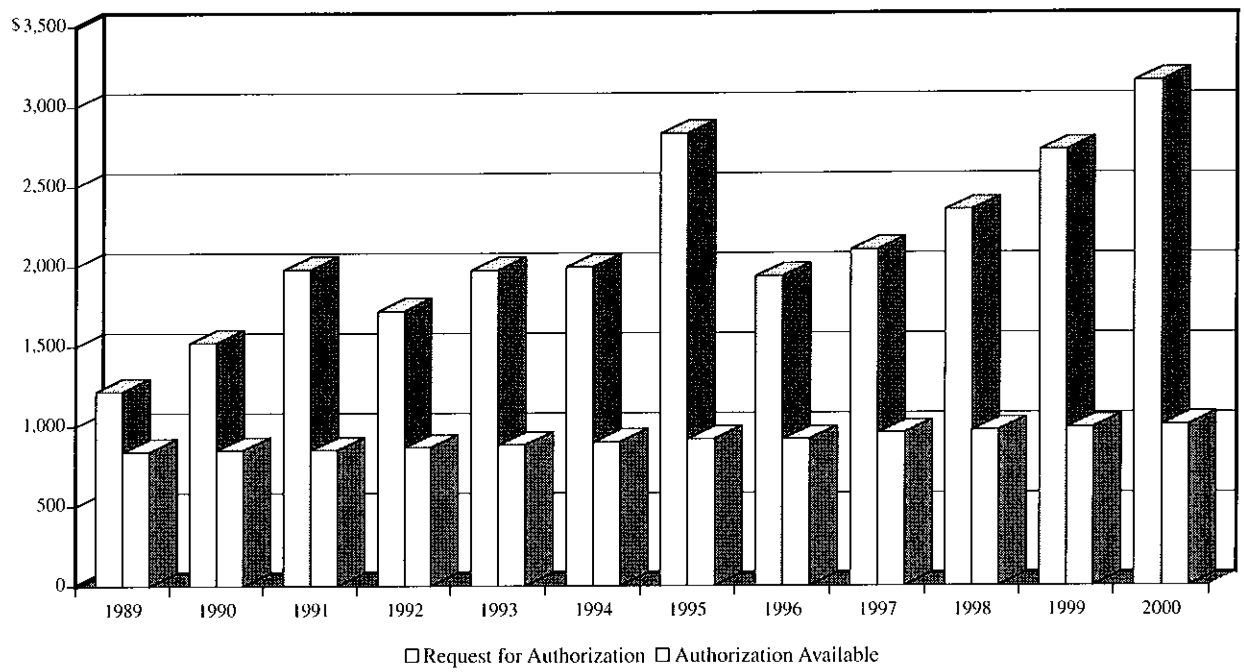
1999 SET-ASIDE ALLOCATION AMOUNTS vs. ISSUED ALLOCATION AMOUNTS

SUBCEILINGS	ALLOCATION SET ASIDE	PERCENT OF TOTAL	ALLOCATION ISSUED	PERCENT OF TOTAL
Single Family Housing	$311,213,921	31.50%	$335,522,827	33.96%
State-Voted Issues	128,437,491	13.00%	75,000,000	7.59%
Small Issue IDBs	74,098,552	7.50%	60,500,000	6.12%
Multi-Family Housing	74,098,552	7.50%	130,303,566	13.19%
Student Loan Bonds	108,677,877	11.00%	105,000,000	10.63%
All Other Issues	291,454,307	29.50%	281,654,307	28.51%
TOTALS	**$987,980,700**	**100.00%**	**$987,980,700**	**100.00%**

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

Figure 14

PRIVATE ACTIVITY BOND AUTHORIZATION AVAILABLE vs. AUTHORIZATION REQUESTED
(millions of dollars)



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

- 7.5 percent is to be made available for issuers of qualified residential rental project issue bonds (multi-family housing). Issuers within this category have a maximum application limit of the lesser of $15,000,000 or 15 percent of the amount set aside for this purpose.
- 11 percent is to be made available for issuers of qualified student loan bonds authorized by §53.47, Education Code. Each Issuer is limited to a maximum application of $35,000,000.
- 29.5 percent is to be made available for issuers of "all other" bonds requiring an allocation. This final subceiling receives applications from local issuers of exempt facility bonds and any other eligible bonds not covered by other subceilings. Applications in this subceiling may not exceed $25,000,000.

Generally, with the exception of single family housing and student loan bonds, the reservations of state ceiling have been allocated by lottery for applications received from October 10-October 20 of the year preceding the program year, and thereafter on a first-come, first-served basis. Single family housing and student loan bonds have a separate priority system based on prior applications and prior bond issues. This system, used exclusively within these two subceilings, is in place from January 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.

All issuers, except MRB issuers, must complete their transaction and close on the bond issue within 120 days of the reservation date. Issuers of MRBs must close within a 180-day time limit. If an applicant receives a reservation for allocation and is unable to consummate the transaction, or closes for a lesser amount, the original request is considered satisfied. Subsequently, the unused reservation or excess allocation is redistributed and used by another applicant. This often results in an actual distribution which varies from the predetermined set-asides at the beginning of the program year *(Table 19)*.

The 76th Texas Legislature passed and the Governor signed Senate Bill 1155, which will make significant amendments to the Act for future program years. Beginning with Program Year 2000, the state's ceiling must be set aside as follows:

- 25 percent for single-family housing - a decrease of 6.5 percent. TDHCA will continue to have one-third available, and two-thirds is available for local issuers.

- 11 percent for issues state-voted issues - a decrease of 2 percent.
- 7.5 percent is still available for qualified small issue IDBs and empowerment zone bonds (EZ bonds) for use in federally-designated empowerment zones and enterprise communities.
- 16.5 percent for multi-family housing - an increase of 9 percent. Issuers within this category have a maximum application limit of $15,000,000.
- 10.5 percent for student loan bonds authorized by §53.47, Education Code - a decrease of .5 percent.
- 29.5 percent is still available for issuers of "all other" bonds requiring an allocation.

Table 20

1999 APPLICATIONS FOR STATE PRIVATE ACTIVITY BOND AUTHORIZATION
(as of November 1, 1999)

	Authorization Available	Authorization Requested	Requests as a % of Availability
Mortgage Revenue Bonds	$311,213,921	$747,606,300	240.22%
State-Voted Issue Bonds	128,437,491	75,000,000	58.39%
Industrial Development Bonds	74,098,552	147,035,000	198.43%
Multi-Family Rental Project Bonds	74,098,552	1,042,757,622	1407.26%
Student Loan Bonds	108,677,877	140,000,000	128.82%
All Other Bonds Requiring Allocation	291,454,307	672,000,000	230.57%
Total	$987,980,700	$2,824,398,922	285.88%

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

In addition to amending the set-aside amounts, the new statute requires a priority system for residential rental (multi-family housing) applications. The multi-family category will now have three priorities to encourage developers to reach residents at a lower income level. Priority #1 requires that 100 percent of the units be set aside for residents at or below 60 percent AMFI (area median family income) and that the rents on those units be capped at the 50 percent level. Priority #2 requires that 100 percent of the units to be set aside for residents at or below 60 percent AMFI and that the rents on those units be capped at the 60 percent level. Priority #3 does not require any rent caps or set asides other than the federal requirements of **either** 40 percent of the units must be set aside for resident earning at or below 60 percent AMFI **or** 20 percent of the units must be set aside for resident earning at or below 50 percent AMFI. It is a requirement in the first two priorities that the developer use 4 percent low income housing tax credits and apply for those credits before a bond reservation can be issued. Tax credits are optional in the third priority.

