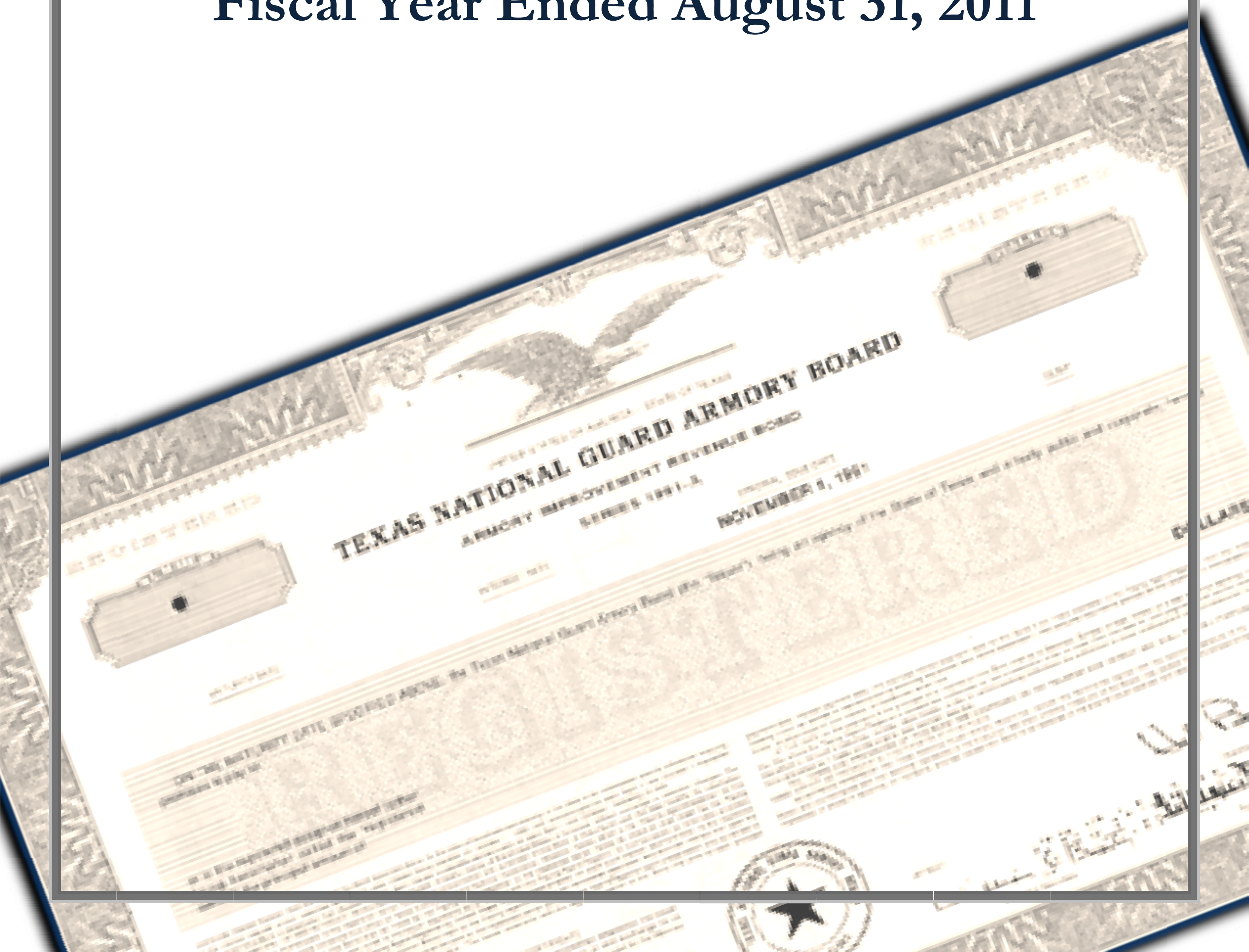
# Texas Bond Review Board

## 2011 Annual Report

### Fiscal Year Ended August 31, 2011



# Texas Bond Review Board
# Annual Report 2011

# Fiscal Year Ended August 31, 2011

Rick Perry, Governor
Chairman

David Dewhurst, Lieutenant Governor

Joe Straus, Speaker of the House of Representatives

Susan Combs, Comptroller of Public Accounts

Robert C. Kline
Executive Director

**December 2011**

**Overview**

*Background*

The Texas Bond Review Board (BRB) is responsible for the approval of all state debt issues (excluding Permanent University Fund and Tax and Revenue Anticipation Notes financings) and lease purchases with an initial principal amount of greater than $250,000 or a term of longer than five years. The BRB is also responsible for the collection, analysis and reporting of information on the state debt as well as the debt of local political subdivisions in Texas. In addition, the BRB is charged with the responsibility of administering the state's Private Activity Bond Allocation Program. This report discusses the activities undertaken by the Board and related events of the past fiscal year.

As of August 2011 Texas' general obligation (GO) debt was split-rated at Aaa/AA+/AAA by the three major credit rating agencies, Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch), respectively. The S&P rating is one step below AAA.

On August 5, 2011 S&P downgraded its long-term debt rating for the United States from AAA to AA+ with a negative outlook. Although Moody's and Fitch affirmed their AAA ratings for the U.S. debt, Moody's lowered its outlook to "negative" and Fitch maintained its outlook as "stable". The U.S. credit rating downgrade is not expected to impact debt issuance costs in Texas.

Texas ended fiscal 2011 with a total consolidated General Revenue Fund cash balance of $2.64 billion, a 34.6 percent increase from the fiscal 2010 year-end closing balance of $1.96 billion.

Not self-supporting debt ratios for Texas rank well below those of other states, including comparisons with the ten most populous states and those rated AAA by the three major rating agencies. (Not self-supporting debt receives annual legislative appropriations from state general revenue for debt-service payments.) The most recent U.S. Census Bureau data for state and local debt outstanding show that for calendar 2008-09, Texas was the nation's 2nd most populous state and ranked 2nd among the ten most populous states in terms of Local Debt Per Capita but 10th in State Debt Per Capita and 5th in Total State and Local Debt Per Capita

*Constitutional Debt Limit*

As of August 31, 2011 Texas' constitutional debt limit (CDL) remained below the maximum of 5 percent with 1.35 percent calculated for debt outstanding and 3.70 percent calculated including authorized but unissued debt. These figures represent a decrease of 0.7 percent and 9.8 percent, respectively from fiscal 2010's 1.36 percent for debt outstanding and 4.10 percent including authorized but unissued debt. The CDL is expected to continue to decrease with the issuance of authorized debt.

**State and Local Financings in FY 2011**

*State Debt*

For the fiscal year ending August 31, 2011 Texas' total state debt outstanding increased by 7.1 percent to $40.50 billion compared to $37.82 billion at fiscal year-end 2010. This increase is primarily due to approximately $2.11 billion issued by the Texas Public Finance Authority

(TPFA), $977.8 million issued by Texas Transportation Commission (TTC) and approximately $644.1 million issued by The University of Texas System (UTS).

Approximately $5.41 billion in new-money and refunding bonds were issued by state agencies and institutions of higher education in fiscal 2011 compared to $6.64 billion in fiscal 2010, a decrease of 12.1 percent. In addition, approximately $635.0 million in commercial paper and variable-rate notes were issued in fiscal 2011 compared to approximately $1.08 billion issued in fiscal 2010, a decrease of 41.2 percent. Continued lower interest rates resulted in the issuance of nearly $785.3 million in refundings of state debt in fiscal 2011 compared to $1.36 billion in refundings completed in fiscal 2010.

For fiscal year 2012 state debt issuance is expected to increase by 30.1 percent to approximately $8.64 billion as compared to fiscal 2011. The largest issuances are projected at $2.90 billion for UTS, $2.50 billion for the TTC and $1.32 billion for The Texas A&M University System.

*Local Debt*

For the fiscal year ending August 31, 2010 Texas' total local government debt outstanding increased by 5.3 percent to $183.79 billion compared to $174.55 billion outstanding at fiscal year-end 2009. (Local government debt outstanding totals for fiscal 2011 are not yet available.)

Local government debt issuance in Texas reached $22.96 billion in fiscal 2010, a 14.9 percent decrease from the $26.08 billion issued in fiscal 2009. Approximately $14.08 billion of the total for fiscal 2010 was issued for new-money purposes, and $8.89 billion was issued to refund prior outstanding debt. Tax-supported debt issuances increased by 2.7 percent to $15.70 billion, and revenue debt issuances decreased by 32.8 percent to $7.26 billion.

**Issuance Costs**

The state's weighted average debt issuance costs for fiscal 2011 were $1,566,396 or $5.74 per $1,000 compared to $1,261,481 and $6.20 per $1,000 in fiscal 2010.

**Private Activity Bond Allocation Program and Other Bonding Authority**

The calendar-year 2011 Private Activity Bond Allocation Program experienced a 7.1 percent increase in volume cap to finance "private activities" such as single-family mortgages, multifamily housing, pollution control facilities and student loans. The 2011 volume cap was set at $2,388,828,295, an increase of $158.4 million from the 2010 cap of $2,230,407,180.

Issuer demand during the 2011 Program Year decreased compared to the 2010 Program Year. Approximately 34.5 percent of the available 2011 volume cap had been requested before the August 15th collapse compared to 79.6 percent for 2010. After the 2011 collapse, the BRB received $1.52 billion in requests, 25.9 percent lower than the $2.05 billion requested in 2010. Applications received for Program Year 2011 including carryforward requests, totaled $2.35 billion or 41.3 percent of the total available allocation of $5.69 billion. This is a decrease of 38.6 percent from the $3.82 billion of the available allocation requested in 2010. As of November 15, 2011 all requests for reservations had been granted.

In July 2008 the Housing and Economic Recovery Act (HERA) of 2008 increased the amount of Private Activity Bond volume cap available to the state for single-family and multifamily housing projects by $748.5 million. When the program expired at the end of calendar 2010, $698.5 million of HERA volume cap had been allocated, and $50.0 million remained unallocated.

In October 2008 the Heartland Disaster Tax Relief Act (HDTRA) of 2008 provided Texas with $1.86 billion in tax-exempt bonding authority for the Hurricane Ike disaster area which includes 34 counties along the Texas coast. On December 7, 2009 Governor Perry issued proclamation 41-3232 providing for administration of the qualified Hurricane Ike disaster area bond program and naming priorities for the designation of such bonds.

As of November 15, 2011 the Governor had designated the total authority allotted to Group A ($1.43 billion) and Group B ($242.2 million). As of the same date no applications had been received under Group C, and $754.6 million in Hurricane Ike bonds had been issued. Hurricane Ike bonding authority expires on January 1, 2013.

In February 2009 the American Recovery and Reinvestment Act (ARRA) of 2009 created four new types of bonding authority and expanded authority under three existing programs. Under ARRA, four state issuers issued a total of $2.78 billion in Build America Bonds before the program expired at the end of calendar 2010.

**82nd Legislature – Regular Session and 1st Called Special Session**

The 82nd Legislature appropriated debt service for the 2012-13 biennium for the Texas Transportation Commission to issue $4 billion in debt, for the Cancer Prevention and Research Institute of Texas to issue $600 million in debt and for the Texas Public Finance Authority to issue $182.4 million in debt for various state agencies.

In November 2011 voters approved Proposition 2 that allows the Texas Water Development Board (TWDB) to issue debt for the Development Fund II in an amount not to exceed $6 billion outstanding at any time. In addition, voters approved Proposition 3 that allows the Texas Higher Education Coordinating Board to issue general obligation bonds to finance educational loans to students with a maximum amount outstanding not to exceed the aggregate amount of previously authorized constitutional authority of $1.86 billion, and increases the maximum amount of bonds issued per fiscal year from $125 million to $350 million. These programs are self-supporting and have never required a draw on general revenues unless it was specifically appropriated for certain TWDB programs.

The 82nd Legislature 1st Called Special Session enacted Senate Bill 5 that exempts from BRB approval issuances by higher education institutions with a bond rating of AA- or higher.

**Additional Detail**

This report concludes with six appendices. Appendix A provides a detailed description of each state bond transaction closed in fiscal 2011. Appendix B reports on commercial paper and variable-rate debt programs used by state agencies and universities. Appendix C provides a background discussion of Texas Swap Programs and reports on the state's swaps outstanding and debt-service requirements. While not a debt of the state, the aggregate notional amount of interest rate swaps outstanding at the state level was $4.45 billion at fiscal year-end 2011. Appendix D provides an overview of the costs of issuance and underwriting spread. Appendix E provides a brief description of each of the state's bond issuing entities. Appendix F provides an overview of the Private Activity Bond Program. Appendix G provides a glossary of terms.

# Contents

# Figures

# Tables

**Cautionary Statements**

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

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

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

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

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

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

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

## Chapter 1
## Texas Debt in Perspective

As of September 2011 Texas' general obligation (GO) debt is split-rated at Aaa/AA+/AAA by the three major credit rating agencies, Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch), respectively. The S&P rating is one step below AAA. Table 1.2 provides a tier-ranking of each state relative to states that are rated AAA by all three rating agencies.

On August 5, 2011 S&P downgraded its long-term debt rating for the United States from AAA to AA+ with a negative outlook. Although Moody's and Fitch affirmed their AAA ratings for the U.S. debt, Moody's lowered its outlook to "negative" and Fitch maintained its outlook as "stable". The U.S. credit rating downgrade is not expected to impact debt issuance costs in Texas.

*According to Moody's 2011 State Debt Medians, Texas ranked 39th among all states in net tax-supported debt per capita compared to 40th in the prior year, and Texas had $612 in net tax-supported debt per capita compared to the national median and mean of $1,066 and $1,404, respectively.*

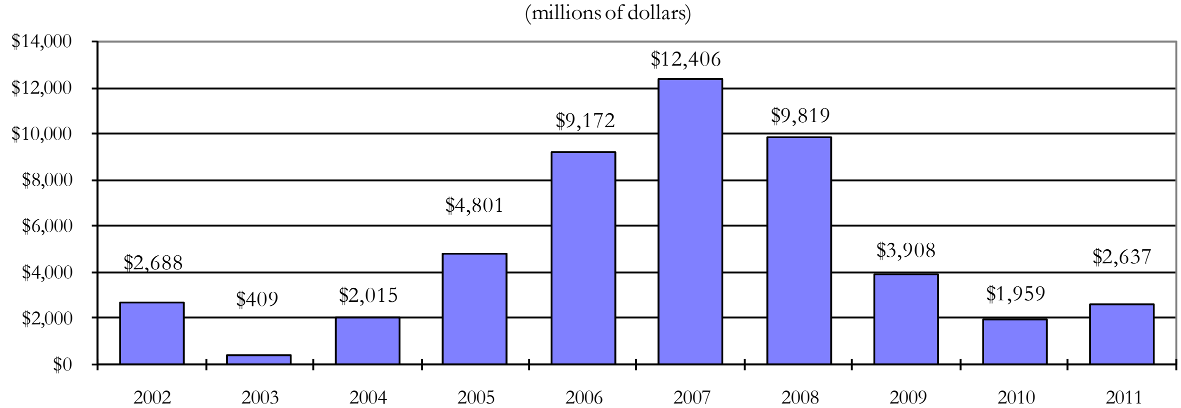
### STATE DEBT

**Texas' Financial Position**
Texas ended fiscal 2011 with a total consolidated General Revenue Fund cash balance of $2.64 billion *(Figure 1.1),* a 34.6 percent increase from the fiscal 2010 year-end closing balance of $1.96 billion.

Total Tax Collections received increased by 9.9 percent to $36.61 billion. Total Net Revenues and Other Sources increased by 9.2 percent to $119.02 billion, and Total Expenditures and Other Uses increased by 6.7 percent to $118.34 billion *(Table 1.1).*

The state's primary source of revenue is the Sales Tax which accounted for 58.6 percent of Total Tax Collections during fiscal 2011. Sales Tax revenues increased 9.4 percent from the prior fiscal year to $21.44 billion. The second and third largest sources of revenue are the state's Oil Production Tax that increased by 46.0 percent during fiscal 2011 to $1.47 billion from $1.01 billion in fiscal 2010, and the Natural Gas Production Tax that increased by 53.0 percent to $1.11 billion from $725.5 million in fiscal 2010.

Figure 1.1
**ENDING CASH BALANCE IN TEXAS' CONSOLIDATED GENERAL REVENUE FUND**
(millions of dollars)




**Source:** Texas Comptroller of Public Accounts, 2011 Annual Cash Report

Table 1.1

**STATEMENT OF CASH CONDITION**

**CONSOLIDATED GENERAL REVENUE FUND**

(amounts in thousands)

| | Fiscal 2010 | Fiscal 2011 | % Change |
|---|---|---|---|
| **Revenues and Beginning Balance** | | | |
| Beginning Balance, September 1 | $3,907,734 | $1,959,202 | -49.9% |
| **Tax Collections** | | | |
| **General Revenue Fund** | | | |
| Sales Tax | 19,589,950 | 21,437,951 | 9.4% |
| Oil Production Tax | 1,008,664 | 1,472,847 | 46.0% |
| Natural Gas Production Tax | 725,538 | 1,109,718 | 53.0% |
| Motor Fuels Taxes | 3,041,973 | 3,104,200 | 2.0% |
| Cigarette and Tobacco Taxes | 581,664 | 620,271 | 6.6% |
| Motor Vehicle Sale/Rental, Mfg. Housing Sale | 2,628,830 | 2,964,141 | 12.8% |
| Franchise Tax | 2,648,909 | 2,677,267 | 1.1% |
| Alcoholic Beverages Taxes | 809,234 | 862,032 | 6.5% |
| Insurance Taxes | 1,324,703 | 1,349,642 | 1.9% |
| Inheritance Tax | 81 | 1,807 | 2130.9% |
| Hotel and Motel Tax | 330,809 | 348,796 | 5.4% |
| Utilities Taxes | 478,743 | 457,722 | -4.4% |
| Other Taxes | 143,081 | 201,144 | 40.6% |
| **Total Tax Collections** | **$33,312,179** | **$36,607,538** | **9.9%** |
| Federal Income | 27,407,709 | 29,204,935 | 6.6% |
| Interest & Investment Income | 39,061 | 74,819 | 91.5% |
| Licenses, Fees, Permits, Fines, & Penalties | 5,224,541 | 5,693,805 | 9.0% |
| Contributions to Employee Benefits | 169 | 158 | -6.5% |
| Sales of Goods and Services | 159,497 | 152,122 | -4.6% |
| Land Income | 20,879 | 23,691 | 13.5% |
| Settlements of Claims | 556,464 | 586,835 | 5.5% |
| Net Lottery Proceeds | 1,633,923 | 1,675,476 | 2.5% |
| Other Revenue Sources | 3,334,796 | 3,511,663 | 5.3% |
| Interfund Transfers / Investment Transactions | 37,269,595 | 41,488,178 | 11.3% |
| **Total Net Revenue and Other Sources** | **$108,958,813** | **$119,019,220** | **9.2%** |
| **Expenditures and Ending Balance** | | | |
| General Government | 3,030,671 | 3,211,236 | 6.0% |
| Health and Human Services | 35,109,439 | 37,902,889 | 8.0% |
| Public Safety and Correction | 4,220,019 | 4,078,917 | -3.3% |
| Education | 28,612,029 | 28,809,869 | 0.7% |
| Employee Benefits | 2,939,061 | 3,025,234 | 2.9% |
| Lottery Winnings Paid | 486,717 | 541,356 | 11.2% |
| Other Expenditures* | 2,093,932 | 2,008,695 | -4.1% |
| Interfund Transfers / Investment Transactions | 34,415,526 | 38,762,897 | 12.6% |
| **Total Expenditures and Other Uses** | **$110,907,394** | **$118,341,093** | **6.7%** |
| **Net Increase to Petty Cash Accounts** | 49 | 13 | -73.5% |
| **Ending Balance, August 31** | **$1,959,202** | **$2,637,342** | **34.6%** |

**Source:** Texas Comptroller of Public Accounts, 2011 Cash Report, Tables 1 & 11.

* Includes Transportation, Natural Resources/Recreational Services, Regulatory Agencies, Payment of Interest and Capital Outlays.

Totals may not sum due to rounding.

**82nd Legislature – Regular Session and 1st Called Special Session**

The 82nd Legislature appropriated debt service for the 2012-13 biennium for the Texas Transportation Commission (TTC) to issue $4 billion in debt, for the Cancer Prevention and Research Institute of Texas (CPRIT) to issue $600 million in debt and for the Texas Public Finance Authority to issue $182.4 million in debt for various state agencies.

In November 2011 voters approved Proposition 2 that allows the Texas Water Development Board (TWDB) to issue debt for its Development Fund II in an amount not to exceed $6 billion outstanding at any time. In addition, voters approved Proposition 3 that allows the Texas Higher Education Coordinating Board (THECB) to issue GO bonds to finance educational loans to students with a maximum amount outstanding not to exceed the aggregate amount of previously authorized constitutional authority of $1.86 billion, and increases the maximum amount of bonds issued per fiscal year from $125 million to $350 million. These programs are self-supporting and have never required a draw on state general revenues unless it was specifically appropriated for certain TWDB programs.

The 82nd Legislature 1st Called Special Session enacted Senate Bill (SB) 5 that exempts from BRB approval issuances by higher education institutions with a bond rating of AA- or higher.

**81st Legislature - Regular Session and 1st Called Special Session**

The 81st Legislature appropriated debt service for the 2010-11 biennium to CPRIT to issue $450 million in GO debt under the $3 billion in authority approved by voters in 2007.

House Bill (HB) 4409 authorized the issuance of three different classes of public securities totaling $2.5 billion to fund excess losses incurred by the Texas Windstorm Insurance Agency. SB 2064 modified the Private Activity Bond (PAB) Program and increased the responsibilities of the BRB (*See Chapter 5 for a discussion of changes to the PAB Program*).

HB 1 of the 1st Called Special Session of the 81st Legislature appropriated to TTC for the 2010-11 biennium $2 billion of the $5 billion in GO bonds approved by voters in 2007 to fund highway improvement projects. No bonds were issued under this appropriation during fiscal 2010, but in September 2010, TTC issued $977.8 million in GO bonds of which $815.4 million was issued as Build America Bonds.

**80th Legislature - Regular Session**

The 80th Legislature authorized more than $9.75 billion in additional GO debt that was approved by voters in 2007. These include: Senate Joint Resolution (SJR 64) to finance $5 billion for transportation projects; House Joint Resolution (HJR) 90 to finance $3 billion for cancer research; SJR 65 to finance $1 billion for capital projects for certain state agencies; SJR 57 to finance $500 million for student loans and SJR 20 to finance $250 million for water projects.

With the passage of SB 1332 the 80th Legislature passed legislation modifying the BRB statutes to require issuers to submit Requests for Proposals to provide services, final proposals for those services and executed contracts upon request. The BRB has requested that all state issuers provide this information. The legislation also added a definition of derivative agreements and required the BRB to develop a state policy for such agreements. The definition of a state security was expanded to include certain obligations issued under the Texas Education Code, Chapter 53. Under SB 1332 the BRB, in conjunction with the Legislative Budget Board is annually required to submit a Debt Affordability Study to state leadership.

Under SB 968 the 80th Legislature expanded and clarified the definition of derivative agreements in the Texas Government Code, Chapter 1371 and requires issuers to have appropriate policies and oversight over derivatives unless they are considered experienced as defined within the statute. SB 792 expanded the authority for State Highway Fund Bonds from $3 billion to $6 billion.

**Additional Bonding Authority**
In October 2008 the Heartland Disaster Tax Relief Act of 2008 created $1.86 billion in tax-exempt bonding authority for the Hurricane Ike disaster area which includes 34 counties along the Texas coast. The Hurricane Ike Authority expires on January 1, 2013. *(See Chapter 5 for the status of Hurricane Ike bonding authority.)*

In February 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) created four new types of bonding authority and expanded authority under three existing programs. All of these programs have expired except for the Qualified Energy Conservation Bond Program which has no expiration date.

**Recent Credit Rating Agency Reports on Texas' General Obligation Debt**
*S&P's* outlook for the state's rating remains stable. In its May 2011 report, "State Review: Texas," S&P stated that "the stable outlook reflects S&P's expectation that the measures that are eventually adopted by the legislature to balance the 2012-13 biennial budget will not threaten the state's future budget stability by excessively relying on one-time measures and the deferral of current contributions to address future liabilities. We believe that an upgrade is unlikely within the next two years absent the adoption of measures that solve the structural budget imbalance that resulted from the school funding changes approved in 2006. Conversely, the ratings could be pressured if revenue collections perform significantly below current estimates, additional budget gaps develop in the upcoming biennium and state officials do not take prompt corrective action." S&P's latest action on Texas' GO rating was an upgrade from AA to AA+ in August 2009.

*Moody's* outlook for Texas' rating is stable. In its July 2011 report, "New Issue: Moody's Assigns Aaa Ratings to $657 Million Texas General Obligation (GO) New Money And Refunding Bonds, Issued Through Texas Public Finance Authority," Moody's stated that "the ratings reflect the strong fundamentals of the Texas economy and the expectation that it will continue to perform more strongly than the nation; a notably large rainy day fund that the state will use to help balance the current biennium but that still provides a healthy budgetary cushion; and low but rising debt levels. Those strengths are offset by a weaker GAAP-basis available fund balance than in recent years and structural budgetary imbalances that results partly from reliance in the current biennium on federal stimulus funds and from the costs of a school finance/property tax relief mechanism that could challenge the state's finances in the lower revenue environment." Moody's latest action on Texas' GO rating was to affirm its stable outlook in July 2011.

*Fitch's* outlook for Texas' rating is also stable. In its July 2011 report, "Fitch Affirms Texas Public Finance Authority State GO Bonds at AAA," Fitch stated that "the long-term AAA GO rating of the state of Texas reflects its low debt burden, conservative financial operations and a growth-oriented economy that is rapidly emerging from the recent recession. Financial pressures arise from the demand that rapid growth places on the state's consumption-based tax system, as well as from longer-term transportation needs and an increased state commitment to education and property tax reductions. The state's budget for the fiscal 2012-13 biennium relies on significant cuts to baseline projected spending to maintain balance, while preserving most of the forecast balance in the economic stabilization fund, the state's budget reserve." Fitch's latest action on Texas' GO rating was to affirm its stable outlook in July 2011.

**Factors Affecting the Rating of Texas' General Obligation Debt**
On August 5, 2011 S&P downgraded its long-term rating for the United States from AAA

Table 1.2
**STATE BOND RATINGS as of September 2011**

| Steps from AAA Ranking | State | Moody's Investors Service | Standard & Poor's | Fitch Ratings |
|---|---|---|---|---|
| **States With a General Obligation Rating** | | | | |
| - | Delaware | Aaa | AAA | AAA |
| - | Georgia | Aaa | AAA | AAA |
| - | Maryland | Aaa | AAA | AAA |
| - | Missouri | Aaa | AAA | AAA |
| - | North Carolina | Aaa | AAA | AAA |
| - | Utah | Aaa | AAA | AAA |
| - | Virginia | Aaa | AAA | AAA |
| 1 | South Carolina | Aaa | AA+ | AAA |
| 1 | Florida | Aa1 | AAA | AAA |
| 1 | Vermont | Aaa | AA+ | AAA |
| 1 | New Mexico | Aaa | AA+ | ** |
| 1 | Tennessee | Aaa | AA+ | AAA |
| **1** | **TEXAS** | **Aaa** | **AA+** | **AAA** |
| 2 | Alaska | Aaa | AA+ | AA+ |
| 3 | Minnesota | Aa1 | AA+ | AA+ |
| 3 | Washington | Aa1 | AA+ | AA+ |
| 3 | Ohio | Aa1 | AA+ | AA+ |
| 3 | Arkansas | Aa1 | AA | ** |
| 3 | Massachusetts | Aa1 | AA+ | AA+ |
| 3 | Oregon | Aa1 | AA+ | AA+ |
| 4 | Alabama | Aa1 | AA | AA+ |
| 4 | New Hampshire | Aa1 | AA | AA+ |
| 4 | Pennsylvania | Aa1 | AA | AA+ |
| 4 | Montana | Aa1 | AA | AA+ |
| 4 | Oklahoma | Aa2 | AA+ | AA+ |
| 4 | West Virginia | Aa1 | AA | AA+ |
| 5 | Nevada | Aa2 | AA | AA+ |
| 5 | Maine | Aa2 | AA | AA+ |
| 5 | Mississippi | Aa2 | AA | AA+ |
| 6 | Hawaii | Aa2 | AA | AA |
| 6 | Connecticut | Aa2 | AA | AA |
| 6 | Rhode Island | Aa2 | AA | AA |
| 6 | Wisconsin | Aa2 | AA | AA |
| 6 | New York | Aa2 | AA | AA |
| 6 | Louisiana | Aa2 | AA | AA |
| 8 | Michigan | Aa2 | AA- | AA- |
| 9 | New Jersey | Aa3 | AA- | AA- |
| 13 | Illinois | A1 | A+ | A |
| 16 | California | A1 | A- | A- |
| **States With Only An Issuer Credit Rating** | | | | |
| * | Arizona | Aa3 | AA- | ** |
| * | Colorado | Aa1 | AA | ** |
| * | Idaho | Aa1 | AA+ | AA (Lease) |
| * | Indiana | Aaa | AAA | AA+ (Lease) |
| * | Iowa | Aaa | AAA | AAA (Implied GO) |
| * | Kansas | Aa1 | AA+ | AA (Lease) |
| * | Kentucky | Aa2 | AA- | AA- (Lease) |
| * | Nebraska | ** | AAA | ** |
| * | North Dakota | Aa1 | AA+ | ** |
| * | South Dakota | ** | AA+ | AA (Lease) |
| * | Wyoming | ** | AAA | ** |

* Issuer Credit Rating. No GO debt outstanding.

** Not rated

**Source:** The Bond Buyer Ratings for U.S. States as of September 23, 2011.

to AA+ with a negative outlook. Although Moody's and Fitch affirmed their AAA ratings for the U.S. debt, Moody's lowered its outlook to "negative" and Fitch maintained its outlook as "stable". The U.S. credit rating downgrade is not expected to significantly impact debt issuance costs in Texas.

Credit rating agencies consider four primary factors when rating a state's debt: economy, finances, debt and management. Within economic factors, the agencies review the state's income, employment, economic diversity and demographics. Financial factors considered are the state's revenues, cost structure, balance sheet health and liquidity. Debt factors reviewed include debt ratios and debt security and structure. Management, a major factor for the rating agencies includes: budget development and management practices; constitutional constraints, initiatives and referenda; executive branch controls; mandates to maintain a balanced budget; rainy day funds; and political polarization.

The sometimes overlapping conclusions reached by all three rating agencies reflect their collective judgment that several challenges may arise if Texas is faced with a low revenue environment. Among the most prominent and commonly cited of these problems are: (1) the state's heavy dependence on the sales tax without support from a state income tax; (2) unresolved issues related to public school funding; and (3) the state's continued rapid population growth that will necessitate budget increases for operating costs as well as increases in capital expenditures for growing infrastructure needs.

### Changes in State Bond Ratings

During fiscal 2011, nine states received ratings upgrades; Alaska was upgraded by Moody's and West Virginia was upgraded by both Moody's and Fitch. Idaho, Louisiana, Massachusetts, Nebraska, Oregon, South Dakota and Wyoming received upgrades from S&P. Six states received ratings downgrades: Hawaii was downgraded by Moody's and Fitch, Minnesota by S&P and Fitch and Nevada by Moody's and S&P. Illinois and Kentucky were downgraded by Moody's and New Jersey was downgraded by all three rating agencies *(Table 1.3)*.

### Texas' Debt Ratios Compared to AAA-Rated and Other States

According to Moody's *2011 State Debt Medians*

| Table 1 3<br>**CHANGES IN STATE BOND RATINGS**<br>**August 2010 to September 2011** | | | |
|---|---|---|---|
| **State** | **Moody's** | **Standard & Poor's** | **Fitch** |
| **Upgrades** | | | |
| Alaska | Aa1 to Aaa | - | - |
| Idaho* | - | AA to AA+ | - |
| Louisiana | - | AA- to AA | - |
| Massachusetts | - | AA to AA+ | - |
| Nebraska* | - | AA+ to AAA | - |
| Oregon | - | AA to AA+ | - |
| South Dakota* | - | AA to AA+ | - |
| West Virginia | Aa2 to Aa1 | - | AA to AA+ |
| Wyoming* | - | AA+ to AAA | - |
| **Downgrades** | | | |
| Hawaii | Aa1 to Aa2 | - | AA+ to AA |
| Illinois | Aa3 to A1 | - | - |
| Kentucky* | Aa1 to Aa2 | - | - |
| Minnesota | - | AAA to AA+ | AAA to AA+ |
| New Jersey | Aa2 to Aa3 | AA to AA- | AA to AA- |
| Nevada | Aa1 to Aa2 | AA+ to AA | - |

* Issuer Credit Rating. No GO debt outstanding.
**Sources**: The Bond Buyer Ratings for U.S. States as of September 23, 2011.

Texas ranked 39th among all states in net tax-supported debt per capita compared to 40th in last year's report *(Table 1.4)*. According to the report, Texas had $612 in net tax-supported debt per capita compared to the national median and mean of $1,066 and $1,404, respectively. Texas net tax-supported debt per capita ranked lower than that of the seven AAA-rated states *(Table 1.5)*. By comparison, AAA-rated Delaware had the highest debt per capita at $2,676. Additionally, Texas' 2010 personal income per capita of $37,706 is above that of four AAA states: Georgia, Missouri, North Carolina and Utah.

Texas' net tax-supported debt as a percent of calendar 2010 personal income was 1.6 percent, 40th among all the states and below the national median and mean of 2.8 percent and 3.5 percent, respectively *(Table 1.4)*. Compared to the seven states rated AAA by all three major rating agencies, Texas' ranked lowest while the median and mean of the seven states were 3.3 percent and 3.5 percent, respectively *(Table 1.5)*.

The most recent U.S. Census Bureau data for state and local debt outstanding show that for calendar 2008-09, Texas was the nation's 2nd most populous state and ranked 2nd among the ten most populous states in terms of Local Debt Per Capita but 10th in State Debt Per Capita and 5th in Total State and Local Debt Per Capita *(Table 1.6)*. In 2009, 86.7 percent of Texas' total state and local debt burden was at the local level *(Figure 1.2)*. Local debt includes debt issued by cities, counties, school and hospital districts and special districts.

Many communities throughout Texas are continuing to experience significant population growth increasing demand for infrastructure, programs and services. Net migration to the state has forced many small and medium-sized communities to increase financing for infrastructure such as roads, schools and water and wastewater services to meet those needs. Based on projections of current demographic trends, Texas will continue to experience increasing demand for expenditures in these areas.

### Debt Supported by General Revenue Increases

General obligation (GO) debt pledges "the full faith and credit of the state" to back the payment of the debt. In the event that program or project revenue is insufficient to pay debt service on self-supporting debt, the first monies coming into the state treasury not otherwise constitutionally appropriated shall be used to pay the debt service. Some GO debt, such as that issued by the Texas Veterans' Land Board is self-supporting, and other GO debt, such as that issued by the Texas Public Finance Authority to finance programs for the Texas Department of Criminal Justice, the Texas Department of Aging and Disability Services and the Texas Youth Commission is not self-supporting and must receive annual appropriations from the legislature for debt-service payments from the state's general revenue fund.

At the end of fiscal 2002, the total not self-supporting state debt payable from general revenue was $3.25 billion. At the end of fiscal 2011, $4.14 billion of such debt was

Table 1.4

**SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE**

| State | Moody's Rating | Net Tax-Supported Debt as a % of 2010 Personal Income | Rank | Net Tax-Supported Debt Per Capita | Rank |
|---|---|---|---|---|---|
| Hawaii | Aa2 | 10.1% | 1 | $4,236 | 3 |
| Massachusetts | Aa1 | 9.5% | 2 | 4,711 | 2 |
| Connecticut | Aa2 | 9.5% | 3 | 5,236 | 1 |
| New Jersey | Aa3 | 7.9% | 4 | 3,940 | 4 |
| Delaware | Aaa | 6.8% | 5 | 2,676 | 6 |
| New York | Aa2 | 6.8% | 6 | 3,149 | 5 |
| Washington | Aa1 | 6.2% | 7 | 2,626 | 7 |
| Kentucky | Aa2* | 6.1% | 8 | 1,961 | 12 |
| California | A1 | 6.0% | 9 | 2,542 | 8 |
| Illinois | A1 | 5.7% | 10 | 2,383 | 9 |
| Oregon | Aa1 | 5.6% | 11 | 2,006 | 11 |
| New Mexico | Aaa | 5.6% | 12 | 1,827 | 13 |
| Rhode Island | Aa2 | 5.3% | 13 | 2,191 | 10 |
| Mississippi | Aa2 | 5.1% | 14 | 1,534 | 16 |
| Wisconsin | Aa2 | 4.8% | 15 | 1,795 | 14 |
| Utah | Aaa | 3.9% | 16 | 1,222 | 20 |
| West Virginia | Aa2 | 3.8% | 17 | 1,221 | 21 |
| Maryland | Aaa | 3.5% | 18 | 1,681 | 15 |
| Louisiana | Aa2 | 3.5% | 19 | 1,308 | 17 |
| Georgia | Aaa | 3.3% | 20 | 1,103 | 24 |
| Kansas | Aa1* | 3.2% | 21 | 1,239 | 19 |
| Florida | Aa1 | 3.0% | 22 | 1,150 | 23 |
| Alaska | Aaa | 3.0% | 23 | 1,257 | 18 |
| Ohio | Aa1 | 2.8% | 24 | 1,007 | 27 |
| Minnesota | Aa1 | 2.8% | 25 | 1,159 | 22 |
| Arizona | Aa3* | 2.8% | 26 | 910 | 28 |
| South Carolina | Aaa | 2.7% | 27 | 887 | 29 |
| Pennsylvania | Aa1 | 2.7% | 28 | 1,075 | 25 |
| Alabama | Aa1 | 2.6% | 29 | 856 | 32 |
| Virginia | Aaa | 2.4% | 30 | 1,058 | 26 |
| Maine | Aa2 | 2.4% | 31 | 865 | 31 |
| Nevada | Aa2 | 2.3% | 32 | 878 | 30 |
| North Carolina | Aaa | 2.3% | 33 | 782 | 34 |
| Michigan | Aa2 | 2.2% | 34 | 762 | 36 |
| Missouri | Aaa | 2.2% | 35 | 775 | 35 |
| Vermont | Aaa | 1.9% | 36 | 747 | 37 |
| New Hampshire | Aa1 | 1.9% | 37 | 812 | 33 |
| Oklahoma | Aa2 | 1.8% | 38 | 634 | 38 |
| Idaho | Aa1* | 1.6% | 39 | 519 | 41 |
| **Texas** | **Aaa** | **1.6%** | **40** | **612** | **39** |
| Indiana | Aaa* | 1.4% | 41 | 471 | 42 |
| Colorado | Aa1* | 1.3% | 42 | 524 | 40 |
| Arkansas | Aa1 | 1.1% | 43 | 361 | 44 |
| Montana | Aa1 | 1.1% | 44 | 371 | 43 |
| Tennessee | Aaa | 1.0% | 45 | 345 | 45 |
| South Dakota | ** | 0.9% | 46 | 328 | 46 |
| North Dakota | Aa1* | 0.8% | 47 | 315 | 47 |
| Iowa | Aaa* | 0.2% | 48 | 67 | 49 |
| Wyoming | ** | 0.1% | 49 | 71 | 48 |
| Nebraska | ** | 0.0% | 50 | 13 | 50 |
| Mean | | 3.5% | | $1,404 | |
| Median | | 2.8% | | $1,066 | |
| Puerto Rico*** | A3*** | 75.7% | | $10,167 | |

* Issuer Rating (No G.O. Debt)
** No general obligation debt
*** Included for comparison purposes only. Not included in any totals, averages or median calculations.

**Source:** Moody's Investors Service, *2011 State Debt Medians*.

Table 1.5

**SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA**

| State | Rating* | Net Tax-Supported Debt as a % of 2010 Personal Income | Rank | Net Tax-Supported Debt Per Capita | Rank | 2010 Personal Income Per Capita |
|---|---|---|---|---|---|---|
| Delaware | AAA | 6.8% | 5 | $2,676 | 6 | $39,664 |
| Maryland | AAA | 3.5% | 18 | $1,681 | 15 | $49,070 |
| Georgia | AAA | 3.3% | 20 | $1,103 | 24 | $34,800 |
| Utah | AAA | 3.9% | 16 | $1,222 | 20 | $32,473 |
| North Carolina | AAA | 2.3% | 33 | $782 | 34 | $34,977 |
| Missouri | AAA | 2.2% | 35 | $775 | 35 | $36,965 |
| Virginia | AAA | 2.4% | 30 | $1,058 | 26 | $44,246 |
| TEXAS | Aaa/AA+/AAA | 1.6% | 40 | $612 | 39 | $37,706 |
| **Median of AAA States**** | | **3.3%** | | **$1,103** | | **$36,965** |
| **Mean of AAA States**** | | **3.5%** | | **$1,328** | | **$38,885** |

* Rated Aaa by Moody's, and AAA by Standard & Poor's and Fitch Ratings

**Median and mean figures do not include Texas

**Sources**: Moody's Investors Service, *2011 State Debt Medians;* Bureau of Economic Analysis, State BEAR Facts

outstanding, an increase of 27.4 percent since fiscal 2002 and an increase of 24.5 percent from the $3.33 billion outstanding in fiscal 2010. This increase is mainly attributed to the Texas Transportation Commission issuing $977.8 million of highway improvement bonds during fiscal 2011. Annual debt service as a percent of unrestricted general revenue increased slightly from 1.25 percent in fiscal 2010 to 1.26 percent in fiscal 2011 *(Figure 1.3)*. Funds accessible to make debt-service payments increased 12.3 percent in fiscal 2011 to $38.21 billion from $34.01 billion in fiscal 2010 *(Figure 1.4)*. Unrestricted general revenue is generally the most available funding source to make debt-service payments and to fund appropriations for state operations.