S.B. 1155 will also cause all six subceilings to collapse on August 15th rather than September 1st. Any remaining amounts will be combined and made available exclusively to the multi-family applications, in priority order, until August 31st. Any amounts available on or after September 1st will be offered to remaining applications by lot order, regardless of project type or priority.

Texas has the second largest state ceiling in the nation, second only to California in population and volume cap. Texas once again experienced an increase of volume cap for the 1999 Private Activity Bond Allocation Program. Based on the population estimate for Texas of 19,439,337, the 1999 volume cap was set at $987,980,700, an increase of $16,013,850 (1.65 percent) from the 1998 cap of $971,966,850. However, the increase falls far short of the demand expressed for the program. The allocation program in Texas has been over-subscribed each year since 1988 *(Figure 14)*. Applications received in 1999 totaled $2.82 billion or 286 percent of the available allocation amount *(Table 20)*. The 1999 program year will end leaving $1.6 billion in requests for allocation outstanding. This figure represents an increase in unsatisfied requests of over 33 percent above the 1999 program year.

Since the state ceiling is currently based on population, with no adjustment for inflation, the $50 per person allocation will actually decrease in real value over time, increasing demand relative to the available ceiling. This dilemma creates a difficult problem in Texas, with its growing economy, critical affordable housing needs, large student population, and increasing environmental demands. Demand for private activity bond cap allocation will certainly continue to increase dramatically. The need increases each year, as does the cost of financing the facilities. For example, applications received as of November 1, 1999 for the 2000 program year total $3.16 billion. However, without amendments to the per capita formula at the federal level, the volume cap will rise at a minimal rate as the population increases. If Texas experiences a population loss, the volume cap will be decreased.

In October 1998, Congress passed and the President signed a bill to phase in an increase in the volume cap formula beginning in 2003. Beginning that year the volume cap will increase by $5 per capita each year through 2007, when it will cap out at $75 per capita, an increase of 50 percent. The new legislation does not include an inflation index for the years following 2007.

This amendment will certainly provide some relief, but the amount of state ceiling available in Texas is expected to remain far below the anticipated future demand.

Appendix A
Summary of Bonds Issued

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of the Texas A&M University System, Permanent University Fund (PUF) Bonds, Series 1998 - $92,520,000

Purpose: The proceeds from the sale of the bonds were used to current refund $65 million outstanding PUF Subordinate Lien Notes, Series B and to advance refund $27.9 million of the outstanding principal amount of the Board's PUF Bonds, Series 1992B. Proceeds from the sale of the bonds were also used to pay the costs of issuance.

Dates:	Board Approval -	N/A
	Negotiated Sale -	August 16, 1998
	Closing Date -	September 9, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in July 1999 with a final maturity of July 2018. The issue also includes term bonds that will mature in July 2013 and 2028.

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

Interest Cost:
True Interest Cost (TIC) - 4.85%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton, L.L.P.
Financial Advisor -	First Southwest Company
Senior Underwriter -	Salomon Smith Barney, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$66,421	$0.72
Financial Advisor	46,887	0.51
Rating Agencies	40,440	0.44
Paying Agent	1,850	0.02
Escrow Agent	3,000	0.03
Escrow Verification	3,000	0.03
Printing	10,097	0.11
Attorney General	1,250	0.01
	$172,945	**$1.87**
Underwriter's Spread	**$530,168**	**$5.73**

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of the Texas A&M University System, Revenue Financing System Bonds, Series 1999 - $195,520,000

Purpose: The proceeds from the sale of the bonds were used to current refund approximately $71.3 million of outstanding Revenue Financing System commercial paper notes and to provide construction funds for capital projects. Proceeds from the sale of the bonds were also used to pay the costs of issuance.

Dates:	Board Approval -	June 17, 1999
	Competitive Sale -	July 7, 1999
	Closing Date -	August 9, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in May 2000 with a final maturity of May 2017. The issue also includes term bonds that will mature in May 2020 and 2029. The bonds maturing in 2013 and those maturing between 2021 through 2029 are insured.

		Credit Enhanced	Unenhanced
Bond Ratings:	Moody's -	Aaa	Aa2
	Standard & Poor's -	AAA	AA+
	Fitch IBCA -	AAA	AA

* Credit enhanced maturities: 2013 and 2021 through 2029

Interest Cost:
True Interest Cost (TIC) - 5.38%
Net Interest Cost (NIC) - 5.40%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$138,332	$0.71
Financial Advisor	98,718	0.50
Rating Agencies	54,000	0.28
Paying Agent	400	0.00
Printing	5,704	0.03
Attorney General	1,250	0.01
Miscellaneous	105	0.00
	$298,509	**$1.53**
Underwriter's Spread	**$1,377,961**	**$7.05**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Greens of Hickory Trails), Series 1998 A&B - $13,500,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Brisben Hickory Trail, L.P., an Ohio limited partnership, to finance the acquisition, construction, equipment, and long-term financing of a new 250-unit multi-family residential rental project to be located in Dallas, Texas. The project will include set-aside units and rent caps to ensure availability for low-to-moderate income households.

Dates:		
	Board Approval -	August 19, 1998
	Negotiated Sale -	September 2, 1998
	Closing Date -	September 10, 1998

Structure: Series A bonds were issued as fixed-rate, tax-exempt bonds maturing in September 2018 and 2030 and Series B bonds were issued as fixed-rate, taxable bonds maturing in September 2012. The bonds are insured.

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

Interest Cost:

True Interest Cost (TIC) -	5.33%
Net Interest Cost (NIC) -	5.31%

Consultants:

Bond Counsel -	Vinson & Elkins, L.L.P.
Financial Advisor -	Dain Rauscher, Inc.
Senior Underwriter -	John Nuveen & Co., Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$60,000	$4.44
Financial Advisor	20,000	1.48
Rating Agencies	23,500	1.74
TDHCA Fees	151,250	11.20
Trustee	9,750	0.72
Trustee's Counsel	13,000	0.96
Disclosure Counsel	5,000	0.37
Private Activity Fee	2,700	0.20
Attorney General	1,250	0.09
Miscellaneous	11,154	0.83
	$297,604	**$22.03**
Underwriter's Spread	**$135,000**	**$10.00**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Residential Mortgage Revenue Bonds, Series 1998A&B, and Series 1999A - $141,970,000

Purpose: The Series 1998A bonds ($102,055,000) were used to provide funds for the purchase of low-interest rate mortgage loans made by lenders to eligible first-time homebuyers. The Series 1998B bonds ($14,300,000) were used to provide funds to refinance commercial paper notes. The Series 1999A bonds ($25,615,000) were used to refund the Texas Housing Agency Residential Mortgage Revenue Bonds, Series 1987A and Series 1987D. Proceeds were also used to pay the costs of issuance.