## Authorized but Unissued Debt Decreases

Authorized but unissued debt (debt that has been authorized by the legislature and may be issued at any time without further legislative action) decreased by 8.1 percent from approximately $16.32 billion at the end of fiscal 2010 to approximately $14.99 billion at the end of fiscal 2011. Of the total, approximately $11.53 billion is GO debt while $3.47 billion is non-GO debt. Approximately $8.04 billion of the authorized but unissued amount includes GO and non-GO debt payable from general revenue.

Table 1 6

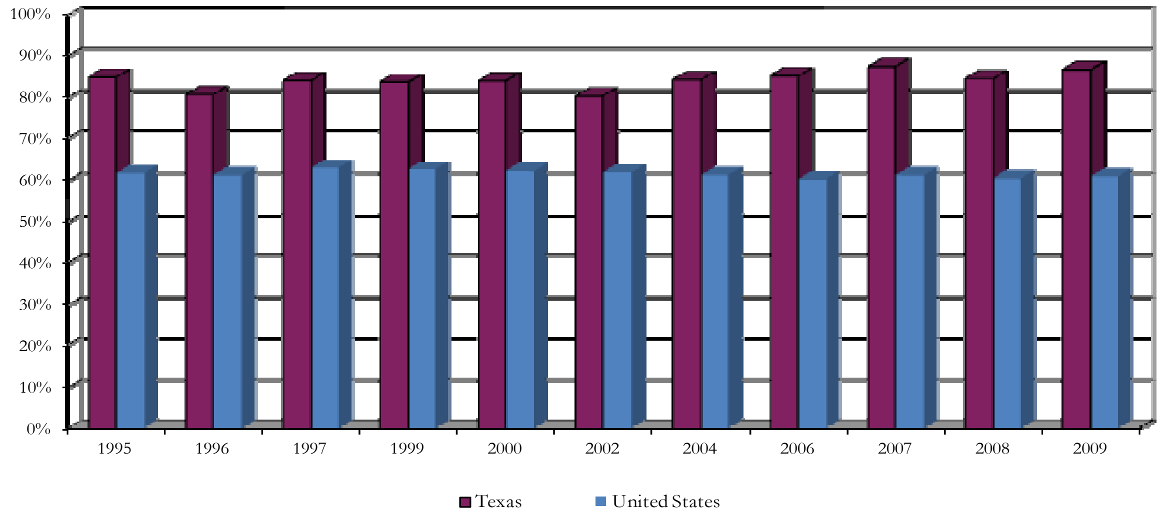
**TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES**

| | Total State and Local Debt | | | | State Debt | | | | Local Debt | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| State | Population (thousands) | Amount (millions) | Per Capita Amount | Per Capita Rank | Amount (millions) | % of Total Debt | Per Capita Amount | Capita Rank | Amount (millions) | % of Total Debt | Capita Amount | Capita Rank |
| New York | 19,541 | $293,510 | $15,020 | 1 | $122,652 | 41.8% | $6,277 | 1 | $170,858 | 58.2% | $8,744 | 1 |
| California | 36,962 | 373,694 | 10,110 | 2 | 134,572 | 36.0% | 3,641 | 3 | 239,122 | 64.0% | 6,469 | 3 |
| Illinois | 12,910 | 128,100 | 9,923 | 3 | 56,962 | 44.5% | 4,412 | 2 | 71,138 | 55.5% | 5,510 | 6 |
| Pennsylvania | 12,605 | 117,684 | 9,336 | 4 | 41,924 | 35.6% | 3,326 | 4 | 75,760 | 64.4% | 6,010 | 4 |
| **Texas** | 24,782 | **228,282** | **9,212** | **5** | **30,438** | **13.3%** | **1,228** | **10** | **197,844** | **86.7%** | **7,983** | **2** |
| Florida | 18,538 | 147,177 | 7,939 | 6 | 38,885 | 26.4% | 2,098 | 8 | 108,292 | 73.6% | 5,842 | 5 |
| Michigan | 9,970 | 77,976 | 7,821 | 7 | 29,591 | 37.9% | 2,968 | 5 | 48,385 | 62.1% | 4,853 | 7 |
| Ohio | 11,543 | 73,943 | 6,406 | 8 | 27,949 | 37.8% | 2,421 | 6 | 45,994 | 62.2% | 3,985 | 9 |
| Georgia | 9,829 | 52,977 | 5,390 | 9 | 13,455 | 25.4% | 1,369 | 9 | 39,522 | 74.6% | 4,021 | 8 |
| North Carolina | 9,381 | 50,178 | 5,349 | 10 | 19,911 | 39.7% | 2,122 | 7 | 30,267 | 60.3% | 3,226 | 10 |
| **MEAN** | | **$154,352** | **$8,651** | | **$51,634** | **33.8%** | **$2,986** | | **$102,718** | **66.2%** | **$5,664** | |

Note: Detail may not add to total due to rounding.

**Source:** U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 2008-2009,* the most recent data available.

Figure 1 2
**LOCAL DEBT AS A PERCENTAGE OF TOTAL STATE AND LOCAL DEBT FOR TEXAS AND THE U.S.**

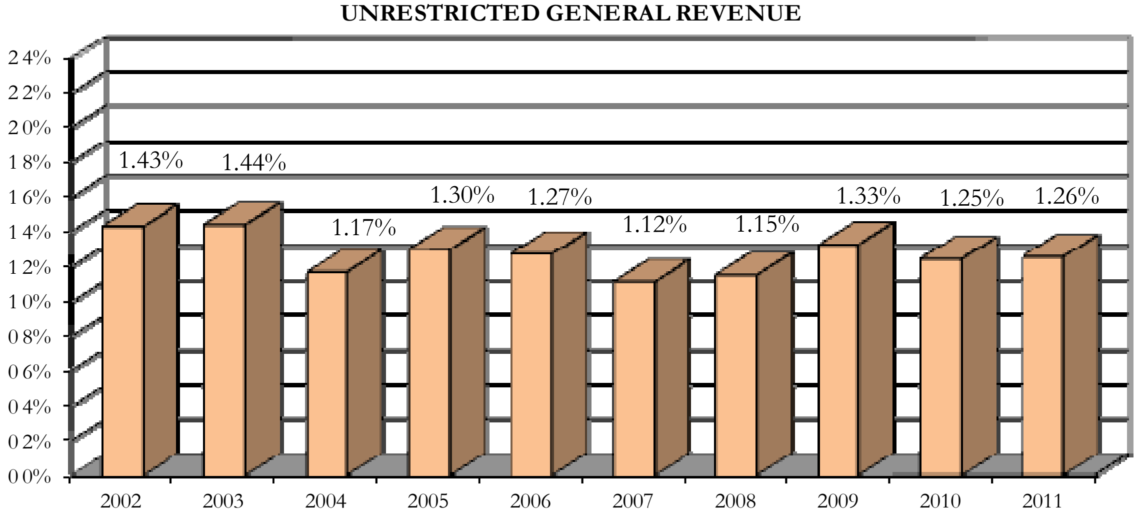



**Source:** U S Census Bureau, *State and Local Government Finances by Level of Government and by State 2008-2009,* the most recent data available

## Texas' Constitutional Debt Limit and Debt-Management Policy

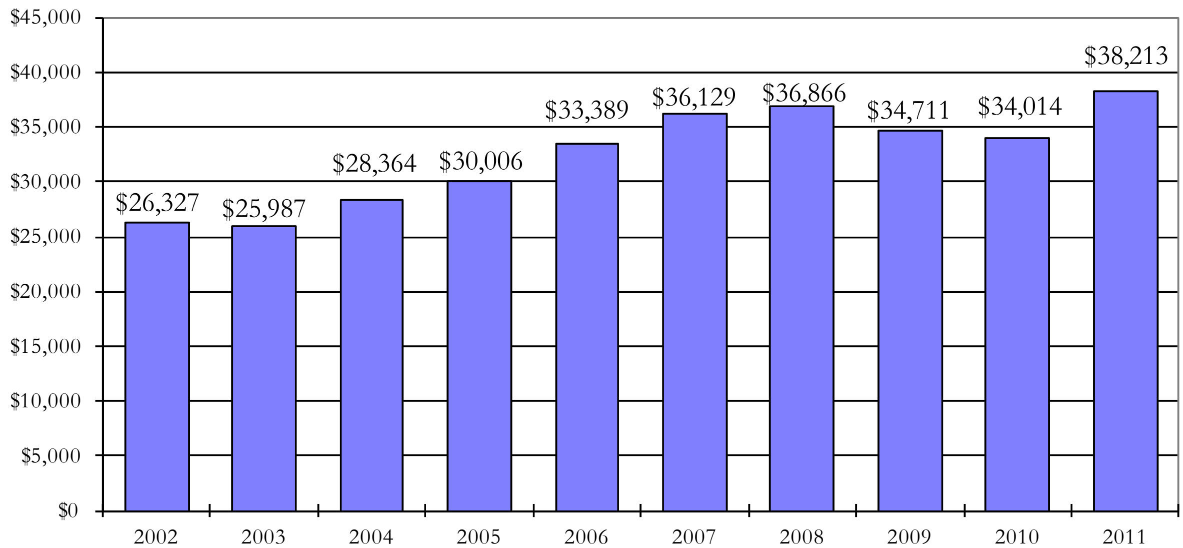
In 1997 the 75th Legislature passed and voters approved HJR 59 that added Section 49-j to Article III of the Texas Constitution. This amendment states that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including authorized but unissued debt, exceeds 5 percent of the average annual unrestricted General Revenue Fund revenues for the previous three fiscal years.

Figure 1.3
**ANNUAL NOT SELF-SUPPORTING DEBT SERVICE AS A PERCENTAGE OF UNRESTRICTED GENERAL REVENUE**




**Sources:** Texas Bond Review Board - Bond Finance Office and the Texas Comptroller of Public Accounts

Figure 1.4
**UNRESTRICTED GENERAL REVENUE**
(millions of dollars)




**Source:** Texas Comptroller of Public Accounts

As of August 31, 2011 Texas' constitutional debt limit (CDL) remained below the maximum of 5 percent with 1.35 percent calculated for debt outstanding and 3.70 percent calculated including authorized but unissued debt. These figures represent decreases of 0.7 percent and 9.8 percent, respectively from the 1.36 percent for debt outstanding and 4.10 percent including authorized but unissued debt calculated for fiscal 2010.

During fiscal 2008 the state's CDL for outstanding and authorized but unissued debt increased to 4.09 percent from fiscal 2007's 1.82 percent as a result of the passage in the November 2007 general election of constitutional amendments for more than $9.75 billion in additional GO debt, including $3 billion for cancer research and $5 billion for transportation projects. The CDL is expected to continue to decrease with the issuance of authorized debt.

HB 2190 passed in the 77th Legislature directed the BRB to adopt formal debt policies and issuer guidelines to provide guidance to issuers of state securities and to ensure that state debt is prudently managed. These policies and guidelines are posted on the agency's website.

SB 1332 passed in the 80th Legislature amended the agency's statutes to require the BRB to adopt a state policy related to the risks and effects of derivative agreements. This policy was adopted in fiscal 2009 and is available on the agency's website.

**Capital Planning Review and Approval Process**

The 76th Legislature (1999) passed legislation that biennially directs the BRB to produce the state's Capital Expenditure Plan (CEP). The legislation specifies that all state agencies and higher education institutions appropriated funds by the General Appropriations Act (GAA) are required to report capital planning information for projects that fall within four specific project areas: (1) acquisition of land and other real property; (2) construction of buildings and facilities; (3) renovations of buildings and other facilities estimated to exceed $1 million for a single state agency or institution of higher education; and (4) major information resources projects estimated to exceed $1 million. In previous reports, the BRB requested that all planned expenditure exceeding $250,000 must be reported, but the threshold was adjusted to $1 million in 2006 for future reports.

From a budgetary and capital planning standpoint, a number of state agencies work together to coordinate the budgetary and capital reporting and approval process for state agencies. They include the Governor's Office of Budget, Planning & Policy (GOBPP), the Legislative Budget Board (LBB), the Texas Higher Education Coordinating Board, the Texas Facilities Commission, the Comptroller of Public Accounts, House Committee on Appropriations (HAC) and Senate Finance Committee (SFC).

The legislature defines the types of projects and cost thresholds to be reported in the CEP. The BRB coordinates the submission of capital projects through the CEP, develops the report and determines the effect of the additional capital requests on the state's budget and debt capacity. The completed plan is then provided to the GOBPP and the LBB to develop recommendations for appropriations to the legislature.

The GOBPP and LBB also assess short-term and long-term budget needs. Through HAC and SFC, the legislature makes the final decisions on projects to be funded for the two-year biennial period. Approved capital and operating budgets are integrated into the GAA that authorizes specific debt issuance for capital projects.

Through the capital budgeting process, capital projects are approved for the two-year biennial period. Additionally, the CEP reports on the preceding year and the remaining two out years for identifying long-term needs of the state and for future planning purposes.

The 2012-13 CEP was released September 1, 2010, pursuant to Senate Bill 1, Article IX, Section 11.02 of the 81st Legislature and covers the out years 2014-15. This report represents the sixth published CEP for the state. The CEP is a management tool for state decision makers to use in assessing future individual capital expenditure requests within the framework of the state's overall financial position. The 2012-13 CEP is available on the agency's website.

The debt-issuance process has become more consolidated at the state level where twenty one agencies and higher education institutions have direct debt-issuing authority. The process remains highly fragmented at the local level where over 4,400 entities have issued debt in the past.

**Debt Affordability Study**

The state's Debt Affordability Study (DAS) is designed to provide the state leadership with an integrated approach to manage state debt by assessing historical debt use and analyzing the state's financial and economic resources in conjunction with long-term needs contained in the CEP. The BRB, LBB and the Texas Public Finance Authority prepared the state's first DAS, released in February 2007. With the passage of SB 1332 (80th Legislature), the BRB in conjunction with the LBB is responsible for subsequent editions of the DAS. Historical DAS reports are available on the agency's website. The 2012 DAS will be released in February 2012.

## LOCAL DEBT

**Local Debt Issuance Process**

Local governments in Texas issue debt to finance construction and renovation of government facilities (school instructional facilities, public safety buildings, city halls and county courthouses), public infrastructure (roads, water and sewer systems) and various other projects for economic development. Key factors that affect the need for infrastructure development include population changes, revenue sources, tax rates and levies, interest rates and construction costs. Other factors that affect debt issuance may simply be the importance of a project to a particular community.

Like state government, local governments issue two major types of long-term debt: general obligation (GO) debt and revenue debt. GO debt is secured by the full faith and credit of the issuers (i.e., the government's taxing authority) while revenue debt is secured solely by a specified revenue source.

State statutes set debt limitations for local government entities by setting maximum ad valorem tax rates per $100 of assessed property valuation. These rates vary by government type, but all must generate sufficient funds based on annual ad valorem tax collections to provide for the payment of the principal and interest on all ad valorem tax (GO) debt. Additionally, all local debt issuance must be approved by the Office of the Attorney General – Public Finance Division and registered with the Texas Comptroller of Public Accounts.

**Nationwide Debt Issuance Fluctuates as Texas Local Debt Issuance Slows**

Nationwide, total municipal debt issuance in calendar year 2010 totaled $433.24 billion which surpassed the previous peak of $429.88 billion issued in calendar year 2007. National market statistics for fiscal 2011 (September 2010 – August 2011) show a 19.2 percent decrease in debt issuance to approximately $334.15 billion.

Debt issuance for Texas local governments increased from $19.99 in fiscal 2006 to $29.07 billion in 2007 and hit a record high of $30.11 billion in fiscal 2008. Since then it has decreased to $26.08 issued in fiscal 2009 and $22.96 billion issued in fiscal 2010 (*Table1.7*).

Since fiscal 2006 new-money debt issued totaled $82.81 billion and refunding debt totaled $45.41 billion. Cities, school districts and water districts comprised 79.5 percent of the new-money volume ($65.84 billion) and 71.7 percent of the refunding transaction volume ($32.59 billion).

Table 1.7

**TEXAS LOCAL GOVERNMENTS**

**Total Debt Issued**

**(amounts in billions)**

| Fiscal Year | Tax-Supported | Revenue | Total Debt |
|---|---|---|---|
| 2006 | $13.62 | $6.37 | $19.99 |
| 2007 | 21.86 | 7.21 | 29.07 |
| 2008 | 18.30 | 11.81 | 30.11 |
| 2009 | 15.28 | 10.80 | 26.08 |
| 2010 | 15.70 | 7.26 | 22.96 |
| **TOTAL** | **$84.76** | **$43.45** | **$128.21** |

**Source:** Texas Bond Review Board - Bond Finance

Local debt refunding reached a volume of $8.88 billion in fiscal 2010, a 14.7 percent increase from $7.74 billion in fiscal 2009. Over the past five fiscal years, 81.4 percent of local governmental refundings achieved both a cash and present value savings, 13.7 percent provided only a net present value savings with a cash loss, and 4.9 percent resulted in a loss in both. In the latter cases, the primary objective was to restructure debt-service requirements to more evenly match budget flows and thus avoid raising taxes during times of economic weakness. Overall during this five-year period, Texas local issuers achieved cash savings of $1.48 billion with a present value savings of $1.40 billion.

After the American Recovery and Reinvestment Act (ARRA) was signed into law in February 2009, Texas local governments issued tax credit or direct payment bonds during fiscal 2010. Forty issuers took advantage of the 35 percent direct-interest subsidy and issued $4.27 billion in Build America Bonds (BABs), and 54 school districts benefited from interest-free borrowing by issuing $546.0 million in Qualified School Construction Bonds (QSCBs).

**Majority of Local Debt Issuance Supports Educational Facilities and Equipment**

During the five-year reporting period, 40.4 percent of Texas' local debt issuance was used to finance educational facilities and equipment including school buses. General-purpose debt continued to be the second highest use (19.8%), and water-related infrastructure was the third highest use (16.7%) for debt issued by Texas' local governments. Water-related financings are likely understated because some issuers, especially cities borrow for multiple purposes, over half of which involve financings for water and transportation purposes. The fourth highest use for local debt issuance (10.3%) was to finance transportation projects including roads, toll ways, bridges, parking facilities, airports, rapid transit and other public transportation needs including the acquisition of hybrid diesel electric buses.

The remaining 12.8 percent of local debt issuance was used for the following additional categories: economic development, commerce, recreation, solid waste, recycle materials, prisons/detention, power, combined utility systems, health-related facilities, fire protection, public safety and pension obligations.

**Texas Local Governments: $183.79 Billion of Outstanding Debt – a 44 Percent Increase in Five Years**

As of fiscal-year end 2010 Texas local governments had $183.79 billion in outstanding debt *(Table 1.8),* an increase of $56.37 billion (44.2%) since fiscal 2006. Of that amount 61.0 percent ($112.14 billion) is GO debt to be repaid from local tax collections while the remaining 39.0 percent ($71.64 billion) will be repaid from revenues generated by various projects such as water, sewer and electric utility fees. Since fiscal 2006, tax-supported debt outstanding increased 48.8 percent ($36.77 billion) and revenue debt outstanding increased 37.6 percent ($19.59 billion).

Cities, Towns, and Villages accounted for 33.3 percent ($61.13 billion) of all local debt outstanding and public school districts accounted for 32.8 percent ($60.24 billion). Water districts held the third highest percentage and accounted for 15.9 percent ($29.30 billion) all local debt outstanding. The remaining 18.0 percent ($33.12 billion) were held by Community/Junior Colleges, Counties, Health/Hospital Districts and Other Special Districts (*Figure 1.5*).

The U.S. Census Bureau data for 2009 showed that Texas continued to be ranked 2nd in population, 2nd among the ten most populous states in terms of Local Debt Per Capita, 5th in Total State and Local Debt Per Capita but 10th in State Debt Per Capita.

**Tax-Supported Debt Rises Significantly in Five Years**

As of fiscal-year end 2010, tax-supported debt has increased by $36.77 billion (48.8%) to $112.14 billion, $60.24 billion (53.7%) of which was carried by Texas school districts *(Table 1.9).*

During the five-year period Texas public school attendance increased by 244,460 students (5.9%) while school district tax-supported debt increased by 47.2 percent from $40.93 billion to $60.24 billion. School district debt is primarily used to finance instructional facilities while only a handful of school districts carry revenue debt for constructing, improving and equipping athletic/stadium facilities.

Over the five-year period tax-supported debt carried by Texas cities, towns and villages has increased by 43.6 percent from $18.38 billion to $26.39 billion and accounted for 23.3 percent of all tax-supported debt. Tax-supported debt for water districts including navigation and port districts, river authorities, municipal utility districts (MUDs) and municipal water authorities increased by 44.0 percent from $7.23 billion to $10.42 billion and accounted for 9.3 percent of all tax-supported debt. During the same period, county tax-supported debt increased by 45.6 percent from $6.96 billion to $10.14 billion.

Table 1.8

**TEXAS LOCAL GOVERNMENTS**

**Debt Outstanding Summary**

**As of August 31, 2010**

(amounts in thousands)

| Type of Issuer | | Tax-Supported | Revenue | Total Debt |
|---|---|---|---|---|
| Cities, Towns, Villages | Tax | $ 26,394,258.13 | | $ 26,394,258 |
| | Revenue | | 34,445,888 | 34,445,888 |
| | Sales Tax | | 273,705 | 273,705 |
| | Conduit revenue | | - | - |
| | Lease-purchase contracts (jail facilities only) | | 15,105 | 15,105 |
| | **Cities, Towns, Villages Sub Total** | **$ 26,394,258** | **$ 34,734,698** | **$ 61,128,956** |
| Public School Districts | Voter-approved tax (ed. facilities) | 59,226,367 | | 59,226,367 |
| | Maintenance tax (ed. equipment) | 642,343 | | 642,343 |
| | Lease-purchase contracts (ed. facilities) | 369,155 | | 369,155 |
| | Revenue (athletic facilities) | | 1,645 | 1,645 |
| | **Public School Districts Sub Total** | **$ 60,237,865** | **$ 1,645** | **$ 60,239,510** |
| Water Districts and Authorities | Tax | 10,415,762 | | 10,415,762 |
| | Revenue | | 9,395,488 | 9,395,488 |
| | Conduit revenue | | 9,489,645 | 9,489,645 |
| | **Water Districts and Authorities Sub Total** | **$ 10,415,762** | **$ 18,885,133** | **$ 29,300,895** |
| Counties | Tax | 10,138,442 | | 10,138,442 |
| | Revenue | | 2,349,515 | 2,349,515 |
| | Conduit revenue | | - | - |
| | Lease-purchase contracts (jail facilities only) | | 645,537 | 645,537 |
| | **Counties Sub Total** | **$ 10,138,442** | **$ 2,995,052** | **$ 13,133,494** |
| Other Special Districts and Authorities | Tax | 144,500 | | 144,500 |
| | Sales Tax | | 3,197,035 | 3,197,035 |
| | Revenue | | 9,146,296 | 9,146,296 |
| | Lease-purchase contracts (ed. facilities) | | 76,695 | 76,695 |
| | **Other Special Districts and Authorities Sub Total** | **$ 144,500** | **$ 12,420,026** | **$ 12,564,526** |
| Community and Junior Colleges | Tax | 2,881,206 | | 2,881,206 |
| | Revenue | | 964,945 | 964,945 |
| | Lease-purchase contracts (ed. facilities) | | 246,214 | 246,214 |
| | **Community and Junior Colleges Sub Total** | **$ 2,881,206** | **$ 1,211,160** | **$ 4,092,365** |
| Health / Hospital Districts | Tax | 1,904,141 | | 1,904,141 |
| | Sales Tax | 24,850 | | 24,850 |
| | Revenue | | 1,389,473 | 1,389,473 |
| | Conduit revenue | | 7,135 | 7,135 |
| | **Health / Hospital Districts Sub Total** | **$ 1,928,991** | **$ 1,396,608** | **$ 3,325,599** |
| | **TOTAL LOCAL DEBT OUTSTANDING** | **$ 112,141,024** | **$ 71,644,320** | **$ 183,785,344** |

Dashes indicate that debt was present but not reported to the Bond Review Board.

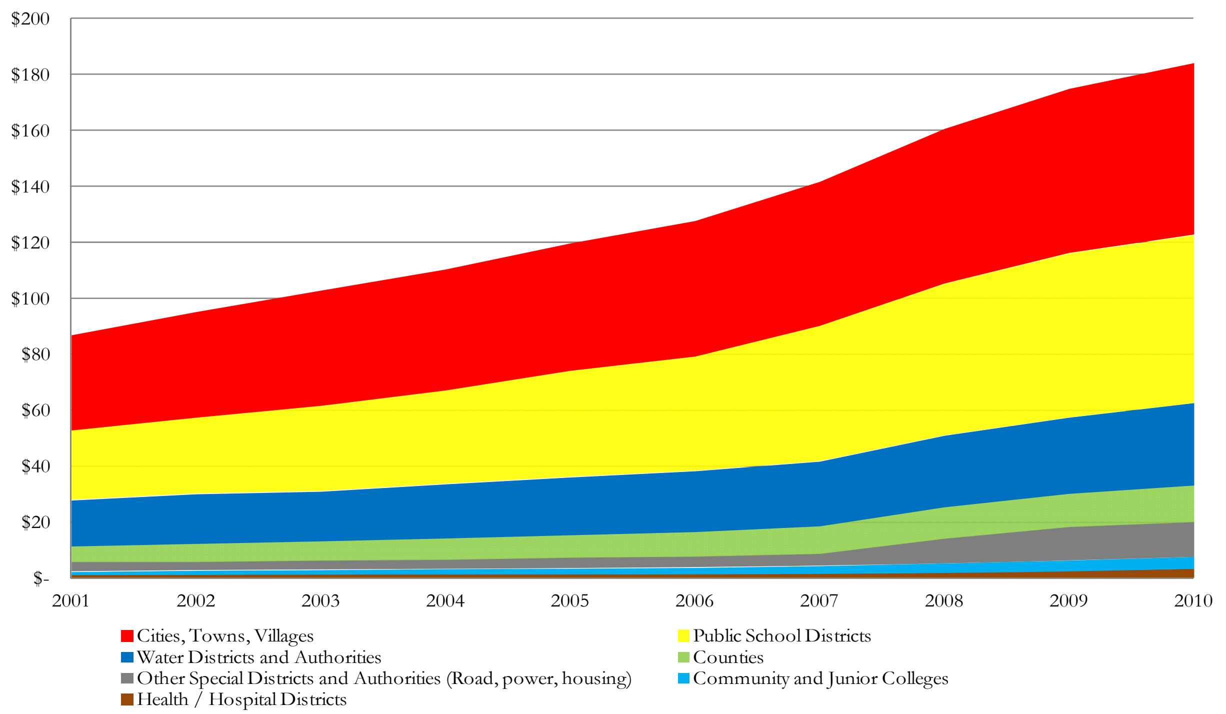
*Not included are obligations of less than one-year maturity and special obligations not requiring Attorney General approval.

Source: Texas Bond Review Board - Bond Finance

During the five fiscal years community/junior college student enrollment increased by 25.2 percent from 640,488 to 722,938 for the 50 college districts in Texas. To support the increased enrollment, tax-supported debt outstanding increased by 113.3 percent from $1.35 billion to $2.88 billion. The increased enrollment was the result of an increasing number of students choosing to attend community/junior colleges for their first two years of higher education as costs rose at major universities. Enrollment also increased as a result of the economic recession that required displaced workers to improve job skills.

During the five-year period, tax-supported debt for health/hospital districts increased by 377.3 percent from $404.2 million to $1.93 billion, primarily due to Dallas County Hospital District issuing $705.0 million in fiscal 2010. Population increases along with the increasing health care needs of aging baby boomers (ages 47-65) also contributed to increased debt issuance. In addition, aging healthcare facilities continue to be renovated or replaced to accommodate advances in medical technology, energy efficiency and comply with new fire and building codes.

Figure 1 5
**TEXAS LOCAL GOVERNMENTS DEBT OUTSTANDING**
(amounts in billions)




**Source:** Texas Bond Review Board - Bond Finance

## Revenue Debt Rises 38 Percent in Five Years

Since fiscal 2006 revenue debt has increased by 37.6 percent from $52.06 billion to $71.64 billion, $60.24 billion (53.7%) of which was carried by Texas school districts *(Table 1.9).*

City revenue debt increased by 16.0 percent from $29.94 billion to $34.73 billion in the five-year period. The rate of increase is slowly rising reflecting the need to keep pace with infrastructure projects spurred by a 1.9 million (8.4%) increase in Texas' population during this time period. Urban areas have experienced particularly rapid growth that has created new infrastructure needs including roads and construction for new and expanded water and sewer systems. The majority of city revenue debt has been used to finance utility-related projects including water, wastewater and in some localities, electric utility systems.

County revenue debt increased by 52.5 percent from $1.96 billion to $3.00 billion in the five-year period of which $2.10 billion (70.2%) was issued by Harris County for toll road projects.

Since fiscal 2006, community/junior college revenue debt rose by 54.5 percent from $784.1 million to $1.21 billion as a result of increased enrollments.

Since 2006 revenue debt for Other Special Districts (road districts, power agencies, government housing authorities, transit authorities and the newly formed regional mobility authorities) increased 218.8 percent

Table 1.9

**Texas Local Governments Debt Outstanding**

(amounts in thousands)

| | 8/31/2006 | 8/31/2007 | 8/31/2008 | 8/31/2009 | 8/31/2010 |
|---|---|---|---|---|---|
| **Cities** | | | | | |
| Tax - Supported | $18,379,704 | $20,322,257 | $22,918,520 | $24,576,951 | $26,394,258 |
| Revenue | 29,942,053 | 30,989,628 | 32,214,302 | 33,871,504 | 34,734,698 |
| **Total** | $48,321,757 | $51,311,885 | $55,132,822 | $58,448,454 | $61,128,956 |
| **Independent School Districts** | | | | | |
| Tax - Supported | $40,930,992 | $48,468,737 | $54,347,315 | $58,835,231 | $60,237,865 |
| Revenue | 2,165 | 2,855 | 2,385 | 2,030 | 1,645 |
| **Total** | $40,933,157 | $48,471,592 | $54,349,700 | $58,837,261 | $60,239,510 |
| **Water Districts** | | | | | |
| Tax - Supported | $7,233,057 | $8,055,830 | $9,100,898 | $9,849,025 | $10,415,762 |
| Revenue | 14,362,667 | 14,907,948 | 16,305,279 | 17,272,507 | 18,885,133 |
| **Total** | $21,595,723 | $22,963,778 | $25,406,178 | $27,121,532 | $29,300,895 |
| **Counties** | | | | | |
| Tax - Supported | $6,961,024 | $7,754,162 | $8,697,410 | $9,204,643 | $10,138,442 |
| Revenue | 1,964,588 | 2,284,886 | 2,683,182 | 2,720,646 | 2,995,052 |
| **Total** | $8,925,613 | $10,039,048 | $11,380,592 | $11,925,289 | $13,133,494 |
| **Community College Districts** | | | | | |
| Tax - Supported | $1,350,889 | $1,768,490 | $2,060,990 | $2,551,582 | $2,881,206 |
| Revenue | 784,124 | 1,007,556 | 1,174,764 | 1,133,324 | 1,211,160 |
| **Total** | $2,135,012 | $2,776,046 | $3,235,753 | $3,684,905 | $4,092,365 |
| **Other Special Districts** | | | | | |
| Tax - Supported | $107,712 | $95,554 | $98,676 | $117,643 | $144,500 |
| Revenue | 3,896,226 | 4,245,661 | 8,754,670 | 11,952,681 | 12,420,026 |
| **Total** | $4,003,938 | $4,341,215 | $8,853,346 | $12,070,324 | $12,564,526 |
| **Health & Hospital Districts** | | | | | |
| Tax - Supported | $404,180 | $405,629 | $534,767 | $1,085,554 | $1,928,991 |
| Revenue | 1,104,240 | 1,078,445 | 1,412,667 | 1,378,072 | 1,396,608 |
| **Total** | $1,508,420 | $1,484,074 | $1,947,434 | $2,463,626 | $3,325,599 |
| **Total Tax - Supported** | $75,367,558 | $86,870,659 | $97,758,575 | $106,220,629 | $112,141,024 |
| **Total Revenue** | $52,056,063 | $54,516,979 | $62,547,250 | $68,330,763 | $71,644,320 |
| **Total Debt Outstanding** | **$127,423,621** | **$141,387,638** | **$160,305,825** | **$174,551,392** | **$183,785,344** |

**Source:** Texas Bond Review Board - Bond Finance from $3.90 billion to $12.42 billion. This increase was largely due to the North Texas Tollway Authority's issuances totaling $6.53 billion between fiscal years 2008 and 2009 in order to refund previous debt issues, defease bond anticipation notes and extend toll roads. Dallas Area Rapid Transit contributed to the increase by issuing a total of $2.50 billion to improve and expand the Dallas public transportation system (*Table 1.10*).

**Texas Bond Review Board and Local Government Debt**

The Texas Bond Review Board (BRB) has no direct oversight of local government debt issuance. Chapter 1202 of the Texas Government Code mandates the BRB with collecting, maintaining, analyzing and reporting on the status of local government debt. The Office of the Attorney General approves each transaction, and the required information on debt issued by political subdivisions of the state is collected and forwarded to the BRB for its report on local debt statistics.

All reporting on local debt is presented on the agency's website. Visitors to the site can either search databases and/or download spreadsheets that contain debt outstanding, debt ratio and population data by government type at each fiscal-year end. In fiscal 2011, approximately 4,000 different users of the BRB's website downloaded over 19,100 spreadsheets containing Texas local government debt data. The BRB will continue to provide this information annually and post it to the website within approximately four months after the close of the fiscal year.

Table 1.10

## Top Local Government Issuers with Debt Outstanding

(amounts in thousands)

| Issuer Name | 8/31/2006 | 8/31/2007 | 8/31/2008 | 8/31/2009 | 8/31/2010 |
|---|---|---|---|---|---|
| **Cities, Towns, Villages** | **$48,321,757** | **$51,311,885** | **$55,132,822** | **$58,448,454** | **$61,128,956** |
| Houston | 10,672,755 | 11,141,327 | 11,424,644 | 12,492,396 | 12,708,017 |
| San Antonio | 6,715,182 | 7,159,547 | 7,829,668 | 8,432,857 | 9,100,917 |
| Dallas | 5,769,649 | 6,081,547 | 6,270,646 | 6,507,588 | 6,434,341 |
| Austin | 4,662,811 | 4,639,672 | 4,800,588 | 4,984,910 | 5,184,856 |
| Fort Worth | 2,514,983 | 2,632,561 | 2,742,391 | 2,776,272 | 2,910,517 |
| Other Cities | 17,986,378 | 19,657,232 | 22,064,886 | 23,254,430 | 24,790,307 |
| **Public School Districts** | **$40,933,157** | **$48,471,592** | **$54,349,700** | **$58,837,261** | **$60,239,510** |
| Houston ISD | 1,875,234 | 1,805,619 | 2,122,084 | 2,084,257 | 2,507,031 |
| Cypress-Fairbanks ISD | 1,165,533 | 1,388,704 | 1,606,380 | 1,797,150 | 1,815,170 |
| Dallas ISD | 1,512,559 | 1,472,110 | 1,422,770 | 1,783,730 | 1,707,730 |
| Northside ISD (Bexar County) | 1,005,720 | 1,190,445 | 1,279,075 | 1,466,600 | 1,602,320 |
| North East ISD | 873,504 | 1,321,462 | 1,301,029 | 1,267,512 | 1,231,623 |
| Other Public School Districts | 34,500,608 | 41,293,252 | 46,618,361 | 50,438,012 | 51,375,636 |
| **Water Districts and Authorities** | **$21,595,723** | **$22,963,778** | **$25,406,178** | **$27,121,532** | **$29,300,895** |
| Lower Colorado River Authority* | 2,633,092 | 2,788,092 | 3,017,127 | 3,277,142 | 3,926,977 |
| Brazos River Authority* | 2,227,845 | 2,344,582 | 2,342,007 | 2,358,442 | 2,351,457 |
| Gulf Coast Waste Disposal Authority* | 1,417,705 | 1,387,315 | 1,484,065 | 1,450,875 | 1,443,685 |
| North Texas Municipal Water District* | 648,785 | 802,740 | 963,935 | 1,117,560 | 1,199,615 |
| Matagorda County Navigation District 1* | 982,200 | 981,895 | 981,570 | 981,230 | 980,875 |
| Other Water Districts and Authorities | 13,686,097 | 14,659,154 | 16,617,474 | 17,936,283 | 19,398,286 |
| **Counties** | **$8,925,613** | **$10,039,048** | **$11,380,592** | **$11,925,289** | **$13,133,494** |
| Harris | 3,866,407 | 4,195,376 | 4,575,249 | 4,589,739 | 4,804,640 |
| Bexar | 282,595 | 292,100 | 555,914 | 555,469 | 1,032,095 |
| Williamson | 510,770 | 520,300 | 662,075 | 748,235 | 760,360 |
| Travis | 454,770 | 524,037 | 534,968 | 523,735 | 606,290 |
| Denton | 174,703 | 273,560 | 285,616 | 374,336 | 496,900 |
| Other Counties | 3,636,368 | 4,233,674 | 4,766,771 | 5,133,775 | 5,433,209 |
| **Other Special Districts and Authorities** | **$4,003,938** | **$4,341,215** | **$8,853,346** | **$12,070,324** | **$12,564,526** |
| North Texas Tollway Authority | 1,406,848 | 1,459,907 | 5,172,473 | 7,049,939 | 7,548,519 |
| Dallas Area Rapid Transit | 834,295 | 1,089,865 | 1,637,600 | 2,778,305 | 2,763,305 |
| Texas Municipal Power Agency | 947,671 | 899,237 | 882,685 | 825,424 | 566,500 |
| Central Texas Regional Mobility Authority | 299,968 | 299,968 | 233,968 | 248,968 | 433,847 |
| Metropolitan Transit Authority of Harris County | 89,000 | 143,000 | 205,255 | 470,840 | 593,180 |
| Other Special Districts and Authorities | 426,157 | 449,238 | 721,366 | 696,848 | 659,174 |
| **Community and Junior Colleges** | **$2,135,012** | **$2,776,046** | **$3,235,753** | **$3,684,905** | **$4,092,365** |
| Lone Star College System | 232,237 | 245,986 | 220,225 | 345,245 | 608,520 |
| Houston Community College System | 328,464 | 460,268 | 554,917 | 533,575 | 600,210 |
| Alamo Community College District | 183,119 | 549,499 | 622,584 | 603,869 | 594,394 |
| Dallas County Community College District | 146,175 | 134,145 | 248,355 | 420,820 | 445,660 |
| Austin Community College District | 148,890 | 146,253 | 262,073 | 258,288 | 285,148 |
| Other Community and Junior Colleges | 1,096,128 | 1,239,895 | 1,327,599 | 1,523,108 | 1,558,434 |
| **Health/Hospital Districts** | **$1,508,420** | **$1,484,074** | **$1,947,434** | **$2,463,626** | **$3,325,599** |
| Dallas County Hospital District | - | - | - | - | 705,000 |
| Bexar County Hospital District (University Health System) | - | - | - | 559,700 | 551,910 |
| Harris County Hospital District | 159,411 | 151,921 | 322,145 | 313,490 | 303,520 |
| El Paso County Hospital District | 158,295 | 155,535 | 271,005 | 266,250 | 260,905 |
| Midland County Hospital District (Midland Memorial) | 18,762 | 17,942 | 17,190 | 16,496 | 130,848 |
| Other Health/Hospital Districts | 1,171,953 | 1,158,677 | 1,337,094 | 1,307,690 | 1,373,415 |
| **TOTAL LOCAL DEBT OUTSTANDING** | **$127,423,621** | **$141,387,638** | **$160,305,825** | **$174,551,392** | **$183,785,344** |

* Contains Conduit Revenue

Notes: Obligations of less than one-year maturity and special obligations not requiring Attorney General approval are not included.