Dates:		
	Board Approval -	October 22, 1998
	Negotiated Sale -	November 4, 1998
	Closing Dates -	December 3, 1998 (Series 1998A&B)
		May 20, 1999 (Series 1999A)

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The Series 1998A bonds have serial bonds ($18,980,000) with a final maturity in July 2010 and term bonds ($83,075,000) with maturities of 2018, 2029, 2030, and 2031. The Series 1998B bonds were issued as term bonds maturing in 2022. The Series 1999A bonds were also issued as term bonds with maturities of 2018 and 2021.

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

Interest Cost:

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

Consultants:

Bond Counsel -	Vinson & Elkins, L.L.P.
Financial Advisor -	Dain Rauscher, Inc.
Senior Underwriter -	Bear Stearns & Co., Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$149,926	$1.06
Financial Advisor	90,000	0.63
Rating Agencies	74,073	0.52
Trustee	5,000	0.04
Trustee's Counsel	6,046	0.04
Escrow Verification	8,500	0.06
Disclosure Counsel	62,976	0.44
Printing	21,417	0.15
Servicer's Fee	6,203	0.04
Servicer's Counsel	10,000	0.07
TDHCA Fees	50,000	0.35
Private Activity Fee	26,014	0.18
Attorney General	2,500	0.02
Accounting Fees	39,253	0.28
	$551,908	**$3.88**
Underwriter's Spread	**$1,107,989**	**$7.80**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Mayfield Apartments), Series 1999 A-C - $11,445,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to TCR Mayfield, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment, and long-term financing of a new 240-unit multi-family residential rental project to be located in Arlington, Texas. The project will include set-aside units and rent caps to ensure availability for low-to-moderate income households.

Dates:	Board Approval -	April 22, 1999
	Closing Date -	May 12, 1999

Structure: Series A and B bonds were issued as fixed-rate, tax-exempt bonds maturing in May 2031. The Series C bonds were issued as fixed-rate, taxable bonds maturing in November 2003. The bonds are secured by a non-recourse mortgage loan. The bonds were sold via private placement.

Bond Ratings: The bonds were not rated.

Interest Cost:

True Interest Cost (TIC) -	5.71%
Net Interest Cost (NIC) -	5.71%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$60,000	$5.24
Financial Advisor	20,000	1.75
Trustee	6,500	0.57
Trustee's Counsel	10,650	0.93
Disclosure Counsel	3,899	0.34
Cashflow Verification	5,000	0.44
TDHCA Fees	130,450	11.40
Private Activity Fee	2,779	0.24
Attorney General	2,500	0.22
	$241,778	**$21.13**
Placement Agent	**$30,000**	**$2.62**

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: Texas Higher Education Coordinating Board, Student Loan Bonds, Series 1999 - $75,000,000

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

Dates:	Board Approval -	June 17, 1999
	Competitive Sale -	July 22, 1999
	Closing Dates -	August 4, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 2004 with a final maturity of August 2015. The issue also contains term bonds maturing in 2018 and 2023. The bonds are general obligations of the state.

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

Interest Cost:

True Interest Cost (TIC) -	5.08%
Net Interest Cost (NIC) -	5.08%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel -	Wickliff & Hall, P.C.
Financial Advisor -	First Southwest Company
Co-Financial Advisor -	Ramirez & Company
Senior Underwriter -	Lehman Brothers

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$18,645	$0.25
Co-Bond Counsel	10,105	0.13
Financial Advisor	30,521	0.41
Co-Financial Advisor	7,731	0.10
Rating Agencies	33,060	0.44
Paying Agent	500	0.01
Printing	5,329	0.07
Computer Structuring	10,000	0.13
Private Activity Fee	19,250	0.26
Attorney General	1,250	0.02
	$136,391	**$1.82**
Underwriter's Spread	**$450,750**	**$6.01**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Board of Regents of Midwestern State University Revenue Financing System, Texas Public Finance Authority Revenue Refunding and Improvement Bonds, Series 1998 - $9,860,000

Purpose: The proceeds of the bonds were used to: (1) finance the renovation of the Bea Wood and O'Donohoe Halls, (2) finance the construction costs of a health and wellness center, (3) acquire equipment from the Texas Public Finance Authority, (4) refund certain outstanding bonds, and (5) pay the costs of issuance. This transaction also established a revenue financing program for the university.

Dates:		
	Board Approval -	August 27, 1998
	Negotiated Sale -	August 27, 1998
	Closing Date -	September 23, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities. A portion of the bonds, $7.3 million, will mature serially beginning December 1998 with final maturity in December 2016, the remaining $1.6 million were issued as term bonds maturing December 2018. The bonds are insured.

Bond Rating: Moody's - Aaa

Interest Cost:
True Interest Cost (TIC) - 4.90%
Net Interest Cost (NIC) - 4.79%

Consultants:
Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Financial Advisor - First Southwest Company
Co-Financial Advisor - Walton Johnson & Company
Senior Underwriter - A.G. Edwards & Sons, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$33,084	$3.36
Financial Advisor	21,796	2.21
Rating Agencies	4,750	0.48
Paying Agent	3,329	0.34
Printing	5,933	0.60
Attorney General	1,000	0.10
Miscellaneous	3,624	0.37
	$73,516	**$7.46**
Underwriter's Spread	**$70,400**	**$7.14**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Stephen F. Austin State University Revenue Financing System, Texas Public Finance Authority Revenue Bonds, Series 1998 - $6,000,000

Purpose: The proceeds of the bonds were used to renovate the University's Miller Science Building. The cost of the project was $7 million, of which $6 million was funded from the proceeds of the bonds, and $1 million was funded from the Higher Education Assistance Fund. Additionally, this transaction established a revenue financing program for the University.

Dates:		
	Board Approval -	August 19, 1998
	Negotiated Sale -	August 27, 1998
	Closing Date -	September 23, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in October 1999 with final maturity of October 2015. The issue also includes term bonds that will mature in October 2018. The bonds are insured.

Bond Ratings: Moody's - Aaa

Interest Cost:
True Interest Cost (TIC) - 4.93%
Net Interest Cost (NIC) - 4.80%

Consultants:
Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - A.G. Edwards & Sons, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$22,426	$3.74
Financial Advisor	21,796	3.63
Rating Agencies	4,750	0.79
Printing	6,219	1.04
Attorney General	1,000	0.17
Miscellaneous	2,999	0.50
	$59,190	**$9.87**
Underwriter's Spread	**$50,280**	**$8.38**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Texas Southern University Revenue Financing System Revenue Refunding and Improvement Bonds, Series 1998A-1, 1998A-2, 1998B, 1998C - $52,930,000

Purpose: The proceeds from the sale of the Series 1998A-1 bonds were used to defease and advance refund all of the outstanding bonds of the Board. The proceeds from the sale of the Series 1998A-2 bonds were used for the purpose of acquiring, purchasing, improving, renovating, enlarging, or equipping property, buildings, structures, roads, or related infrastructure improvements for the University, including certain deferred maintenance projects. The Series 1998B and 1998C bond proceeds were used to finance the construction and equipping of a recreational center and a medical service facility at the University.