**Source:** Texas Bond Review Board - Bond Finance

## Chapter 2
## State Debt Issued in FY 2011 and Debt Outstanding

*In fiscal 2011 the state's total debt outstanding increased 7.1 percent to $40.50 billion compared to $37.82 billion in fiscal 2010 and $34.08 billion in fiscal 2009.*

*Debt issued by Texas state agencies and universities during fiscal 2011 decreased by 18.5 percent to an aggregate total of $5.41 billion compared to $6.64 billion issued in fiscal 2010. Fiscal 2011 issues included $4.62 billion in new-money and $785.3 million in refunding bonds. Other debt issued included $635.0 million of commercial paper and variable-rate notes. In addition, the Bond Review Board approved $1.4 million in lease purchase agreements.*

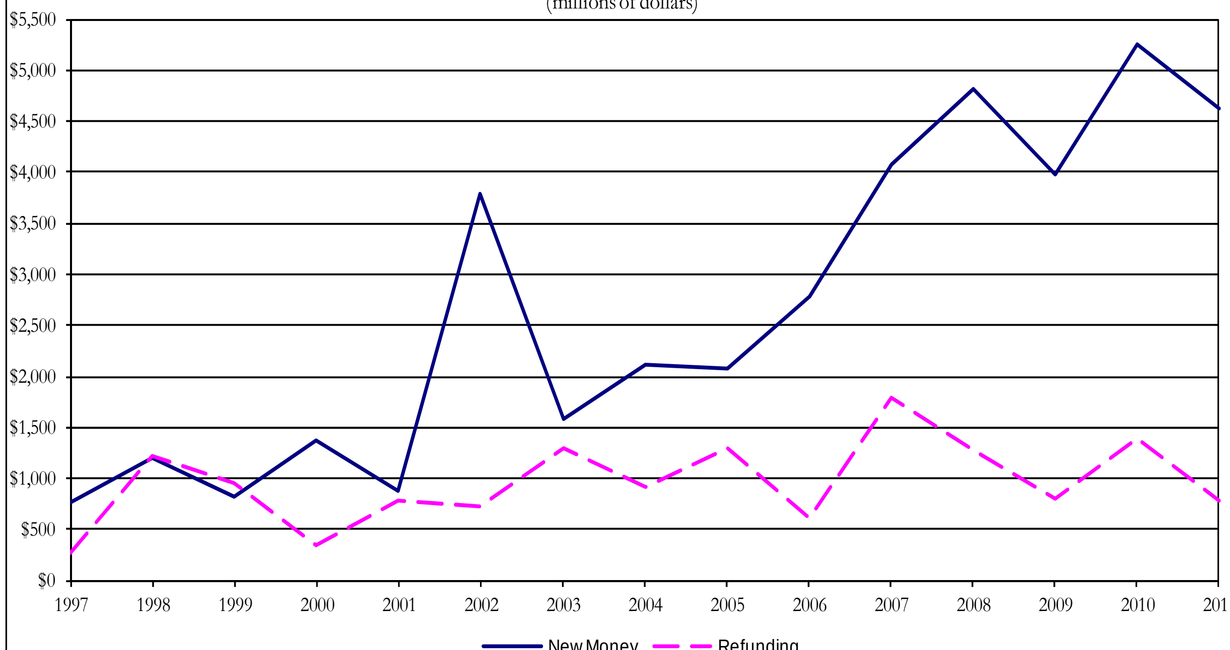
*Detail on bond transactions can be found in Appendix A, and detail on commercial paper and variable-rate notes can be found in Appendix B.*

### New-Money and Refunding Issuances Decrease in FY 2011

A total of $5.41 billion in bonds were issued in fiscal 2011. Of that amount $4.62 billion (85.5%) was issued as new money bonds, a decrease of $633.7 million (12.1%) from $5.26 billion issued during fiscal 2010. The remaining $785.3 million (14.5%) was issued as refunding bonds, a decrease of $600.5 million (43.3%) from $1.39 billion issued during fiscal 2010.

Although new money issuances declined in fiscal 2011, they have trended upward since 2003, and refunding bond issuances have remained relatively constant over the same time period (*Figure 2.1*).

Figure 2.1
**TEXAS NEW MONEY AND REFUNDING BOND ISSUES 1997 - 2011**
(millions of dollars)




**Source:** Texas Bond Review Board - Bond Finance Office.

| Table 2.1<br>**TEXAS BONDS ISSUED DURING FISCAL 2011**<br>**SUMMARIZED BY ISSUER** | | | | |
|---|---|---|---|---|
| **ISSUER** | **REFUNDING BONDS** | **NEW-MONEY BONDS** | **TOTAL BONDS ISSUED** | **New-Money Use of Proceeds** |
| Texas Department of Housing & Community Affairs | $ - | $ 149,030,000 | $ 149,030,000 | Single Family Loan Program |
| Texas Higher Education Coordinating Board | 33,590,000 | 118,650,000 | 152,240,000 | College Student Loan Program |
| Texas Public Finance Authority | 512,975,000 | 2,105,245,000 | 2,618,220,000 | Repay Federal Unemployment trust fund; TSU's Technology Building; finance projects for multiple state agencies |
| Texas Public Finance Authority Charter School Finance Corp. | - | 18,870,000 | 18,870,000 | Renovations, improvements and acquisitions on multiple sites |
| Texas State Affordable Housing Corporation | - | 104,450,000 | 104,450,000 | American Opportunity Foudation, Inc. Mortgage Loan Program |
| Texas State University System | - | 86,775,000 | 86,775,000 | Aquire, purchase, construct, improve, and equip various facilities, roads or related infrastructure in the System |
| Texas Transportation Commission | 149,275,000 | 977,810,000 | 1,127,085,000 | Highway improvement projects |
| Texas Veterans Land Board | 66,475,000 | 149,990,000 | 216,465,000 | Veteran's Home Loan Programs |
| Texas Water Development Board | - | 161,890,000 | 161,890,000 | EDAP and WIF Programs |
| The Texas A&M University System | 22,955,000 | 104,745,000 | 127,700,000 | Construction funds for multiple campuses |
| The University of Texas System | - | 644,095,000 | 644,095,000 | Improvements on multiple campuses |
| **Total Texas Bonds Issued** | **$ 785,270,000** | **$ 4,621,550,000** | **$ 5,406,820,000** | |

**Note:** Table 2.1 excludes commercial paper and variable-rate notes. See Table B1, Appendix B, for these issuances.
**Source:** Texas Bond Review Board - Bond Finance Office.

Of the $4.62 billion in new-money bonds issued in fiscal 2011, approximately $2.11 billion (45.5%) was issued by the Texas Public Finance Authority (TPFA), $977.8 million (21.2%) was issued by Texas Transportation Commission (TTC) and approximately $644.1 million (13.9%) was issued by The University of Texas System (UTS). Of the $785.3 million in refunding bonds issued in fiscal 2011, TPFA issued $513.0 (65.3%) (*Table 2.1*).

**Build America Bonds for FY 2011**

In fiscal 2009 the American Recovery and Reinvestment Act of 2009 (ARRA) created Build America Bonds (BABs) that could be issued as Tax Credit BABs or Direct-Payment BABs. Authority to issue BABs expired on December 31, 2010. During fiscal 2011 TTC issued $977.8 million and The University of Texas System (UTS) issued $604.3 million of new-money, Direct-Payment BABs. No Tax Credit BABs were issued by state issuers.

**Interim Financing Decreases in FY 2011**

Several state agencies and institutions of higher education 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, 2011 a total of $6.28 billion was authorized for state commercial paper (CP) or variable-rate note (VRN) programs. Of this amount $1.04 billion was outstanding at fiscal-year end *(Table B1),* approximately $66.9 million less than the amount outstanding at fiscal year-end 2010.

Additional information about individual CP and VRN programs is included in Appendix B.

**Projected Issuances in FY2012**

Texas state issuers expect to issue approximately $8.64 billion in bonds, CP and VRN during fiscal 2012 *(Table 2.2)*, a projected increase of $2.00 billion (30.1%) over the amount issued in fiscal 2011. Of the $8.64 billion projected for fiscal 2012, UTS accounts for $2.90 billion (33.6%), TTC for $2.50 billion (28.7%) and Texas A&M University System for $1.32 billion (15.2%).

**General Obligation Debt Outstanding Increases in FY 2011**

Texas General Obligation (GO) debt carries a constitutional pledge of the full faith and credit of the state to repay the debt and requires passage of a proposition by a vote of two-thirds of both houses of the Texas Legislature and a majority of Texas voters.

As of fiscal year-end fiscal 2011, $14.03 billion (34.6%) of the state's $40.50 billion in total debt outstanding was backed by the state's GO pledge, an increase of $1.13 billion (8.8%)

Table 2.2

**TEXAS STATE DEBT ISSUES EXPECTED DURING FISCAL 2012**

| ISSUER | APPROXIMATE AMOUNT | PURPOSE | APPROXIMATE ISSUE DATE |
|---|---|---|---|
| **General Obligation Debt** | | | |
| **Self-Supporting** | | | |
| Texas Transportation Commission | $82,215,000 | Texas Mobility Fund GO Bond Series 2005B remarketing to replace liquidity facility | Apr-12 |
| Texas Higher Education Coordinating Board | 125,000,000 | New Money College Student Loan Bonds | Jun-12 |
| Texas Higher Education Coordinating Board | 50,000,000 | New Money College Student Loan Bonds | Jun-12 |
| Texas Veterans Land Board | 75,000,000 | Proceeds will be used to augment the Veterans' Housing Assistance Program | Feb-2012 |
| Texas Veterans Land Board | 75,000,000 | Proceeds will be used to augment the Veterans' Housing Assistance Program | Aug-2012 |
| Texas Water Development Board | 116,000,000 | DFUND II New Money Bonds | Oct-11 |
| **Total Self-Supporting** | **$523,215,000** | | |
| **Not Self-Supporting** | | | |
| Texas Transportation Commission | $1,000,000,000 | Texas Highway Improv GO Bonds - New Money Issue; highway improvement projects | Mar-12 |
| Texas Public Finance Authority | TBD | GO Bonds (Texas Military Value Revolving Loan Program - Port Of San Antonio Project) | TBD |
| Texas Public Finance Authority | 206,350,000 | New 82nd Leg GO Authority (TDCJ, TFC, THC, DSHS, TPWD) | TBD |
| Texas Public Finance Authority | 300,000,000 | CPRIT | TBD |
| Texas Water Development Board | 50,000,000 | WIF New Money Bonds | Mar-12 |
| Texas Water Development Board | 25,000,000 | EDAP New Money Bonds | Mar-12 |
| **Total Not Self-Supporting** | **$1,581,350,000** | | |
| **Total General Obligation Debt** | **$2,104,565,000** | | |
| **Non-General Obligation Debt** | | | |
| **Self-Supporting** | | | |
| Texas Dept. of Housing and Comm Affairs | $45,000,000 | Multi-Family Residential Bond Projects | FY 12 |
| Texas Dept. of Housing and Comm Affairs | 150,000,000 | 2011B New Money Bonds (Volume Cap) Conversion/Remarketing of the Series 2009C Bonds | Sep-11 |
| Texas Dept. of Housing and Comm Affairs | 100,000,000 | 2011C New Money Bonds (Volume Cap) Conversion/Remarketing of the Series 2009C Bonds | Dec-11 |
| Texas Public Finance Authority | 50,000,000 | TSU - DOE Historically Black Colleges & Universities loan program (Private Placement) | Sep-11 |
| Texas Public Finance Authority | TBD | Texas Windstorm Insurance Association | TBD |
| Texas Southern University | 56,000,000 | Construct new Robert J. Terry Library | TBD |
| Texas State Affordable Housing Corporation | 68,000,000 | Single Family Housing Revenue Bonds | Dec-11 |
| Texas State Technical College System | 5,200,000 | Three remodeling/renovation projects at Texas State Technical College Harlingen | Nov-11 |
| Texas State Technical College System | 437,000 | Acquisition and installation of IT hardware and software to support IT Service Paradigm project | Jul-12 |
| Texas State University System (LSC-PA) | 2,738,000 | LSC-PA - Energy Performance Project (Renovation) | Dec-11 |
| Texas State University System (LU) | 8,413,000 | LU - Renovate Setzer Center (Renovation) | Dec-11 |
| Texas State University System (SHSU) | 3,000,000 | SHSU - University Camp - Phase II (Renovation) | Dec-11 |
| Texas State University System (SHSU) | 21,630,000 | SHSU - Energy Performance Project (Renovation) | Dec-11 |
| Texas State University System (SHSU) | 13,000,000 | SHSU - Events Center (New Construction) | Jul-12 |
| Texas State University System (SHSU) | 16,470,000 | SHSU - Residence Hall - King Hall Site (New Construction) | Jul-12 |
| Texas State University System (SHSU) | 5,000,000 | SHSU - Soccer-Track-Tennis Complex (New Construction) | Jul-12 |
| Texas State University System (TxStSM) | 11,800,000 | TxSt-SM - Electrical System Upgrades (Renovation) | Dec-11 |
| Texas State University System (TxStSM) | 1,500,000 | TxSt-SM - South Campus Utilities (Renovation) | Dec-11 |
| Texas State University System (TxStSM) | 3,000,000 | TxSt-SM - Commons Dining Hall Renovation (Renovation) | Dec-11 |
| Texas State University System (TxStSM) | 56,147,000 | TxSt-SM - Student Housing - West Campus | Jul-12 |
| Texas Tech University System | 130,000,000 | Various Projects | Feb-12 |
| Texas Transportation Commission | 1,400,000,000 | State Highway Fund Revenue Bonds - New Money Issue; Eligible highway project costs | Apr-12 |
| Texas Veterans Land Board | 21,795,000 | Refunding associated with the Texas Veterans Homes Program, Revenue Refunding Bonds, Series 2002 | Aug-12 |
| The Texas A&M University System* | 777,000,000 | Multiple projects | FY 12 |
| The Texas A&M University System - PUF* | 540,000,000 | Multiple projects | FY 12 |
| The University of Texas System (1) | 150,000,000 | UTMB - Galveston | TBD |
| The University of Texas System - PUF | 500,000,000 | Refund portion outstanding PUF debt; Acquire, purchase, construct, improve, and equip various facilities | TBD |
| The University of Texas System - PUF* | 500,000,000 | Provide interim financing for PUF CP Programs for construction and acquisition | TBD |
| The University of Texas System - RFS | 500,000,000 | Refund outstanding RFS debt; Acquire, purchase, construct, improve, and equip various facilities | TBD |
| The University of Texas System - RFS* | 1,250,000,000 | RFS Commercial Paper Notes to provide interim financing for construction and acquisition | TBD |
| TPFA Charter School Finance Corporation | 9,500,000 | Orenda Education | Sep-11 |
| University of Houston System | 75,000,000 | UH University Center Addition and Renovation | Dec-11 |
| University of Houston System | 5,800,000 | Refund Commercial Paper Issued for UH Moody Towers & Quadrangle Renovations | Dec-11 |
| University of Houston System | 5,000,000 | Refund Commercial Paper Issued for UH West Dining Hall | Dec-11 |
| University of Houston System | 1,600,000 | Refund Commercial Paper Issued for UH Energy Research Park Building Improvements | Dec-11 |
| University of Houston System | 48,500,000 | UH Cougar Place (replacement) | Dec-11 |
| University of Houston System | 50,000,000 | UH Cougar Village (phase 2) | Dec-11 |
| University of Houston System | 11,500,000 | UHV Residence Hall | Dec-11 |
| University of Houston System | 9,705,000 | Refund Commercial Paper Issued for UH Radio Station License Acquisition | Dec-11 |
| University of Houston System | 20,000,000 | UH Multi-modal Parking Garage (1A) | Dec-11 |
| University of Houston System | 82,500,000 | Refund Series 2002A and 2002B | Dec-11 |
| University of Houston System | 20,000,000 | UH Parking Garage | TBD |
| University of Houston System | 20,000,000 | UH Parking Garage | TBD |
| University of North Texas | 4,370,000 | Renovation of the Center for BioHealth Sixth Floor | FY 12 |
| University of North Texas | 9,812,000 | Public Health Education Building Finish Out | FY 12 |
| University of North Texas | 9,636,567 | Energy Savings Performance Contract | FY 12 |
| University of North Texas | 30,000,000 | Revenue Financing System Bonds for the purpose of construction of stadium | FY 12 |
| University of North Texas | 28,595,848 | Energy Savings Performance Contract | FY 12 |
| **Total Self-Supporting** | **$6,532,649,415** | | |
| **Not Self-Supporting** | | | |
| - | - | | - |
| **Total Not Self-Supporting** | **$0** | | |
| **Total Non-General Obligation Debt** | **$6,532,649,415** | | |
| **Total All Debt** | **$8,637,214,415** | | |

*Commercial Paper or Variable-Rate Note Program

(1) Includes TRBs.

**Source:** Texas Bond Review Board - Bond Finance Office.

from the $12.90 billion at the end of fiscal 2010 *(Figure 2.2 and Table 2.3)*. The increase was primarily the result of approximately $978 million in GO debt issued by the Texas Transportation Commission under Transportation Proposition 12 approved by voters in November 2007.

The repayment of revenue debt is dependent on project revenue or revenue from a designated fund. The Constitution prohibits any pledge of state funds beyond the current biennium. Investors require a higher rate of interest to compensate for the additional risk associated with revenue debt.

**Conduit Debt**

The state is authorized by statute to issue conduit debt for certain purposes including charter schools, transportation, single family mortgages and multifamily dwellings and economic development. Debt-service for conduit debt is provided by project revenue and is secured by a third party.

Certain conduit debt issuances are secured by the state's full faith and credit and are categorized as general obligation, self-supporting debt. These include VLB mortgage bonds, THECB college loan bonds and certain TWDB bonds. All other conduit debt is self-supporting and is categorized as Non-GO debt. As of fiscal year-end 2011 the state had $4.30 billion in Non-GO conduit debt outstanding (*Table 2.3*).

**General Revenue Supported Debt Increases in FY 2011**

All debt does not have the same financial impact on the state's general revenue. Self-supporting debt relies on sources other than the state's general revenue to pay debt service; thus self-supporting debt does not directly impact state finances. Debt service for not self-supporting debt is primarily derived from the state's general revenue fund and thus

Figure 2.2

**STATE OF TEXAS DEBT OUTSTANDING**

(amounts in billions)

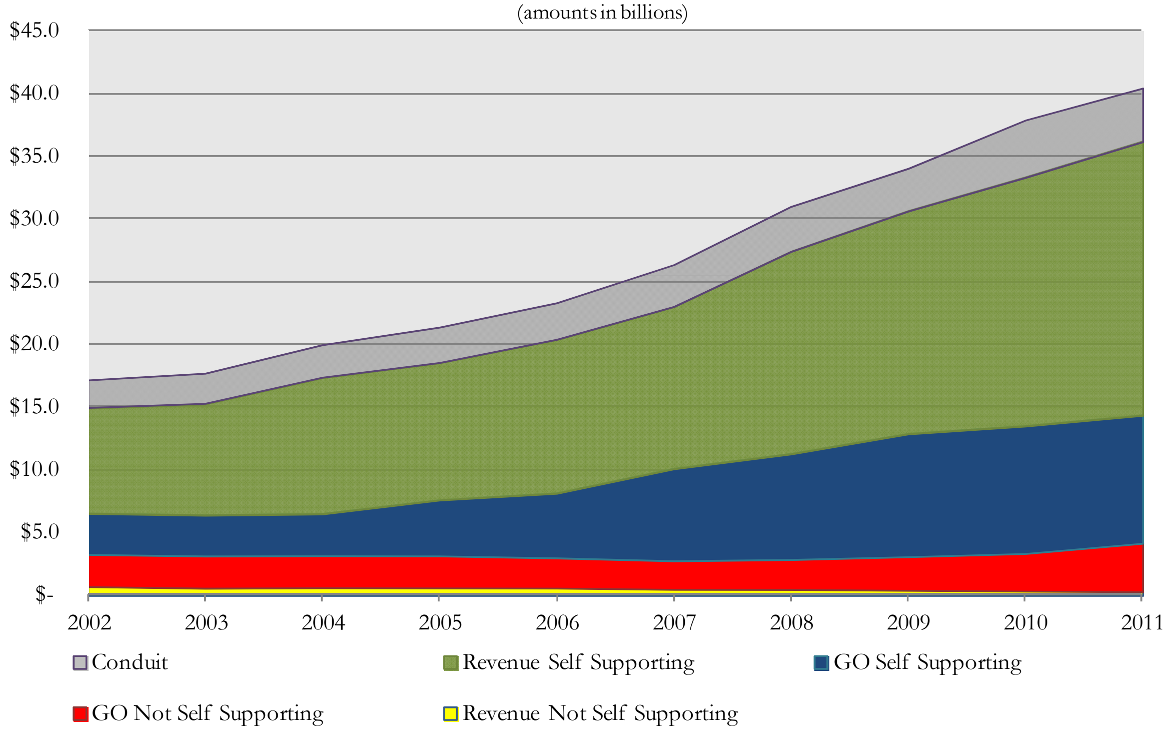


Table 2.3

**STATE OF TEXAS DEBT OUTSTANDING**

**(amounts in thousands)**

| | 8/31/2007 | 8/31/2008 | 8/31/2009 | 8/31/2010 | 8/31/2011 |
|---|---|---|---|---|---|
| **General Obligation Debt** | | | | | |
| **Self-Supporting** | | | | | |
| Veterans' Land and Housing Bonds | $1,845,187 | $1,832,472 | $1,867,107 | $1,970,203 | $2,031,611 |
| Water Development Bonds | 847,905 | 803,385 | 986,195 | 900,855 | 865,045 |
| Water Development Bonds-State Participation | 0 | 0 | 0 | 139,585 | 138,840 |
| Water Development Bonds - WIF | 0 | 0 | 0 | 230,125 | 226,530 |
| Economic Development Bank Bonds | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 |
| Park Development Bonds | 1,805 | 0 | 0 | 0 | 0 |
| College Student Loan Bonds | 661,367 | 727,343 | 708,945 | 746,380 | 798,915 |
| Texas Agricultural Finance Authority | 25,000 | 25,000 | 25,000 | 9,000 | 9,000 |
| Texas Mobility Fund Bonds | 3,886,750 | 4,955,850 | 6,132,055 | 6,097,325 | 6,057,680 |
| Texas Public Finance Authority - TMVRLF | 49,595 | 49,595 | 49,595 | 49,595 | 49,145 |
| **Total, Self-Supporting** | **$7,362,609** | **$8,438,645** | **$9,813,897** | **$10,188,068** | **$10,221,766** |
| **Not Self-Supporting** [1] | | | | | |
| Higher Education Constitutional Bonds [2] | $58,310 | $51,605 | $54,875 | $49,255 | $40,828 |
| Texas Public Finance Authority Bonds | 1,810,644 | 1,850,644 | 1,870,530 | 1,830,410 | 1,777,810 |
| Cancer Prevention and Research Institute of Texas | 0 | 0 | 0 | 225,000 | 282,820 |
| Park Development Bonds | 16,544 | 15,164 | 14,145 | 12,745 | 11,340 |
| Agriculture Water Conservation Bonds | 5,040 | 2,575 | 0 | 0 | 0 |
| Water Development Bonds - EDAP [3] | 180,185 | 172,495 | 162,805 | 174,375 | 194,775 |
| Water Development Bonds - State Participation | 160,280 | 140,130 | 139,750 | 38,480 | 35,580 |
| Water Development Bonds - WIF | 0 | 106,120 | 388,870 | 383,580 | 492,260 |
| TTC GO Transporation Bonds | 0 | 0 | 0 | 0 | 977,810 |
| **Total, Not Self-Supporting** | **$2,231,003** | **$2,338,733** | **$2,630,975** | **$2,713,845** | **$3,813,223** |
| **Total General Obligation Debt** | **$9,594,337** | **$10,777,379** | **$12,444,872** | **$12,901,913** | **$14,034,988** |
| **Non-General Obligation Debt** | | | | | |
| **Self-Supporting** | | | | | |
| Permanent University Fund Bonds | | | | | |
| The Texas A&M University System | $409,344 | $434,630 | $577,105 | $611,895 | $644,425 |
| The University of Texas System | 1,062,625 | 1,318,980 | 1,524,235 | 1,736,380 | 1,714,230 |
| College and University Revenue Bonds [4] | 6,305,867 | 7,362,004 | 8,457,339 | 9,487,043 | 10,128,695 |
| Texas Water Resources Finance Authority Bonds | 15,830 | 10,740 | 5,195 | 0 | 0 |
| Texas Department of Transportation Bonds - CTTS | 2,075,063 | 2,563,947 | 2,563,222 | 2,538,949 | 2,538,949 |
| Veterans' Financial Assistance Bonds | 24,444 | 23,987 | 24,227 | 23,210 | 22,220 |
| Texas Workforce Commission Unemp Comp Bonds | 396,060 | 0 | 0 | 0 | 1,780,960 |
| State Highway Fund | 1,689,740 | 3,076,660 | 3,091,755 | 4,252,655 | 4,078,445 |
| Water Development Board Bonds - State Revolving Fund | 932,448 | 1,357,383 | 1,522,933 | 1,296,588 | 924,743 |
| **Total, Self-Supporting** | **$12,911,421** | **$16,148,331** | **$17,766,011** | **$19,946,720** | **$21,832,667** |
| **Not Self-Supporting** [1] | | | | | |
| Texas Public Finance Authority Bonds | $337,015 | $321,470 | $278,486 | $232,350 | $198,877 |
| TPFA Master Lease Purchase Program | 110,800 | 122,440 | 107,320 | 96,635 | 89,260 |
| Texas Military Facilities Commission Bonds | 20,150 | 18,555 | 17,350 | 16,105 | 14,805 |
| Parks and Wildlife Improvement Bonds | 52,330 | 46,895 | 41,320 | 35,615 | 29,740 |
| **Total, Not Self-Supporting** | **$520,295** | **$509,360** | **$444,476** | **$380,705** | **$332,682** |
| **Conduit** [5] | | | | | |
| Texas Small Business I.D.C. Bonds | 99,335 | 99,335 | 60,000 | 60,000 | 60,000 |
| Economic Development Program | 8,235 | 6,407 | 9,332 | 11,500 | 20,000 |
| Texas Dept. of Housing and Community Affairs Bonds | 2,606,999 | 2,783,482 | 2,658,191 | 2,663,799 | 2,390,844 |
| Texas State Affordable Housing Corporation | 621,887 | 696,136 | 568,780 | 600,796 | 564,855 |
| Texas PAB Surface Transportation Corporation | 0 | 0 | 0 | 1,015,000 | 1,015,000 |
| TPFA Charter School Finance Corporation | 10,380 | 10,145 | 127,740 | 236,955 | 253,121 |
| **Total, Conduit** | **$3,346,836** | **$3,595,505** | **$3,424,043** | **$4,588,050** | **$4,303,820** |
| **Total Non-General Obligation Debt** | **$16,778,552** | **$20,253,196** | **$21,634,530** | **$24,915,475** | **$26,469,169** |
| **Total Debt Outstanding** | **$26,372,889** | **$31,030,574** | **$34,079,402** | **$37,817,388** | **$40,504,157** |

1 Not self-supporting debt (general obligation and non-general obligation) depends solely on the state's general revenue fund for debt service.

2 While not explicitly a general obligation or full faith and credit bond, the revenue pledge contained in Constitutional Bonds has the same effect.

3 Economically Distressed Areas Program (EDAP) bonds depend on the state's general revenue fund for 90% of their debt service.

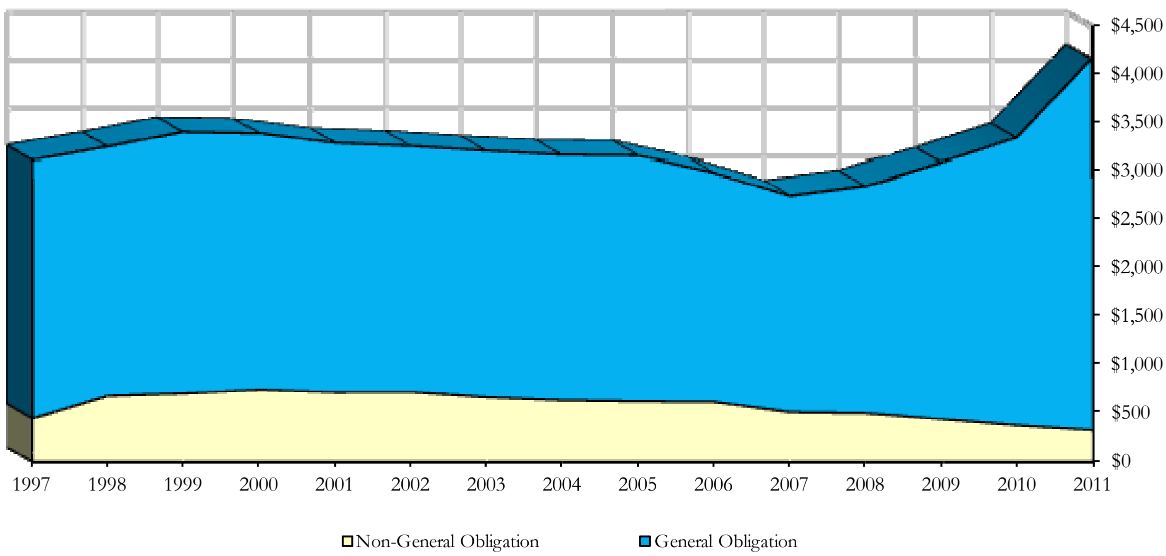
4 Tuition Revenue Bonds are included in these totals. See Table 2.5.

5 This figure contains only conduit debt that is not backed by the full faith and credit.

**Note:** The debt outstanding figures include accretion on the state's capital appreciation bonds as of August 31, 2011.

**Source:** Texas Bond Review Board - Bond Finance Office.

Figure 2.3
**TEXAS STATE DEBT OUTSTANDING**
**BACKED BY GENERAL REVENUE (NOT SELF-SUPPORTING)**
**(amounts in millions)**




**Source:** Texas Bond Review Board - Bond Finance Office.

draws on the same sources used by the legislature to finance the operation of state government.

Not self-supporting debt outstanding increased during fiscal 2011. While Non-GO not self-supporting debt actually decreased by $48.0 million, GO not self-supporting debt increased by $1.10 billion for an overall net increase of $1.05 billion in fiscal 2011 *(Figure 2.3)*.

As of August 31, 2011 Texas had a total of $4.15 billion in not self-supporting GO and Non-GO debt outstanding to be repaid from the state's general revenue. By comparison, not self-supporting debt totaled $3.09 billion in fiscal year 2010, $3.08 billion in fiscal year 2009 and $2.85 billion in fiscal 2008.

**Scheduled Debt-Service Payments from General Revenue Decreases in FY 2011**

Scheduled debt-service payments from general revenue increased by 10.4 percent from $423.6 million in fiscal 2010 to $467.7 million in fiscal 2011 *(Figure 2.4)*. During fiscal years 2008 and 2009 the state scheduled $425.1 million and $460.6 million, respectively for debt service from general revenue. (See *Table 2.4* for debt-service requirements by fiscal year for Texas state bonds.) See the *State of Texas Annual Cash Report 2011* published by the Texas Comptroller of Public Accounts for actual debt service paid by the state from General Revenue.

Please note that debt-service requirements for tuition revenue debt are not included in this analysis. Although college and university revenue debt is payable from a pledge of certain "revenue funds" of the applicable system or institution of higher education, pursuant to authorizations to individual institutions in Chapter 55, Texas Education Code, the legislature has historically appropriated funds in an amount equal to all or a portion of the debt service on tuition revenue debt issued. (For revenue debt

Table 2.4

**DEBT-SERVICE REQUIREMENTS OF TEXAS STATE DEBT BY FISCAL YEAR**

**(amounts in thousands)**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 & beyond |
|---|---|---|---|---|---|---|
| **General Obligation Debt** | | | | | | |
| **Self-Supporting** | | | | | | |
| Veterans' Land and Housing Bonds | $142,460 | $148,229 | $150,825 | $155,164 | $155,839 | $2,068,493 |
| Water Development Bonds | 82,701 | 82,608 | 83,696 | 81,792 | 79,530 | 964,704 |
| Water Development Bonds - State Participation | 7,885 | 7,896 | 7,896 | 7,904 | 7,676 | 219,717 |
| Water Development Bonds - WIF | 15,034 | 15,009 | 19,199 | 19,256 | 19,260 | 262,465 |
| Economic Development Bank Bonds | 2,048 | 2,048 | 2,048 | 2,048 | 2,048 | 104,272 |
| Park Development Bonds | - | - | - | - | - | - |
| College Student Loan Bonds | 91,254 | 88,490 | 78,329 | 78,031 | 75,038 | 752,997 |
| Texas Agriculture Finance Authority | 718 | 720 | 721 | 721 | 720 | 10,789 |
| Texas Mobility Fund Bonds | 338,942 | 343,183 | 347,885 | 352,673 | 357,505 | 10,007,583 |
| Texas Public Finance Authority - TMVRLF | 2,942 | 3,718 | 3,719 | 3,716 | 3,715 | 68,793 |
| **Total Self-Supporting** | **$683,982** | **$691,902** | **$694,316** | **$701,305** | **$701,330** | **$14,459,811** |
| **Not Self-Supporting**[1] | | | | | | |
| Higher Education Constitutional Bonds [2] | $10,336 | $10,328 | $10,314 | $7,459 | $1,424 | $6,303 |
| Texas Public Finance Authority Bonds | 236,424 | 216,734 | 243,054 | 244,928 | 196,612 | 1,383,558 |
| Park Development Bonds | 1,919 | 1,878 | 1,830 | 1,781 | 1,740 | 4,259 |
| Agriculture Water Conservation Bonds | - | - | - | - | - | - |
| Texas Public Finance Authority - CPRIT | 6,568 | 24,957 | 24,711 | 24,268 | 23,826 | 298,413 |
| Water Development Bonds - EDAP [3] | 21,439 | 21,298 | 21,193 | 21,063 | 20,744 | 162,872 |
| Water Development Bonds - State Participation | 2,139 | 2,119 | 2,104 | 2,089 | 3,809 | 42,864 |
| Water Development Bonds - WIF | 43,256 | 46,814 | 46,003 | 45,254 | 44,412 | 510,566 |
| TTC GO Transporation Bonds | 63,557 | 63,559 | 63,558 | 63,557 | 63,559 | 1,414,960 |
| **Total Not Self-Supporting** | **$385,638** | **$387,685** | **$412,767** | **$410,400** | **$356,125** | **$3,823,794** |
| **Total General Obligation Debt Service** | **$1,069,620** | **$1,079,588** | **$1,107,083** | **$1,111,704** | **$1,057,455** | **$18,283,605** |
| **Non-General Obligation Debt** | | | | | | |
| **Self-Supporting** | | | | | | |
| Permanent University Fund Bonds | | | | | | |
| The Texas A&M University System | $49,752 | $49,759 | $49,752 | $49,757 | $49,762 | $834,871 |
| The University of Texas System | 111,261 | 111,181 | 111,217 | 111,213 | 111,210 | 2,541,578 |
| College and University Revenue Bonds | 905,932 | 921,913 | 912,429 | 907,201 | 897,557 | 11,454,427 |
| Texas Water Resources Finance Authority Bonds | - | - | - | - | - | - |
| Texas Department of Transportation Bonds - CTTS | 77,462 | 82,675 | 86,444 | 90,315 | 110,260 | 6,370,610 |
| Veterans' Financial Assistance Bonds | 1,814 | 1,812 | 1,809 | 1,809 | 1,813 | 34,423 |
| Texas Workforce Commission Unemp Comp Bonds | 227,963 | 224,194 | 227,807 | 232,669 | 238,296 | 1,069,903 |
| State Highway Fund | 314,944 | 314,957 | 314,950 | 314,946 | 314,942 | 4,925,963 |
| Water Development Bonds - State Revolving Fund | 56,477 | 59,710 | 65,781 | 100,049 | 95,054 | 1,045,769 |
| **Total Self Supporting** | **$1,745,604** | **$1,766,202** | **$1,770,189** | **$1,807,959** | **$1,818,893** | **$28,277,543** |
| **Not Self-Supporting** [1] | | | | | | |
| Texas Public Finance Authority Bonds | $57,069 | $51,101 | $50,239 | $30,076 | $25,650 | $54,292 |
| TPFA Master Lease Purchase Program | 15,570 | 14,621 | 13,883 | 12,681 | 10,815 | 45,079 |
| Texas Military Facilities Commission Bonds | 1,988 | 1,980 | 1,974 | 1,674 | 1,377 | 9,977 |
| Parks and Wildlife Improvement Bonds | 7,390 | 7,284 | 3,507 | 3,445 | 3,388 | 9,820 |
| **Total Not Self-Supporting** | **$82,017** | **$74,986** | **$69,602** | **$47,876** | **$41,230** | **$119,169** |
| **Conduit** | | | | | | |
| Texas Small Business I.D.C. Bonds | $1,938 | $1,938 | $1,938 | $1,938 | $1,938 | $79,380 |
| Economic Development Program | 1,597 | 1,601 | 1,599 | 1,601 | 1,596 | 23,974 |
| Texas Dept. of Housing & Community Affairs Bonds | 320,474 | 108,839 | 106,338 | 105,379 | 106,827 | 3,509,886 |
| Texas State Affordable Housing Corporation | 68,082 | 38,420 | 38,453 | 38,518 | 38,314 | 878,869 |
| Texas PAB Surface Transportation Corporation | 71,632 | 71,632 | 71,632 | 71,632 | 71,632 | 2,422,757 |
| TPFA Charter School Finance Corporation | 18,555 | 18,722 | 18,704 | 18,700 | 18,671 | 429,893 |
| **Total, Conduit** | **$482,276** | **$241,152** | **$238,665** | **$237,768** | **$238,978** | **$7,344,759** |
| **Total Non-General Obligation Debt Service** | **$2,309,898** | **$2,082,340** | **$2,078,456** | **$2,093,603** | **$2,099,101** | **$35,741,470** |
| **Total Debt Service** | **$3,379,518** | **$3,161,928** | **$3,185,539** | **$3,205,308** | **$3,156,556** | **$54,025,076** |

[1] Bonds that are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue for debt service.

[2] While not explicitly a general obligation or full faith and credit bond, the revenue pledge contained in Constitutional Bonds has the same effect. Debt service is paid from 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.

**Notes:** The debt-service figures do not include the early redemption of bonds under the state's various loan programs or the Build America Bond subsidy payments.

Future debt-service payments for variable-rate bonds and commercial paper programs are estimated.

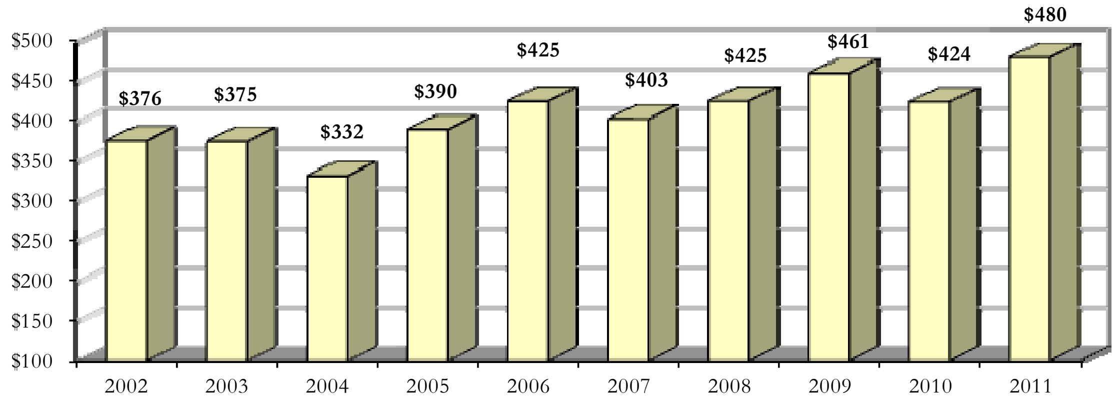
Detail may not add to total due to rounding.

**Source:** Texas Bond Review Board - Bond Finance Office.

Figure 2 4

**ANNUAL DEBT SERVICE SCHEDULED TO BE PAID FROM GENERAL REVENUE**

(amount in millions)




**Source:** Texas Bond Review Board - Bond Finance Office.

outstanding and debt-service requirements for each system or institution, see *Tables 2.5 and 2.7, respectively*.)

### Texas' Authorized but Unissued Debt Decreased in FY 2011

Authorized but unissued debt is defined as debt that may be issued without further legislative action. As of August 31, 2011 Texas had $14.99 billion in authorized but unissued debt compared to $16.32 billion in fiscal 2010 *(Table 2.8)*. Of the $14.99 billion, $11.53 billion (76.9%) was GO debt: $3.70 billion (32.1%) was self-supporting and $7.82 billion (67.9%) was not self-supporting debt. This compares to $9.32 billion in total not self-supporting authorized but unissued GO debt at fiscal year-end 2010. The decrease resulted from the issuance of Texas Transportation Commission Proposition 12 bonds and the refunding of Texas Public Finance Authority commercial paper with long-term debt.

Table 2.5

**TEXAS COLLEGE AND UNIVERSITY REVENUE DEBT OUTSTANDING**

(amounts in thousands)

| | FY 2009 | | | FY 2010 | | | FY 2011 | | |
|---|---|---|---|---|---|---|---|---|---|
| **College and University Revenue Debt** | **Non-TRB** | **TRB** | **Total** | **Non-TRB** | **TRB** | **Total** | **Non-TRB** | **TRB** | **Total** |
| Midwestern State University | $60,400 | $22,445 | $82,845 | $65,705 | $21,235 | $86,940 | $63,685 | $19,975 | $83,660 |
| Stephen F. Austin State University | 96,575 | 52,465 | 149,040 | 130,595 | 50,100 | 180,695 | 124,280 | 45,200 | 169,480 |
| Texas Southern University | 21,470 | 69,170 | 90,640 | 19,940 | 64,690 | 84,630 | 18,345 | 89,245 | 107,590 |
| Texas State Technical College System | 929 | 10,660 | 11,589 | 29,982 | 10,050 | 40,032 | 28,983 | 9,415 | 38,398 |
| Texas State University System | 484,823 | 220,551 | 705,374 | 522,860 | 206,075 | 728,935 | 586,240 | 191,490 | 777,730 |
| Texas Tech University System | 297,926 | 240,106 | 538,032 | 305,077 | 226,195 | 531,272 | 315,807 | 212,270 | 528,077 |
| Texas Woman's University | 34,385 | 45,950 | 80,335 | 47,200 | 43,735 | 90,935 | 45,540 | 41,425 | 86,965 |
| The Texas A&M University System | 643,811 | 501,874 | 1,145,685 | 1,010,841 | 580,549 | 1,591,390 | 1,072,052 | 532,320 | 1,604,372 |
| The University of Texas System | 3,780,099 | 976,099 | 4,756,198 | 3,951,884 | 1,078,185 | 5,030,069 | 4,550,487 | 1,027,345 | 5,577,832 |
| University of Houston System | 370,915 | 239,986 | 610,901 | 467,191 | 226,259 | 693,450 | 487,569 | 211,968 | 699,536 |
| University of North Texas System | 151,956 | 134,745 | 286,701 | 249,390 | 179,305 | 428,695 | 288,510 | 166,545 | 455,055 |
| **Total Revenue Debt Outstanding** | **$5,943,288** | **$2,514,051** | **$8,457,339** | **$6,800,665** | **$2,686,378** | **$9,487,043** | **$7,581,498** | **$2,547,197** | **$10,128,695** |

* TRB - Tution Revenue Bond

**Notes:**

The debt outstanding figures include the accretion on capital appreciation bonds as of August 31, 2011.