Dates:	Board Approval -	October 22, 1998
	Negotiated Sale -	December 16, 1998
	Closing Date -	January 14, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in November 1999 with final maturity in October 2008. The issue also includes term bonds that will mature in November 2013, 2015, 2018, and 2023. The bonds are insured.

Bond Ratings:	Moody's -	Aaa
	Fitch IBCA -	AAA

Interest Cost:

True Interest Cost (TIC) -	4.74%
Net Interest Cost (NIC) -	4.72%

Consultants:

Bond Counsel -	Fulbright & Jaworski, L.L.P.
Co-Bond Counsel -	Yava D. Scott
Financial Advisor -	First Southwest Company
Co-Financial Advisor -	Walton Johnson & Company
Senior Underwriter -	Siebert Brandford Shank & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$69,589	$1.31
Financial Advisor	45,472	0.86
Rating Agencies	15,400	0.29
Paying Agent	6,300	0.12
Escrow Agent	7,800	0.15
Escrow Verification	4,500	0.09
Printing	7,120	0.13
Attorney General	2,500	0.05
Miscellaneous	2,689	0.05
	$161,370	**$3.05**
Underwriter's Spread	**$334,035**	**$6.31**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Building Revenue Bonds (State Preservation Board Project), Series 1999A - $39,185,000

Purpose: The proceeds from the sale of the bonds were used to finance the second phase of the construction of the State History Museum. The proceeds of the bonds were also used to pay costs of issuance and to provide a set-aside for the Texas Public Finance Authority's administrative costs.

Dates:	Board Approval -	December 17, 1998
	Competitive Sale -	January 13, 1999
	Closing Date -	January 27, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 2000 with final maturity of February 2018. The bonds are insured.

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

Interest Cost:

True Interest Cost (TIC) -	4.78%
Net Interest Cost (NIC) -	4.79%

Consultants:

Bond Counsel -	Fulbright & Jaworski, L.L.P.
Co-Bond Counsel -	Wickliff & Hall, P.C.
Financial Advisor -	First Southwest Company
Co-Financial Advisor -	Walton Johnson & Company
Senior Underwriter -	Interstate Johnson Lane Corp.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$24,036	$0.61
Co-Bond Counsel	17,210	0.44
Financial Advisor	12,816	0.33
Co-Financial Advisor	7,872	0.20
Rating Agencies	17,105	0.44
Printing	3,279	0.08
Attorney General	1,250	0.03
	$83,568	**$2.13**
Underwriter's Spread	**$126,307**	**$3.22**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Revenue Bonds (Texas Parks & Wildlife Dept. Project), Series 1999B - $17,055,000

Purpose: The proceeds from the sale of the bonds were used to finance the Texas Department of Parks & Wildlife infrastructure repair and replacement of water and wastewater systems and repairs and renovations to existing facilities. Proceeds were also used to pay the costs of issuance.

Dates:	Board Approval -	December 17, 1998
	Competitive Sale -	January 13, 1999
	Closing Date -	January 27, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 2000 with final maturity of February 2019. The bonds are insured.

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

Interest Cost:

True Interest Cost (TIC) -	4.79%
Net Interest Cost (NIC) -	4.69%

Consultants:

Bond Counsel -	Wickliff & Hall, P.C.
Co-Bond Counsel -	Fulbright & Jaworski, L.L.P.
Financial Advisor -	First Southwest Company
Co-Financial Advisor -	Walton Johnson & Company
Senior Underwriter -	Merrill Lynch & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$7,492	$0.44
Co-Bond Counsel	10,464	0.61
Financial Advisor	5,579	0.33
Co-Financial Advisor	3,427	0.20
Rating Agencies	7,445	0.44
Printing	1,427	0.08
Attorney General	1,000	0.06
	$36,834	**$2.16**
Underwriter's Spread	**$153,487**	**$9.00**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, General Obligation Refunding Bonds, Series 1998B&C - $223,920,000

Purpose: The proceeds from the sale of the Series 1998B & 1998C bonds were used for the purpose of refunding all or a portion of certain prior issues of the Authority's outstanding general obligation bonds and to pay the costs of issuance.

Dates:	Board Approval -	November 19, 1998
	Competitive Sale -	December 11, 1998
	Closing Date -	January 28, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially with a final maturity of October 2015 for the Series 1998B bonds and October 2007 for the Series 1998C bonds. The Series 1998B&C bonds also contain capital appreciation bonds that mature in 2013 and 2007, respectively. The bonds are general obligations of the state.

Bond Ratings:	Moody's -	Aa2
	Standard & Poor's -	AA3
	Fitch IBCA -	AA+

Interest Cost:

True Interest Cost (TIC) -	4.55%
Net Interest Cost (NIC) -	4.66%

Consultants:

Bond Counsel -	Wickliff & Hall, P.C.
Co-Bond Counsel -	Fulbright & Jaworski, L.L.P.
Financial Advisor -	First Southwest Company
Co-Financial Advisor -	Walton Johnson & Company
Senior Underwriter -	PaineWebber Incorporated

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$35,242	$0.16
Co-Bond Counsel	17,000	0.08
Financial Advisor	24,733	0.11
Co-Financial Advisor	11,213	0.05
Rating Agencies	50,000	0.22
Escrow Agent	3,500	0.02
Escrow Verification	3,000	0.01
Printing	15,939	0.07
Attorney General	2,250	0.01
Miscellaneous	125	0.00
	$163,002	**$0.73**
Underwriter's Spread	**$1,237,874**	**$5.53**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents of Texas State University System, Revenue Financing System Bonds, Series 1998A&B, Taxable Series 1998 - $163,965,000

Purpose: The proceeds of the Series 1998A bonds ($94,540,000) were used to acquire, purchase, construct, improve, renovate, enlarge, and equip property, building, structures, facilities, roads, and related infrastructure for TSUS components. This series contains $80,950,000 of tuition revenue bonds that were authorized by H.B. 1235 of the 75th Legislature. The proceeds of the Series 1998B bonds ($53,505,000) were used to refinance a portion of TSUS' outstanding debt. The proceeds of the Taxable Series 1998 ($15,920,000) were used to refinance TSUS' Bonds that were not permitted (by the tax code) to be advance refunded again.

Dates:	Board Approval -	July 24, 1998
	Negotiated Sale Date -	August 13, 1998
	Delivery Date -	September 16, 1998

Structure: The Series 1998A&B bonds were issued as fixed-rate, tax-exempt securities while the Series 1998 bonds are fixed-rate, taxable securities. The 1998A bonds mature serially beginning in March 2000 with final maturity in March 2018. The Series 1998B and Taxable Series 1998 bonds were also issued as serial securities that begin to mature in March 1999 with final maturity in March 2015 and 2010, respectively.