All college and university revenue bonds are equally secured by and payable from a pledge of all or a portion of certain "revenue funds" as defined in Chapter 55, Texas Education Code, as amended, of the applicable system or institution of higher education. Historically, however, the state has appropriated funds to the schools in an amount equal to all or a portion of the debt service on revenue bonds issued pursuant to certain specific authorizations to individual institutions in Chapter 55, Texas Education Code ("Tuition Revenue Bonds").

Amounts do not include premium on capital appreciation bonds.

Includes commercial paper notes outstanding.

Excludes HEAF and PUF debt.

**Source:** Texas Bond Review Board - Bond Finance Office.

Authorized but unissued not self-supporting revenue debt totaled $212.9 million at the end of fiscal 2011 compared to $211.3 million at fiscal year-end 2010. The remaining authorized but unissued revenue debt self-was supporting and increased from $2.94 billion to $3.25 billion because of increases in debt authorized under the Permanent University Fund.

**Debt Authority – 82nd Texas Legislature**

The 82nd Legislature authorized no new not self-supporting debt but appropriated $256.5 million for Transportation Proposition 12 debt service as well as and $78.1 million for CPRIT debt service. Additionally, voters approved two constitutional amendments in the November 2011 election that provide the TWDB and THECB with evergreen bonding authority of $6.00 billion and $1.86 billion, respectively.

**Debt Authority – 81st Texas Legislature, Regular Session**

The 81st Legislature authorized up to $4 billion in evergreen GO authority for Veterans' Land and Housing Bonds that was approved by voters in 2009. The 81st Legislature also converted $707.0 million of Water Development Board debt from self-supporting to not self-supporting by appropriation *(Table 2.8)*.

**Debt Authority – 81st Texas Legislature, Special Session**

The 81st Legislature's First Called Special Session authorized no additional GO debt, but appropriated $100.0 million for debt service during the 2010-2011 biennium for the issuance of $2.00 billion of Texas Transportation Commission general obligation bonds that had been approved by voters as Proposition 12 in 2007.

As of August 31, 2011 Texas colleges and universities had a total of $186.3 million in authorized but unissued TRB authority (*Table 2.6*), 99.9 percent of which was held by The University of Texas System.

Table 2.6
**TEXAS COLLEGE AND UNIVERSITY AUTHORIZED BUT UNISSUED TUITION REVENUE DEBT**

| | Total Unissued |
|---|---|
| **The University of Texas System** | |
| The University of Texas - Pan American | $36,296,000 |
| The University of Texas Medical Branch at Galveston | 150,000,000 |
| **The University of Texas System Total** | **$186,296,000** |
| **University of Houston System** | |
| University of Houston at Clear Lake | $750 |
| University of Houston - Downtown | 500 |
| **The Universtiy of Houston System Total** | **$1,250** |
| **Stephen F. Austin State University** | **$8,425** |
| **Total** | **$186,305,675** |

**Debt Authority – 80th Texas Legislature, Regular Session**

The 80th Legislature authorized more than $9.75 billion in additional general obligation debt that was approved by the voters at the November 2007 general election. These include: SJR 64 to finance $5 billion for transportation projects; HJR 90 to finance $3 billion for cancer research; SJR 65 to finance $1 billion for capital projects for certain state agencies; SJR 57 to finance $500 million for student loans and SJR 20 to finance $250 million for water projects.

In addition, the 80th Legislature appropriated debt service for the $1.86 billion in tuition revenue bonds (TRBs) authorized by HB 153, 79th Legislature, Third Special Session. TRBs are used to finance construction and improvements of infrastructure and related facilities, and their authorization and issuance is not contingent on an appropriation for related debt service. As described above the Texas Legislature has historically appropriated general revenue to reimburse the institutions for TRB debt service. As noted earlier, the passage of SB 792 increased the State Highway Fund authority from $3 billion to $6 billion.

**Long-Term Contracts and Lease Purchases**

Long-term contracts and lease or installment-purchase agreements can serve as cost-effective financing alternatives when the issuance of bonds is not feasible or practical. Like bonds, these agreements are a method of financing capital purchases over time, and payments on these contracts and agreements are generally subject to biennial legislative appropriations. Although these contracts and agreements are not classified as state debt, they must be added to debt outstanding to obtain an accurate total of all state debt.

The equipment lease purchases approved by the Bond Review Board are typically financed through the Texas Public Finance Authority's Master Lease Purchase Program and are included in the state's total debt outstanding.

**Texas Swaps Outstanding**

At the end of fiscal 2011, four state issuers had swap agreements in place: the Veterans Land Board (VLB), The University of Texas System (The UT System), the Texas Department of Housing and Community Affairs (TDHCA) and the Texas Transportation Commission (TTC). Each entered the swap market in 1994, 1999, 2004 and 2006, respectively. As of August 31, 2011 the aggregate notional amount of swaps outstanding at the state level was $4.45 billion. Interest rate swaps do not represent additional debt of the state but are primarily used as financial-management tools to reduce interest expense and hedge against interest rate, tax, basis and other risks. (See *Appendix C* for a background discussion of swaps and related data.)

State issuers are authorized to enter into swap agreements under the Texas Government Code, Section 1371 which grants special authority to enter into credit agreements. However, the Texas Department of Housing and Community Affairs and the Veterans Land Board have broad authority to enter into swaps under Section 2306.35 of the Texas Government Code and Sections 161.074, 162.052 and 164.010 of the Texas Natural Resources Code, respectively.

At the end of fiscal 2011, the VLB was a party to 43 pay-fixed, receive-variable (synthetic fixed-rate) swaps associated with its variable-rate demand bond issues. The total notional amount for these swaps was $1.52 billion at fiscal year-end 2011. TDHCA had five such swaps on single-family bonds totaling $299.1 million in notional amount and the UT System had six Revenue Financing System agreements and two Permanent University Fund agreements totaling $1.38 billion in notional amount. TDHCA had four such swaps for multi-family bond issuances totaling $53.0 million that are conduit debt.

Additionally, at the end of fiscal 2011 VLB had four outstanding basis (pay-variable, receive-variable) swaps with $216.0 million in notional amount that were associated with variable-rate demand debt issues. The UTS had three Revenue Financing System agreements and one PUF agreement totaling $583.6 million in notional amount. The TTC had three basis swaps outstanding with $400.0 million in notional amount as of fiscal year-end 2011.

The Net Fair Values for the swap agreements in place at the end of fiscal 2011 for the four state issuers were as follows: VLB, negative $328.8 million; The UT System, negative $193.8 million; TDHCA, negative $44.1 million; and TTC, positive $26.3 million. A negative value indicates that the state issuer would owe its counterparties the net amounts indicated if the swaps were terminated. (See *Tables C1 and C2 in Appendix C* for details regarding Texas' interest rate swaps outstanding and fair value data at August 31, 2011.)

At fiscal year-end 2011, estimated debt-service requirements and net swap payments for VLB's pay-fixed, receive-variable swaps totaled $2.28 billion; and that of The UTS totaled $2.22 billion. TDHCA had only synthetic fixed-rate swaps outstanding, the

Table 2 7

**DEBT-SERVICE REQUIREMENTS OF TEXAS COLLEGE AND UNIVERSITY REVENUE DEBT BY FISCAL YEAR**

**(amounts in thousands)**

| College and University Revenue Debt | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 & Beyond |
|---|---|---|---|---|---|---|
| The University of Texas System - Non-TRB | 353,814 | 365,508 | 357,464 | 357,342 | 356,767 | 5,901,421 |
| The University of Texas System - TRB | 115,530 | 115,517 | 115,521 | 115,364 | 115,301 | 814,988 |
| The University of Texas System - TOTAL* | 469,344 | 481,025 | 472,985 | 472,706 | 472,068 | 6,716,409 |
| The Texas A&M University System - Non-TRB | 106,143 | 108,211 | 107,760 | 104,685 | 102,388 | 1,136,749 |
| The Texas A&M University System - TRB | 54,768 | 54,677 | 54,603 | 54,135 | 53,468 | 497,163 |
| The Texas A&M University System - TOTAL | 160,911 | 162,888 | 162,363 | 158,820 | 155,856 | 1,633,913 |
| Texas Tech University System - Non-TRB | 29,005 | 28,669 | 28,112 | 29,237 | 28,075 | 344,000 |
| Texas Tech University System - TRB | 22,631 | 22,772 | 22,708 | 21,821 | 20,125 | 185,645 |
| Texas Tech University System - TOTAL | 51,636 | 51,441 | 50,820 | 51,058 | 48,200 | 529,645 |
| Texas State University System - Non-TRB | 50,109 | 51,746 | 51,303 | 51,166 | 49,396 | 683,151 |
| Texas State University System - TRB | 23,677 | 23,234 | 23,306 | 22,039 | 21,872 | 149,368 |
| Texas State University System - TOTAL | 73,786 | 74,981 | 74,609 | 73,206 | 71,269 | 832,519 |
| University of Houston System - Non-TRB | 38,275 | 39,940 | 39,982 | 39,985 | 39,999 | 594,484 |
| University of Houston System - TRB | 23,588 | 23,308 | 23,315 | 23,326 | 23,349 | 169,404 |
| University of Houston System - TOTAL | 61,863 | 63,248 | 63,297 | 63,311 | 63,348 | 763,888 |
| The University of North Texas System - Non-TRB | 22,635 | 22,643 | 22,655 | 22,675 | 22,612 | 372,327 |
| The University of North Texas System - TRB | 18,884 | 18,789 | 18,811 | 18,954 | 18,008 | 140,343 |
| The University of North Texas System - TOTAL | 41,519 | 41,433 | 41,466 | 41,629 | 40,620 | 512,670 |
| Texas Woman's University - Non-TRB | 3,602 | 3,607 | 3,599 | 3,603 | 3,602 | 50,811 |
| Texas Woman's University - TRB | 4,432 | 4,446 | 4,444 | 4,441 | 4,447 | 36,376 |
| Texas Woman's University - TOTAL | 8,034 | 8,053 | 8,043 | 8,044 | 8,049 | 87,187 |
| Texas State Technical College System - Non-TRB | 2,238 | 2,255 | 2,270 | 2,283 | 2,289 | 31,868 |
| Texas State Technical College System - TRB | 1,098 | 1,095 | 1,095 | 1,094 | 1,096 | 6,857 |
| Texas State Technical College System - TOTAL | 3,336 | 3,349 | 3,365 | 3,377 | 3,385 | 38,725 |
| Stephen F Austin State University - Non-TRB | 11,205 | 11,204 | 11,198 | 11,215 | 11,202 | 116,022 |
| Stephen F Austin State University - TRB | 4,002 | 4,004 | 3,994 | 3,991 | 3,993 | 42,582 |
| Stephen F Austin State University - TOTAL | 15,207 | 15,208 | 15,192 | 15,206 | 15,194 | 158,604 |
| Midwestern State University - Non-TRB | 5,089 | 5,088 | 5,087 | 5,094 | 4,823 | 77,256 |
| Midwestern State University - TRB | 2,159 | 2,158 | 2,165 | 2,160 | 2,156 | 15,559 |
| Midwestern State University - TOTAL | 7,248 | 7,246 | 7,252 | 7,254 | 6,979 | 92,815 |
| Texas Southern University - Non-TRB | 2,493 | 2,494 | 2,489 | 2,494 | 2,494 | 10,472 |
| Texas Southern University - TRB | 10,554 | 10,549 | 10,549 | 10,097 | 10,095 | 77,580 |
| Texas Southern University - TOTAL | 13,047 | 13,043 | 13,038 | 12,592 | 12,589 | 88,052 |
| **Total College and University Revenue Debt** | **$905,932** | **$921,914** | **$912,430** | **$907,202** | **$897,556** | **$11,454,427** |

*Excludes Build America Bond subsidy payments

**Legend:** TRB = Tuition Revenue Bonds

**Notes:** All college and university revenue bonds are equally secured by and payable from a pledge of all or a portion of certain "revenue funds" as defined in Chapter 55, Texas Education Code, as amended, of the applicable system or institution of higher education Historically, however, the state has appropriated funds to the schools in an amount equal to all or a portion of the debt service on revenue bonds issued pursuant to certain specific authorizations to individual institutions in Chapter 55, Texas Education Code ("Tuition Revenue Bonds") The table includes commercial paper, but excludes HEAF and PUF debt

**Source:** Texas Bond Review Board - Bond Finance Office

Table 2.8

**TEXAS DEBT AUTHORIZED BUT UNISSUED**

(amounts in thousands)

| | 8/31/2008 | 8/31/2009 | 8/31/2010 | 8/31/2011 |
|---|---|---|---|---|
| **General Obligation Debt** | | | | |
| **Self-Supporting** | | | | |
| Veterans' Land and Housing Bonds | $147,157 | $68,032 | $2,014,792 | $1,954,414 |
| Water Development Bonds | 1,974,238 | 711,825 | 727,436 | 765,976 |
| Farm and Ranch Loan Bonds [1] | 300,000 | 300,000 | 300,000 | 300,000 |
| College Student Loan Bonds | 600,482 | 525,482 | 400,485 | 275,490 |
| Texas Agricultural Finance Authority Bonds | 205,000 | 205,000 | 221,000 | 221,000 |
| Texas Public Finance Authority - TMVRLF | 200,405 | 200,405 | 200,405 | 200,405 |
| Texas Mobility Fund Bonds | * | * | * | * |
| Texas Rail Relocation and Improvement Fund | * | * | * | * |
| **Total Self-Supporting** | **$3,427,282** | **$2,010,744** | **$3,864,119** | **$3,717,285** |
| **Not Self-Supporting [2]** | | | | |
| Agricultural Water Conservation Bonds | $164,840 | $164,840 | $164,840 | $164,840 |
| Higher Education Constitutional Bonds | *** | *** | *** | *** |
| Texas Public Finance Authority[3] | 4,260,623 | 3,941,243 | 3,536,743 | 3,258,005 |
| Transportation Commission GO Transportation Bonds | 5,000,000 | 5,000,000 | 5,000,000 | 4,000,002 |
| Water Development Bonds - EDAP [4] | 262,013 | 296,383 | 236,854 | 201,975 |
| Water Development Bonds - State Participation | 0 | 200,050 | 179,466 | 0 |
| Water Development Bonds - WIF | 0 | 473,365 | 204,599 | 200,000 |
| **Total Not Self-Supporting** | **$9,687,476** | **$10,075,881** | **$9,322,503** | **$7,824,822** |
| **Total General Obligation Debt** | **$13,114,758** | **$12,086,625** | **$13,186,621** | **$11,542,107** |
| **Non-General Obligation Debt** | | | | |
| **Self-Supporting** | | | | |
| Permanent University Fund Bonds [6] | | | | |
| The Texas A&M University System | $647,901 | $374,182 | $371,613 | $452,371 |
| The University of Texas System | 839,020 | 378,339 | 245,252 | 479,362 |
| College and University Revenue Bonds | ** | ** | ** | ** |
| Texas Turnpike Authority Bonds | ** | ** | ** | ** |
| Texas Water Resources Finance Authority Bonds | ** | ** | ** | ** |
| Texas Water Development Bonds (Water Resources Fund) | ** | ** | ** | ** |
| Texas Windstorm Insurance Association | 0 | *** | *** | *** |
| Texas Workers' Compensation Fund Bonds | ** | ** | ** | ** |
| Texas Workforce Commission Unemp Comp Bonds | *** | *** | *** | *** |
| Nursing Home Liability Insurance | 75,000 | 75,000 | 75,000 | 75,000 |
| FAIR Plan | 75,000 | 75,000 | 75,000 | 75,000 |
| Veterans' Financial Assistance Bonds | 795,720 | 795,720 | 771,440 | 771,440 |
| State Highway Fund Revenue Bonds | 2,900,671 | 2,900,671 | 1,400,667 | 1,400,667 |
| Water Development Board - State Revolving Fund | ** | ** | ** | ** |
| **Total Self-Supporting** | **$5,333,312** | **$4,598,912** | **$2,938,972** | **$3,253,840** |
| **Not Self Supporting [2]** | | | | |
| Texas Public Finance Authority Bonds | $150,471 | $150,471 | $158,857 | $152,114 |
| TPFA Master Lease Purchase Program | 27,560 | 42,680 | 52,410 | 60,740 |
| Texas Military Facilities Commission Bonds | ** | ** | ** | ** |
| **Total Not Self-Supporting** | **$178,031** | **$193,151** | **$211,267** | **$212,854** |
| **Conduit** | | | | |
| Texas Economic Development Bank Bonds | ** | ** | ** | ** |
| Texas Department of Housing & Community Affairs | ** | ** | ** | ** |
| Texas State Affordable Housing Corporation | ** | ** | ** | ** |
| **Total, Conduit** | **$0** | **$0** | **$0** | **$0** |
| **Total Non-General Obligation Debt** | **$5,511,343** | **$4,792,063** | **$3,150,238** | **$3,466,694** |
| **Total Debt** | **$18,642,101** | **$16,894,688** | **$16,336,859** | **$15,008,801** |

* No bond issuance limit, but debt service on all bonds issued and proposed to be issued pursuant to the Article III, Section 49-k of the Texas Constitution can not be greater than the Comptroller's certified projection that the amount of money dedicated to the fund is equal to at least 110 percent of the debt-service requirements for as long as the obligations are outstanding.

** No issuance limit has been set by the Texas Constitution. Bonds may be issued by the agency without further authorization by the Legislature. However, university bonds rated lower than AA- or its equivalent may not be issued without the approval of the Bond Review Board. All bonds must be approved by the Attorney General.

*** No bond issuance limit, but HECB debt service may not exceed $131.25 million per year; TWIA issuances may not exceed $2.5 billion annually; and TWC may not exceed $2 billion per issuance.

[1] 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.

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

[3] Includes $3 billion for cancer prevention that was authorized by state voters in November 2007.

[4] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service.

[5] 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, 2011.

**Source:** Texas Bond Review Board - Bond Finance Office

estimated debt-service requirements and net swap payments for which totaled $493.2 million. TTC had three basis swaps outstanding, the estimated debt-service requirements and net swap payments for which totaled $1.83 billion, The UTS had four basis swaps outstanding, the estimated debt-service requirements and net swap payments for which totaled $821.0 million. VLB had four basis swaps outstanding, the estimated debt-service requirements and net swap payments for which totaled $190.6 million. (See *Table C3 and Table C4 in Appendix C* for debt-service requirements of debt outstanding and net interest rate swap payments.)

## Chapter 3
## State Bond Issuance Costs

*Excluding issuances of conduit, private placement and remarketing debt, during fiscal 2011 the weighted average of issuance cost for state bond issuers was $1,566,396 per issue ($5.74 per $1,000) compared to $1,261,487 per issue ($6.20 per $1000) for fiscal 2010. The issuances ranged in size from $6.6 million to $1.1 billion. Appendix A of this report details the issuance costs associated with each of these issues as well as the conduit, remarketing and private placement issues.*

### Issuance Costs for Texas Bond Issuers

In fiscal 2011 the average issue size for Texas' state issuers increased to $273.1 million from $203.6 million in fiscal 2010. (*Table 3.1*) Excluding conduit, private placement and remarketing issues, 10 (52.6%) of the 19 transactions completed in fiscal 2011 were $100.0 million or greater in size, compared to 12 (48.0%) of the 25 transactions completed in fiscal 2010.

In fiscal 2011 the underwriting spread accounted for 80.6 percent of all issuance costs, and the weighted average underwriting spread per issue increased to $1,261,705 from $1,024,966 in fiscal 2010. However, when measured on a per $1,000 bond basis, the weighted average underwriting spread per issue declined to $4.62 in fiscal 2011 from $5.03 in fiscal 2010 because the larger transactions in fiscal 2011 had lower underwriters' spreads and thus a lower overall per cost per $1000 bond. *(See Comparison of Issuance Costs by Transaction Sizes).*

Although the average underwriting spread decreased in fiscal 2011, it still remains relatively high compared to fiscal years 2003-2008, when the average underwriting spreads ranged from $3.33 to $4.28 per $1,000 (*Figure 3.1*). During fiscal 2009 underwriter's spreads began to increase due to higher underwriting risk in the municipal bond market caused by the financial meltdown and the higher issuance costs associated with the introduction of Build America Bonds (BABs). The BABs program expired on December 31, 2010.

Table 3 1

**WEIGHTED AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES**

**(Excludes Private Placement, Conduits and Remarketings)**

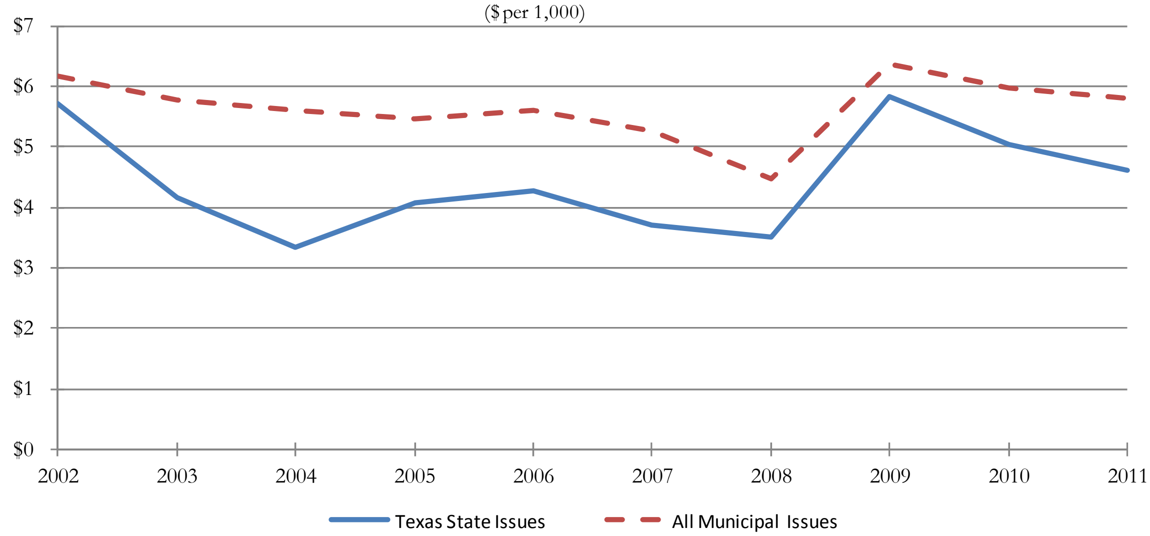
| | Fiscal 2010 | | | Fiscal 2011 | | |
|---|---|---|---|---|---|---|
| | **Count** | **Average Cost Per Bond Issue** | **Average Cost Per $1,000 of Bonds Issued** | **Count** | **Average Cost Per Bond Issue** | **Average Cost Per $1,000 of Bonds Issued** |
| Average Issue Size (In Millions) | 25 | $203 6 | | 19 | $273 1 | |
| Costs of Issuance: | | | | | | |
| Underwriter's Spread: | | | | | | |
| Takedown | 24 | $910,419 | $4 47 | 19 | $1,140,039 | $4 17 |
| Spread Expenses | 24 | 55,237 | 0 27 | 19 | 51,250 | 0 19 |
| Underwriter's Counsel | 22 | 45,016 | 0 20 | 17 | 43,851 | 0 15 |
| Other Underwriter's Spread Costs* | 10 | 49,238 | 0 44 | 7 | 74,054 | 0 37 |
| Underwriter's Spread Subtotal | 25 | $1,024,966 | $5 03 | 19 | $1,261,705 | $4 62 |
| Other Issuance Costs: | | | | | | |
| Bond Counsel | 25 | 78,333 | 0 38 | 19 | 97,896 | 0 36 |
| Financial Advisor | 20 | 60,933 | 0 33 | 18 | 70,095 | 0 28 |
| Printing | 25 | 2,805 | 0 01 | 19 | 2,257 | 0 01 |
| Other | 25 | 34,607 | 0 17 | 19 | 49,405 | 0 22 |
| Other Issuance Costs Subtotal | 25 | $164,491 | $0 81 | 19 | $218,143 | $0 80 |
| Rating Agencies: | | | | | | |
| Moody's | 25 | 35,015 | 0 17 | 19 | 39,426 | 0 14 |
| Standard & Poor's | 16 | 36,368 | 0 13 | 12 | 42,235 | 0 11 |
| Fitch | 17 | 20,206 | 0 12 | 13 | 29,885 | 0 08 |
| Rating Agency Costs Subtotal | 25 | $72,030 | $0 35 | 19 | $86,548 | $0 32 |
| **Total** | 25 | $1,261,487 | $6 20 | 19 | $1,566,396 | $5 74 |

**Note:** Figures exclude bond insurance premiums

* Management Fee, Structuring Fee or Underwriter's Risk

**Source:** Texas Bond Review Board - Bond Finance Office

Figure 3.1
**GROSS UNDERWRITING SPREADS: 2002 - 2011**
**TEXAS STATE BOND ISSUES vs. ALL MUNICIPAL BOND ISSUES**
($ per 1,000)




**Note:** 2011 Municipal figures are through June 30, 2011 Amounts represent dollars per $1,000 face value of bond issues Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses Private placements, conduits, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded

**Sources:** *The Bond Buyer* (08/11); Thomson Financial Securities; and Texas Bond Review Board - Bond Finance Office

Two BAB issuances occurred in fiscal 2011: The University of Texas System issued $644.1 million with an underwriter's spread of $5.14 per $1,000, and the Texas Transportation Commission issued $977.8 million with an underwriter's spread of $5.04 per $1,000.

Other Issuance Costs (bond counsel, financial advisor, rating agency, printing and other costs) per $1000 declined by 3.5 percent in fiscal 2011 to an average of $1.12 per $1,000 per issue ($304,691) compared to $1.16 per $1,000 ($236,522) in fiscal 2010 as a result of the larger transactions completed in fiscal 2011.

Excluding conduit, private placement and remarketing issuances, during fiscal 2011 Texas' state bond issuers paid lower underwriting fees compared to the national averages *(Figure 3.1)*. Statistics published by Thomson Financial Securities Data show that underwriting spreads paid by issuers nationally averaged $5.79 per $1,000 compared to Texas' average of $4.62 per $1,000.

### Comparison of Issuance Costs by Transaction Size

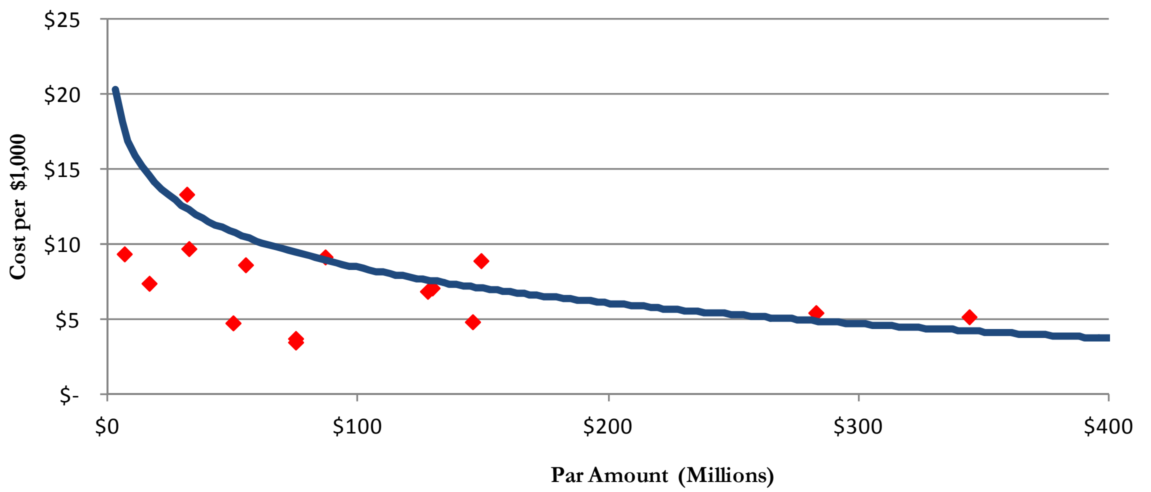
Larger bond issues have a higher total cost of issuance than smaller issues, but larger issues usually have a lower cost per $1000 because certain fixed costs of issuance including some legal and financial advisory services and document drafting fees do not vary proportionately with the size of the bond issue *(Figure 3.2)*.

In fiscal 2011 most of Texas' issuance costs fell below the 2007 - 2010 trend line because most were GO issuances with lower costs of issuance because of the state's high credit quality. Appendix A details the issuance costs for each transaction in fiscal 2011.

### Comparison of Gross Underwriting Costs by Type of Sale

During fiscal 2011 Texas issuers saw lower weighted average underwriting costs in both

Figure 3.2
**COSTS OF ISSUANCE: FY 2007-2011**
**(Excludes Private Placements, Conduits and Remarketings)**




**Note:** Includes variable rate demand bonds.

**Source: Texas Bond Review Board - Bond Finance Office**

negotiated and competitive transactions when compared to the national averages as reported by Thomson Financial Securities (*Figure D1*). Texas' average of $4.62 per $1,000 for negotiated sales and $4.44 per $1,000 for competitively bid sales was 19.4 percent and 27.2 percent below the national averages, respectively.

### Trends in State Bond Issuance Costs in 2011

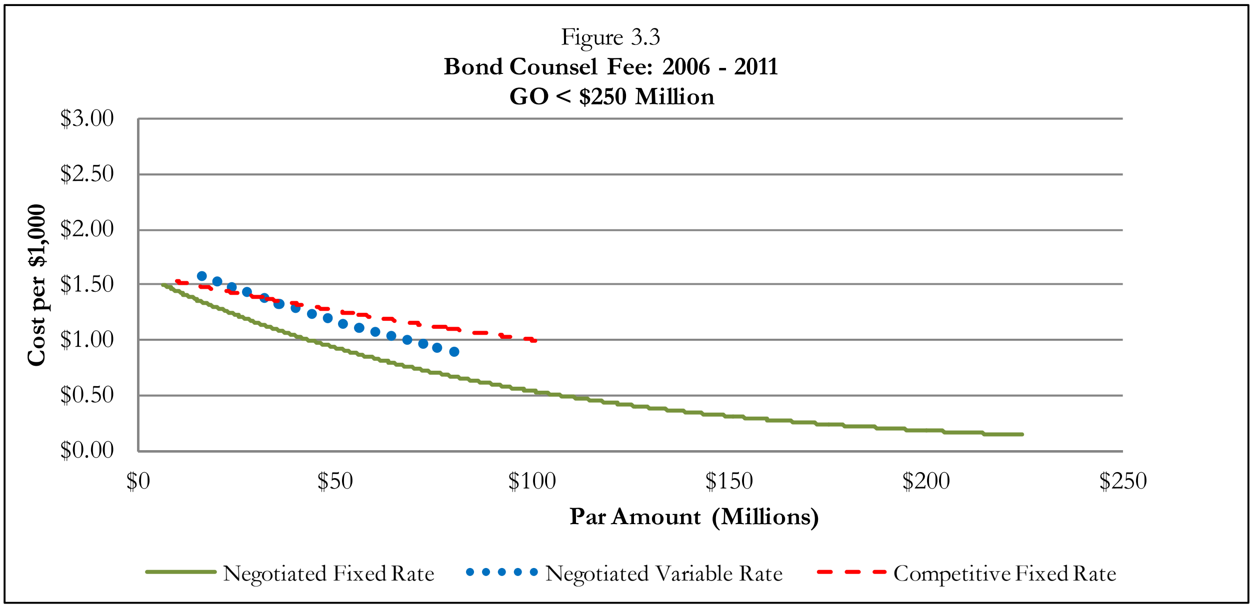
To determine trends in issuance costs during fiscal 2011, the characteristics of 19 non-conduit bond transactions were reviewed. Of those, 18 were negotiated sales and one was a competitive sale. Of the 18 negotiated sales, two were less than $25 million, three ranged from $25-$49 million, four ranged from $50-$99 million, three ranged from $100-$149 million and six ranged from $150 million and above in size.

As expected, in fiscal 2011 the cost per $1,000 decreased as par amount increased (*Figure 3.2*). An accurate comparison of the average issuance costs per $1,000 on negotiated and competitive bond issues is not possible since only one competitive transaction was completed in fiscal 2011.

### Historical Trends in Issuance Costs for State General Obligation Bonds

Four component fees comprise most of the costs of issuing bonds: bond counsel, financial advisor, underwriter's spread and credit rating agencies. To benchmark these fees on a cost per $1,000 basis for state general obligation (GO) issues of less than $250 million, data from fiscal years 2006-2011 are shown graphically in the figures that follow *(Figures 3.3, 3.4, 3.5 and 3.6)*. Each cost of issuance component has been compared by method of sale (negotiated vs. competitive) and by financing structure (fixed-rate vs. variable-rate debt).

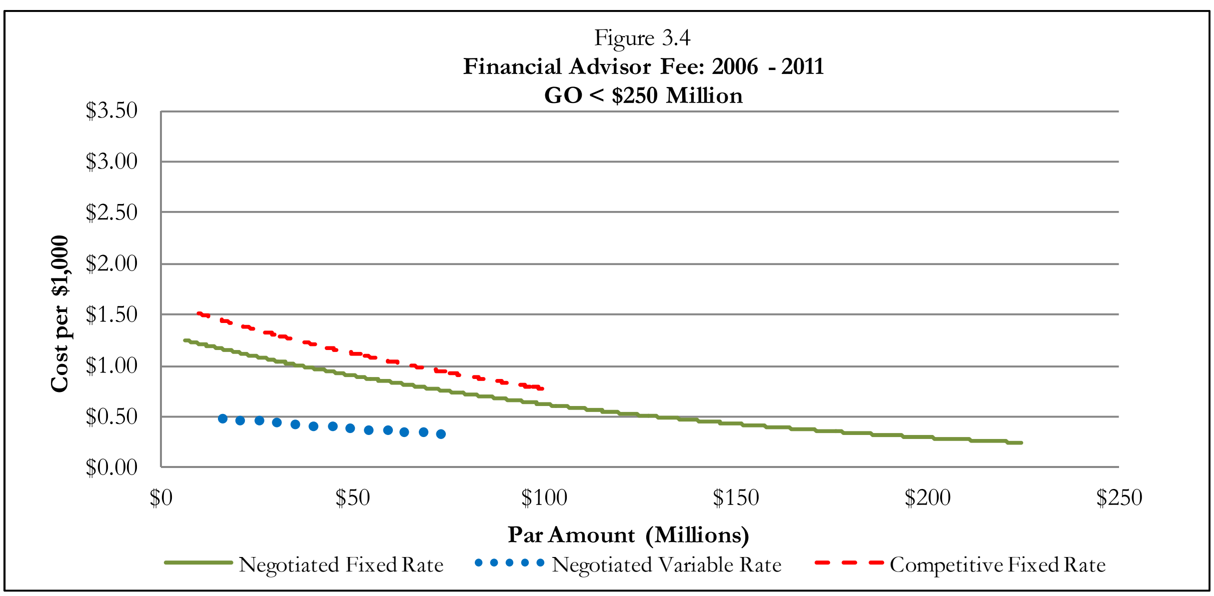
Cost of issuance data was obtained from GO transactions for five agencies and one institution of higher education. A total of 53 issuances were completed in fiscal years 2006-




2011 with an average par amount of $74.1 million. Of the 53 issuances, 26 were negotiated fixed-rate issues, 22 were negotiated variable-rate issues, five were competitive fixed-rate issues and one was a competitive variable-rate issue which was excluded due to sample size.

*Figure 3.3* shows the bond counsel cost per $1,000 for the 53 transactions. During fiscal years 2006-2011, negotiated sales had lower cost per $1,000 compared to competitive sales. As expected, negotiated sales had lower cost per $1,000 as transaction size increased. As transaction size increased, costs per $1,000 for competitive sales remained relatively constant but were higher than for negotiated sales.

*Figure 3.4* shows the cost per $1,000 for the 51 transactions with a financial advisor fee. Competitive transactions had a higher cost across all transactions and variable-rate issuances had a lower cost per $1,000 than fixed-rate issues.



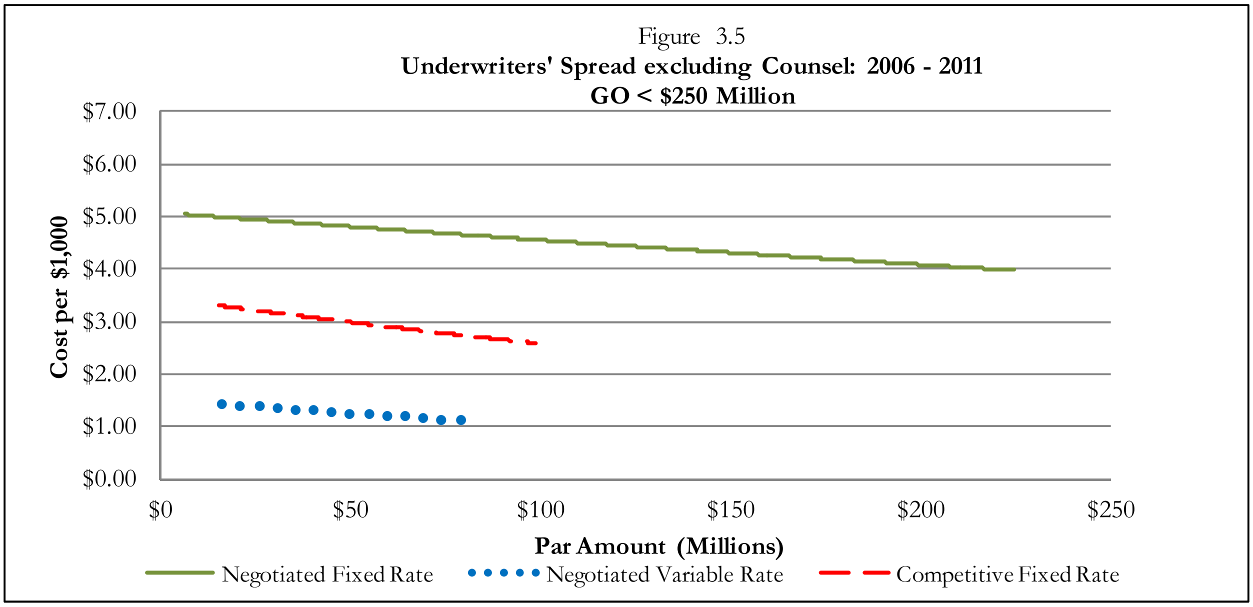



*Figure 3.5* shows the underwriters' spread for negotiated sales that exclude underwriters' counsel fees that are generally not present in competitive sales. Negotiated fixed-rate issuances had higher costs than competitive fixed-rate issuances. Negotiated variable-rate issuances had the lowest cost per $1,000.

*Figure 3.6* shows the cost per $1,000 for fees for the three major rating agencies: Moody's, Standard and Poor's (S&P) and Fitch. For smaller transaction sizes, Moody's had the highest cost per $1,000, but as transaction size increased, Moody's became the lowest. S&P and Fitch's cost per $1,000 was lower than Moody's for smaller transactions, but increased above Moody's as transaction size increased.

*Figures 3.7, 3.8, and 3.9* further analyze underwriters' spread by takedown, spread expenses and underwriters' counsel for 53 issuances that occurred between fiscal years 2006-2011.

*Figure 3.7* shows takedown costs per $1,000 by

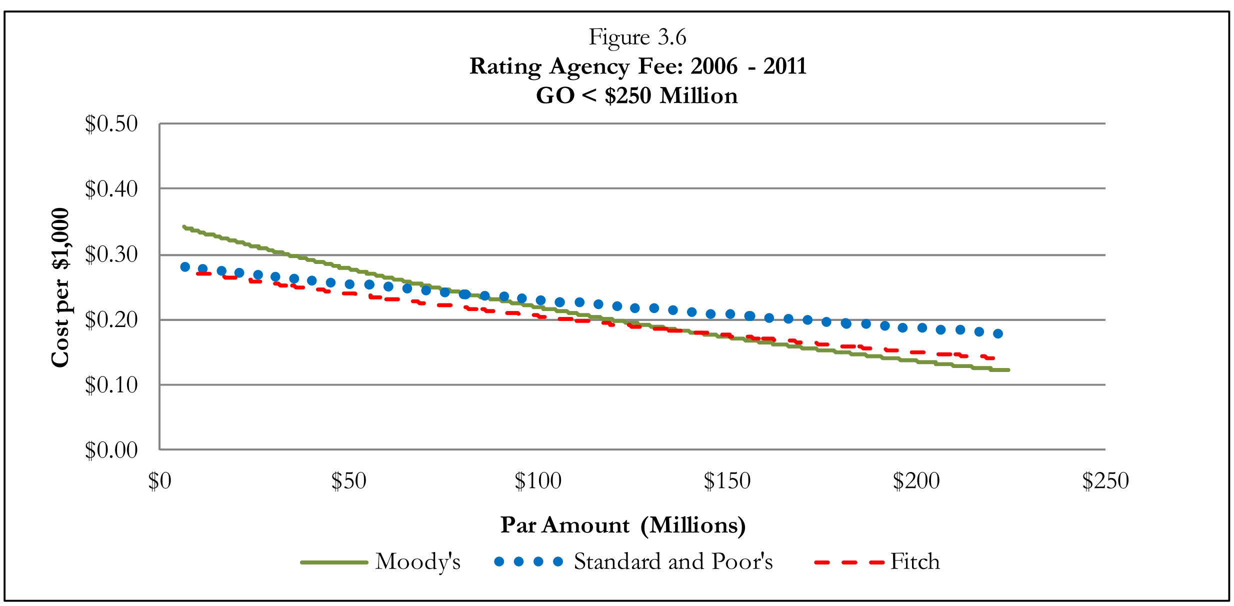
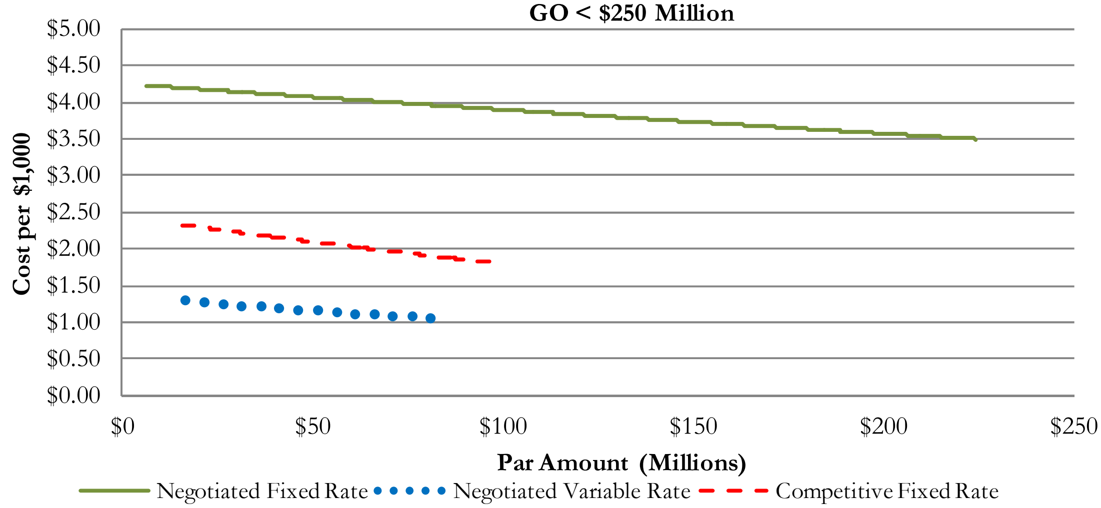


Figure 3.7
**Underwriters' Spread: Takedown 2006 - 2011**
**GO < $250 Million**




par amount. Overall, negotiated fixed-rate sales had the highest cost per $1,000, and negotiated variable-rate sales had the lowest cost per $1,000.

*Figure 3.8* shows cost per $1,000 for spread expenses. Competitive fixed-rate sales had a higher cost per $1,000, and negotiated variable-rate sales had the lowest cost per $1,000.

*Figure 3.9* shows underwriters' counsel cost per $1,000. For smaller transactions negotiated variable-rate sales resulted in a higher cost per $1,000 than negotiated fixed-rate sales. As transaction size increased, negotiated variable-rate sales had a lower cost per $1,000. *Figure 4.10* compares negotiated transactions by financing structure only since underwriters' counsel fees are typically not present in competitive sales.

Figure 3.8
**Underwriters' Spread: Spread Expenses 2006 - 2011**
**GO < $250 Million**

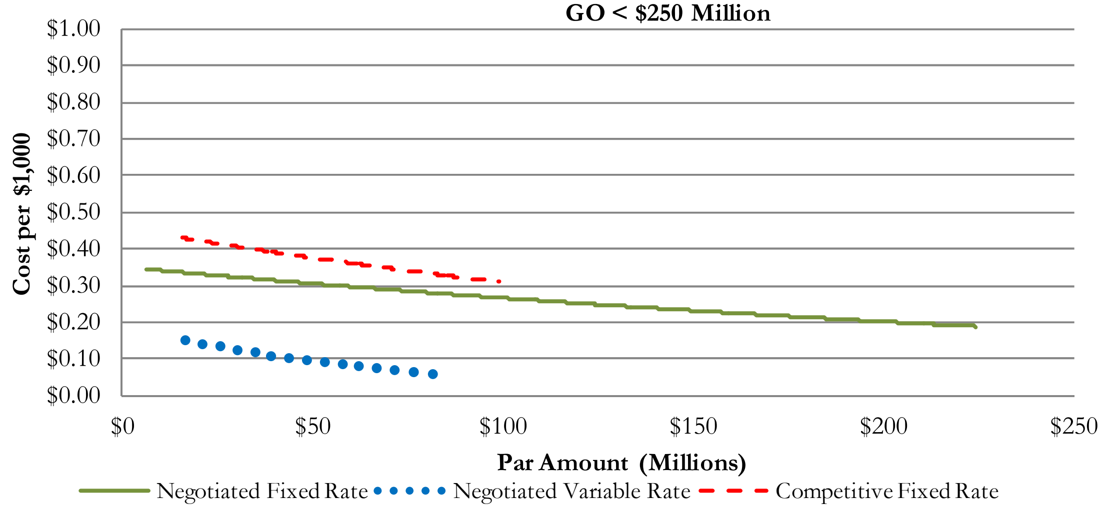
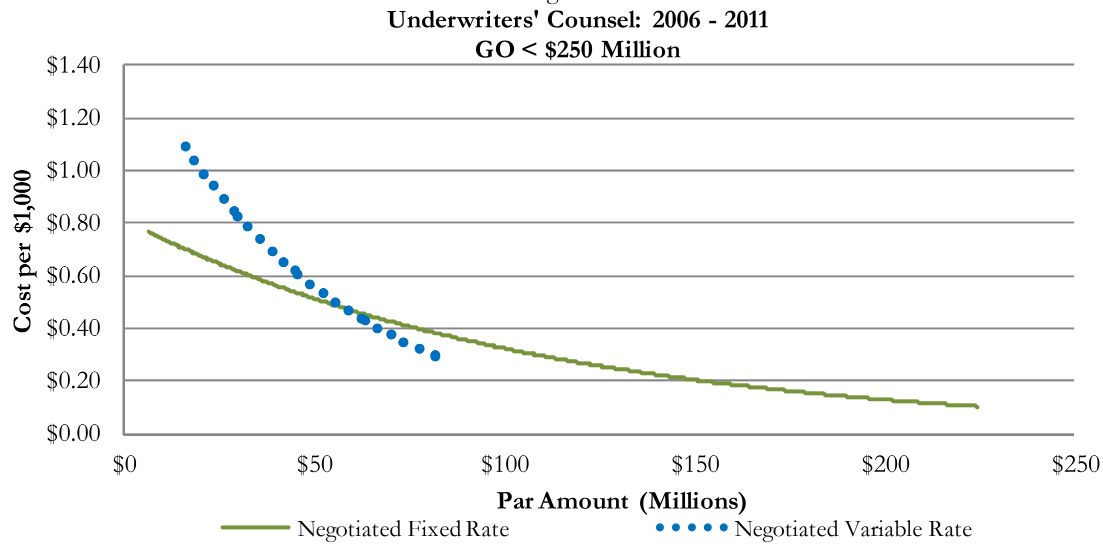


Figure 3.9


Underwriters' Counsel: 2006 - 2011
GO < $250 Million
Cost per $1,000
$1.40
$1.20
$1.00
$0.80
$0.60
$0.40
$0.20
$0.00
$0
$50
$100
$150
$200
$250
Par Amount (Millions)
Negotiated Fixed Rate
Negotiated Variable Rate

## Chapter 4
## Texas Private Activity Bond Allocation Program and Other Bonding Authority

*Texas again experienced an increase in volume cap for the Program Year 2011 Private Activity Bond (PAB) Allocation Program. The 2011 volume cap was set at $2,388,828,295, an increase of $158.4 million (7.1%) over the calendar 2010 cap. The total size of the PAB program including 2011 volume cap and carryforward, was $5.69 billion, an increase of 5.2 percent over the 2010 total. As of November 15, 2011, $836.7 million had been allocated and application requests totaled $2.35 billion, a decrease of 38.5 percent from Program Year 2010.*

*As of November 15, 2011 Texas had $186.3 million in remaining unencumbered Hurricane Ike authority and $252.4 million in unused Qualified Energy Conservation Bond authority.*

### Volume Cap

Texas is second only to California in population and resulting volume cap. Texas experienced an increase in volume cap for the 2011 PAB Allocation Program. Based on its population, the 2011 volume cap was set at $2,388,828,295, an increase of $158.4 million (7.1%) over the calendar 2010 cap of $2,230,407,180.

The increase in the amount of volume cap allocation can be attributed not only to the growth of the state's population, but also to federal legislation that increased the per-capita formula. On December 20, 2000 federal legislation was passed that accelerated the increase in private-activity volume cap, the first such increase since the Tax Reform Act of 1986. The cap phase-in began January 1, 2001 when the limit was increased from $50 per capita to $62.50 per capita. The second part of the plan occurred in January 2002 when the cap multiplier increased to $75 per capita or $225 million, whichever is greater. The multiplier was indexed to inflation beginning in 2003 resulting in increases in 2007, 2008, 2009 and 2011 to the current level of $95 per capita.

Including 2011 volume cap and carryforward, for Program Year 2011 the state had a total of $5.69 billion of volume cap available among the six subceilings of which $836.7 million (14.71%) had been allocated as of November 15, 2011 *(Table 4.1)*.

Issuer demand during the 2011 Program Year decreased compared to the 2010 Program Year. Roughly 34.5 percent of the available 2011 volume cap had been requested before the August 15th collapse compared to 79.6

Table 4.1
**STATE OF TEXAS**
**PRIVATE ACTIVITY BOND ALLOCATION PROGRAM**
**2011 AVAILABLE VOLUME CAP vs. ALLOCATION AMOUNTS**
(as of November 15, 2011)

| SUBCEILING | AVAILABLE* VOLUME CAP | PERCENT OF TOTAL | ISSUED 2011 ALLOCATION | ISSUED CARRYFORWARD ALLOCATION | ISSUED PERCENT OF TOTAL |
|---|---|---|---|---|---|
| Single Family Housing | $ 2,272,337,695 | 39.9% | $ 95,000,000 | $ 480,550,135 | 10.1% |
| State-Voted Issues | 266,891,264 | 4.7% | 74,995,000 | 50,000,000 | 2.2% |
| Small Issue IDBs | 47,776,566 | 0.8% | 3,300,000 | - | 0.1% |
| Multifamily Housing | 599,292,225 | 10.5% | - | 47,625,000 | 0.8% |
| Student Loan Bonds | 1,111,932,589 | 19.5% | - | - | 0.0% |
| All Other Issues | 1,391,401,908 | 24.5% | 45,000,000 | 40,200,000 | 1.5% |
| **TOTAL** | **$ 5,689,632,247** | **100.0%** | **$ 218,295,000** | **$ 618,375,135** | **14.7%** |

*Includes carryforward amounts. Carryforward is reserved volume cap from the prior 3 years.
**Source:** Texas Bond Review Board - Private Activity Bond Program.

| Table 4.2<br>**STATE OF TEXAS**<br>**PRIVATE ACTIVITY BOND ALLOCATION PROGRAM**<br>**2011 REQUESTED VOLUME CAP** | | | |
|---|---|---|---|
| **SUBCEILINGS** | **AVAILABLE ALLOCATION*** | **REQUESTED ALLOCATION*** | **REQUESTS AS A % OF AVAILABILITY** |
| Mortgage Revenue Bonds | $ 2,272,337,695 | $ 1,637,829,307 | 72.1% |
| State-Voted Issue Bonds | 266,891,264 | 150,000,000 | 56.2% |
| Industrial Development Bonds | 47,776,566 | 13,500,000 | 28.3% |
| Multifamily Rental Project Bonds | 599,292,225 | 146,580,000 | 24.5% |
| Student Loan Bonds | 1,111,932,589 | - | 0.0% |
| All Other Bonds Requiring Allocation | 1,391,401,908 | 400,000,000 | 28.7% |
| **TOTALS** | **$ 5,689,632,247** | **$ 2,347,909,307** | **41.3%** |

*Includes carryforward amounts. Carryforward is reserved volume cap from the prior 3 years.
**Source:** Texas Bond Review Board - Private Activity Bond Program.

percent for 2010. After the 2011 collapse, the Bond Review Board (BRB) received $1.52 billion in requests which is 25.9 percent lower than the $2.05 billion in 2010. Applications received for Program Year 2011 including carryforward requests, totaled $2.35 billion or 41.3 percent of the total available allocation of $5.69 billion *(Table 4.2)*. This is a decrease of 38.6 percent from the $3.82 billion of the available allocation requested in 2010. As of November 15, 2011 all requests for reservations had been granted.

**Decreasing Allocation Trend Continues**

Excluding carryforward, as of November 15, 2011 $218.3 million (9.14%) of Program Year 2011 volume cap had been allocated. As of the same date in Program Years 2008, 2009 and 2010, $970.2 million (47.8%), $454.5 million (20.8%) and $665.6 million (29.8%), respectively of volume cap (excluding carryforward) had been allocated. Overall applications received, as well as amount requested have decreased as a result of turmoil in the bond market that began in the summer of 2008 *(Table 4.3)*. Many issuers are waiting for market conditions to improve before seeking volume cap, or they applied for volume cap with the intention of converting it to carryforward. Although market conditions negatively affected every subceiling, multifamily housing and student loan transactions suffered the greatest adverse impact as they received no 2011 volume cap allocation during 2011.

As of November 15, 2011 no MRBs had closed utilizing Program Year 2011 volume cap; however, issuers had converted $95.0 million of Program Year 2011 volume cap to MCC programs. Issuers used approximately $355.6 million and $125.0 million to close MRBs and MCC programs, respectively, using their carryforward volume cap. Multifamily issuers closed seven projects as of November 15, 2011 using $47.6 million of carryforward volume cap compared to one project closing in 2010. The Texas Higher Education Coordinating Board closed $125.0 million of student loan bonds using $75.0 million of 2011 volume cap and $50.0 million in carryforward volume cap. Exempt facility bond issuers closed $45.0 million of 2011 volume cap and $40.2 million of carryforward volume cap during 2011.

At the beginning of Program Year 2011, the carryforward amount of $3.30 billion was nearly 1.5 times the 2011 Program Year volume cap of $2.39 billion, and many issuers that applied for a reservation were forced to use carryforward volume cap (as required by IRS Code) before using 2011 volume cap. As a result more carryforward volume cap

| Table 4 3<br>**STATE OF TEXAS**<br>**PRIVATE ACTIVITY BOND ALLOCATION PROGRAM**<br>**2006 TO 2011 ISSUED ALLOCATION**<br>(as of November 15, 2011) | | | | | | |
|---|---|---|---|---|---|---|
| **YEAR** | **AVAILABLE ALLOCATION*** | **REQUESTED ALLOCATION*** | **ISSUED VOLUME CAP ALLOCATION** | **ISSUED CARRYFORWARD ALLOCATION** | **NUMBER OF APPLICATIONS RECEIVED** | **ISSUED AS A % OF AVAILABILITY** |
| 2006 | $ 2,769,519,169 | $ 4,182,324,063 | $ 1,384,280,850 | $ 582,324,562 | 180 | 71 0% |
| 2007 | 2,706,075,313 | 4,337,117,191 | 1,621,413,094 | 305,686,309 | 275 | 71 2% |
| 2008 | 2,761,028,210 | 4,546,105,466 | 970,197,105 | 121,375,000 | 200 | 39 5% |
| 2009 | 4,469,135,614 | 3,596,975,154 | 454,507,171 | 490,822,200 | 78 | 21 2% |
| 2010 | 5,407,133,424 | 3,823,263,059 | 665,647,470 | 901,700,000 | 77 | 29 0% |
| 2011 | 5,689,632,247 | 2,347,909,307 | 218,295,000 | 618,375,135 | 59 | 14 7% |

*Includes carryforward amounts Carryforward is reserved volume cap from the prior 3 years
**Source:** Texas Bond Review Board - Private Activity Bond Program

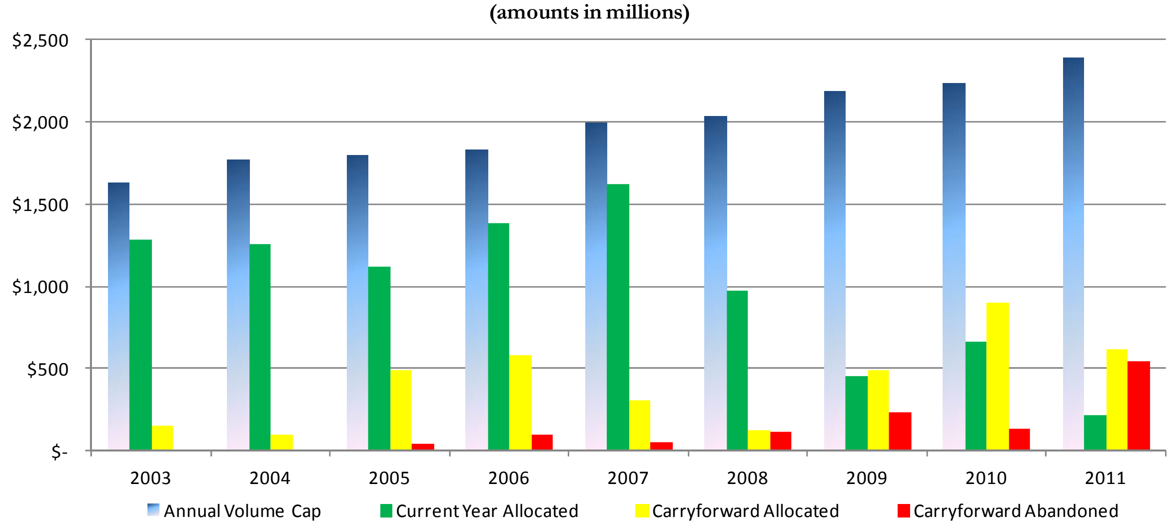
($618.4 million) was allocated than actual 2011 volume cap ($218.3 million) during the program year (*Figure 4.1*). Project requests after the August 15th collapse date were not subject to project limits, and because closing dates generally extend into the next program year, issuers were able to convert their reservations into carryforward. This cycle of issuers not using current year volume cap will likely continue for several years as issuers with carryforward must close that volume cap before using current year volume cap.

As of November 15, 2011 $1.87 billion (78.2%) of the state's 2011 PAB volume cap remains unencumbered. A substantial portion of that amount may be converted to carryforward.

## 82nd Legislature Changes

House Bill (HB) 2911 simplified the reservation process for Higher Education

**Figure 4.1**
**STATE OF TEXAS**
**PRIVATE ACTIVITY BOND ALLOCATION PROGRAM**
**Current Year vs. Carryforward Allocated**
**(amounts in millions)**




* 2009 and 2010 Carryforward numbers also include HERA cap
**Source**: Texas Bond Review Board - Private Activity Bond Program.

Authorities (HEAs) in Sub-ceiling #5. Prior to the change, HEAs were required to provide evidence of student loan need-based demand. HEAs that were able to show the greatest demand received weighted reservations and thus the largest allocations. HB 2911 redefined the assignment of student loan bond allocation to mean the total amount of the allocation for the student loan subceiling divided by the number of qualified HEAs and removed the need-based provisions for the applicants.

**Prior Legislative Changes**

The 81st Legislative Session (2009) passed Senate Bill 2064 to provide issuers using PAB authority with increased flexibility during difficult market conditions such as those experienced in fiscal year 2009, and to respond to the announcement of new federal bond programs and new federal guidelines for the existing Program.

SB 2064 made the following changes both to the Program and also to the responsibilities of the BRB:

- If designated by the applicable state official, the BRB is now authorized to administer other bond authority programs created by federal legislation;
- The BRB now has specific authority to administer and create rules for any additional state ceiling that may be created by federal legislation;
- Certain facilities including sewage facilities, solid waste disposal and qualified hazardous waste facilities are now permitted to include multiple projects on one application but are still required to pay an application fee for each facility;
- The project limit for single-family and multifamily issuers was increased to $40.0 million and $20.0 million, respectively;
- The single-family utilization percentage was modified so that an issuer who has a low utilization percentage would at a minimum receive 25 percent of their available allocation, and an issuer who has an utilization percentage above 80 percent will receive 100 percent of their available allocation;
- Issuers subject to an utilization percentage will not be penalized if in a previous program year less than 50 percent of volume cap dedicated to single-family issuers was not allocated for such purposes;
- The last day to apply for a reservation and to receive a reservation was changed from December 1 to November 15; and
- Any unencumbered volume cap at the end of the program year may be granted to any state agency that requests it.

The 80th Legislative Session (2007) gave the Texas Economic Development Bank priority over all other issuers within Subceiling #6 as well as all issuers with carryforward applications. HB 3552 made a number of changes within Subceiling #4 including a provision allowing applications for multiple-site multifamily projects.

The 79th Legislative Session (2005) dedicated $5.0 million per year of Subceiling #1 for TSAHC to create the Nursing Faculty Home Loan Program and raised the maximum cap per project on Subceiling #6 from $25.0 million to $50.0 million.

Legislation passed during the 76th, 77th and 78th Legislative Sessions shifted the distribution of the state's ceiling for the Program among the sub-ceilings.

**Housing and Economic Recovery Act of 2008**

In July 2008 the Housing and Economic Recovery Act (HERA) of 2008 provided for a one-time increase in PAB allocation for certain housing issues for the United States and its territories. Texas received $748,500,523 of the total HERA increase of

$11.0 billion.

When the program expired at the end of calendar 2010, $698.5 million of HERA volume cap had been allocated since the program's inception in 2008, and $50.0 million remained unallocated.

**Hurricane Ike Bond Authority**

In October 2008 the Heartland Disaster Tax Relief Act (HDTRA) of 2008 created $1,863,270,000 in tax-exempt bonding authority for 34 counties affected by Hurricane Ike. The authority to issue bonds for areas affected by Hurricane Ike can be used through 2012.

Hurricane Ike bonds can be used for: 1) the acquisition, construction, renovation, and reconstruction of nonresidential real property; 2) the acquisition, construction, renovation, and reconstruction of qualified residential rental property; 3) financing the repair or reconstruction of public utility property; 4) rehabilitation projects at certain existing facilities; and 5) the issuance of qualified mortgage bonds.

Persons using Hurricane Ike bond proceeds for a business must have suffered an actual business loss or receive a designation that the business being replaced suffered a loss attributable to Hurricane Ike.

HDTRA requires the Governor of Texas to designate projects "on the basis of providing assistance to areas in the order in which assistance is most needed."

On April 10, 2009 the Governor issued Proclamation 41-3177 designating projects in Brazoria, Chambers, Galveston, Jefferson and Orange counties as having priority for utilization of Hurricane Ike bonds. On the same date Proclamation 41-3178 allocated up to $300.0 million in authority to Jefferson County Industrial Development Corporation for use by Jefferson Refinery LLC.

The 81st Texas Legislature passed legislation authorizing the BRB to administer the qualified Hurricane Ike disaster area bond program under the direction of the Governor. On December 7, 2009 Governor Perry issued Proclamation 41-3232 providing for administration of the qualified Hurricane Ike disaster area bond program and naming priorities for the designation of such bonds. The proclamation outlines the major requirements of the program and identifies the following priorities for allocation of the $1.86 billion of Hurricane Ike bonding authority:

- Group A: Seventy-seven percent of the bonds ($1,434,717,900) are reserved for projects located in the counties of Brazoria, Chambers, Galveston, Harris, Jefferson, Liberty, Montgomery and Orange;

- Group B: Thirteen percent of the bonds ($242,225,100) are reserved for projects located in the counties of Fort Bend, Grimes, Hardin, Jasper, Newton, Polk, San Jacinto, Tyler and Walker; and

- Group C, Ten percent of the bonds ($186,327,000) are reserved for projects located in the counties of Angelina, Austin, Cherokee, Gregg, Harrison, Houston, Madison, Matagorda, Nacogdoches, Rusk, Sabine, San Augustine, Shelby, Smith, Trinity, Waller and Washington.

As of November 15, 2011 the Governor had designated the total authority allotted to Group A ($1.43 billion) and Group B ($242.2 million). As of the same date no applications had been received under Group C, and $754.6 million in Hurricane Ike bonds had been issued. Hurricane Ike bonding authority expires on January 1, 2013.

**Recovery Zone Bond Program**

In February 2009 the American Recovery and Reinvestment Act of 2009 (ARRA) created two types of Recovery Zone Bonds (RZB): Recovery Zone Economic Development Bonds (RZEDB) and Recovery Zone Facility Bonds (RZFB).

Under ARRA certain counties and large municipalities in the state were allocated volume cap authority to issue RZBs. The Office of the Governor awarded a total allocation of $65.0 million of RZB bonding authority to two recipients. No RZFB applications were received. The RZB program expired at the end of calendar 2010.

**Other Bonding Authority**

ARRA also created two new types of bonding authority: Build America Bonds (*see Chapters 1 and 2*) and Qualified School Construction Bonds (QSCB). In addition, ARRA expanded three existing authorities: Qualified Zone Academy Bonds, Qualified Energy Conservation Bonds (QECB) and Clean Renewable Energy Bonds. All of these programs have expired except for the QECB Program which has no expiration date, and issuers that received a QSCB allocation before the end of calendar 2010 can issue until December 31, 2011.

QECBs may be used for qualified conservation purposes, and Texas was allocated $252,378,000 in QECB authority. As of November 15, 2011 no QECB reservations had been made.

## Appendix A
## Summary of Bonds Issued

**Table A1**
**BONDS ISSUED IN FY 2011 BY ISSUER**

| | | |
|---|---|---|
| **Texas Department of Housing and Community Affairs** | | |
| Residential Mortgage Revenue Bonds, Series 2009C-1 (Non-AMT) and Residential Mortgage Revenue Bonds, Series 2011A (Non-AMT) | $ | 149,030,000 |
| **Texas Higher Education Coordinating Board** | | |
| State of Texas (General Obligation Bonds) College Student Loan Bonds, Series 2011A and College Student Loan Refunding Bonds, Series 2011B | $ | 145,670,000 |
| State of Texas (General Obligation Bonds) College Student Loan Refunding Bonds, Series 2011C | $ | 6,570,000 |
| **Texas Public Finance Authority** | | |
| Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010A | $ | 1,110,415,000 |
| Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010B and 2010C | $ | 849,465,900 |
| Texas Southern University Revenue Financing System Bonds, Series 2011 | $ | 31,500,000 |
| General Obligation and Refunding Bonds, Taxable Series 2011 | $ | 282,820,000 |
| General Obligation and Refunding Bonds, Series 2011 | $ | 344,020,000 |
| **Texas Public Finance Authority Charter School Finance Corporation** | | |
| Education Revenue Bonds (Evolution Academy Charter School), Series 2010A, Taxable Education Revenue Bonds, Series 2010B and Taxable Education Revenue Bonds, Series 2010Q (Qualified School Construction Bonds - Direct Pay) | $ | 6,040,000 |
| Education Revenue Bonds(New Frontiers Charter School), Series 2010A, Taxable Education Revenue Bonds, Series 2010B and 2010Q (Qualified School Construction Bonds - Direct Pay) | $ | 7,580,000 |
| Taxable Education Revenue Bonds (A.W. Brown - Fellowship Leadership Academy), Series 2011Q (Qualified Construction Bonds - Direct Pay) | $ | 5,250,000 |
| **Texas State Affordable Housing Corporation** | | |
| Single Family Mortgage Revenue Bonds, Series 2011A (Non-AMT) (Market Bonds) and Series 2009A (Non-AMT) (Program Bonds) | $ | 55,000,000 |
| Multifamily Housing Revenue Bonds (HDSA Texas Affordable Housing Pool Project), Senior Series 2011A, Taxable Senior Series 2011A-T, Subordinate Series 2011B, and Junior Subordinate Series 2011C | $ | 49,450,000 |
| **Texas State University System** | | |
| Board of Regents. Texas State University System Revenue Financing System Revenue Bonds, Series 2011 | $ | 86,775,000 |
| **Texas Transportation Commission** | | |
| State of Texas Highway Improvement General Obligation Bonds, Taxable Series 2010A (Build America Bonds - Direct Payment) and Series 2010B | $ | 977,810,000 |
| Remarketing - Central Texas Turnpike System, First Tier Revenue Refunding Put Bonds, Series 2009 | $ | 149,275,000 |
| **Texas Veterans Land Board** | | |
| State of Texas Veterans Bonds, Taxable Refunding Series 2010D | $ | 16,480,000 |
| State of Texas Veterans Bonds, Taxable Refunding Series 2010E | $ | 49,995,000 |
| State of Texas Veterans Bonds, Series 2011A | $ | 74,995,000 |
| State of Texas Veterans Bonds, Series 2011B | $ | 74,995,000 |
| **Texas Water Development Board** | | |
| State of Texas General Obligation Bonds State of Texas Water Financial Assistance Bonds, Series 2010D (Economically Distressed Areas Program) | $ | 32,350,000 |
| State of Texas General Obligation Bonds, State of Texas Water Financial Assistance Bonds Series 2011A (Water Infrastructure Fund) | $ | 129,540,000 |
| **The Texas A&M University System** | | |
| Board of Regents of The Texas A&M University System, Revenue Financing System Bonds, Series 2011A & 2011B | $ | 127,700,000 |
| **The University of Texas System** | | |
| Board of Regents of the University of Texas System, Revenue Financing System Taxable Bonds, Series 2010C (Build America Bonds - Direct Pay) and Revenue Financing System Bonds, Series 2010E | $ | 644,095,000 |
| | **$** | **5,406,820,900** |

**Source:** Texas Bond Review Board - Bond Finance Office.

**Texas Department of Housing and Community Affairs**

**Issue:** Residential Mortgage Revenue Bonds, Series 2009C-1 (Non-AMT) and Residential Mortgage Revenue Bonds, Series 2011A (Non-AMT)

**Purpose:** The Series 2011A bonds will provide funds for the purchase of mortgage-backed, pass-through certificates backed by qualifying FHA-insured and VA- or RDA-guaranteed mortgage loans, or conventional mortgage loans made to eligible borrowers for single-family residences located in the state of Texas

| | |
|---|---|
| **Par:** | $149,030,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | March 8, 2011 |
| **Negotiated Sale:** | February 9, 2011 |
| **Closing Date:** | March 10, 2011 |
| **True Interest Cost (TIC):** | 3 73% |
| **Net Interest Cost (NIC):** | 3 78% |

| **Issuance Costs** | **Firm** | **HUB** | **Amount** | **Per $1,000** |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 200,000 | 1 34 |
| Financial Advisor | Raymond James & Ass | No | 150,000 | 1 01 |
| Printing | ImageMaster | No | 2,630 | 0 02 |
| Escrow Verification | Causey Demgen & Moore, Inc | No | 8,500 | 0 06 |
| Trustee | The Bank of NY Mellon Trust Co | No | 10,000 | 0 07 |
| Trustee Counsel | Mcguire, Craddock & Strother, P C | No | 7,000 | 0 05 |
| Disclosure Counsel | McCall Parkhurst & Horton L L P | No | 60,000 | 0 40 |
| Private Activity Fee | | No | 9,500 | 0 06 |
| Attorney General | | No | 37,499 | 0 25 |
| Issuer's Fee | | No | 50,000 | 0 34 |
| TEFRA Notice | | No | 15,089 | 0 10 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 75,000 | 0 50 |
| Standard & Poor's | AAA | | 45,000 | 0 30 |
| **Subtotal** | | | **$ 670,218** | **$ 4.50** |

| **Additional COI** | | | | |
|---|---|---|---|---|
| Auditor Letter | Deloitte & Touche | | 7,500 | 0 05 |
| GSE Closing Fee | US Bank | | 7,500 | 0 05 |
| **Total** | | | **$ 685,218** | **$ 4.60** |

| **Underwriting Spread** | **Amount** | **Per $1,000** |
|---|---|---|
| Management Fee | 60,000 | 0 40 |
| Takedown | 359,713 | 2 41 |
| Structuring Fee | 30,000 | 0 20 |
| Spread Expenses | 207,888 | 1 39 |
| **Total** | **$ 657,601** | **$ 4.41** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | **Firm** | **HUB** | **Fees** | **Per $1,000** |
|---|---|---|---|---|
| **Underwriter's Counsel** | Chapman and Cutler L L P | No | 50,000 | 0 34 |

| **Syndicate Firms' Gross Takedown & Share Profit / Loss** | | **Risk** | **Management Fee** | | **Takedown** | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| Morgan Keegan & Co | No | 50 00% | 50 00% | 30,000 | 48 28% | 173,669 |
| JP Morgan Securities, Inc | No | 20 00% | 20 00% | 12,000 | 8 38% | 30,153 |
| George K Baum | No | 7 50% | 7 50% | 4,500 | 6 80% | 24,453 |
| Morgan Stanley | No | 7 50% | 7 50% | 4,500 | 5 56% | 20,016 |
| First Southwest Company | No | 5 00% | 5 00% | 3,000 | 3 09% | 11,125 |
| Piper Jaffray & Co | No | 5 00% | 5 00% | 3,000 | 9 66% | 34,740 |
| Fidelity Capital Markets | No | 5 00% | 5 00% | 3,000 | 8 76% | 31,500 |
| Bank of America Merrill Lynch | No | 0 00% | 0 00% | - | 3 41% | 12,250 |
| Citigroup | No | 0 00% | 0 00% | - | 5 85% | 21,056 |
| Goldman, Sachs & Co | No | 0 00% | 0 00% | - | 0 00% | - |
| Ramirez & Co , Inc | No | 0 00% | 0 00% | - | 0 21% | 750 |
| **Total*** | | **100.00%** | **100.00%** | **$ 60,000** | **100.00%** | **$ 359,712** |

*Total may not match due to rounding.

**Texas Higher Education Coordinating Board**

**Issue:** State of Texas (General Obligation Bonds) College Student Loan Bonds, Series 2011A and College Student Loan Refunding Bonds, Series 2011B

**Purpose:** Proceeds from the sale of the Series 2011A Bonds will be used to fund ongoing student loan programs which provices low interest loans to eligible students at institutions of higher education in the state and the Series 2011B Bonds will be used to currently refund a portion of the Board's State of Texas College Student Loan Bonds, Series 2002

| | |
|---|---|
| **Par:** | $145,670,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | May 16, 2011 |
| **Negotiated Sale:** | June 22, 2011 |
| **Closing Date:** | July 21, 2011 |
| **True Interest Cost (TIC):** | A- 4 52%; B- 1 45% |
| **Net Interest Cost (NIC):** | A- 4 69%; B- 4 57% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 134,966 | 0 93 |
| Financial Advisor | First Southwest Company | No | 76,213 | 0 52 |
| Printing | ImageMaster | No | 2,450 | 0 02 |
| Paying Agent/Registrar | Wells Fargo Bank | No | 1,100 | 0 01 |
| Escrow Agent | Wells Fargo Bank | No | 750 | 0 01 |
| Private Activity Fee | Texas Bond Review Board | No | 1,000 | 0 01 |
| Attorney General | | No | 19,000 | 0 13 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 32,500 | 0 22 |
| Standard & Poor's | AA+ | | 33,600 | 0 23 |
| **Subtotal** | | | **$ 301,579** | **$ 2.07** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 357,394 | 2 45 |
| Spread Expenses | 46,572 | 0 32 |
| **Total*** | **$ 403,966** | **$ 2.77** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L L P | No | 10,000 | 0 07 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| JP Morgan Securities, Inc | No | 50 00% | 50 00% | 178,697 |
| Bank of America Merrill Lynch | No | 12 50% | 12 50% | 44,674 |
| Southwest Securities Inc | No | 12 50% | 12 50% | 44,674 |
| Wells Fargo Securities | No | 25 00% | 25 00% | 89,348 |
| **Total** | | **100.00%** | **100.00%** | **$ 357,393** |

**Texas Higher Education Coordinating Board**

**Issue:** State of Texas (General Obligation Bonds) College Student Loan Refunding Bonds, Series 2011C

**Purpose:** Proceeds from the sale of the Series 2011C Bonds will be used to currently refund a portion of the Board's State of Texas College Student Loan Bonds, Series 2002

| | |
|---|---|
| **Par:** | $6,570,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | May 15, 2011 |
| **Negotiated Sale:** | July 13, 2011 |
| **Closing Date:** | July 21, 2011 |
| **True Interest Cost (TIC):** | 3 40% |
| **Net Interest Cost (NIC):** | 3 67% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 11,201 | 1 70 |
| Financial Advisor | First Southwest Company | No | 10,000 | 1 52 |
| Printing | ImageMaster | No | 2,096 | 0 32 |
| Paying Agent/Registrar | Wells Fargo Bank | No | 550 | 0 08 |
| Escrow Agent | Wells Fargo Bank | No | 750 | 0 11 |
| Attorney General | | No | 7,430 | 1 13 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 7,000 | 1 07 |
| Standard & Poor's | AA+ | | 4,500 | 0 68 |
| **Subtotal** | | | **$ 43,527** | **$ 6.63** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 16,425 | 2 50 |
| Spread Expenses | 1,572 | 0 24 |
| **Total*** | **$ 17,997** | **$ 2.74** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L L P | No | 5,000 | 0 76 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| JP Morgan Securities, Inc | No | 50 00% | 50 00% | 8,213 |
| Bank of America Merrill Lynch | No | 12 50% | 12 50% | 2,053 |
| Southwest Securities Inc | No | 12 50% | 12 50% | 2,053 |
| Wells Fargo Securities | No | 25 00% | 25 00% | 4,106 |
| **Total** | | **100.00%** | **100.00%** | **$ 16,425** |

**Texas Public Finance Authority**

**Issue:** Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010A

**Purpose:** The proceeds will be used to repay principal and interest, if any, on advances from the federal unemployment trust fund, paying unemployment benefits by depositing the proceeds in the unemployment compensation fund, and paying costs of issuance

| | |
|---|---|
| **Par:** | $1,110,415,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | November 9, 2010 |
| **Negotiated Sale:** | November 18, 2010 |
| **Closing Date:** | December 15, 2010 |
| **True Interest Cost (TIC):** | 2 36% |
| **Net Interest Cost (NIC):** | 2 51% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 214,537 | 0 19 |
| Co-Bond Counsel | Bickerstaff Heath Delgado Acosta L L P | No | 31,037 | 0 03 |
| Financial Advisor | First Southwest Company | No | 215,204 | 0 19 |
| Printing | ImageMaster | No | 2,693 | 0 00 |
| Disclosure Counsel | Fulbright & Jaworski L L P | No | 59,057 | 0 05 |
| Miscellaneous | | No | 7,337 | 0 01 |
| Attorney General | | No | 16,833 | 0 02 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aa1 | | 76,200 | 0 07 |
| Standard and Poor's | AA+ | | 85,644 | 0 08 |
| Fitch | AAA | | 73,831 | 0 07 |
| **Subtotal** | | | **$ 782,373** | **$ 0.70** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 4,331,406 | 3 90 |
| Spread Expenses | 198,154 | 0 18 |
| **Total*** | **$ 4,529,560** | **$ 4.08** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Bates & Coleman, P C | No | 45,204 | 0 04 |

| Syndicate Firms' Gross Takedown | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| Bank of America Merrill Lynch | No | 25 00% | 33 04% | 1,431,103 |
| Citigroup | No | 25 00% | 27 83% | 1,205,303 |
| Estrada Hinojosa & Co | **HA** | 8 00% | 9 32% | 403,591 |
| Loop Capital Markets, L L C | **BA** | 8 00% | 9 46% | 410,072 |
| Goldman, Sachs & Co | No | 4 25% | 3 53% | 152,715 |
| Jefferies & Company, Inc | No | 4 25% | 3 17% | 137,120 |
| JP Morgan Sercurities | No | 4 25% | 2 65% | 114,637 |
| Morgan Keegan & Co | No | 4 25% | 2 75% | 119,258 |
| Morgan Stanley | No | 4 25% | 3 95% | 171,018 |
| Raymond James & Ass | No | 4 25% | 1 15% | 49,987 |
| RBC Capital Markets | **BA** | 4 25% | 2 15% | 93,274 |
| Siebert Brandford Shank & Co , L L C | No | 4 25% | 1 00% | 43,330 |
| **Total** | | **100.00%** | **100.00%** | **$ 4,331,408** |

**Texas Public Finance Authority**

**Issue:** Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010B and 2010C

**Purpose:** The proceeds will be used to repay principal and interest, if any, on advances from the federal unemployment trust fund, paying unemployment benefits by depositing the proceeds in the unemployment compensation fund, and paying costs of issuance.

| | |
|---|---|
| **Par:** | $849,465,900 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | November 9, 2010 |
| **Negotiated Sale:** | December 7, 2010 |
| **Closing Date:** | December 16, 2010 |
| **True Interest Cost (TIC):** | 3.42% |
| **Net Interest Cost (NIC):** | 3.51% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L.L.P. | No | 148,686 | 0.18 |
| Co-Bond Counsel | Bickerstaff Heath Delgado Acosta L.L.P. | No | 21,510 | 0.03 |
| Financial Advisor | First Southwest Company | No | 149,148 | 0.18 |
| Printing | ImageMaster | No | 1,867 | 0.00 |
| Attorney General | | No | 40,930 | 0.05 |
| Disclosure Counsel | Fulbright & Jaworski L.L.P. | No | 11,667 | 0.01 |
| Miscellaneous | | No | 5,085 | 0.01 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aa1 | | 52,810 | 0.06 |
| Standard and Poor's | AA+ | | 59,356 | 0.07 |
| Fitch | AAA | | 51,169 | 0.06 |
| **Subtotal** | | | **$ 542,228** | **$ 0.64** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 4,247,325 | 5.00 |
| Structuring Fee | 160,000 | 0.19 |
| Spread Expenses | 130,425 | 0.15 |
| **Total** | **$ 4,537,750** | **$ 5.34** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L.L.P. | No | 34,796 | 0.04 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Structuring Fee | | Takedown | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| Bank of America Merrill Lynch | No | 25.00% | 50.00% | 80,000 | 26.98% | 1,145,918 |
| Citigroup | No | 25.00% | 50.00% | 80,000 | 30.28% | 1,286,118 |
| Estrada Hinojosa & Co. | **HA** | 8.00% | 0.00% | - | 9.60% | 407,683 |
| Loop Capital Markets, L.L.C | No | 8.00% | 0.00% | - | 9.64% | 409,295 |
| Goldman, Sachs & Co. | No | 4.25% | 0.00% | - | 3.56% | 151,025 |
| Jefferies & Company, Inc. | No | 4.25% | 0.00% | - | 3.33% | 141,481 |
| JP Morgan Sercurities | No | 4.25% | 0.00% | - | 2.91% | 123,808 |
| Morgan Keegan & Co. | No | 4.25% | 0.00% | - | 2.72% | 115,594 |
| Morgan Stanley | No | 4.25% | 0.00% | - | 2.34% | 99,511 |
| Raymond James & Ass. | No | 4.25% | 0.00% | - | 3.04% | 129,198 |
| RBC Capital Markets | No | 4.25% | 0.00% | - | 4.87% | 206,791 |
| Siebert Brandford Shank & Co., L.L.C | **BA** | 4.25% | 0.00% | - | 0.73% | 30,904 |
| **Total** | | **100.00%** | **100.00%** | **$ 160,000** | **100.00%** | **$ 4,247,326** |

**Texas Public Finance Authority**

**Issue:** Texas Southern University Revenue Financing System Bonds, Series 2011

**Purpose:** The proceeds of the bonds will be used for constructing, equipping and furnishing the Leonard H.O. Spearman Technology Building, fund a debt service reserve fund, and pay cost of issuance.

| | |
|---|---|
| **Par:** | $31,500,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | November 18, 2010 |
| **Negotiated Sale:** | January 19, 2011 |
| **Closing Date:** | January 27, 2011 |
| **True Interest Cost (TIC):** | 6.73% |
| **Net Interest Cost (NIC):** | 6.40% |

| **Issuance Costs** | **Firm** | **HUB** | **Amount** | **Per $1,000** |
|---|---|---|---|---|
| Bond Counsel | Andrews Kurth L.L.P. | No | 49,000 | 1.56 |
| Financial Advisor | First Southwest Company | No | 65,000 | 2.06 |
| Printing | ImageMaster | No | 2,119 | 0.07 |
| Paying Agent/Registrar | US Bank | No | 500 | 0.02 |
| Attorney General | | No | 9,500 | 0.30 |
| Miscellaneous | | No | 835 | 0.03 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Baa3 | | 30,000 | 0.95 |
| Fitch | BBB | | 20,000 | 0.63 |
| **Subtotal** | | | **$ 176,954** | **$ 5.62** |

| **Underwriting Spread** | **Amount** | **Per $1,000** |
|---|---|---|
| Management Fee | 31,500 | 1.00 |
| Takedown | 156,438 | 4.97 |
| Spread Expenses | 55,064 | 1.75 |
| **Total** | **$ 243,002** | **$ 7.71** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | **Firm** | **HUB** | **Fees** | **Per $1,000** |
|---|---|---|---|---|
| **Underwriter's Counsel** | McCall Parkhurst & Horton L.L.P. | No | 43,400 | 1.38 |

| **Syndicate Firms' Gross Takedown & Share Profit / Loss** | | **Risk** | **Management Fee** | | **Takedown** | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| Southwest Securities | No | 40.00% | 40.00% | 12,600 | 51.66% | 80,816 |
| Mesirow Financial Products | No | 15.00% | 15.00% | 4,725 | 18.84% | 29,470 |
| Siebert Brandford Shank & Co., L.L.C | **BA** | 15.00% | 15.00% | 4,725 | 7.89% | 12,338 |
| Stifel Nicolaus | No | 15.00% | 15.00% | 4,725 | 8.68% | 13,575 |
| Wells Fargo Securities | No | 15.00% | 15.00% | 4,725 | 10.09% | 15,789 |
| Jefferies & Company, Inc. | No | 0.00% | 0.00% | - | 0.00% | 2,500 |
| Ramirez & Co.,Inc. | **HA** | 0.00% | 0.00% | - | 0.00% | 1,763 |
| SAMCO | No | 0.00% | 0.00% | - | 0.00% | 188 |
| **Total*** | | **100.00%** | **100.00%** | **$ 31,500** | **100.00%** | **$ 156,439** |

*Total may not match due to rounding.