Bond Ratings:	Moody's -	A1
	Standard & Poor's -	A+
	Fitch IBCA -	A+

Interest Cost:

True Interest Cost (TIC) -	4.84%
Net Interest Cost (NIC) -	4.86%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$169,533	$1.03
Financial Advisor	163,965	1.00
Rating Agencies	72,000	0.44
Paying Agent	41,675	0.25
Escrow Verification	18,000	0.11
Printing	13,500	0.08
Miscellaneous	3,177	0.02
	$481,850	**$2.93**
Underwriter's Spread	**$980,510**	**$5.98**

TEXAS TECH UNIVERSITY

Issue: Board of Regents of Texas Tech University, Revenue Financing System (RFS) Refunding and Improvement Bonds, Sixth Series (1999) - $115,100,000

Purpose: The proceeds of the bonds were used for the purposes of (1) acquiring, purchasing, constructing, improving, renovating, enlarging, or equipping property, buildings, structures, facilities, roads or related infrastructure at Texas Tech University and Texas Tech University Health Sciences Centers, (2) refunding approximately $22 million RFS Commercial Paper Notes, (3) refunding approximately $54.8 million RFS Bonds, Second Series (1995) and RFS Bonds, Third Series (1996), (4) paying the municipal bond insurance premium for the bonds, and (5) paying certain costs of issuance.

Dates:	Board Approval -	March 18, 1999
	Negotiated Sale Date -	April 8, 1999
	Delivery Date -	May 4, 1999

Structure: The bonds were issued as fixed-rate tax-exempt securities maturing serially beginning in August 1999 with a final maturity of February 2019. The issue also includes term bonds with a maturity date of February 2029. The bonds are insured.

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

Interest Cost:

True Interest Cost (TIC) -	4.94%
Net Interest Cost (NIC) -	4.97%

Consultants:

Bond Counsel:	McCall, Parkhurst & Horton, L.L.P.
Financial Advisor:	First Southwest Company
Senior Underwriter:	Salomon Smith Barney

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$71,951	$0.63
Financial Advisor	60,050	0.52
Rating Agencies	87,624	0.76
O.S. Printing	26,810	0.23
Paying Agent	450	0.00
Escrow Agent	5,250	0.05
Escrow Verification	5,000	0.04
Disclosure Counsel	1,250	0.01
Miscellaneous	28,733	0.25
	$287,118	**$2.49**
Underwriter's Spread	**$719,677**	**$6.25**

UNIVERSITY OF HOUSTON

Issue: Board of Regents of the University of Houston System, Consolidated Revenue Bonds, Series 1999 - $33,350,000

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

Dates:		
	Board Approval -	November 19, 1998
	Competitive Sale -	January 6, 1999
	Closing Date -	February 10, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 2000 with final maturity of February 2019.

Bond Ratings:		
	Moody's -	Aa3
	Standard & Poor's -	AA-

Interest Cost:

True Interest Cost (TIC) -	4.78%
Net Interest Cost (NIC) -	4.74%

Consultants:

Bond Counsel -	Vinson & Elkins, L.L.P.
Financial Advisor -	First Southwest Company
Senior Underwriter -	Interstate Johnson Lane Corp.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$31,147	$0.93
Financial Advisor	18,804	0.56
Rating Agencies	25,500	0.76
Paying Agent	350	0.01
Printing	7,594	0.23
Attorney General	1,250	0.04
Miscellaneous	270	0.01
	$84,915	**$2.54**
Underwriter's Spread	**$121,938**	**$3.66**

THE UNIVERSITY OF NORTH TEXAS

Issue: Board of Regents of the University of North Texas, Revenue Financing System Bonds, Series 1999 - $32,540,000

Purpose: The proceeds from the sale of the bonds were used for the purposes of acquiring, purchasing, constructing, improving, renovating, enlarging, or equipping property, buildings, structures, facilities, roads or related infrastructure at the University and the Health Science Center. Proceeds from the sale of the bonds were also used to pay the bond insurance premium and certain costs of issuance.

Dates:		
	Board Approval -	June 17, 1999
	Negotiated Sale -	June 23, 1999
	Closing Date -	July 14, 1999

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 1999 with final maturity of April 2019. The bonds are insured.

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

Interest Cost:

True Interest Cost (TIC) -	5.31%
Net Interest Cost (NIC) -	5.30%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$16,621	$0.51
Financial Advisor	17,770	0.55
Rating Agencies	26,800	0.82
Paying Agent	1,100	0.03
Printing	10,919	0.34
Attorney General	1,250	0.04
	$74,460	**$2.29**
Underwriter's Spread	**$204,741**	**$6.29**

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Revenue Financing System Bonds, Series 1998C&D $145,360,000

Purpose: Proceeds of the Series 1998C bonds ($45,175,000) were used to refund outstanding commercial paper notes and to fund the construction of buildings and facilities. Proceeds of the Series 1998D bonds were used to fund the construction of buildings and facilities, and to pay costs of issuance and any original issue discount.

Dates:	Board Approval -	August 19, 1998
	Negotiated Sale -	September 16, 1998
	Closing Date -	October 15, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning August 2000 with final maturity in August 2019.

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

Interest Cost:
True Interest Cost (TIC) - 4.77%
Net Interest Cost (NIC) - 4.78%

Consultants:
Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Senior Underwriter - Salomon Smith Barney, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$78,047	$0.54
Rating Agencies	53,000	0.36
Paying Agent	9,500	0.07
Escrow Agent	500	0.00
Escrow Verification	2,000	0.01
Printing	15,928	0.11
Attorney General	2,500	0.02
	$161,475	**$1.11**
Underwriter's Spread	**$857,856**	**$5.90**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans Home Revenue Bonds (Temple & Floresville Projects), Series 1998 - $9,980,000

Purpose: The bond proceeds provided partial funding for the construction of two skilled nursing care facilities for veterans. The facilities are located in Floresville and Temple, Texas. Each nursing facility will contain 160 beds of which 32 will be designated for Alzheimer's care. In addition to resident housing, each of the facilities will include administrative space, food service, laundry, and support areas.

Dates:	Board Approval -	November 19, 1998
	Negotiated Sale Date -	December 15, 1998
	Delivery Date -	December 18, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities subject to mandatory sinking fund redemption beginning in November 2001 with a final maturity of November 2030.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) - 6.2%
Net Interest Cost (NIC) - 6.2%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$53,000	$5.31
Financial Advisor	22,000	2.20
Trustee	5,307	0.53
Trustee Counsel	4,000	0.40
Attorney General	1,000	0.10
	$85,307	**$8.54**
Placement Agent	**$129,780**	**$13.00**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans Land Refunding Bonds, Series 1999A - $40,025,000

Purpose: The bond proceeds were used to refund the outstanding principal amount of the State of Texas Veterans Land Bonds, Series 1989.

Dates:	Board Approval -	March 18, 1999
	Sale Date -	April 6, 1999
	Delivery Date -	April 28, 1999

Structure: The bonds were issued as variable-rate, tax-exempt securities subject to mandatory sinking fund redemption beginning in December 1999 with a final maturity of December 2018. The bonds are general obligations of the state.