**Texas Public Finance Authority**

**Issue:** General Obligation and Refunding Bonds, Taxable Series 2011

**Purpose:** Proceeds of the bonds will be used to refund outstanding general obligation commercial paper notes of the State issued by TPFA for the Cancer Prevention and Research Institute of Texas to provide long term fixed rate financing for the refunded notes and for CPRIT to make grants for cancer research and prevention

| | |
|---|---|
| **Par:** | $282,820,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | July 15, 2011 |
| **Negotiated Sale:** | August 4, 2011 |
| **Closing Date:** | August 23, 2011 |
| **True Interest Cost (TIC):** | 4 00% |
| **Net Interest Cost (NIC):** | 4 08% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | McCall Parkhurst & Horton L L P | No | 57,711 | 0 20 |
| Financial Advisor | Coastal Securites | No | 65,000 | 0 23 |
| Printing | ImageMaster | No | 1,311 | 0 00 |
| Attorney General | | No | 9,500 | 0 03 |
| Escrow Agent | Texas Treasury Safekeeping Trust | No | 500 | 0 00 |
| Miscellaneous | | No | 4,447 | 0 02 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 30,455 | 0 11 |
| Standard and Poor's | AA+ | | 26,710 | 0 09 |
| Fitch | AAA | | 27,071 | 0 10 |
| **Subtotal** | | | **$ 222,705** | **$ 0.79** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Management Fee | 50,000 | 0 18 |
| Takedown | 1,107,967 | 3 92 |
| Spread Expenses | 160,028 | 0 57 |
| **Total** | **$ 1,317,995** | **$ 4.66** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L L P | No | 45,500 | 0 16 |
| **Underwriters' Co-Counsel** | Bates & Coleman, P C | No | 19,500 | 0 07 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Management Fee | | Takedown | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| Jefferies & Company, Inc | No | 47 50% | 100 00% | 50,000 | 49 58% | 549,279 |
| JP Morgan Sercurities | No | 7 50% | 0 00% | - | 8 92% | 98,855 |
| Mesirow Financial Securities, Inc | No | 7 50% | 0 00% | - | 3 63% | 40,174 |
| Morgan Stanley | No | 7 50% | 0 00% | - | 7 78% | 86,205 |
| Piper Jaffray & Co | No | 7 50% | 0 00% | - | 5 67% | 62,850 |
| Raymond James & Ass | No | 7 50% | 0 00% | - | 9 25% | 102,517 |
| Stifel Nicolaus | No | 7 50% | 0 00% | - | 6 25% | 69,207 |
| Wells Fargo Securities | No | 7 50% | 0 00% | - | 8 92% | 98,880 |
| **Total** | | **100.00%** | **100.00%** | **$ 50,000** | **100.00%** | **$ 1,107,967** |

**Texas Public Finance Authority**

**Issue:** General Obligation and Refunding Bonds, Series 2011

**Purpose:** Proceeds of the bonds will be used to finance projects for the Texas Department of Criminal Justice, the Department of State Health Services, the Texas Facilities Commission, and the Texas School for the Blind and Visually Impaired, to refund outstanding general obligation commerical paper notes to provide long term fixed rate financing, and to refund outstanding general obligation bonds to achieve present value savings.

| | |
|---|---|
| **Par:** | $344,020,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | July 15, 2011 |
| **Negotiated Sale:** | July 18, 2011 |
| **Closing Date:** | July 28, 2011 |
| **True Interest Cost (TIC):** | 3.06% |
| **Net Interest Cost (NIC):** | 3.33% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L.L.P. | No | 165,000 | 0.48 |
| Financial Advisor | Coastal Securites | No | 91,000 | 0.26 |
| Printing | ImageMaster | No | 1,510 | 0.00 |
| Attorney General | | No | 9,500 | 0.03 |
| Escrow Agent | Texas Treasury Safekeeping Trust | No | 750 | 0.00 |
| Escrow Verification | Grant Thornton L.L.P. | No | 5,000 | 0.01 |
| Miscellaneous | | No | 3,153 | 0.01 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 37,045 | 0.11 |
| Standard and Poor's | AA+ | | 32,490 | 0.09 |
| Fitch | AAA | | 32,929 | 0.10 |
| **Subtotal** | | | **$ 378,377** | **$ 1.10** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 1,293,712 | 3.76 |
| Spread Expenses | 107,846 | 0.31 |
| **Total** | **$ 1,401,558** | **$ 4.07** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Fulbright & Jaworski L.L.P. | No | 42,000 | 0.12 |
| **Underwriters' Co-Counsel** | Haynes & Boone | No | 18,000 | 0.05 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| Siebert Brandford Shank & Co., L.L.C | **BA** | 45.00% | 50.48% | 653,081 |
| RBC Capital Markets | No | 25.00% | 17.04% | 220,458 |
| Barclays Capital | No | 5.00% | 10.71% | 138,556 |
| Hutchinson, Shockey, Erley & Co. | No | 5.00% | 6.46% | 83,606 |
| M.R. Beal & Co. | No | 5.00% | 3.64% | 47,132 |
| Ramirez & Co., Inc. | **HA** | 5.00% | 6.85% | 88,657 |
| SAMCO | No | 5.00% | 2.05% | 26,531 |
| Stern, Agee & Leach | No | 5.00% | 2.77% | 35,690 |
| **Total** | | **100.00%** | **100.00%** | **$ 1,293,712** |

**Texas Public Finance Authority Charter School Finance Corporation**

**Issue:** Education Revenue Bonds (Evolution Academy Charter School), Series 2010A, Taxable Education Revenue Bonds, Series 2010B and Taxable Education Revenue Bonds, Series 2010Q (Qualified School Construction Bonds - Direct Pay)

**Purpose:** Texas Public Finance Authority Charter School Finance Corporation will issue the bonds and loan the proceeds to Evolution Academy Charter School for the purpose of financing the construction, equipping and improving of a second new campus located at 1099 Sherman property together with the original campus and the borrower's existing campus The proceeds will also be used to fund a debt service reserve fund, provide capitalized interest, pay off existing loans, and paying the costs of issuance of the bonds

| | |
|---|---|
| **Par:** | $6,040,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | July 28, 2010 |
| **Negotiated Sale:** | October 12, 2010 |
| **Closing Date:** | October 22, 2010 |
| **True Interest Cost (TIC):** | 6 39% |
| **Net Interest Cost (NIC):** | 7 11% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 143,000 | 23 68 |
| Printing | i-Deal | No | 3,293 | 0 55 |
| Trustee | Wells Fargo Bank | No | 11,500 | 1 90 |
| Attorney General | | No | 7,645 | 1 27 |
| Issuer's Issuance Fee | TPFA CSFC | No | 5,000 | 0 83 |
| Miscellaneous | Charter Title Company | No | 64,717 | 10 71 |
| **Rating Agencies** | **Rating** | | | |
| Standard and Poor's | BBB- | | 18,750 | 3 10 |
| **Subtotal** | | | **$ 253,905** | **$ 42.04** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Management Fee | 117,418 | 19 44 |
| Takedown | 60,400 | 10 00 |
| Spread Expenses | 3,382 | 0 56 |
| **Total** | **$ 181,200** | **$ 30.00** |

*Total Underwriting Spread **does not** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Petruska & Associates | No | 45,000 | 7 45 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| RBC Capital Markets | No | 100 00% | 100 00% | 60,400 |
| **Total** | | **100.00%** | **100.00%** | **$ 60,400** |

**Texas Public Finance Authority Charter School Finance Corporation**

**Issue:** Education Revenue Bonds(New Frontiers Charter School), Series 2010A, Taxable Education Revenue Bonds, Series 2010B and 2010Q (Qualified School Construction Bonds - Direct Pay)

**Purpose:** The Series 2010A and 2010B bond proceeds will be used for the following purposes: (i) to pay the portion of the cost of aquiring an approximately 2.54 acre tract of land and an approximately 49,005 square foot educational building located at 4018 South Presa Street in San Antonio, Texas and to pay a portion of the costs of certain renovations and improvements to such facilities, (ii) to fund a debt service reserve fund, and (iii) to pay costs of issuance for Series 2010A and 2010B.

The Series 2010Q bond proceeds will be used for the following: to pay a portion of the costs of certain renovations and improvements to public school facilities located at 4018 South Presa Street in San Antonio, Texas and to pay costs of issuance for Series 2010Q bonds.

| | |
|---|---|
| **Par:** | $7,580,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | September 24, 2010 |
| **Negotiated Sale:** | October 6, 2010 |
| **Closing Date:** | October 20, 2010 |
| **True Interest Cost (TIC):** | 5.49% |
| **Net Interest Cost (NIC):** | 5.23% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L.L.P. | No | 140,000 | 18.47 |
| Financial Advisor | First Southwest Company | No | 50,000 | 6.60 |
| Printing | i-Deal | No | 6,520 | 0.86 |
| Attorney General | | No | 12,500 | 1.65 |
| Trustee | Wells Fargo Bank | No | 7,895 | 1.04 |
| Issuer's Issuance Fees | TPFA CSFC | No | 8,500 | 1.12 |
| Miscellaneous | | No | 84,435 | 11.14 |
| **Rating Agencies** | **Rating** | | | |
| Standard and Poor's | BBB | | 22,500 | 2.97 |
| **Subtotal** | | | **$ 332,350** | **$ 43.85** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Management Fee | 108,395 | 14.30 |
| Takedown | 57,700 | 7.61 |
| Spread Expenses | 4,456 | 0.59 |
| **Total** | **$ 170,551** | **$ 22.50** |

*Total Underwriting Spread **does not** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Quarles & Brady L.L.P. | No | 75,000 | 9.89 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Management Fee | | Takedown | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| R.W. Baird | No | 100.00% | 100.00% | 108,395 | 100.00% | 57,700 |
| **Total** | | **100.00%** | **100.00%** | **$ 108,395** | **100.00%** | **$ 57,700** |

**Texas Public Finance Authority Charter School Finance Corporation**

**Issue:** Taxable Education Revenue Bonds (A W Brown - Fellowship Leadership Academy), Series 2011Q (Qualified Construction Bonds - Direct Pay)

**Purpose:** The proceeds of the bonds will provide funds to finance the construction of a 1,500 seat auditorium at 5701 Redbird Center Drive in Dallas, Texas and the acquisition of land to build a new performing arts facility, athletic complex and middle school campus

| | |
|---|---|
| **Par:** | $5,250,000 |
| **Method of Sale:** | Private Placement |
| **Board Approval:** | January 19, 2011 |
| **Private Placement Sale:** | March 1, 2011 |
| **Closing Date:** | March 21, 2011 |
| **True Interest Cost (TIC):** | Floating |
| **Net Interest Cost (NIC):** | Floating |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Andrews Kurth L L P | No | - | 0 00 |
| Trustee | Regions Bank | No | 4,000 | 0 76 |
| Attorney General | | No | 9,500 | 1 81 |
| Issuer's Fees | TPFA CSFC | No | 6,000 | 1 14 |
| Miscellaneous | | No | 26,365 | 5 02 |
| **Subtotal** | | | **$ 45,865** | **$ 8.74** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 52,000 | 9 90 |
| **Total** | **$ 52,000** | **$ 9.90** |

*Total Underwriting Spread **does not** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L L P | No | 44,500 | 8 48 |

**Texas State Affordable Housing Corporation**

**Issue:** Single Family Mortgage Revenue Bonds, Series 2011A (Non-AMT) (Market Bonds) and Series 2009A (Non-AMT) (Program Bonds)

**Purpose:** The proceeds of the bonds will be used to finance single-family mortgage loans

| | |
|---|---|
| **Par:** | $55,000,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | January 21, 2010 |
| **Negotiated Sale:** | January 25, 2011 |
| **Closing Date:** | February 24, 2011 |
| **True Interest Cost (TIC):** | 3 78% |
| **Net Interest Cost (NIC):** | 3 81% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Fulbright & Jaworski L L P | No | 67,000 | 1 22 |
| Financial Advisor | First Southwest Company | No | 82,500 | 1 50 |
| Printing | R R Donnelley | No | 1,000 | 0 02 |
| Trustee | Wells Fargo Bank | No | 1,500 | 0 03 |
| Trustee Counsel | Naman, Howell, Smith & Lee | No | 2,500 | 0 05 |
| Disclosure Counsel | Greenberg Traurig L L P | No | 45,000 | 0 82 |
| Miscellaneous | | No | 9,500 | 0 17 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | AAA | | 28,000 | 0 51 |
| **Subtotal** | | | **$ 237,000** | **$ 4.31** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Management Fee | 91,594 | 1 67 |
| Takedown | 133,906 | 2 43 |
| Spread Expenses | 12,500 | 0 23 |
| **Total** | **$ 238,000** | **$ 4.33** |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| Morgan Keegan & Co | No | 100 00% | 100 00% | 133,906 |
| **Total** | | **100.00%** | **100.00%** | **$ 133,906** |

**Texas State Affordable Housing Corporation**

**Issue:** Multifamily Housing Revenue Bonds (HDSA Texas Affordable Housing Pool Project), Senior Series 2011A, Taxable Senior Series 2011A-T, Subordinate Series 2011B, and Junior Subordinate Series 2011C

**Purpose:** The proceeds of the bonds will be used to finance mortgage loans to American Opportunity Foundation, Inc

| | |
|---|---|
| **Par:** | $49,450,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | March 17, 2011 |
| **Negotiated Sale:** | May 4, 2011 |
| **Closing Date:** | May 18, 2011 |
| **True Interest Cost (TIC):** | 7 11% |
| **Net Interest Cost (NIC):** | n/a |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Fulbright & Jaworski L L P | No | 210,000 | 4 25 |
| Financial Advisor | First Southwest Company | No | 74,450 | 1 51 |
| Printing | R R Donnelley | No | 2,500 | 0 05 |
| Paying Agent/Registrar | Wells Fargo Bank | No | - | 0 00 |
| Trustee | | No | 36,000 | 0 73 |
| Trustee Counsel | Naman, Howell, Smith & Lee | No | 7,500 | 0 15 |
| Disclosure Counsel | Greenberg Traurig L L P | No | 33,615 | 0 68 |
| Private Activity Fee | Texas Bond Review Board | No | 101,435 | 2 05 |
| Attorney General | | No | 21,240 | 0 43 |
| Issuer's Fees | | No | 239,275 | 4 84 |
| Miscellaneous | | No | 66,457 | 1 34 |
| **Rating Agencies** | **Rating** | | | |
| Standard & Poor's | A-/BBB-/NR | | 95,000 | 1 92 |
| **Subtotal** | | | **$ 887,472** | **$ 17.95** |

| Additional COI | | | | |
|---|---|---|---|---|
| Borrower's Counsel | Butler, Snow, Omara, PLLC | | 150,000 | 3 03 |
| Subordinate Lender's Counsel | Katten Muchin Rosenman L L P | | 60,000 | 1 21 |
| Real Estate Counsel | Schreeder, Wheeler & Flint L L P | | 9,078 | 0 18 |
| Borrower's Org Counsel | Eaton Law Firm, PLLC | | 15,000 | 0 30 |
| PILOT Counsel | Locke Lord Bissell & Liddell L L P | | 56,248 | 1 14 |
| Mortgage Title Insurance | Terra Nove Title & Settlement Services | | 204,927 | 4 14 |
| **Total** | | | **$ 1,382,725** | **$ 27.96** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Underwriting Risk | 74,678 | 1 51 |
| Takedown | 370,917 | 7 50 |
| Structuring Fee | 309,098 | 6 25 |
| Spread Expenses | 19,782 | 0 40 |
| **Total*** | **$ 774,475** | **$ 15.66** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Sidley Austin L L P | No | 85,300 | 1 72 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| Merchant Capital | No | 100 00% | 100 00% | 370,917 |
| **Total** | | **100.00%** | **100.00%** | **$ 370,917** |

**Texas State University System**

**Issue:** Board of Regents Texas State University System Revenue Financing System Revenue Bonds, Series 2011

**Purpose:** Proceeds from the sale of the bonds will be used to aquire, purchase, construct, improve, renovate, enlarge or equip property, buildings, structures, facilities, roads or related infrastructure for members of the Revenue Financing System and paying costs of issuing the bonds

| | |
|---|---|
| **Par:** | $86,775,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | June 3, 2011 |
| **Negotiated Sale:** | June 14, 2011 |
| **Closing Date:** | June 21, 2011 |
| **True Interest Cost (TIC):** | 4 33% |
| **Net Interest Cost (NIC):** | 4 54% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | McCall Parkhurst & Horton L L P | No | 62,798 | 0 72 |
| Financial Advisor | First Southwest Company | No | 44,388 | 0 51 |
| Printing | i-Deal | No | 3,760 | 0 04 |
| Paying Agent/Registrar | The Bank of NY Mellon Trust Co | No | 4,500 | 0 05 |
| Attorney General | The Bank of NY Mellon Trust Co | No | 9,500 | 0 11 |
| Issuer's Fees | Grant Thornton | No | 500 | 0 01 |
| Miscellaneous | | No | 5,000 | 0 06 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aa2 | | 44,625 | 0 51 |
| Fitch | AA | | 45,000 | 0 52 |
| **Subtotal** | | | **$ 220,071** | **$ 2.54** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Management Fee | 86,775 | 1 00 |
| Takedown | 410,069 | 4 73 |
| Spread Expenses | 77,860 | 0 90 |
| **Total*** | **$ 574,704** | **$ 6.62** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Fulbright & Jaworski L L P | No | 57,065 | 0 66 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Management Fee | | Takedown | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| Barclays Capital | No | 40 00% | 40 00% | 34,710 | 47 72% | 195,699 |
| Fidelity Capital Markets | No | 10 00% | 10 00% | 8,678 | 4 83% | 19,817 |
| Jefferies & Company, Inc | No | 10 00% | 10 00% | 8,678 | 14 18% | 58,153 |
| Morgan Keegan & Co | No | 10 00% | 10 00% | 8,678 | 9 61% | 39,411 |
| Piper & Jaffray | No | 10 00% | 10 00% | 8,678 | 6 70% | 27,482 |
| Siebert Brandford Shank & Co | **BA** | 10 00% | 10 00% | 8,678 | 4 19% | 17,185 |
| Wells Fargo Bank, N A | No | 10 00% | 10 00% | 8,678 | 12 76% | 52,322 |
| **Total** | | **100.00%** | **100.00%** | **$ 86,775** | **100.00%** | **$ 410,069** |

**Texas Transportation Commission**

**Issue:** State of Texas Highway Improvement General Obligation Bonds, Taxable Series 2010A (Build America Bonds - Direct Payment) and Series 2010B

**Purpose:** The Series 2010 Bonds are being issued to pay, or reimburse the State Highway Fund for payment of, all or part of the costs of highway improvement projects, to pay the costs of administering projects and the cost of issuance of the bonds.

| | |
|---|---|
| **Par:** | $977,810,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | July 30, 2010 |
| **Negotiated Sale:** | September 22, 2010 |
| **Closing Date:** | September 29, 2010 |
| **True Interest Cost (TIC):** | 2.88% |
| **Net Interest Cost (NIC):** | 4.42% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | McCall Parkhurst & Horton L.L.P. | No | 172,326 | 0.18 |
| Financial Advisor | PFM Group | No | 62,480 | 0.06 |
| Printing | ImageMaster | No | 3,434 | 0.00 |
| Paying Agent/Registrar | Wells Fargo Bank | No | 600 | 0.00 |
| Disclosure Counsel | Fulbright & Jarworski L.L.P. | No | 97,781 | 0.10 |
| Attorney General | | No | 19,000 | 0.02 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 88,200 | 0.09 |
| Standard and Poor's | AA+ | | 59,500 | 0.06 |
| Fitch | AAA | | 61,000 | 0.06 |
| **Subtotal** | | | **$ 564,321** | **$ 0.58** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 4,634,588 | 4.74 |
| Spread Expenses | 295,659 | 0.30 |
| **Total** | **$ 4,930,247** | **$ 5.04** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriters' Counsel** | Locke Lord Bissell & Liddell L.L.P. | No | 130,000 | 0.13 |
| **Co-Underwriter's Counsel** | Bates & Coleman, P.C. | **BA** | - | 0.00 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| JP Morgan Sercurities | No | 55.00% | 59.12% | 2,739,829 |
| Jefferies & Company, Inc. | No | 7.50% | 6.65% | 308,320 |
| Loop Capital Markets, L.L.C | **BA** | 7.50% | 7.26% | 336,378 |
| Morgan Stanley | No | 7.50% | 7.45% | 345,431 |
| Ramirez & Co., Inc. | **HA** | 7.50% | 4.88% | 226,081 |
| Siebert Brandford Shank & Co., L.L.C | No | 7.50% | 5.53% | 256,379 |
| Wells Fargo Securities | No | 7.50% | 9.11% | 422,170 |
| **Total** | | **100.00%** | **100.00%** | **$ 4,634,588** |

**Texas Transportation Commission**

**Issue:** Remarketing - Central Texas Turnpike System, First Tier Revenue Refunding Put Bonds, Series 2009

**Purpose:** The bonds were originally issued for the purpose of refunding the outstanding Series 2002-B bonds and to pay the cost of issuance of the bonds

| | |
|---|---|
| **Par:** | $149,275,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | December 2, 2008 |
| **Negotiated Sale:** | February 15, 2011 |
| **Closing Date:** | February 15, 2011 |
| **True Interest Cost (TIC):** | 4 76% |
| **Net Interest Cost (NIC):** | 4 86% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | McCall Parhurst & Horton L L P | No | 109,954 | 0 74 |
| Financial Advisor | PFM Group | No | 16,775 | 0 11 |
| Printing | Network Financial | No | 7,776 | 0 05 |
| Paying Agent/Registrar | The Bank of NY Mellon Trust Co | No | 1,000 | 0 01 |
| Disclosure Counsel | McCall Parhurst & Horton L L P | No | 75,000 | 0 50 |
| Attorney General | REMARKETING | N/A | - | 0 00 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Baa1 | | - | 0 00 |
| Standard and Poor's | BBB+ | | 10,000 | 0 07 |
| Fitch | BBB+ | | 10,000 | 0 07 |
| **Subtotal** | | | **$ 230,505** | **$ 1.54** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 447,825 | 3 00 |
| Spread Expenses | 109,928 | 0 74 |
| **Total** | **$ 557,753** | **$ 3.74** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Winstead P C | No | 100,000 | 0 67 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| Wells Fargo Securities | No | 50 00% | 50 00% | 223,913 |
| Piper Jaffray & Co | No | 25 00% | 25 00% | 111,956 |
| Southwest Securities | No | 25 00% | 25 00% | 111,956 |
| **Total** | | **100.00%** | **100.00%** | **$ 447,825** |

**Texas Veterans Land Board**

**Issue:** State of Texas Veterans Bonds, Taxable Refunding Series 2010D

**Purpose:** The proceeds of the bonds, together with other moneys of the Board, if any, will be used to refund State of Texas Veterans' Land Bonds, Series 2000 (Series 2000 Bonds). The proceeds will be deposited with the paying agent for the Series 2000 Bonds to pay the redemption price of those Series 2000 Bonds maturing on or after December 1, 2011 (Refunded Bonds). The Refunded Bonds are currently outstanding in the amount of $16,480,000. The proceeds of the Refunded Bonds were used to provide money to augment the Veteran's Land Fund.

| | |
|---|---|
| **Par:** | $16,480,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | November 12, 2010 |
| **Negotiated Sale:** | November 11, 2010 |
| **Closing Date:** | November 18, 2010 |
| **True Interest Cost (TIC):** | 5.33% |
| **Net Interest Cost (NIC):** | 5.23% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Winstead P.C. | No | 18,975 | 1.15 |
| Co-Bond Counsel | Lannen & Oliver P.C. | **BA** | 7,533 | 0.46 |
| Financial Advisor | Raymond James & Ass. | No | 11,000 | 0.67 |
| Printing | Island Printing | No | 896 | 0.05 |
| Attorney General | | No | 9,500 | 0.58 |
| Liquidity Provider's Counsel | Andrews Kurth L.L.P | No | 15,000 | 0.91 |
| Miscellaneous | | No | 4,000 | 0.24 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 10,500 | 0.64 |
| Standard & Poor's | AAA | | 1,250 | 0.08 |
| **Subtotal** | | | **$ 78,654** | **$ 4.77** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 16,480 | 1.00 |
| Spread Expenses | 26,886 | 1.63 |
| **Total*** | **$ 43,366** | **$ 2.63** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L.L.P | No | 25,000 | 1.52 |

| Syndicate Firms' Gross Takedown | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| JP Morgan Securities, Inc. | No | 100.00% | 100.00% | 16,480 |
| **Total** | | **100.00%** | **100.00%** | **$ 16,480** |

**Texas Veterans Land Board**

**Issue:** State of Texas Veterans Bonds, Taxable Refunding Series 2010E

**Purpose:** The proceeds of the bonds, together with other funds provided by the Board, will be used to refund the bonds for State of Texas Veterans' Housing Assistance Program, Fund II Series 2001A-1, 2001C-1, and 2002A-1 ("Refunded Bonds") The Refunded Bonds are currently outstanding in the aggregate principal amount of $49,995,000 The proceeds of the Refunded Bonds were used to provide money to make home loans to verterans and to pay a portion of the expenses of issuing the Refunded Bonds and home loans

| | |
|---|---|
| **Par:** | $49,995,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | November 12, 2010 |
| **Negotiated Sale:** | November 11, 2010 |
| **Closing Date:** | November 18, 2010 |
| **True Interest Cost (TIC):** | 2 92% |
| **Net Interest Cost (NIC):** | 2 81% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 80,000 | 1 60 |
| Co-Bond Counsel | Lannen & Oliver P C | **BA** | 13,520 | 0 27 |
| Financial Advisor | Raymond James & Ass | No | 18,498 | 0 37 |
| Printing | Island Printing | No | 984 | 0 02 |
| Escrow Agent | US Bank | No | 800 | 0 02 |
| Escrow Verfication | Grant Thornton L L P | No | 2,500 | 0 05 |
| Liquidity Provider | Sumitomo Mitsui Banking Corp | No | - | 0 00 |
| Liquidity Provider Counsel | Andrews Kurth L L P | No | 15,000 | 0 30 |
| Attorney General | | No | 9,500 | 0 19 |
| Miscellaneous | | No | 3,000 | 0 06 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 10,500 | 0 21 |
| Standard & Poor's | AAA | | 1,250 | 0 03 |
| **Subtotal** | | | **$ 155,552** | **$ 3.11** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 49,995 | 1 00 |
| Spread Expenses | 32,817 | 0 66 |
| **Total*** | **$ 82,812** | **$ 1.66** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L L P | No | 25,000 | 0 50 |
| **Co-Underwriter's Counsel** | Mahomes Bolden & Warren | **BA** | 5,000 | 0 10 |

| Syndicate Firms' Gross Takedown | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| JP Morgan | **No** | 85 00% | 85 00% | 42,496 |
| Jefferies & Company, Inc | No | 15 00% | 15 00% | 7,499 |
| **Total** | | **100.00%** | **100.00%** | **$ 49,995** |

**Texas Veterans Land Board**

**Issue:** State of Texas Veterans Bonds, Series 2011A

**Purpose:** The proceeds will be used to make home loans to qualified veterans

| | |
|---|---|
| **Par:** | $74,995,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | February 14, 2011 |
| **Negotiated Sale:** | March 8, 2011 |
| **Closing Date:** | March 9, 2011 |
| **True Interest Cost (TIC):** | Floating |
| **Net Interest Cost (NIC):** | Floating |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 55,000 | 0 73 |
| Co-Bond Counsel | Lannen & Oliver P C | No | 16,908 | 0 23 |
| Financial Advisor | Raymond James & Ass | No | 27,249 | 0 36 |
| Printing | Island Printing | No | 1,003 | 0 01 |
| Attorney General | | No | 9,500 | 0 13 |
| Liquidity Provider Counsel | Nixon Peabody L L P | No | 17,500 | 0 23 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa/VMIG-1 | | 24,000 | 0 32 |
| **Subtotal** | | | **$ 151,160** | **$ 2.02** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 74,995 | 1 00 |
| Spread Expenses | 35,603 | 0 47 |
| **Total*** | **$ 110,598** | **$ 1.47** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth LLP | No | 25,000 | 0 33 |
| **Underwriters' Co-Counsel** | Mahomes Bolden & Warren | **BA** | 5,000 | 0 07 |

| Syndicate Firms' Gross Takedown | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| JP Morgan Securities, Inc | No | 85 00% | 85 00% | 63,746 |
| Estrada Hinojosa & Co | **HA** | 15 00% | 15 00% | 11,249 |
| **Total** | | **100.00%** | **100.00%** | **$ 74,995** |

**Texas Veterans Land Board**

**Issue:** State of Texas Veterans Bonds, Series 2011B

**Purpose:** The proceeds will be used to make home loans to qualified veterans

| | |
|---|---|
| **Par:** | $74,995,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | August 9, 2011 |
| **Negotiated Sale:** | August 24, 2011 |
| **Closing Date:** | August 25, 2011 |
| **True Interest Cost (TIC):** | Floating |
| **Net Interest Cost (NIC):** | Floating |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Vinson & Elkins L L P | No | 67,500 | 0 90 |
| Co-Bond Counsel | Lannen & Oliver P C | BA | 16,907 | 0 23 |
| Financial Advisor | Raymond James and Ass | No | 27,248 | 0 36 |
| Printing | Island Printing | No | 914 | 0 01 |
| Liquidity Provider's Counsel | Andrews Kurth L L P | No | 25,000 | 0 33 |
| Attorney General | | No | 9,500 | 0 13 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa/VMIG 1 | | 26,000 | 0 35 |
| **Subtotal** | | | **$ 173,069** | **$ 2.31** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 74,995 | 1 00 |
| Spread Expenses | 31,506 | 0 42 |
| **Total*** | **$ 106,501** | **$ 1.42** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Locke Lord Bissell & Liddell L L P | No | 25,000 | 0 33 |
| **Underwriters' Co-Counsel** | Mahomes Bolden & Warren | **BA** | 5,000 | 0 07 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Share of Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| Goldman, Sachs & Co | No | 85 00% | 85 00% | 63,746 |
| Jackson Securities | **BA** | 15 00% | 15 00% | 11,249 |
| **Total** | | **100.00%** | **100.00%** | **$ 74,995** |

**Texas Water Development Board**

**Issue:** State of Texas General Obligation Bonds State of Texas Water Financial Assistance Bonds, Series 2010D (Economically Distressed Areas Program)

**Purpose:** The proceeds of the bonds will be deposited into the Economically Distressed Areas Program (EDAP) Account and used to provide financial assistance for EDAP projects, in the form of grants to eligible political subdivisions

| | |
|---|---|
| **Par:** | $32,350,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | September 23, 2010 |
| **Negotiated Sale:** | October 6, 2010 |
| **Closing Date:** | November 2, 2010 |
| **True Interest Cost (TIC):** | 2 93% |
| **Net Interest Cost (NIC):** | 3 08% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | McCall Parkhurst & Horton L L P | No | 21,670 | 0 67 |
| Financial Advisor | First Southwest Company | No | 42,163 | 1 30 |
| Printing | ImageMaster | No | 3,347 | 0 10 |
| Paying Agent/Registrar | The Bank of NY Mellon Trust Co | No | 63 | 0 00 |
| Attorney General | | No | 9,500 | 0 29 |
| Miscellaneous | | No | 4,209 | 0 13 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 10,700 | 0 33 |
| Standard & Poor's | AA+ | | 14,000 | 0 43 |
| Fitch | AAA | | 10,000 | 0 31 |
| **Subtotal** | | | **$ 115,652** | **$ 3.58** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Management Fee | 17,793 | 0 55 |
| Takedown | 134,860 | 4 17 |
| Spread Expenses | 45,892 | 1 42 |
| **Total*** | **$ 198,545** | **$ 6.14** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Fulbright & Jaworski L L P | No | 30,000 | 0 93 |

| Syndicate Firms' Gross Takedown | | Risk | Management Fee | | Takedown | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| Stern, Agee & Leach | No | 50 00% | 51 10% | 9,093 | 47 31% | 63,128 |
| RBC Capital Markets | No | 12 50% | 16 30% | 2,900 | 26 25% | 37,168 |
| Piper Jaffray & Co | No | 12 50% | 26 98% | 4,800 | 16 28% | 20,046 |
| Siebert Brandford Shank & Co , L L C | **BA** | 12 50% | 2 81% | 500 | 7 11% | 10,360 |
| M R Beal & Co | No | 12 50% | 2 81% | 500 | 3 05% | 4,158 |
| **Total** | | **100.00%** | **100.00%** | **$ 17,793** | **100.00%** | **$ 134,860** |

**Texas Water Development Board**

**Issue:** State of Texas General Obligation Bonds, State of Texas Water Financial Assistance Bonds Series 2011A (Water Infrastructure Fund)

**Purpose:** Proceeds will be used to provide funds for the Financial Assistance Account to fund Water Assistance Projects and to fund transfers to the Water Infrastructure Fund to provide financial assistance to eligible political subdivisions.

| | |
|---|---|
| **Par:** | $129,540,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | November 18, 2010 |
| **Negotiated Sale:** | May 17, 2011 |
| **Closing Date:** | June 14, 2011 |
| **True Interest Cost (TIC):** | 3.36% |
| **Net Interest Cost (NIC):** | 3.67% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | Andrews Kurth L.L.P. | No | 50,000 | 0.39 |
| Financial Advisor | Public Financial Management | No | 60,578 | 0.47 |
| Paying Agent/Registrar | The Bank of NY Mellon Trust Co. | No | 167 | 0.00 |
| Printing | ImageMaster | No | 1,198 | 0.01 |
| Attorney General | | No | 9,500 | 0.07 |
| Miscellaneous | | No | 2,592 | 0.02 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 32,500 | 0.25 |
| Standard & Poor's | AA+ | | 33,600 | 0.26 |
| Fitch | AAA | | 30,000 | 0.23 |
| **Subtotal** | | | **$ 220,135** | **$ 1.70** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Management Fee | 64,770 | 0.50 |
| Takedown | 566,523 | 4.37 |
| Spread Expenses | 67,377 | 0.52 |
| **Total*** | **$ 698,670** | **$ 5.39** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Fees | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Vinson & Elkins L.L.P. | No | 30,000 | 0.23 |

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Management Fee | | Takedown | |
|---|---|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** | **% Amount** | **$ Amount** |
| Jefferies & Company, Inc. | No | 52.00% | 78.38% | 50,770 | 50.93% | 288,478 |
| Bank of America Merrill Lynch | No | 8.00% | 0.00% | - | 9.38% | 53,167 |
| Citigroup | No | 8.00% | 0.00% | - | 12.21% | 69,158 |
| Coastal Securities | No | 8.00% | 0.00% | - | 1.79% | 10,125 |
| Ramirez & Co., Inc. | **HA** | 8.00% | 0.00% | - | 7.10% | 40,232 |
| Southwest Securities | No | 8.00% | 10.81% | 7,000 | 7.73% | 43,814 |
| Stifel Nicolaus | No | 8.00% | 10.81% | 7,000 | 10.86% | 61,549 |
| **Total** | | **100.00%** | **100.00%** | **$ 64,770** | **100.00%** | **$ 566,523** |

## The Texas A&M University System

**Issue:** Board of Regents of The Texas A&M University System, Revenue Financing System Bonds, Series 2011A & 2011B

**Purpose:** The proceeds from the sale of the Series 2011A bonds will be used for the purposes of refunding certain outstanding long-term parity obligations and paying the costs of issuance.

The proceeds from the sale of the Series 2011B bonds will be used for purposes of refunding a portion of the Board's commercial paper notes, providing construction funds for projects within the A&M System and paying the costs of issuance.

| | |
|---|---|
| **Par:** | $127,700,000 |
| **Method of Sale:** | Competitive |
| **Board Approval:** | September 10, 2010 |
| **Competitive Sale:** | February 15, 2011 |
| **Closing Date:** | April 10, 2011 |
| **True Interest Cost (TIC):** | A - 2.54%; B - 4.59% |
| **Net Interest Cost (NIC):** | A - 2.63%; B - 4.71% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | McCall Parkhurst & Horton L.L.P. | No | 76,424 | 0.60 |
| Financial Advisor | First Southwest Company | No | 64,050 | 0.50 |
| Printing | i-Deal | No | 3,680 | 0.03 |
| Paying Agent/Registrar | Regions Bank | No | 4,100 | 0.03 |
| Escrow Agent | Regions Bank | No | 250 | 0.00 |
| Disclosure Counsel | McCall Parkhurst & Horton L.L.P. | No | 30,000 | 0.23 |
| Attorney General | | No | 19,000 | 0.15 |
| Miscellaneous | | No | 967 | 0.01 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 58,055 | 0.45 |
| Standard and Poor's | AA+ | | 38,500 | 0.30 |
| Fitch | AA+ | | 15,000 | 0.12 |
| **Subtotal** | | | **$ 310,026** | **$ 2.43** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 528,871 | 4.14 |
| Spread Expenses | 38,373 | 0.30 |
| **Total*** | **$ 567,244** | **$ 4.44** |

*Total Underwriting Spread **does not** include Underwriter's Counsel fee

| Syndicate Firms' Gross Takedown & Share Profit / Loss | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| Bank of America Merrill Lynch | No | 100.00% | 100.00% | 528,871 |
| **Total** | | **100.00%** | **100.00%** | **$ 528,871** |

**The University of Texas System**

**Issue:** Board of Regents of the University of Texas System Revenue Financing System Taxable Bonds, Series 2010C (Build America Bonds - Direct Payment) and Revenue Financing System Bonds, Series 2010E

**Purpose:** Proceeds from the sale of the Series 2010C bonds will be used for the purpose of financing the costs of campus improvements of certain members of the Revenue Financing System and paying the costs of issuance of the Series 2010C bonds Proceeds from the sale of the Series 2010E bonds will be used for the purpose of refinancing a portion of the Revenue Financing System Commericial Paper Notes, Series A, financing the costs of campus improvements of certain members of the Revenue Financing System, and paying costs of issuance of the Series 2010E bonds

| | |
|---|---|
| **Par:** | $644,095,000 |
| **Method of Sale:** | Negotiated |
| **Board Approval:** | August 20, 2010 |
| **Negotiated Sale:** | September 14, 2010 |
| **Closing Date:** | September 23, 2010 |
| **True Interest Cost (TIC):** | 3 02% |
| **Net Interest Cost (NIC):** | 4 64% |

| Issuance Costs | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| Bond Counsel | McCall Parkhurst & Horton L L P | No | 207,228 | 0 32 |
| Printing | McElwee & Quinn L L C | No | 6,000 | 0 01 |
| Paying Agent/Registrar | Bank of Texas | No | 2,500 | 0 00 |
| Disclosure Counsel | McCall Parkhurst & Horton L L P | No | 35,000 | 0 05 |
| Attorney General | | No | 19,000 | 0 03 |
| Miscellaneous | | No | 6,374 | 0 01 |
| **Rating Agencies** | **Rating** | | | |
| Moody's | Aaa | | 75,000 | 0 12 |
| Standard and Poor's | AAA | | 73,920 | 0 11 |
| Fitch | AAA | | 20,000 | 0 03 |
| **Subtotal** | | | **$ 445,022** | **$ 0.69** |

| Underwriting Spread | Amount | Per $1,000 |
|---|---|---|
| Takedown | 3,170,038 | 4 92 |
| Spread Expenses | 142,192 | 0 22 |
| **Total*** | **$ 3,312,230** | **$ 5.14** |

*Total Underwriting Spread **does** include Underwriter's Counsel fee

| | Firm | HUB | Amount | Per $1,000 |
|---|---|---|---|---|
| **Underwriter's Counsel** | Andrews Kurth L L P | No | 75,000 | 0 12 |

| Syndicate Firms' Gross Takedown | | Risk | Takedown | |
|---|---|---|---|---|
| **Syndicate Member** | **HUB** | **%** | **% Amount** | **$ Amount** |
| JP Morgan Securities, Inc | No | 34 88% | 35 94% | 1,139,345 |
| Bank of America Merrill Lynch | No | 34 87% | 33 71% | 1,068,958 |
| Fidelity Capital Markets | No | 2 75% | 1 50% | 47,487 |
| Jefferies & Company, Inc | No | 2 75% | 5 97% | 189,307 |
| Loop Capital Markets, L L C | **BA** | 2 75% | 3 11% | 98,443 |
| Morgan Keegan & Co | No | 2 75% | 4 38% | 138,892 |
| Piper Jaffray & Co | No | 2 75% | 1 90% | 60,181 |
| Ramirez & Co , Inc | **HA** | 2 75% | 1 40% | 44,458 |
| Raymond James & Ass | No | 2 75% | 2 39% | 75,734 |
| Siebert Brandford Shank & Co , L L C | **BA** | 2 75% | 2 04% | 64,619 |
| Southwest Securities | No | 2 75% | 0 57% | 17,970 |
| Stone & Youndberg | No | 2 75% | 1 29% | 40,788 |
| Wells Fargo Securities | No | 2 75% | 5 80% | 183,855 |
| **Total** | | **100.00%** | **100.00%** | **$ 3,170,037** |

## Appendix B
## State Commercial Paper and Variable-Rate Note Programs

Several state agencies and institutions of higher education 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, 2011, a total of $6.21 billion was authorized for state commercial paper or variable-rate note programs. Of this amount, $1.04 billion was outstanding as of the end of fiscal 2011*(Table B1),* approximately $66.9 million less than the amount outstanding at fiscal year-end 2010.

A brief summary of each variable-rate debt program is provided below.

**Texas Department of Agriculture**
In 1991, the Texas Agricultural Finance Authority (TAFA), a public authority within the Texas Department of Agriculture, was authorized to establish a taxable commercial paper note program. TAFA issues commercial paper to purchase and guarantee loans made to businesses involved in the production, processing, marketing and exporting of Texas agricultural products. The commercial paper notes are a general obligation of the state; however, the program is designed to be self-supporting.

During fiscal 1995, TAFA established a second general obligation taxable commercial paper note program. Proceeds from this program are used to make funds available for the Farm and Ranch Finance Program. The program was established to provide loans and other financial assistance through local lending institutions to eligible borrowers for the purchase of farm or ranch land.

**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 1994. The program enables TDHCA to capture mortgage payments and prepayments and recycle them into mortgage loans. By issuing commercial paper notes to satisfy the mandatory redemption provisions of outstanding single family mortgage revenue bonds instead of using the payments and prepayments to redeem bonds, TDHCA is able to preserve the private activity volume cap and generate new mortgage loans.

While still legislatively authorized, the program was terminated in July 2009. TDHCA has no plans to use the authority, and any attempts to reestablish the program would require reauthorization from the Bond Review Board (BRB).

**Texas Department of Transportation**
In July 2005, the Texas Transportation Commission, the governing body of the Texas Department of Transportation (the "Department"), authorized a commercial paper program. The Department is authorized to issue up to $500.0 million in commercial paper to carry out transportation functions.

**Texas Economic Development and Tourism Office**
In 1992, the Department of Commerce, subsequently the Texas Economic Development and Tourism Office (the "Office") was granted $300.0 million of authority to issue commercial paper to fund loans under three programs to Texas businesses. Under the first program marketed as the Texas Leverage Fund, the Office approves 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 U.S. Small Business Administration. A third program may make loans directly to businesses from program reserves. The program is designed to be self-supporting; and the commercial paper issued by the Office is taxable. The BRB has authorized a maximum authority of $25.0 million for the Texas Leverage Fund.

**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

Table B1

**TEXAS COMMERCIAL PAPER AND VARIABLE-RATE NOTE PROGRAMS**

**as of August 31, 2011**

| **ISSUER** | **TYPE OF PROGRAM** | **AMOUNT BRB AUTHORIZED** | **AMOUNT ISSUED FISCAL 2011** | **AMOUNT OUTSTANDING** |
|---|---|---|---|---|
| Texas Department of Agriculture* | | | | |
| TAFA | Commercial Paper - Series A | $ 50,000,000 | $ - | $ 9,000,000 |
| Farm and Ranch Loans | Commercial Paper - Series B | 25,000,000 | - | - |
| Texas Dept of Housing & Community Affairs | Commercial Paper | - | - | - |
| Texas Department of Transportation | Commercial Paper - Series A | 500,000,000 | - | - |
| Texas Economic Dev & Tourism Office** | Commercial Paper | 25,000,000 | 8,500,000 | 20,000,000 |
| Texas Public Finance Authority | | | | |
| Revenue | Commercial Paper - 2003 | 150,000,000 | 9,000,000 | 89,260,000 |
| General Obligation | Commercial Paper - 2002A | 881,000,000 | 33,600,000 | - |
| General Obligation | Commercial Paper - 2002B | 175,000,000 | 24,000,000 | - |
| General Obligation | Commercial Paper - 2008 | 1,000,000,000 | 85,700,000 | - |
| General Obligation - Cancer Prevention and | Commercial Paper - Series A | 450,000,000 | 11,800,000 | - |
| Research Institute of Texas (1) | Commerical Paper - Series B | | - | - |
| Texas Tech University System | | | | |
| Revenue Financing System | Commercial Paper | 150,000,000 | 40,692,000 | 85,357,000 |
| The Texas A&M University System | | | | |
| Permanent University Fund | Flexible-Rate Notes | 125,000,000 | - | - |
| Permanent University Fund | Commercial Paper | | 75,000,000 | 101,000,000 |
| Revenue Financing System | Commercial Paper | 300,000,000 | 35,000,000 | 6,825,000 |
| The University of Texas System | | | | |
| Permanent University Fund | Flexible-Rate Notes | 400,000,000 | - | - |
| Permanent University Fund (1) | Commercial Paper - Series A | 500,000,000 | - | - |
| Permanent University Fund (1) | Commercial Paper - Series B | | - | 260,000,000 |
| Revenue Financing System (1) | Commercial Paper - Series A | 1,250,000,000 | 184,168,000 | 370,152,000 |
| Revenue Financing System (1) | Commercial Paper - Series B | | - | - |
| University of Houston System | | | | |
| Revenue Financing System | Commercial Paper | 125,000,000 | 38,341,000 | 42,141,000 |
| University of North Texas System | | | | |
| Revenue Financing System | Commercial Paper | 100,000,000 | 89,220,000 | 52,080,000 |
| **Total** | | **$ 6,206,000,000** | **$ 635,021,000** | **$ 1,035,815,000** |

**Source:** Texas Bond Review Board - Bond Finance Office

* Represents the maximum amount authorized by the Bond Review Board; however, the Texas Agricultural Finance Authority (Department of Agriculture) has approved a $100 million program amount

**Represents the maximum amount authorized by the Bond Review Board; however, the program has a $300 million program amount

(1) Represents cumulative total amount for Series A (tax-exempt) & B (taxable) with no limitation on the amount issued in each series, provided that the total outstanding amount will not exceed the maximum authorization

date has primarily been used to finance the purchase of equipment such as computers and telecommunications equipment. TPFA also has the authority to use the commercial paper to provide interim financing for capital projects undertaken on behalf of state agencies. 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 are authorized by the legislature and financed through general obligation bonds. In 2002, TPFA established a commercial paper program that is also secured by the state's general obligation pledge to provide financial assistance to border counties for roadways in colonias.

In 2008, TPFA established another commercial paper program that is also secured by the state's general obligation pledge to: (i) provide interim financing for maintenance, improvement, repair, construction and equipment-acquisition projects for state agencies, (ii) refund and refinance the Notes, and (iii) pay the costs of issuance of the Notes.

In the November 2007 general election, Texas voters authorized TPFA to issue $3.00 billion of general obligation debt over ten years to finance cancer research. During fiscal 2009, TPFA established a commercial paper program that is also secured by the state's general obligation pledge to provide financing of certain projects for the Cancer Prevention and Research Institute of Texas. The first issuance occurred in September 2009.

**Texas Tech University System and Texas Tech University Health Sciences Center**

In November 1997, the Board of Regents of Texas Tech University System (the "TTU System") authorized a Revenue Financing System commercial paper program to provide interim financing for capital projects, including construction, acquisition, renovation and equipment for facilities of the TTU System. The commercial paper is secured by a pledge of all legally available revenues of the TTU System, including pledged tuition fees, general fees and other revenue sources.

**The Texas A&M University System**

The Texas A&M University System (the "A&M System") has authorized three variable-rate financing programs: a flexible-rate note program and a commercial paper program both secured by the Permanent University Fund (PUF), as well as a commercial paper program secured by the A&M System revenues. The A&M System's PUF flexible-rate note program and the PUF commercial paper program were established in 1988 and 2008, respectively, to provide interim financing and equipping of facilities for eligible construction projects. The A&M System's total outstanding PUF commercial paper notes and flexible-rate notes may not exceed $125.0 million in principal amount at any time.

The A&M System's Revenue Financing System (RFS) Commercial Paper Program was established in 1992 to provide interim financing for capital projects, including construction, acquisition, and renovation or equipping of facilities throughout the A&M System. Outstanding RFS commercial paper may not exceed $300.0 million in principal amount at any time and is secured by a pledge of all legally available revenues to the A&M System, including pledged tuition revenue and fees, general fees and other revenue sources. The A&M System has a self-liquidity facility for this program.

**The University of Texas System**

The University of Texas System (the "UT System") has two primary interim financing programs: a Revenue Financing System (RFS) commercial paper program and a Permanent University Fund (PUF) both of which feature both taxable and tax-exempt commercial paper options.

The UT System's RFS commercial paper note program was established in 1990 to provide interim financing for capital projects, including construction, acquisition and renovation or equipping of facilities. RFS commercial paper notes are secured by a pledge of all legally available revenues of the UT System, including pledged tuition fees, general fees and other revenue sources. The UT System's aggregate amount of outstanding RFS commercial paper notes may not exceed $1.25 billion in principal amount at any time.

The UT System's PUF commercial paper note program was established in 2008 to replace a previously authorized $400 million PUF flexible-rate note program. The UT System expects to utilize the PUF commercial paper note program as its primary short-term financing vehicle for PUF-related projects but will maintain the flexible-rate note program. PUF commercial paper notes provide interim financing for eligible capital projects, including construction, acquisition and renovation or equipping of facilities. PUF commercial paper notes are secured by the UT System's share of distributions from the total return on all PUF investments. The UT System's outstanding PUF commercial paper notes may not exceed $500 million in principal amount at any time.

**University of Houston System**
In August 2006, the Board of Regents of the University of Houston System (the "UH System") authorized a Revenue Financing System commercial paper program. The program was established to provide interim financing for capital projects, including construction, acquisition, renovation and equipment for facilities of the UH System. The commercial paper is secured by a pledge of all legally available revenues of the UH System, including pledged tuition fees, general fees and other revenue sources.

**University of North Texas System**
In May 2004, the Board of Regents of the University of North Texas System (the "UNT System") authorized a Revenue Financing System commercial paper program in an initial amount not to exceed $50.0 million. The program was established to provide interim financing for capital projects, including construction, acquisition, renovation and equipment for facilities of the UNT System. The commercial paper is secured by a pledge of all legally available revenues of the UNT System, including pledged tuition fees, general fees and other revenue sources. In fiscal 2008, the commercial paper program was increased to an amount not to exceed $100.0 million of which $25.0 million may be used as taxable notes.

**Other State Issuers of Variable-Rate Debt**
Several 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 advantage of lower short-term interest rates that may be available.

The Veterans Land Board is one example of a state issuer that has issued variable-rate housing assistance bonds to diversify its debt portfolio. Similarly, the Texas Water Development Board is authorized to issue subordinate-lien variable-rate demand revenue bonds as part of the State Revolving Fund program.

**Comptroller of Public Accounts Liquidity Facility Provider Duties**
The 73rd Legislature passed legislation that authorized the Comptroller of Public Accounts - Treasury Operations 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 include commercial paper, variable-rate demand obligations and bonds.

Pursuant to Section 404.027 of the Texas Government Code, the Comptroller may enter into agreements to provide liquidity for agency obligations issued for governmental purposes if it does not conflict with the treasury's liquidity needs. As of August 31, 2011 the Comptroller of Public Accounts - Treasury Operations provided a total of $858.7 million in one-day commitments and $1.39 billion in total liquidity agreements for state obligations.

# Appendix C
# State Issuers' Use of Swaps

Interest rate swaps are part of a larger class of financial instruments called derivatives whose value is based on the performance of an underlying financial asset, index or other investment. While a variety of derivative products are available, Texas issuers most often use interest rate swaps. Swaps do not represent additional debt of the state, but are primarily used as tools for financial management to reduce interest expense and hedge against interest-rate, tax, basis and other risks described below. Swaps can also increase financial flexibility and are used to achieve objectives consistent with the issuer's overall program goals and financial policies. See *Table C1* for the total number of swaps outstanding by issuer at August 31, 2011.

## Swaps

An interest rate swap is created when a debt issuer and a financial institution, each referred to as a counterparty, enter into a contract to exchange interest payments. The types of swaps most often utilized by Texas issuers are pay-fixed, receive-variable and pay-variable, receive-variable (basis) interest rate swaps. As of August 31, 2011, pay-fixed, receive-variable swaps comprised approximately 73.1% of the state's $4.45 billion in total notional amount of swaps outstanding.

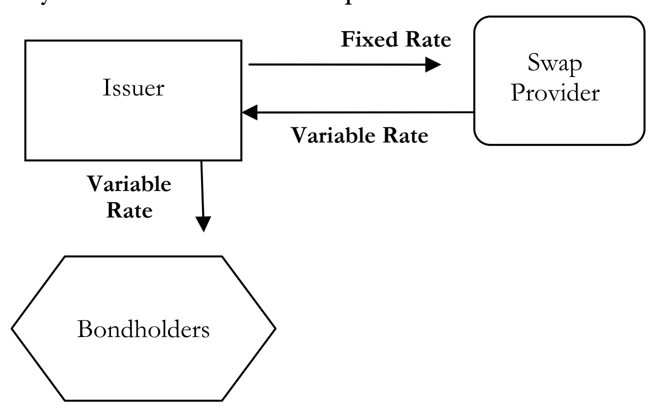
During fiscal 2009 two pay-fixed, receive-variable swap contracts, associated with the Veterans Land Board (VLB) Veterans' Housing Assistance Program, Fund II Series 2004A and 2005B Bonds were terminated as a result of the bankruptcy of Lehman Brothers and are now classified as variable-rate debt. No swap contracts were terminated in fiscal 2010, but during fiscal 2011 VLB exercised its option to terminate its only synthetic floating rate swap due to the contract's favorable fair market value.

Pay-fixed, receive-variable swap (synthetic fixed-rate swap)

By accepting certain risks with pay-fixed, receive-variable swaps, issuers may be able to lower their borrowing costs compared to issuing traditional, fixed-rate bonds. Under this arrangement which creates *synthetic fixed-rate debt,* the issuer agrees to make fixed-rate payments to the swap counterparty and the swap counterparty agrees to pay the issuer variable, index-based rate payments that are expected to be comparable to the rates payable on the variable-rate debt associated with the swap agreement.

To structure such a transaction, issuers must analyze the impact of issuing either natural or synthetic fixed-rate debt. If the spread between the two is sufficient to compensate the issuer for accepting certain risks associated with synthetic fixed-rate debt, the issuer will execute the swap and issue the associated variable-rate debt. The issuer remains obligated to make debt-service payments to

**Synthetic Fixed-Rate Debt Swap**



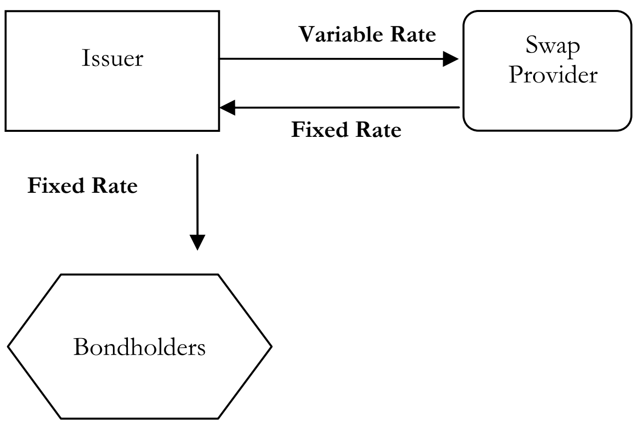

the variable-rate bond holders, even if the variable-rate payment received from the swap counterparty does not cover the variable-rate payment due on the associated bonds (see discussion on Basis Risk).

The variable rates received under most of Texas' pay-fixed, receive-variable interest rate swaps are based on various *taxable* London Interbank Offered Rates (LIBOR). A *tax-exempt* index often used in the swap market is the Securities Industry and Financial Markets Association Swap Index (SIFMA) formerly known as the BMA Swap Index produced by Municipal Market Data. The variable-rate payment received may also be tied to the issuer's cost of funds.

Pay-variable, receive-fixed swap (synthetic floating-rate swap)

Conversely, *synthetic floating-rate debt* is created when the issuer sells fixed-rate debt and enters into a fixed-to-floating rate swap. The issuer agrees to pay variable-rate payments to the counterparty and in exchange receives a fixed-rate payment from the swap counterparty. As with synthetic fixed-rate debt, the rate to be paid is tied to an underlying reference index such as the *taxable* LIBOR or the *tax-exempt* SIFMA Index. This swap program is illustrated below.

**Synthetic Floating-Rate Debt Swap**




As of August 31, 2011 no synthetic floating-rate swaps were outstanding.

Pay-variable, receive-variable swap (basis swap)

The pay-variable, receive-variable swaps (called *basis* swaps) are LIBOR-to-SIFMA basis swaps that effectively convert the variable rate on the associated taxable variable-rate bond issues from a *taxable* LIBOR-based rate to a *tax-exempt* SIFMA-based rate. As of August 31, 2011, basis swaps comprised approximately 26.9% of the state's total notional amount of swaps outstanding.

## Risk Analysis

State issuers considering entering into an interest-rate swap agreement must assess the risks associated with the transaction. Some issuers include contractual limitations or options that assist in reducing those risks. For example, the VLB has the option to terminate its swap agreements at any time at its option. Generally, the risks associated with interest rate swaps fall into the following categories:

*Termination Risk* – the risk that an interest rate swap could be terminated prior to its scheduled termination date as a result of any of several events relating to either the issuer or its counterparty. The issuer or the counterparty may terminate a swap if the other party fails to perform under the terms of the swap agreement. If a swap has a negative fair value, the issuer would owe the respective counterparty a termination payment equal to the swap's fair value at the time of termination (see discussion on Fair Value).

*Credit Risk* – the risk that either the counterparty or the issuer will not fulfill its obligations specified by the terms of the swap agreement. State issuers mitigate this risk by entering into transactions with highly-rated counterparties. The issuers also mitigate concentrations of credit risk by diversifying their swap portfolios among different counterparties. Credit risk also includes the risk of the occurrence of an event that would modify the credit rating of an issuer or its counterparty.

*Basis Risk* – the risk of a shortfall between the interest payment received and the interest payment paid on the related debt issue. An issuer mitigates this risk by: 1) matching the swap's notional amount and amortization schedule to the associated bond issue's principal amount and amortization schedule and 2) selecting a variable-rate leg for the swap that is reasonably expected to match the interest rate on the associated variable-rate bonds over the life of the bond issue.

*Rollover Risk* – the risk associated with the counterparty's option to terminate the swap. If the swap is terminated by the counterparty, the associated variable-rate bonds would no longer have a synthetic fixed rate and would be subject to interest rate risk to the extent the variable-rate bonds were not hedged with another swap or with variable-rate assets on the issuer's balance sheet.

*Tax Risk* – the risk associated with potential changes in the taxation of the issuer's tax-exempt, variable-rate bonds as a result of changes in marginal income tax rates and other changes in the federal and state tax systems.

*Fair Value* – the value of a swap estimated by using market-standard practice that includes a calculation of future net settlement payments required by the swap based on market expectations implied by the current yield curve for interest rate transactions. For a swap with embedded options, additional calculations are made to determine the value of the options.

Due to the general reduction in interest rates over the last several years, the net fair value of the state's outstanding swaps was negative at August 31, 2011, indicating that the issuers would be liable for the fair values of the swaps in the unlikely event of termination. However, it is important to note that issuers have achieved significant savings in interest costs over the last several years by use of interest rate swaps. (See *Table C2* for the terms, counterparty credit ratings and fair values for the state's swaps outstanding by issuer at August 31, 2011.)

When the fair value of a swap is positive, the counterparty is liable to the issuer for that fair value in the event of termination of the swap. In this instance the issuer is exposed to counterparty credit risk; however, issuer swap agreements contain varying collateral agreements and insurance policies with counterparties to mitigate credit risk.

**Additional Derivative Products**

In addition to interest rate swaps, additional derivative products used by Texas issuers include the following:

*Options on swaps* – sale or purchase of options to commence or cancel interest rate swaps. Several of the VLB swaps contain embedded options called barrier options that provide for the VLB to be "knocked out" of the swaps by the respective counterparties for varying periods of time upon the breach of certain predetermined barriers. In each of these cases, the respective counterparties paid the VLB an up-front premium for the option.

*Interest rate caps* – financial contracts called caps, collars or floors limit or bound exposure to interest rate volatility.

*Rate locks* – rate locks are often based on interest rate swaps and may be used to hedge against a rise in interest rates for an upcoming fixed-rate bond issue.

**Management Policy**

State issuers with swap transactions outstanding or those issuers contemplating entering into swap agreements have adopted derivative or swap-management policies outlining the objectives, management, oversight, monitoring, selection and restrictions for their derivative or swap agreements.

With the passage of Senate Bill 1332 during the 80th Legislature, the Bond Review Board's (BRB) statutes were modified to add a definition of interest rate management (derivative) agreements and to require the BRB to develop a related policy. In fiscal 2009 the BRB engaged a swap advisor to assist with the development of a state interest rate management policy and analysis of interest rate management agreements. This policy can be found on the agency's website.

In fiscal 2010 the BRB amended its administrative rules to require issuers that enter into derivative agreements to submit additional information for staff review including a copy of all schedules to the Master Agreement and/or the Credit Support Annex and transaction confirmations. Additionally, issuers must notify the Bond Review Board within 10 days of material adverse changes involving the parties to derivative agreements.

Table C1

**NOTIONAL AMOUNTS - INTEREST RATE SWAPS**

**As of August 31, 2011 (Unaudited)**

(amounts in thousands)

| | Original Notional Amount | Current Notional Amount | Total # of Swaps |
|---|---|---|---|
| **Veterans Land Board** | | | |
| Pay-Fixed, Receive-Variable Total | $1,768,430 | $1,522,190 | 43 |
| Pay-Variable, Receive-Variable Total | 221,630 | 215,975 | 4 |
| **TOTAL VLB** | **$1,990,060** | **$1,738,165** | **47** |
| | | | |
| **Texas Department of Housing and Community Affairs** | | | |
| Pay-Fixed, Receive-Variable Total | $422,017 | $352,075 | 9 |
| **TOTAL TDHCA** | **$422,017** | **$352,075** | **9** |
| | | | |
| **The University of Texas System** | | | |
| Pay-Fixed, Receive-Variable Total | $1,480,169 | $1,377,922 | 8 |
| Pay-Variable, Receive-Variable Total | 583,570 | 583,570 | 4 |
| **TOTAL UTS** | **$2,063,739** | **$1,961,492** | **12** |
| | | | |
| **Texas Transportation Commission** | | | |
| Pay-Variable, Receive-Variable Total | $400,000 | $400,000 | 3 |
| **TOTAL TTC** | **$400,000** | **$400,000** | **3** |
| **Totals** | | | |
| Pay-Fixed, Receive-Variable | $3,670,616 | $3,252,187 | 60 |
| Pay-Variable, Receive-Variable | 1,205,200 | 1,199,545 | 11 |
| **TOTAL INTEREST RATE SWAPS** | **$4,875,816** | **$4,451,732** | **71** |

Table C2

**VETERANS LAND BOARD - INTEREST RATE SWAPS**

**As of August 31, 2011 (Unaudited)**

(amounts in thousands)

| **PAY-FIXED, RECEIVE VARIABLE (Synthetic Fixed Rate) Bond Issue** | **Original Notional Amount** | **Current Notional Amount** | **Effective Date** | **Swap Termination Date** | **Fixed-Rate Paid** | **Variable-Rate Received** | **Counterparty Credit Ratings** | **Current Fair Value** |
|---|---|---|---|---|---|---|---|---|
| Vet Hsg Ref Bds Ser 1995 | $88,490 | $43,375 | 11/29/1995 | 12/01/2016 | 5.52% | Actual Bond Rate | Baa1/A- | -6,692 |
| Vet Land Ref Bds Ser 1999A | 40,025 | 23,140 | 06/01/1999 | 12/01/2018 | 5.11% | 68% of 6M LIBOR | Baa1/A- | -4,121 |
| Vet Land Tax Ref Bds Ser 2000 | 39,960 | 39,655 | 12/01/2000 | 12/01/2020 | 6.11% | 100% of 6M LIBOR | Aa1/AAA | -9,524 |
| Vet Hsg Fund II Bds Ser 2001A-2 | 20,000 | 20,000 | 12/03/2001 | 12/01/2029 | 4.30% | 68% of 1M LIBOR | A1/A+ | -5,916 |
| Vet Hsg Fund II Bds Ser 2001C-2 | 25,000 | 25,000 | 12/18/2001 | 12/01/2033 | 4.37% | 68% of 1M LIBOR | Aa1/AAA | -8,590 |
| Vet Land Bds Ser 2002 | 20,000 | 16,945 | 02/21/2002 | 12/01/2032 | 4.14% | 68% of 1M LIBOR | A2/A | -4,396 |
| Vet Hsg Fund II Bds Ser 2002A-2 | 38,300 | 23,650 | 07/10/2002 | 06/01/2033 | 3.87% | 68% of 1M LIBOR | Aa1/AA- | -6,553 |
| Vet Land Tax Ref Bds Ser 2002 | 27,685 | 27,685 | 12/01/2002 | 12/01/2021 | 4.94% | 100% of 6M LIBOR | A2/A | -5,966 |
| Vet Hsg Fund I Tax Ref Bds Ser 2002B | 22,605 | 19,780 | 12/01/2002 | 06/01/2023 | 4.91% | 100% of 6M LIBOR | Aa1/AAA | -4,366 |
| Vet Hsg Fund II Bds Ser 2003A | 50,000 | 34,345 | 03/04/2003 | 06/01/2034 | 3.30% | 68% of 1M LIBOR | Aa1/AA- | -5,131 |
| Vet Hsg Fund II Bds Ser 2003B | 50,000 | 35,620 | 12/01/2003 | 06/01/2034 | 3.40% | 64.5% of 1M LIBOR | Aa1/AAA | -5,537 |
| Vet Land Tax Ref Bds Ser 2003 | 29,285 | 22,365 | 12/01/2003 | 12/01/2023 | 5.12% | 100% of 1M LIBOR | Aa1/AA- | -5,094 |
| Vet Hsg Fund I Tax Ref Bds Ser 2003 | 47,865 | 47,865 | 12/01/2003 | 06/01/2021 | 5.19% | 100% of 6M LIBOR | Aa1/AAA | -10,250 |
| Vet Hsg Fund II Tax Ref Bds Ser 2004 | 19,550 | 16,535 | 06/01/2004 | 12/01/2024 | 5.45% | 100% of 6M LIBOR | Aa1/AA- | -4,923 |
| Vet Hsg Fund II Bds Ser 2004B | 50,000 | 38,555 | 09/15/2004 | 12/01/2034 | 3.68% | 68% of 1M LIBOR | Aa1/AA- | -7,268 |
| Vet Land Tax Ref Bds Ser 2004 | 24,755 | 21,685 | 12/01/2004 | 12/01/2024 | 5.46% | 100% of 6M LIBOR | A2/A | -5,947 |
| Vet Hsg Fund II Tax Ref Bds Ser 2004C,D | 43,870 | 32,305 | 12/01/2004 | 06/01/2020 | 5.35% | 100% of 1M LIBOR | Aa1/AA- | -7,956 |
| Vet Hsg Fund II Bds Ser 2005A | 50,000 | 38,155 | 02/24/2005 | 06/01/2035 | 3.28% | 68% of 1M LIBOR | Aa1/AAA | -5,727 |
| Vet Land Tax Ref Bds Ser 2005 | 22,795 | 20,210 | 12/01/2005 | 12/01/2026 | 6.52% | 100% of 6M LIBOR | Aa1/AA- | -7,682 |
| Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D | 24,885 | 23,580 | 12/01/2005 | 06/01/2026 | 5.15% | 100% of 1M LIBOR | Aa1/AA- | -6,783 |
| Vet Hsg Fund I Tax Ref Bds Ser 2005C | 19,860 | 15,275 | 12/01/2005 | 12/01/2023 | 4.93% | 100% of 1M LIBOR | Aa1/AA- | -3,508 |
| Vet Hsg Fund II Bds Ser 2006A | 50,000 | 39,805 | 06/01/2006 | 12/01/2036 | 3.52% | 68% of 1M LIBOR | Aa3/AAA | -6,960 |
| Vet Land Tax Ref Bds Ser 2006A | 31,030 | 27,260 | 06/01/2006 | 12/01/2027 | 6.54% | 100% of 6M LIBOR | Aa1/AA- | -10,514 |
| Vet Hsg Fund II Tax Ref Bds Ser 2006C | 22,325 | 19,680 | 06/01/2006 | 12/01/2027 | 5.79% | 100% of 6M LIBOR | Aa1/AA- | -6,277 |
| Vet Hsg Fund II Tax Ref Bds Ser 2006B | 38,570 | 38,570 | 06/01/2006 | 12/01/2026 | 5.83% | 100% of 1M LIBOR | Aa1/AA- | -13,856 |
| Vet Land Tax Ref Bds Ser 2006B | 24,035 | 21,325 | 06/01/2006 | 12/01/2026 | 4.61% | 100% of 6M LIBOR | Aa1/AAA | -4,755 |
| Vet Hsg Fund II Bds Ser 2006D | 50,000 | 41,880 | 09/20/2006 | 12/01/2036 | 3.69% | 68% of 1M LIBOR | Aa3/A+ | -8,099 |
| Vet Land Tax Ref Bds Ser 2006C | 41,050 | 35,455 | 12/01/2006 | 12/01/2027 | 6.51% | 100% of 1M LIBOR | Aa1/AA- | -13,870 |
| Vet Hsg Fund II Tax Ref Bds Ser 2006E | 39,560 | 39,560 | 12/01/2006 | 12/01/2026 | 5.46% | 100% of 1M LIBOR | Aa1/AA- | -13,406 |
| Vet Hsg Fund II Tax Ref Bds Ser 2007C | 54,160 | 37,185 | 12/01/2007 | 06/01/2029 | 4.66% | 100% of 1M LIBOR | Aa1/AA- | -10,541 |
| Vet Hsg Fund II Bds Ser 2007A | 50,000 | 42,050 | 02/22/2007 | 06/01/2037 | 3.65% | 68% of 1M LIBOR | Aa1/AAA | -8,192 |
| Vet Hsg Fund II Bds Ser 2007B | 50,000 | 44,145 | 06/26/2007 | 06/01/2038 | 3.71% | 68% of 1M LIBOR | Aa1/AA- | -8,949 |
| Vet Hsg Fund II Bds Ser 2008A | 50,000 | 44,530 | 03/26/2008 | 12/01/2038 | 3.19% | 68% of 1M LIBOR | Aa3/AAA | -6,432 |
| Vet Hsg Fund II Bds Ser 2008B | 50,000 | 45,730 | 09/11/2008 | 12/01/2038 | 3.23% | 68% of 1M LIBOR | Aa1/AAA | -7,011 |
| Vet Hsg Fund II Tax Ref Bds Ser 2009C | 16,950 | 16,455 | 12/01/2009 | 12/01/2021 | 6.22% | 100% of 6M LIBOR | Aa1/AA- | -4,369 |
| Vet Hsg Fund II Tax Ref Bds Ser 2009C | 65,845 | 64,850 | 12/01/2009 | 06/01/2031 | 5.45% | 100% of 6M LIBOR | Aa1/AA- | -21,882 |
| Vet Hsg Fund II Tax Ref Bds Ser 2010B | 66,720 | 65,400 | 06/01/2010 | 12/01/2031 | 5.40% | 100% of 1M LIBOR | Aa1/AA- | -24,530 |
| Vet Hsg Ser 2010C | 74,995 | 74,995 | 08/20/2010 | 12/01/2040 | 2.31% | 68% of 1M LIBOR | A2/A | -3,566 |
| Vet Land Tax Ref Bds Ser 2010D | 16,480 | 16,480 | 12/01/2010 | 12/01/2030 | 5.21% | 100% of 1M LIBOR | Aa1/AA- | -5,445 |
| Vet Hsg Tax Ref Bds Ser 2010E | 49,995 | 49,325 | 12/01/2010 | 06/01/2032 | 2.79% | 100% of 1M LIBOR | Aa1/AAA | -1,885 |
| Vet Hsg Ser 2011A | 74,995 | 74,995 | 03/09/2011 | 06/01/2041 | 2.68% | 68% of 1M LIBOR | Aa3/A+ | -6,748 |
| Vet Hsg Ser 2011B | 74,995 | 74,995 | 08/25/2011 | 12/01/2041 | 2.37% | 68% of 1M LIBOR | Aa3/A+ | -4,059 |
| Vet Homes Rev Ref Bds, Ser 2012 | 21,795 | 21,795 | 08/01/2012 | 08/01/2035 | 3.76% | 68% of 1M LIBOR | A+/Aa3 | -4,559 |
| **Pay-Fixed, Receive-Variable Total** | **$1,768,430** | **$1,522,190** | | | | | | **-$327,835** |

| **PAY-VARIABLE, RECEIVE-VARIABLE (Basis Swap) Bond Issue** | **Original Notional Amount** | **Current Notional Amount** | **Effective Date** | **Swap Termination Date** | **Variable-Rate Paid** | **Variable-Rate Received** | **Counterparty Credit Ratings** | **Current Fair Value** |
|---|---|---|---|---|---|---|---|---|
| Vet Hsg Fund II Tax Bds Ser 1999A-2 | 90,000 | 90,000 | 08/05/2002 | 09/01/2011 | 134.40% of SIFMA | 100.00% of 1M LIBOR | Aa1/AA- | 4 |
| Vet Hsg Fund II Tax Bds Ser 1999A-2 | 60,000 | 60,000 | 08/05/2002 | 09/01/2011 | 134.40% of SIFMA | 100.00% of 1M LIBOR | Aa1/AAA | 3 |
| Vet Land Tax Bds Ser 2000A/2002A | 40,000 | 34,345 | 08/05/2002 | 12/01/2032 | 131.25% of SIFMA | 100.00% of 1M LIBOR | A2/A | -1,681 |
| Vet Hsg Fund II Ser 2009A | 31,630 | 31,630 | 03/05/2009 | 12/01/2023 | 100.00% of SIFMA | 94.35% of 3M LIBOR | Aa1/AAA | 694 |
| **Pay-Variable, Receive-Variable Total** | **$221,630** | **$215,975** | | | | | | **-$980** |
| **TOTAL VLB INTEREST RATE SWAPS** | **$1,990,060** | **$1,738,165** | | | | | | **-$328,815** |

Table C2 (continued)

**TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS - INTEREST RATE SWAPS**
**As of August 31, 2011 (Unaudited)**
(amounts in thousands)

| **PAY-FIXED, RECEIVE VARIABLE**<br>**(Synthetic Fixed Rate)**<br>**Bond Issue** | **Original Notional Amount** | **Current Notional Amount** | **Effective Date** | **Swap Termination Date** | **Fixed-Rate Paid** | **Variable-Rate Received** | **Counterparty Credit Ratings** | **Current Fair Value** |
|---|---|---|---|---|---|---|---|---|
| TDHCA SF Variable Rate Ref MRB Ser 2004B | $53,000 | $53,000 | 09/01/2004 | 09/01/2034 | 3.84% | 63% of LIBOR + .30% | Aa3 / A+ / A+ | -7,651 |
| TDHCA SF Variable Rate MRB Ser 2004D | 35,000 | 35,000 | 01/01/2005 | 03/01/2035 | 3.64% | * | Aa3/A+ | -4,727 |
| TDHCA SF Variable Rate Ref MRB Ser 2005A | 100,000 | 70,820 | 08/01/2005 | 09/01/2036 | 4.01% | * | Aa1/AA- | -10,958 |
| TDHCA SF Variable Rate Ref MRB Ser 2006H | 36,000 | 36,000 | 11/15/2006 | 09/01/2025 | 3.86% | 63% of LIBOR + .30% | Aa3 / A+ / A+ | -4,967 |
| TDHCA SF Variable Rate Ref MRB Ser 2007A | 143,005 | 104,290 | 06/05/2007 | 09/01/2038 | 4.01% | * | Aa1/AA- | -15,812 |
| TDHCA MF Variable Rate MRB Ser 2008 (West Oaks Senior Apts.) | 13,125 | 13,125 | 07/01/2008 | 07/01/2026 | 3.78% | SIFMA | Aa1/AA-/AA- | ** |
| TDHCA MF Variable Rate MRB Ser 2008 (Costa Ibiza Apts.) | 13,900 | 13,550 | 08/07/2008 | 08/01/2026 | 4.01% | SIFMA | Aa3/A+/A+ | ** |
| TDHCA MF Variable Rate MRB Ser 2008 (Addison Park Apts. Ref) | 13,987 | 13,590 | 10/30/2008 | 08/31/2018 | 3.44% | SIFMA | Aaa/AA-/AA | ** |
| TDHCA MF Variable Rate MRB Ser 2008 (Alta Cullen Apts. Ref) | 14,000 | 12,700 | 11/26/2008 | 12/01/2021 | 3.50% | SIFMA | Aaa/AA-/AA | ** |
| **TOTAL TDHCA INTEREST RATE SWAPS** | **$422,017** | **$352,075** | | | | | | **-$44,115** |

* Lessor of (a) or (b) where (a) equals the greater of (i) 65% X LIBOR or (ii) 56% X LIBOR + .45% and b) equals 1M LIBOR.