Bond Ratings:	Moody's -	Aa2
	Standard & Poor's -	AA

Interest Cost:

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

Consultants:

Bond Counsel -	Akin, Gump, Strauss, Hauer & Feld, L.L.P.
Co-Bond Counsel -	Wickliff & Hall, P.C.
Financial Advisor -	Dain Rauscher, Inc.
Senior Underwriter -	Bear, Stearns & Co. Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$38,517	$0.96
Co-Bond Counsel	11,538	0.29
Financial Advisor	15,500	0.39
Rating Agencies	22,050	0.55
Printing	2,705	0.07
Escrow Agent	500	0.01
Attorney General	1,250	0.03
Miscellaneous	500	0.01
	$92,560	**$2.31**
Underwriter's Spread	**$105,050**	**$2.62**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Resources Finance Authority, Revenue Refunding Bonds, Series 1999 - $213,825,000

Purpose: The bond proceeds were used for the purpose of current refunding all of the Authority's outstanding Revenue Bonds Series 1989, to pay the premiums for municipal bond insurance policies, to pay a yield reduction payment to the Internal Revenue Service, and to pay the costs of issuance.

Dates:	Board Approval -	April 22, 1999
	Negotiated Sale -	May 12, 1999 (Fixed-rate bonds)
		June 2, 1999 (Variable-rate bonds)
	Closing Dates -	June 9, 1999

Structure: The bonds were issued in three series: (1) $62,385,000 Series 1999 Tax-Exempt (2) $83,015,000 Taxable Series 1999, and (3) $68,425,000 Series 1999 Periodic Auction Reset Securities (PARS). The bonds mature serially with final maturity August 15, 2010.

Bond Ratings:	Moody's -	A3
	Standard & Poor's -	A

Interest Cost:

	True Interest Cost (TIC)	Net Interest Cost (NIC)
Tax-Exempt -	4.48%	4.40%
Taxable -	6.55%	6.43%
Variable (PARS) -	5.66%	5.17%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$107,586	$0.50
Financial Advisor	170,898	0.80
Rating Agencies	75,000	0.35
Auction Agent	20,264	0.09
Paying Agent	2,000	0.01
Escrow Agent	200	0.00
Escrow Verification	138,000	0.65
Redemption Notices	2,070	0.01
Printing	17,601	0.08
Attorney General	2,500	0.01
	$536,119	**$2.50**
Underwriter's Spread		
Variable Rate\	**$410,203**	**$5.99**
Fixed Rate	**$726,396**	**$5.00**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Water Financial Assistance Bonds, Series 1999A-C - $149,730,000

Purpose: The proceeds of the Series 1999A bonds ($74,735,000) were used to provide financial assistance to political subdivisions for water supply, water quality enhancement and flood control purposes, and for transfers to any state revolving fund administered by the Board. Proceeds from the Series 1999B bonds ($24,995,000) were used to provide funds for the financial assistance in the form of loans and or grants to political subdivisions in economically distressed areas of the state. The proceeds from the Series 1999C bonds ($50,000,000) were used to provide funding for state participation projects.

Dates:	Board Approval -	July 22, 1999
	Negotiated Sale -	August 4, 1999
	Closing Dates -	August 24, 1999

Structure: The bonds were issued in three series as fixed-rate, tax-exempt securities maturing serially beginning August 2001 with a final maturity of August 2021. The issue also contained four term bonds: $9,380,000 and $7,060,000 term bonds due August 1, 2024, $14,750,000 term bonds due August 2029, and $24,100,000 term bonds due August 2035. The bonds are general obligations of the state.

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

Interest Cost:
True Interest Cost (TIC) - 5.47%
Net Interest Cost (NIC) - 5.43%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$34,228	$0.23
Co-Bond Counsel	14,432	0.10
Financial Advisor	73,192	0.49
Rating Agencies	58,800	0.39
Paying Agent	750	0.01
Printing	9,073	0.06
Attorney General	2,500	0.02
	$192,975	**$1.30**
Underwriter's Spread	**$815,480**	**$5.45**

TEXAS WOMAN'S UNIVERSITY

Issue: Board of Regents of Texas Woman's University (TWU), Combined Fee Revenue Bonds, Series 1999 - $8,500,000

Purpose: Proceeds from the sale of the bonds were used for the renovation of the TWU Denton Campus Human Development Building, the renovation of the Arts and Science Building, major repairs and renovations of other education and general buildings, and for paying the costs of issuance.

Dates:	Board Approval -	February 2, 1999
	Competitive Sale -	February 9, 1999
	Closing Date -	March 10, 1999

Structure: The bonds were issued as tax-exempt, fixed-rate, callable, serial securities with final maturity in 2019. The bonds are insured.

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

Interest Cost:
True Interest Cost (TIC) - 4.73%
Net Interest Cost (NIC) - 4.73%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton, L.L.P.
Financial Advisor -	Dain Rauscher, Inc.
Senior Underwriter -	Dain Rauscher, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$10,961	$1.29
Financial Advisor	8,500	1.00
Rating Agencies	19,900	2.34
Paying Agent	450	0.05
Printing	5,705	0.67
Attorney General	1,000	0.12
	$46,516	**$5.47**
Underwriter's Spread	**$43,531**	**$5.12**

Appendix B
Texas Commercial Paper and Variable-Rate Note Programs

During the past several years, some 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, 1999, a total of $1.7 billion was authorized for state commercial paper or variable-rate note programs. Of this amount, $641.9 million was outstanding as of the end of fiscal 1999 *(Table 21)*. (The figures shown in Table 21 were included in the bonds 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

Table 21

TEXAS COMMERCIAL PAPER AND VARIABLE-RATE NOTE PROGRAMS
as of August 31, 1999

Issuer	Type of Program	Amount Authorized	Amount Outstanding
The University of Texas System			
Permanent University Fund	Variable-Rate Notes	$250,000,000	$30,000,000
Revenue Financing System	Commercial Paper	350,000,000	181,892,000
The Texas A&M University System			
Permanent University Fund	Variable-Rate Notes	95,000,000	15,000,000
Revenue Financing System	Commercial Paper	125,000,000	–
Texas Tech University System			
Revenue Financing System	Commercial Paper	100,000,000	–
Texas Department of Agriculture	Commercial Paper	50,000,000	26,000,000
	Commercial Paper*	25,000,000	1,000,000
Texas Department of Economic Development	Commercial Paper	25,000,000	6,100,000
Texas Department of Housing and Community Affairs	Commercial Paper	75,000,000	12,150,000
Texas Public Finance Authority			
Revenue	Commercial Paper	100,000,000	33,800,000
General Obligation	Commercial Paper	500,000,000	336,000,000
Total		$1,695,000,000	$641,942,000

*Represents issuance amount approved by the Bond Review Board for the Farm and Ranch Program. The TAFA Board has approved a $100 million program amount.

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

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. The System subsequently increased its authorized commercial paper amount to $350 million in fiscal 1998.

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 Texas 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 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 Tech University and Texas Tech University Health Sciences Center

In November 1997, the Board of Regents of Texas Tech University (TTU) and Texas Tech University Health Sciences Center (TTUHSC) authorized a Revenue Financing System Commercial Paper Program in an amount not to exceed $100 million. Under the terms of the authorization, commercial paper notes cannot be issued in an aggregate principal amount at any one time exceeding $50 million without approval of the Board of Regents.

The Commercial Paper Program was established to provide interim financing for capital projects, including construction, acquisition, renovation, and equipment for facilities of TTU and TTUHSC. The commercial paper is secured by a pledge of all legally available revenues of TTU and TTUHSC, including pledged tuition fees, general fees, and other revenue sources. The TTU and TTUHSC have entered into a liquidity agreement in an aggregate amount not to exceed $55,550,000 to pay principal and interest due under the commercial paper program.

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 Economic Development

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

Texas Department of Housing and Community Affairs

The Texas Department of Housing and Community Affairs (TDHCA) established a single family mortgage revenue commercial paper program in 1995. The program enables 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. The TPFA also has the authority to use the commercial paper to provide interim financing for capital projects undertaken on behalf of state agencies. The MLPP commercial paper is a special revenue obligation of the state, payable only from legislative appropriations to the participating agencies for lease payments.

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

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 has issued variable-rate housing assistance bonds to diversify its debt portfolio. Similarly, the Texas Water Development Board (TWDB) is authorized to issue subordinate-lien variable-rate-demand revenue bonds (VRDBs) as part of the State Revolving Fund program. Additionally, the Texas Water Resources Finance Authority issued periodic auction reset securities (PARS) in conjunction with its Revenue Refunding Bonds, Series 1999.

Comptroller of Public Accounts Liquidity Facility Provider Duties

The 73rd Legislature passed legislation 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 voters abolished the office of the State Treasurer, effective September 1, 1996. The duties of this office were transferred to the Comptroller of Public Accounts - Treasury Operations.

Appendix C
Texas State Bond Programs

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

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

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

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

Dedicated/Project Revenue: Mortgages or other interests in financed property; repayments of financial assistance; investment earnings; any fees and charges; and appropriations, grants, subsidies, or contributions are pledged to the payment of principal and interest on the Authority's bonds. The program is designed to be self-supporting. No draw on general revenue is anticipated.

Contact:
Robert Kennedy
Deputy Assistant Commissioner for Finance
Texas Department of Agriculture
(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. The Board is required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance and to register its bonds with the Comptroller of Public Accounts.

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

Security: The first monies coming into the Comptroller of Public Accounts - Treasury Operations, not otherwise dedicated by the Constitution, are pledged to pay debt service on the general obligation bonds. Revenue bonds will be repaid solely from program revenues. Approximately 45 percent of the loans made (Stafford and Supplemental Loans for Students) are guaranteed by the Texas Guaranteed Student Loan Corporation.

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

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 (Article 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 these exceptions, the only higher education institution for which the Texas Public Finance Authority (TPFA) issued bonds was Texas State Technical College.

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

Legislative approval is not required for specific projects or for each bond issue. 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 secured by the income of the institutions and are not an obligation of the State of Texas. Neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds.

Dedicated/Project Revenue: Bonds are to be repaid from income from pledged revenues. Pledged revenues include the pledged tuition, the pledged practice plan funds, and any or all of the revenues, funds and balances now or hereafter lawfully available to the governing boards and derived from or attributable to any member of the Revenue Financing System.

Contact: Individual colleges and universities.

TEXAS DEPARTMENT OF ECONOMIC DEVELOPMENT BONDS

Statutory Authority: The Texas Department of Economic Development was created by Senate Bill 932, 75th Legislature, 1997 as the successor agency to the Texas Department of Commerce 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. House Bill 1, 75th Legislature, Rider 6 specifically prohibits the use of general revenue for debt service on the Department's general obligation bonds. Therefore, any general obligation bonds issued by the Department are required to be self-supporting, and no draw on general revenue is anticipated.

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:
Craig Pinkley
Director of Finance
Texas Department of Economic Development
(512) 936-0269

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS BONDS

Statutory Authority: The Texas Department of Housing and Community Affairs (the "Department"), 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, Section 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 the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

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

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

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

Contacts:
Byron Johnson
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Texas Department of Housing and Community Affairs
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Brent Stewart
Director of Multifamily Finance
Texas Department of Housing and Community Affairs
(512) 475-2213

FARM AND RANCH LOAN BONDS

Statutory/Constitutional Authority: Article III, Section 49-f of the Texas Constitution, adopted in 1985, authorizes the issuance of general obligation bonds by the Veterans Land Board. The program was transferred from the Veterans Land Board to the Texas Agricultural Finance Authority with the passage of House Bill 1684 by the 73rd 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 authority to be used for the purposes defined in Article III, Section 49-i of the Texas Constitution. In 1997, House Bill 2499, 75th Legislature increased the maximum loan amount available through the program to $250,000.

Purpose: Proceeds from the sale of the general obligation bonds may be used to make loans of up to $250,000 to eligible Texans for the purchase of farms and ranches.

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

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

Contact:
Robert Kennedy
Deputy Assistant Commissioner for Finance
Texas Department of Agriculture
(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: Debt service is payable solely from state General Revenue Fund appropriations to institutions of higher education.

Contact:
Individual colleges and universities.

TEXAS NATURAL RESOURCES CONSERVATION COMMISSION BONDS

Statutory Authority: House Bill 2954, 76th Legislature abolished the Texas Low-Level Radioactive Waste Disposal Authority ("Authority") effective September 1, 1999. Its duties, responsibilities, and resources will be transferred to the Texas Natural Resources Conservation Commission ("Commission") in FY 2000.

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

House Bill 1077, 75th Legislature authorized the Texas Public Finance Authority to issue bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority.

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

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

Contact:
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Texas Public Finance Authority
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TEXAS MILITARY FACILITIES COMMISSION BONDS

Statutory Authority: The Texas Military Facilities Commission was created by Senate Bill 352, 75th Legislature, 1997 as the successor agency to the National Guard Armory Board, which was created as a state agency in 1935 by Title 4, Chapter 435 of the Government Code, and authorized to issue long-term debt. Legislative approval of bond issues is not required. The Commission is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

Senate Bill 3, 72nd Legislature authorized the Texas Public Finance Authority to issue bonds on behalf of the Texas Military Facilities Commission.

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 Commission and are payable from "rents, issues, and profits" of the Commission. The Commission's bonds are not a general obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of Military Facilities Commission bonds.

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

Contacts:
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Texas Military Facilities Commission
(512) 406-6905

Kimberly K. Edwards
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Texas Public Finance Authority
(512) 463-5544

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. House Bill 3189, 75th Legislature, authorized the Texas Public Finance Authority to issue revenue bonds or other revenue obligations not to exceed $60 million in the aggregate on behalf of the Department.

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

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

Revenue obligations issued on behalf of the Department are to be repaid from balances on hand in the Texas Parks and Wildlife Capital Account. Legislative appropriations of general revenue to the Department may also be used to retire the debt.

Dedicated/Project Revenue: Entrance fees to state parks are pledged to pay debt service on the general obligation park development bonds. Additionally, the sporting goods sales tax revenue may also be used to pay debt service on general obligation park development bonds. The program is designed to be self-supporting. No draw on general revenue is anticipated.

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

Contacts:
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PERMANENT UNIVERSITY FUND BONDS

Statutory/Constitutional Authority: Article VII, Section 18 of the Texas Constitution, initially adopted in 1947, as amended in November 1984 authorizes the Boards of Regents of The University of Texas and Texas A&M University Systems to issue revenue bonds payable from and secured by the income of the Permanent University Fund (PUF). The constitutional amendment approved by voters on November 2, 1999 allows for distributions from the PUF to be based on the "total return" on all PUF investment assets, including current income as well as capital gains. Neither legislative approval nor Bond Review Board approval is required. The approval of the Attorney General is required, however, and the bonds must be registered with the Comptroller of Public Accounts.

Purpose: Proceeds are used 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 University 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.

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

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

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

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

Purpose: Proceeds from the sale of general obligation bonds for correctional and mental health facilities are used to finance the cost of constructing, acquiring, and/or renovating prison facilities, youth correction facilities, and mental health/mental retardation facilities. Proceeds from the sale of building revenue bonds are used to purchase, construct, renovate, and maintain state buildings. Proceeds from the sale of bonds for the Workers' Compensation Fund were used to fund the Workers' Compensation Insurance Fund. Proceeds from the issuance of commercial paper for the Master Lease Purchase Program are used to finance equipment for various state agencies. For a description of the use of funds for bonds issued on behalf of the Texas Military Facilities Commission, the Texas National Research Laboratory Commission (Superconducting Super Collider Bonds), the Texas Parks and Wildlife Department, and the Texas state colleges and universities that are TPFA clients, 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.

Dedicated/Project Revenue: Debt service on the general obligation bonds for correctional and mental health facilities are payable solely from the state's General Revenue Fund. Debt service on the general obligation bonds for park facilities is paid first from department revenues, as further described in the applicable section of this appendix. 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. For example, debt service on the bonds issued on behalf of the Department of Health is appropriated from lab fees collected by the Department. Bonds issued on behalf of the Workers' Compensation Fund are payable solely from maintenance tax surcharges authorized in Article 5.76 of the Texas Insurance Code. With monies contributed by one fund in June 1997 and again in June 1998, securities have been deposited into an escrow fund with the Texas Safekeeping Trust Company in an amount sufficient to pay principal and interest on the bonds until they mature. Consequently, no additional maintenance tax surcharges will need to be collected to service the debt on these bonds. College and university revenue bonds issued are repaid from pledged revenue such as tuition and fees. The college and university bonds are self-supporting, and the state's credit is not pledged.

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PUBLIC SCHOOL FINANCE PROGRAM

Statutory/Constitutional Authority: The 1989 Texas Legislature adopted the Public School Facilities Funding Act (Senate Bill 951, 71st Legislature, amended in Senate Bill 3, 71st Legislature, Sixth Called Session and House Bill 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 (PSF) may draw on the principal of the PSF in the event of a pending default.

Contacts:
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Director of Treasury Operations Administration
Texas Comptroller of Public Accounts - Treasury Operations
(512) 305-9112

Jim Buie
Executive Director
Texas Bond Review Board
(512) 463-1741

TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

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

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

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

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

Contact:
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Texas Department of Economic Development
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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. Article 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. The Commission was dissolved on July 29, 1997 and the Texas Public Finance Authority assumed all bond-related responsibilities of the Commission.

Legislative approval of specific bond issues was not required. The Commission was 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 were to be used to finance construction of buildings, the acquisition of land, installation of equipment, and other "eligible undertakings" related to 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: In June 1995, the Commission redeemed $109,510,000 of revenue bonds issued in 1991 and the remaining $140,490,000 of outstanding revenue bonds were defeased. Also in 1995, the 74th Legislature appropriated remaining settlement monies from the U.S. Department of Energy and proceeds from the sale of facility assets for the purpose of defeasing all or a portion of the outstanding General Obligation Refunding Bonds, Series 1992C, issued by the Authority to refund the Series 1990 General Obligation Bonds that had been issued by the Commission. In 1997, the 75th Legislture continued the appropriation authority to use proceeds from the sale of facility assets to defease additional bonds. Under these authorizations, the Authority has used available funds, including available general revenue appropriations to defease $155,569,063 of the original principal (or $220,040,000 in maturity value) of the Series 1992C Bonds, leaving approximately $34.215 million of the original principal amount ($64.5 million in total maturity value) outstanding. In September 1999, the Authority used an additional general revenue appropriation from the 76th Legislature to effect a final defeasance of all remaining outstanding bonds.

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TEXAS DEPARTMENT OF TRANSPORTATION BONDS

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

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

The Department is authorized to issue revenue bonds payable from the income and receipt of the revenues of the SIB including principal and interest on obligations acquired and held by the SIB. Legislative approval is not required for specific projects or for each bond issue. The Department is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to bond issuance and to register its bonds with the Comptroller of Public Accounts. The Authority is authorized to issue turnpike revenue bonds pursuant to Sec. 361.171 of the Transportation Code, and turnpike revenue refunding bonds pursuant to Sec. 361.175.

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

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

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

Contact:
For SIB-related matters:
Thomas Doebner
Interim Director - Finance Division
Texas Department of Transportation
(512) 463-8684

For turnpike-related matters:
Phillip E. Russell, P.E.
Director - Turnpike Authority Division
Texas Department of Transportation
(512) 936-0903

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

Purpose: Proceeds from the sale of the general obligation bonds are loaned to eligible Texas veterans for the purchase of land, housing, and home improvements. Proceeds from the sale of revenue bonds are used to assist veterans with the purchase or selling of land to veterans, making home mortgage loans to veterans, or providing for one or more veterans home.

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

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

Contact:
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Director of Funds Management
General Land Office
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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, 49d-8, 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 (EDAP). 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 are used to provide funds to the State Water Pollution Control Revolving Fund, or any other state revolving funds, and to provide financial assistance to local government jurisdictions through the acquisition of their obligations. Proceeds from the sale of the general obligation bonds are used to make loans (and grants under the Economically Distressed Areas Program) to political subdivisions of Texas for the performance of various projects related to water conservation, transportation, storage, and treatment.

Security: Any revenue bonds issued are obligations of the Board and are payable solely from the income of the program, including the repayment of loans to political subdivisions. The general obligation bonds pledge, in addition to program revenues, the first monies coming into the Comptroller of Public Accounts - Treasury Operations not otherwise dedicated by the Constitution.

Dedicated/Project Revenue: Principal and interest payments on the loans to political subdivisions for water projects are pledged to pay debt service on the bonds issued by the Board. The Water Development Bond Programs, with the exception of the Economically Distressed Areas Program and the State Participation Program, are designed to be self-supporting. No draw on general revenue has been made since 1980, and no future draws are anticipated, except for the Economically Distressed Areas Program and the State Participation Program.

Contact:
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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 acquired is pledged to the payment of principal and interest on bonds issued.

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Appendix D
Bond Review Board Rules

Sec. 181.1 Definitions.

The following words and terms, when used in this chapter, shal 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.