** TDHCA is not a party to the Multifamily swap agreements and therefore is not required to report market value on financial statements.

**THE UNIVERSITY OF TEXAS - INTEREST RATE SWAPS**
**As of August 31, 2011 (Unaudited)**
(amounts in thousands)

| **PAY-FIXED, RECEIVE VARIABLE**<br>**(Synthetic Fixed Rate)**<br>**Bond Issue** | **Original Notional Amount** | **Current Notional Amount** | **Effective Date** | **Swap Termination Date** | **Fixed-Rate Paid** | **Variable-Rate Received** | **Counterparty Credit Ratings** | **Current Fair Value** |
|---|---|---|---|---|---|---|---|---|
| UT RFS Refunding Bonds, Series 2001A | $48,318 | $6,955 | 05/17/2001 | 08/15/2013 | 4.63% | 67% of 1M LIBOR | Aa1/AA-/AA- | -460 |
| UT RFS Refunding Bonds, Series 2007B | 172,730 | 167,388 | 12/20/2007 | 08/01/2034 | 3.81% | SIFMA | Aa1/AA-/AA- | -27,236 |
| UT RFS Refunding Bonds, Series 2007B | 172,730 | 167,388 | 12/20/2007 | 08/01/2034 | 3.81% | SIFMA | Aa3/A+/A+ | -27,106 |
| UT RFS Bonds, Series 2008B | 155,000 | 145,530 | 03/18/2008 | 08/01/2036 | 3.90% | SIFMA | Aa1/AA-/AA- | -23,949 |
| UT RFS Bonds, Series 2008B | 155,000 | 145,530 | 03/18/2008 | 08/01/2036 | 3.90% | SIFMA | A2/A/A | -24,254 |
| UT RFS Bonds, Series 2008B | 375,485 | 348,905 | 03/18/2008 | 08/01/2039 | 3.61% | SIFMA | Aa1/AA-/AA- | -43,346 |
| UT PUF Bonds, Series 2008A | 200,453 | 198,113 | 11/03/2008 | 07/01/2038 | 3.70% | SIFMA | A2/A/A | -28,983 |
| UT PUF Bonds, Series 2008A | 200,453 | 198,113 | 11/03/2008 | 07/01/2038 | 3.66% | SIFMA | Aa1/AA-/AA | -27,372 |
| **Pay-Fixed, Receive-Variable Total** | **$1,480,169** | **$1,377,922** | | | | | | **-$202,706** |

| **PAY-VARIABLE, RECEIVE-VARIABLE**<br>**(Basis Swap)**<br>**Bond Issue** | **Original Notional Amount** | **Current Notional Amount** | **Effective Date** | **Swap Termination Date** | **Variable-Rate Paid** | **Variable-Rate Received** | **Counterparty Credit Ratings** | **Current Fair Value** |
|---|---|---|---|---|---|---|---|---|
| UT RFS Bonds, Series 2008B | $90,270 | $90,270 | 08/01/2009 | 08/01/2039 | SIFMA | 102.5% of 3M LIBOR | Aa1/AA-/AA | 6,242 |
| UT RFS Bonds, Series 2008B | 92,045 | 92,045 | 08/01/2009 | 08/01/2030 | SIFMA | 96% of 3M LIBOR | Aa1/AA-/AA | 3,074 |
| UT RFS Bonds, Series 2008B | 117,190 | 117,190 | 08/01/2009 | 08/01/2035 | SIFMA | 103% of 3M LIBOR | Aa1/AA-/AA | 8,206 |
| UT PUF Bonds, Series 2006B | 284,065 | 284,065 | 01/01/2009 | 07/01/2035 | SIFMA | 82.04% of 1M LIBOR | Aa3/A+/A+ | -8,637 |
| **Pay-Variable, Receive-Variable Total** | **$583,570** | **$583,570** | | | | | | **$8,885** |
| **TOTAL UTS INTEREST RATE SWAPS** | **$2,063,739** | **$1,961,492** | | | | | | **-$193,821** |

**TEXAS TRANSPORTATION COMMISSION - INTEREST RATE SWAPS**
**As of August 31, 2011 (Unaudited)**
(amounts in thousands)

| **PAY-VARIABLE, RECEIVE-VARIABLE**<br>**(Basis Swap)**<br>**Bond Issue** | **Original Notional Amount** | **Current Notional Amount** | **Effective Date** | **Swap Termination Date** | **Variable-Rate Paid** | **Variable-Rate Received** | **Counterparty Credit Ratings** | **Current Fair Value** |
|---|---|---|---|---|---|---|---|---|
| GO Mobility Ser 2006A | $200,000 | $200,000 | 12/01/2009 | 11/30/2012 | * | 1.590% of notional value | Aa1/AA-/AA- | 13,105 |
| GO Mobility Ser 2006A | 100,000 | 100,000 | 12/01/2009 | 11/30/2012 | * | 1.637% of notional value | Aa1/AAA | 6,615 |
| GO Mobility Ser 2006A | 100,000 | 100,000 | 12/01/2009 | 11/30/2012 | * | 1.575% of notional value | A2/A/A | 6,532 |
| **TOTAL TTC INTEREST RATE SWAPS** | **$400,000** | **$400,000** | | | | | | **$26,252** |

* In December 2009, TxDOT agreed to suspend the original terms of the swap agreements with each counterparty for a period of 3 years. For consideration of the suspensions, TxDOT elected to receive a monthly fixed annuity from each counterparty for the duration of the suspension period and make no payments to the counterparties. At the end of the suspension period, the swaps will revert back to their original terms with TxDot paying SIFMA and the counterparties paying 69.42% of the 10-yr US-ISDA LIBOR swap rate.

Table C3

**ESTIMATED DEBT-SERVICE REQUIREMENTS OF VARIABLE-RATE DEBT OUTSTANDING AND NET INTEREST RATE SWAP PAYMENTS**

**[EXCLUDES PAY-VARIABLE, RECEIVE-VARIABLE (BASIS) SWAPS]**

**As of August 31, 2011 (Unaudited)**

(amounts in thousands)

**Texas Department of Housing and Community Affairs**

| Fiscal Year | Variable-Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| **Ending 8/31/11** | **Principal** | **Interest** | **Swaps, Net** | **Total** |
| 2012 | $0 | $567 | $10,709 | $11,276 |
| 2013 | 0 | 567 | 10,709 | 11,276 |
| 2014 | 0 | 567 | 10,709 | 11,276 |
| 2015 | 2,020 | 567 | 10,699 | 13,286 |
| 2016 | 3,435 | 562 | 10,614 | 14,611 |
| 2017-2021 | 32,705 | 2,686 | 50,796 | 86,187 |
| 2022-2026 | 71,400 | 2,172 | 41,147 | 114,719 |
| 2027-2031 | 83,810 | 1,416 | 26,850 | 112,076 |
| 2032-2036 | 86,375 | 588 | 11,193 | 98,156 |
| 2037-2039 | 19,365 | 46 | 883 | 20,294 |
| **Total Debt Service and Net Interest Rate Swap Payments** | **$299,110** | **$9,738** | **$184,309** | **$493,157** |

**Source:** Texas Department of Housing and Community Affairs

**The University of Texas System**

| Fiscal Year | Variable-Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| **Ending 8/31/11** | **Principal** | **Interest (1)** | **Swaps, Net (2)** | **Total** |
| 2012 | $33,715 | $1,689 | $48,703 | $84,107 |
| 2013 | 35,105 | 1,649 | 47,492 | 84,246 |
| 2014 | 32,610 | 1,607 | 46,231 | 80,448 |
| 2015 | 33,830 | 1,568 | 45,091 | 80,488 |
| 2016-2020 | 143,630 | 7,268 | 208,962 | 359,860 |
| 2021-2025 | 229,775 | 6,275 | 180,266 | 416,317 |
| 2026-2030 | 290,565 | 4,662 | 133,683 | 428,910 |
| 2031-2035 | 273,055 | 2,800 | 79,857 | 355,712 |
| 2036-2040 | 305,745 | 786 | 22,101 | 328,632 |
| **Total Debt Service and Net Interest Rate Swap Payments** | **$1,378,030** | **$28,303** | **$812,388** | **$2,218,721** |

(1) As required by GASB Statement No 38, annual debt-service requirements are computed using the System's interest rates in effect on August 31, 2011 on its Series 2008A Bonds, Series 2001A Bonds, Series 2007B Bonds, and Series 2008B Bonds

(2) Reflects net payments on pay-fixed, receive-variable interest rate swaps based on interest rates in effect at August 31, 2011, applied on the respective notional amounts of the swaps through their respective termination dates

**Source:** The University of Texas System

**Veterans Land Board**

| Fiscal Year | Variable-Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| **Ending 8/31/11** | **Principal** | **Interest** | **Swaps, Net** | **Total** |
| 2012 | $58,475 | $2,951 | $62,772 | $124,198 |
| 2013 | 67,235 | 2,867 | 60,347 | 130,449 |
| 2014 | 72,070 | 2,739 | 57,559 | 132,368 |
| 2015 | 80,615 | 2,604 | 54,624 | 137,843 |
| 2016 | 86,185 | 2,448 | 51,113 | 139,746 |
| 2017-2021 | 444,615 | 9,657 | 197,938 | 652,210 |
| 2022-2026 | 351,790 | 5,726 | 113,156 | 470,672 |
| 2027-2031 | 253,650 | 2,690 | 49,074 | 305,414 |
| 2032-2036 | 128,015 | 836 | 12,997 | 141,848 |
| 2037-2041 | 39,220 | 149 | 1,912 | 41,281 |
| 2042-2046 | 1,475 | 1 | 16 | 1,492 |
| **Total Debt Service and Net Interest Rate Swap Payments** | **$1,583,345** | **$32,668** | **$661,508** | **$2,277,521** |

**Source:** Veterans Land Board

Table C4

**ESTIMATED DEBT-SERVICE REQUIREMENTS OF FIXED-RATE AND VARIABLE-RATE DEBT OUTSTANDING AND NET INTEREST RATE SWAP PAYMENTS [PAY-VARIABLE, RECEIVE-VARIABLE (BASIS) SWAPS ONLY]**

**As of August 31, 2011 (Unaudited)**

(amounts in thousands)

**Texas Transportation Commission**

| Fiscal Year | Fixed-Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| Ending 8/31/11 | Principal | Interest | Swaps, Net (1) | Total |
| 2012 | $3,215 | $49,636 | -$6,392 | $46,459 |
| 2013 | 4,185 | 49,507 | -5,817 | 47,875 |
| 2014 | 5,115 | 49,340 | -5,625 | 48,830 |
| 2015 | 6,045 | 49,135 | -5,625 | 49,555 |
| 2016-2020 | 64,985 | 239,954 | -28,124 | 276,815 |
| 2021-2025 | 171,500 | 213,900 | -28,124 | 357,276 |
| 2026-2030 | 313,520 | 159,184 | -6,094 | 466,610 |
| 2031-2035 | 467,540 | 66,989 | 0 | 534,529 |
| **Total Debt Service and Net Interest Rate Swap Payments** | **$1,036,105** | **$877,643** | **-$85,800** | **$1,827,948** |

(1) Swap payments projected using the historical average annual spread differential, which is assumed to be 1 4062%, between SIFMA and 69 42% of 10-Year USD-ISDA-Swap Rate (10 Year LIBOR) from 1990 through Aug 31, 2011

**Source:** Texas Department of Transportation

**The University of Texas System**

| Fiscal Year | Variable Rate Bonds (1) | | Interest Rate | |
|---|---|---|---|---|
| Ending 8/31/11 | Principal | Interest (2) | Swaps, Net (3) | Total |
| 2012 | $0 | $15,211 | -$278 | $14,933 |
| 2013 | 0 | 15,211 | -278 | 14,933 |
| 2014 | 0 | 15,211 | -278 | 14,933 |
| 2015 | 0 | 15,211 | -278 | 14,933 |
| 2016-2020 | 24,740 | 76,055 | -1,388 | 99,407 |
| 2021-2025 | 78,975 | 57,414 | -1,490 | 134,899 |
| 2026-2030 | 225,835 | 37,441 | -1,445 | 261,831 |
| 2031-2035 | 163,750 | 12,004 | -963 | 174,791 |
| 2036-2040 | 90,270 | 241 | -252 | 90,259 |
| **Total Debt Service and Net Interest Rate Swap Payments** | **$583,570** | **$244,000** | **-$6,648** | **$820,921** |

(1) Includes principal and interest due on certain related bonds, which are also included in Table C3

(2) As required by GASB Statement No 38, annual debt-service requirements are computed using the System's interest rates in effect on August 31, 2011 on its Series 2008B Bonds and Series 2006B Bonds

(3) Reflects net payments on pay-variable, receive-variable interest rate swaps based on interest rates in effect at August 31, 2011, applied on the respective notional amounts of the swaps through their respective termination dates

**Source:** The University of Texas System

**Veterans Land Board**

| Fiscal Year | Variable-Rate Bonds | | Interest Rate | |
|---|---|---|---|---|
| Ending 8/31/11 | Principal | Interest | Swaps, Net | Total |
| 2012 | $845 | $345 | $64 | $1,254 |
| 2013 | 890 | 343 | 18 | 1,251 |
| 2014 | 950 | 341 | 17 | 1,308 |
| 2015 | 1,010 | 339 | 17 | 1,366 |
| 2016 | 1,070 | 336 | 16 | 1,422 |
| 2017-2021 | 6,430 | 1,643 | 72 | 8,145 |
| 2022-2026 | 8,705 | 1,561 | 51 | 10,317 |
| 2027-2031 | 161,780 | 1,044 | 24 | 162,848 |
| 2032-2036 | 2,665 | 6 | 1 | 2,672 |
| **Total Debt Service and Net Interest Rate Swap Payments** | **$184,345** | **$5,958** | **$280** | **$190,583** |

**Source:** Veterans Land Board

## Appendix D
## Debt Issuance Costs

Issuance costs are composed of the professional fees and expenses paid to service providers and underwriters to market bonds to investors. Professional services commonly used in the marketing of all types of municipal securities are listed below:[1]

• 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.

The largest portion of the costs associated with the issuance of bonds is the fee paid to the underwriter (or underwriting syndicates), known as the "underwriting spread." The spread is the underwriter's compensation for purchasing the bonds from the issuer and reselling them in the bond market. It consists of four components:

- Takedown - Represents the discount that the members of the syndicate receive when they purchase the bonds from the issuer;
- Management fee - Compensation to the underwriters for creating and implementing the financing package;
- Underwriting fee - A risk premium to compensate the underwriters for market risk of the underwriting; and
- Expenses - Costs associated with the marketing of the bonds such as CUSIP, travel, printing and underwriter's legal fees.

• Bond Counsel - Bond counsel is retained by the issuer to provide legal advice and a legal opinion that: 1) the issuer is authorized to issue the proposed securities; 2) the issuer has met all legal requirements necessary for issuance; and 3) if appropriate, the interest on the proposed securities is exempt from federal income taxation and where applicable, from state and local taxation. Bond counsel prepares and/or reviews documentation and advises the issuer regarding: 1) authorizing resolutions or ordinances; 2) trust indentures; 3) official statements; 4) validation proceedings; 5) disclosure requirements; and 6) litigation.

• Financial Advisor - The financial advisor advises the issuer on matters pertinent to a proposed issue such as structure, timing, marketing, 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 as well as the issuer's overall debt-management policies.

• Credit Rating Agencies - Credit rating agencies provide public or private ratings on the credit quality of securities issues to help investors assess the probability of timely repayment of principal and interest on municipal securities. Ratings are initially released before issuance and are reviewed periodically after issuance and may be amended up or down to reflect changes in the issuer's creditworthiness.

• Paying Agent/Registrar - The paying agent is responsible for transmitting payments of principal and interest from the issuer to the security holders and maintaining records of the owners of registered bonds on behalf of the issuer.

• 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.

### Choosing the Method of Sale: Negotiated versus Competitive

Selecting the method of sale is one of the most important decisions an issuer of securities must make. Both negotiated and competitive sales have distinct advantages and disadvantages described below.

In a negotiated sale an underwriter is chosen in advance of the sale and agrees to buy the bonds at a mutually-agreed future date for resale. As part of the preparation for the underwriting at that future

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

date, the underwriter actively markets the bonds to potential buyers to ensure a successful resale at the time of the underwriting. In more complicated financings, pre-sale marketing can be crucial to obtaining the lowest possible interest cost. In addition, the negotiated method of sale offers issuers greater timing and structural flexibility than competitive sales, as well as more influence in directing bond distribution to selected underwriting firms and investors.

Disadvantages of negotiated sales are a lack of competition in pricing and the possible appearance of favoritism. These factors can result in wider fluctuations in underwriting spreads for negotiated transactions than for comparable competitive transactions.

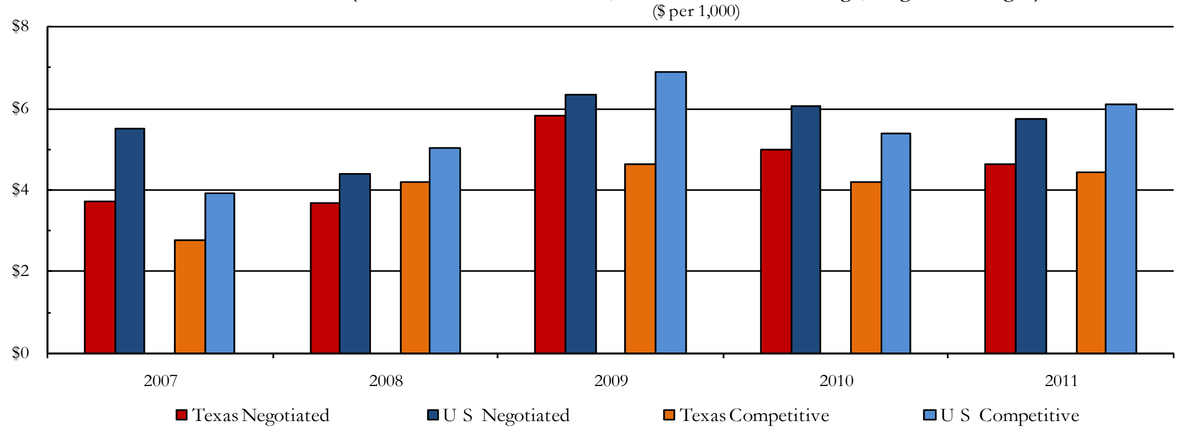
Conditions that suggest a negotiated sale are market volatility and securities for which market demand is difficult to ascertain. Often called "story bonds," these include securities issued by an infrequent issuer or an issuer with weak or declining credit rating(s) or securities that contain innovative structuring, derivatives or other complexities.

In a competitive sale, sealed or electronic bids from a number of underwriters are opened on a predetermined sale date and time. 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 pre-sale marketing because they will not know if they have been awarded the underwriting contract until the day the bids are opened.

Advantages of the competitive bid include: 1) bids are developed in a competitive environment where market forces determine the price; 2) spreads are typically lower; and 3) the winning bid is developed in an open process among underwriters. Disadvantages of the competitive sale include: 1) limited flexibility in timing the sale and structuring the transaction; 2) limited pre-sale marketing; 3) minimum control over the distribution of bonds; and 4) the likelihood that underwriters' bids will include a risk premium to compensate for uncertainty regarding market demand.

Conditions that suggest a competitive sale are a stable, predictable market in which market demand for the securities can be relatively easily determined. Stable market conditions lessen the underwriters' risk of holding unsold balances. Market demand is generally easier to assess for securities that: 1) are

Figure D1
**GROSS UNDERWRITING SPREADS: 2007 - 2011**
**NEGOTIATED vs. COMPETITIVE MUNICIPAL ISSUES**
**(Excludes Private Placements, Conduits and Remarketings; weighted averages)**
($ per 1,000)




**Note:** 2011 U S figures are through June 30, 2011 Amounts represent dollars per $1,000 face 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* (08/11); Thomson Financial Securities; and Texas Bond Review Board - Bond Finance Office issued by well-known, highly-rated issuers that regularly access the debt market; 2) are conventionally structured, such as serial and term coupon bonds; and 3) have a strong source of repayment and thus a high credit rating. These conditions will generally lead to aggressive bidding resulting in lower costs of issuance since the underwriters will be able to more easily assess market demand without extensive pre-marketing activities.

Underwriters' spreads for negotiated transactions are typically higher than for competitive transactions because the lack of competition between underwriters and the increased costs with a more tailored underwriting. In fiscal 2008 negotiated gross spreads were below those for competitive transactions *(Figure D1)* due to two large negotiated issuances by The University of Texas System with low underwriting spreads.

In determining the method of sale, factors such as size, complexity, market conditions and time frame most influence the issuer's decision. Issuers should focus primarily on how their bonds are being priced in the market and focus secondarily on the underwriting spread. For example, reducing the takedown (selling) component of the underwriters' spread to reduce costs may result in reducing the sales effort needed to successfully place the issue which in turn could result in a lower price (higher yield) for the issue in aftermarket trading.

## Appendix E
## Texas State Debt Programs

### COLLEGE STUDENT LOAN BONDS

**Statutory/Constitutional Authority:** Article III, Sections 50b, 50b-1, 50b-2, 50b-3, 50b-4, 50b-5 and 50b-6 of the Texas Constitution, adopted in 1965, 1969, 1989, 1991, 1995, 1999 and 2007, respectively, 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. In 2010, The Private Activity Bond Program allocated $234.2 million to 501(c)(3) student loan issuers such as the Brazos Higher Education Authority, North Texas Higher Education Authority, and Panhandle Plains Higher Education Authority. Previously, such authorities would originate federal student loans through the Federal Family Education Loan Program (FFELP) or buy these student loan assets from other originating banks, thereby increasing the capacity of the banks to issue additional FFELP loans. The FFELP was terminated on June 30, 2010 and all federal student loans are now originated by the Department of Education's direct lending program.

**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:**
Dan Weaver
Assistant Commissioner for Business and Support Services
Texas Higher Education Coordinating Board
(512) 427-6165
dan.weaver@thecb.state.tx.us

### COLLEGE AND UNIVERSITY REVENUE BONDS

**Statutory Authority:** Section 55.13 of the Texas Education Code authorizes the governing boards of institutions of higher education to issue revenue bonds to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities.

In 1997, the 75th Legislature passed HB 1077, designating the Texas Public Finance Authority as the exclusive issuer for Midwestern State University, Stephen F. Austin State University and Texas Southern University.

Legislative approval is not required for specific projects or for each bond issue, but certain capital projects must be approved by the Texas Higher Education Coordinating Board in accordance with Chapter 61, Texas Education Code. The governing boards are required to obtain the approval of the Bond Review Board unless exempted by SB 5 of the 82nd Legislature, Regular Session. Approval by the Attorney General's Office prior to issuance is still required on all transactions and college and university revenue bond issuers are required to register their bonds with the Comptroller of Public Accounts.

**Purpose:** Proceeds are used to acquire, purchase, construct, improve, enlarge and/or equip property, buildings, structures, activities, services, operations or other facilities.

**Security:** The revenue bonds issued by the institutions' 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:** Debt service is payable from the institution's pledged revenues. Pledged revenues include the pledged tuition and any or all of the revenues, funds and balances lawfully available to the governing boards and derived from or attributable to any member of the Revenue Financing System.

**Contact:**
Individual colleges and universities.

## 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 in 1993 from the Veterans Land Board to the Texas Agricultural Finance Authority with the passage of HB 1684 by the 73rd Legislature. In 1995, a constitutional amendment was approved that expanded the use of existing bond 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 and for other rural economic development programs. In 1997, HB 2499, 75th Legislature increased the maximum loan amount available through the program to $250,000. In 2001, SB716, 77th Legislature authorized the Authority to provide a guarantee to a local lender for an eligible applicant.

**Purpose:** Proceeds from the sale of the general obligation bonds may be used to make loans of up to $250,000 to each eligible Texan 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; therefore, no draw on general revenue is anticipated.

**Contact:**
Rick Rhodes
Assistant Commissioner
Rural Economic Development Division
Texas Department of Agriculture
(512) 463-7577
rick.rhodes@agr.state.tx.us

## HIGHER EDUCATION CONSTITUTIONAL BONDS

**Statutory/Constitutional Authority:** Article VII, Section 17, of the Texas Constitution, adopted in 1985, authorizes the issuance of constitutional appropriation bonds (generally referred to as Higher Education Assistance Fund or HEF bonds) by institutions of higher education not eligible to issue bonds payable from and secured by the income of the Permanent University Fund (PUF). Legislative approval of bond issues is not required; however, approval of the Bond Review Board and the Attorney General is required and the bonds must be registered with the Comptroller of Public Accounts.

**Purpose:** Proceeds from the sale of bonds are used by qualified institutions for library materials, land acquisition, new construction, major repairs and renovations or equipment.

**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. In 2005, the 79th Legislature increased the total allocation to qualified institutions to $262.5 million beginning in fiscal year 2008. 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.

### 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 The 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. Approval of the Attorney General is required, however, and the bonds must be registered with the Comptroller of Public Accounts.

**Purpose:** Proceeds are used for acquiring land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials and refunding PUF bonds or PUF notes.

**Security:** Bonds are equally and ratably secured by and payable from a first lien on and pledge of the interest of the UT System or the A&M System in the Available University Fund. The total amount of PUF bonds is subject to the constitutional limitation in that the aggregate amount of bonds payable from the Available University Fund cannot, at the time of issuance, exceed 30% of the cost value of investments and other assets of the PUF, exclusive of real estate.

The PUF bonds do not constitute general obligations of the UT Board or A&M Board, the Systems, the state of Texas or any political subdivision of the state of Texas. Neither Board has taxing power, and neither the credit nor the taxing power of the state of Texas or any political subdivision thereof is pledged as security for the bonds.

**Dedicated/Project Revenue:** Bonds are repaid from the Available University Fund which consists of distributions from the "total return" on all investment assets of the PUF including the net income attributable to the surface of PUF land, in amounts determined by the Board.

**Contacts:**
Terry Hull
Assistant Vice Chancellor for Finance
The University of Texas System
(512) 499-4494
thull@utsystem.edu

Greg Anderson
Associate Vice Chancellor and Treasurer
The Texas A&M University System
(979) 458-6330
anderson@tamu.edu

## TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

**Statutory/Constitutional Authority:** The Texas Public Finance Authority (the "Authority") is authorized to issue general obligation and revenue bonds on behalf of the Texas Agricultural Finance Authority ("TAFA") pursuant to Agriculture Code Section 58.041. This authority was transferred from TAFA to the Authority effective September 1, 2009. The issuance of general obligation debt for TAFA programs is authorized by the Texas Constitution, Article III, Sections 49-f and 49-i.

**Purpose:** Chapter 58 of the Texas Agriculture Code created TAFA under the Texas Agricultural Finance Act and authorizes TAFA to establish programs to support agricultural business in Texas. Under the Agricultural Finance Act, TAFA is authorized to use bond proceeds for loans and other financing assistance for the purchase of farm and ranch land. In addition, proceeds may be used to establish a Texas Agricultural Fund for rural economic development programs and to establish a Rural Microenterprise Development Fund to fund programs that foster and stimulate the creation and expansion of small businesses in rural areas. TAFA may use the proceeds to provide loan guarantees, insurance, coinsurance, loans and indirect loans or purchases or acceptances of assignments of loans or other obligations.

**Security:** In addition to general obligation bonds, TAFA may issue up to $500 million in revenue bonds for the purpose of providing money to carry out its programs. Before authorizing the issuance of any general obligation bonds for programs funded by the Texas Agricultural Development Fund or the Rural Microenterprise Development Fund, the TAFA board must determine that the issuance of revenue bonds is not an economically advisable alternative. TAFA's revenue bonds are secured by pledged revenues and liens on TAFA's property, revenues, income or other resources of the authority, including mortgages or other interests in property financed with bond proceeds.

**Dedicated/Project Revenue:** Debt service on revenue debt issued by TAFA is not an obligation of the state and is payable solely from any loan repayments and other pledged revenue and assets of TAFA. Debt service on general obligation debt is payable from pledged repayments on loans made under a financial assistance program funded by bond proceeds, or state general revenue if income is insufficient to make debt-service payments.

**Contacts:**
Drew DeBerry
Deputy Commissioner
Texas Department of Agriculture
(512) 463-7567
drew.deberry@agr.state.tx.us

Susan K. Durso
Interim Executive Director
Texas Public Finance Authority
(512) 463-5544
susan.durso@tpfa.state.tx.us

## TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

**Statutory Authority:** The Texas Low-Level Radioactive Waste Disposal Authority (the "Authority") was created in 1981 (Texas Health and Safety Code, Chapter 402), and authorized to issue revenue bonds in 1987 to finance certain costs related to the creation of a radioactive waste disposal site. 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. In 1997, HB 1077, 75th Legislature authorized the Texas Public Finance Authority to issue the bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority.

The 76th Legislature abolished the Authority effective September 1, 1999 and transferred all of its duties, responsibilities and resources to the Texas Natural Resource Conservation Commission ("the Commission") that has since been renamed the Texas Commission on Environmental Quality.

Although the statutory authority remains, it is unlikely that any such bonds will be issued.

**Contact:**
Susan K. Durso
Interim Executive Director
Texas Public Finance Authority
(512) 463-5544
susan.durso@tpfa.state.tx.us

## TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS BONDS

**Statutory Authority:** The Texas Department of Housing and Community Affairs (the "Department") was created pursuant to Chapter 762, 1991 Tex. Sess. Law Serv. 2672, the Act, codified as Chapter 2306, Texas Government Code. The Department is the successor agency to the Texas Housing Agency (THA) and the Texas Department of Community Affairs, both of which were abolished by the Act with 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 THA, the Department or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the THA become revenue bonds of the Department. Legislative approval of bond issues is not required; however, 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:**
Tim Nelson
Director of Bond Finance
Texas Department of Housing and Community Affairs
(512) 936-9268
tim.nelson@tdhca.state.tx.us

Vacant
Director of Multifamily Finance
Texas Department of Housing and Community Affairs

## TEXAS DEPARTMENT OF TRANSPORTATION BONDS

**Statutory/Constitutional Authority:** The Texas Transportation Commission (the "Commission"), the governing body of the Texas Department of Transportation ("TxDOT") is authorized to issue both revenue and general obligation bonds.

In 1977, the Texas Turnpike Authority ("TTA") was created as a division of TxDOT by SB 370, 75th Legislature (Texas Transportation Code, Chapter 361).

Effective November 6, 2001, SB 342, 77th

Legislature, abolished TTA's board of directors, and all duties, including authority to issue bonds for toll projects, were transferred to the Commission. Authority to issue turnpike project revenue bonds is provided by Subchapter C of Chapter 228, Texas Transportation Code.

In 2001, voters approved Article III, Section 49-k of the Texas Constitution, and Subchapter M of Chapter 201, Texas Transportation Code, which established the Texas Mobility Fund within the state treasury and authorized the Commission to issue general obligation bonds payable from the revenues of the fund.

In 2003, voters approved Article III, Section 49-n of the Texas Constitution, and Subchapter A of Chapter 222, Texas Transportation Code, that authorized the issuance of $3 billion in securities payable from the revenue in the State Highway Fund. In 2005 the program capacity was increased to $6.00 billion with a maximum annual issuance of $1.50 billion.

In 2007, voters approved Proposition 12 that added Article III, Section 49-p to the Texas Constitution. In 2009, HB 1, 81st Legislature, First Called Session ratified Section 222.004 to the Texas Transportation Code that authorized the issuance of $5.00 billion in general obligation bonds for highway improvement projects.

**Purpose:** Proceeds from the sale of turnpike revenue bonds 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. In 2002, the Commission and TTA issued the Central Texas Turnpike System Revenue Obligations to finance a portion of the planning, design, engineering and construction of the initial phase (SH 130, SH 45, and Loop 1) of the Central Texas Turnpike System.

Revenues and obligations secured by the Texas Mobility Fund may be used for acquisition, construction, maintenance, reconstruction and expansion of state highways and the participation by the state in the costs of constructing publicly-owned toll roads.

State Highway Fund revenue bonds may be used to finance state highway improvement projects that are eligible for funding with constitutionally dedicated revenues. Of the $6.00 billion currently authorized, $1.20 billion must be used to fund projects that improve highway safety.

**Security:** Project revenue bonds issued pursuant to Chapter 228, Texas Transportation Code (including Central Texas Turnpike System bonds) are not an obligation of the Commission, TxDOT, nor the state and are payable solely from the revenues of the project for which the securities are issued or other eligible sources.

The Texas Mobility Fund (the "Fund") issues general obligation debt secured by and payable from a pledge of revenues dedicated to and on deposit in the Fund. Pledged revenues of the Fund primarily consist of driver's license fees, driver record information fees, motor vehicle inspection fees and certificate of title fees.

State Highway Fund bonds are payable from a lien on pledge revenues consisting primarily of certain fees and reimbursements deposited to the credit of the State Highway Fund. Major sources of revenue for the State Highway Fund consist of state motor fuels tax receipts, state motor vehicle registration fees and federal reimbursements.

**Dedicated/Project Revenue:** Project revenue bonds are repaid from revenue of the project for which the bonds were issued. Debt service on the Texas Mobility Fund and the State Highway Fund revenue bonds is payable from the revenues dedicated to each fund except that Texas Mobility Fund bonds also carry a general obligation pledge. General obligation bonds issued pursuant to Section 222.004, Texas Transportation Code are payable solely from state general revenue.

**Contacts:**
Brian Ragland, CPA
Director - Finance Division
Texas Department of Transportation
(512) 486-5555
Brian.Ragland@txdot.gov

**For turnpike-related matters:**
Mark Tomlinson
Director - Turnpike Authority Division
Texas Department of Transportation
(512) 936-0903
Mark.Tomlinson@txdot.gov

## TEXAS PRIVATE ACTIVITY BOND SURFACE TRANSPORTATION CORPORATION

**Statutory Authority**: The Texas Transportation Commission ("Commission") is authorized pursuant to the authority in the Texas Transportation Code, Chapter 431, Subchapters A through C, to create a transportation corporation to assist and act on behalf of the Commission to promote and develop new and expanded public transportation facilities and systems including the issuance of bonds for comprehensive development agreement proposers approved by the Commission. Under this statute the Commission created the Private Activity Bond Surface Transportation Corporation ("Corporation") as a conduit issuer in 2008.

**Purpose:** Proceeds from the sale of the Corporation's revenue bonds 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 payable solely from the revenues and funds pledged for the payment thereof. The Corporation's bonds are not obligations of the state, and neither the state's full faith and credit nor its taxing power is pledged toward the payment of the Corporation's bonds.

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

**Contact:**
Brian Ragland, CPA
Director - Finance Division
Texas Department of Transportation
(512) 486-5555
Brian.Ragland@txdot.gov

## TEXAS ECONOMIC DEVELOPMENT AND TOURISM BONDS

**Statutory/Constitutional Authority**: As the successor Office to the Texas Department of Economic Development, the Economic Development and Tourism Office within the Office of the Governor (the "Office") was created by SB 275, 78th Legislature and authorizes the Office to issue bonds. In 1989, a constitutional amendment authorizing the issuance of general obligation bonds was approved. Although legislative approval of bond issues is not required, the Office 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 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 Office and are payable from funds of the

Office. The revenue bonds are not obligations 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 Office is also authorized to issue general obligation debt which is payable from revenues received by the Office. HB 1, 75th Legislature, Rider 6, specifically prohibits the use of general revenue for debt service on the general obligation bonds issued by the Office; therefore, any general obligation bonds issued by the Office are required to be self-supporting.

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

**Contact:**
Lee Deviney
Director of the Economic Development Bank
Office of the Governor
(512) 936-0100
lee.deviney@governor.state.tx.us

**TEXAS MILITARY FACILITIES COMMISSION BONDS**

**Statutory Authority:** The Texas Military Facilities Commission (the "Commission") was created in 1997 by SB 352, 75th Legislature, as the successor agency to the National Guard Armory Board, which was created as a state agency in 1935 (Texas Government Code, Chapter 435) and authorized to issue long-term debt. Legislative approval of bond issues is not required; however, 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.

In 1991, SB 3, 72nd Legislature, authorized the Texas Public Finance Authority (the "Authority") to issue bonds on behalf of the Texas Military Facilities Commission (Texas Government Code, Section 435.041).

SB 1724, Acts of the 80th Legislature (2007) abolished the Commission and transferred all its duties, responsibilities, property and assets to the Adjutant General's Department. To preserve the pledged revenue stream and meet the state's obligations under the bonds, the Commission's title to facilities, the rental and other income of which is pledged to the bonds, was transferred to the Texas Public Finance Authority effective September 1, 2007. The Authority will continue leasing the facilities to the Adjutant General's Department, which is obligated to continue making rental payments until the bonds are retired after which the Authority will transfer title to the facilities to the Adjutant General.

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

**Security:** Any bonds issued are obligations of the Authority and are payable from "rents, issues, and profits" of the facilities leased to the Adjutant General's Department. The bonds are not general obligations 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:** The rent payments used to retire the bonds are paid by the Adjutant General's Department primarily with general revenue funds appropriated by the legislature. Independent project revenue, in the form of other income from properties owned by the Adjutant General's Department is also used to pay a small portion of debt service.

**Contacts:**
Pamela Darden
Chief Fiscal Officer
Adjutant General's Department
(512) 782-5688

pamela.a.darden@us.army.mil

Susan K. Durso
Interim Executive Director
Texas Public Finance Authority
(512) 463-5544
susan.durso@tpfa.state.tx.us

**TEXAS PARKS AND WILDLIFE DEPARTMENT BONDS**

**Statutory/Constitutional Authority:** Article III, Section 49-e, of the Texas Constitution, adopted in 1967, authorized the Texas Parks and Wildlife Department (the "Department") to issue general obligation bonds to acquire and develop state parks. In 1991, SB 3, 72nd Legislature, authorized the Texas Public Finance Authority (the "Authority") to issue bonds on behalf of the Department. In 1997, HB 3189, 75th Legislature, codified in the Texas Parks and Wildlife Code, Section 13.0045, authorized the Authority to issue revenue bonds or other revenue obligations not to exceed $60.0 million in the aggregate on behalf of the Department for construction and renovation projects for parks and wildlife facilities.

**Purpose:** Proceeds from the sale of general obligation bonds are used to purchase and develop state park lands. Proceeds from the sale of revenue bonds are 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 rent payments made by the Department to the Authority. The Department may receive legislative appropriations of general revenue for its required rental payments.

**Dedicated/Project Revenue:** Debt service on general obligation park development bonds is payable from entrance fees to state parks. Additionally, sporting goods sales tax revenue may also be used to pay debt service on general obligation park development bonds.

The Department's lease obligations to the Authority for revenue bonds are repaid from the Department's general revenue appropriation for lease payments.

**Contacts:**
Rich McMonagle
Director of Infrastructure
Texas Parks and Wildlife Department
(512) 389-4741
rich.mcmonagle@tpwd.state.tx.us

Susan K. Durso
Interim Executive Director
Texas Public Finance Authority
(512) 463-5544
susan.durso@tpfa.state.tx.us

**TEXAS PUBLIC FINANCE AUTHORITY BONDS**

**Statutory/Constitutional Authority:** The Texas Public Finance Authority (the "Authority") is authorized to issue both revenue and general obligation bonds.

The Authority was initially created by the legislature in 1983, by Texas Revised Civil Statutes Ann., Article 601d (now Chapter 1232, Texas Government Code) and was authorized to issue revenue bonds to finance state office buildings.

Article III, Section 49-h, of the Texas Constitution, adopted in 1987, authorized the Authority to issue general obligation bonds for correctional and mental health facilities.

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 Texas 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.

The 74th Legislature authorized the Authority to issue building revenue bonds on behalf of the Texas Department of State Health Services (formerly the Texas Department of Health) for financing a Public Health Laboratory in Travis County and to issue general obligation bonds on behalf of the Texas Juvenile Probation Commission.

The 75th Legislature authorized the Authority to issue bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority (see Texas Commission on Environmental Quality), Midwestern State University, Texas Southern University and Stephen F. Austin State University. Other legislation passed by the 75th Legislature authorized the Authority to issue revenue bonds on behalf of the Texas Health and Human Services Commission and the Texas Parks and Wildlife Department. The legislature also authorized the Authority to issue bonds to finance the Texas State History Museum on behalf of the State Preservation Board.

The 76th Legislature authorized revenue obligations to finance automated information systems for the Texas Department of Human Services' electronic benefits transfer (EBT) and integrated eligibility (TIERS) programs.

In 2001, constitutional amendments were adopted authorizing the issuance of: (1) up to $850 million of general obligation bonds to finance construction, renovation and equipment acquisitions for thirteen state agencies (Texas Constitution, Article III, Section 50-f); and (2) up to $175 million of general obligation bonds to finance assistance to border counties for roadways in colonias (Texas Constitution, Article III, Section 49-l). Additionally, the 77th Legislature authorized the Authority to issue bonds to finance nursing home liability insurance and to establish a corporation to issue bonds for charter schools. Bonds issued for charter schools do not constitute state debt.

In 2003, the 78th Legislature authorized the Authority to issue revenue bonds on behalf of the Texas Workforce Commission to fund the unemployment compensation program. (See the Texas Labor Code, Chapter 203, Subchapter F.) The 78th Legislature also authorized: (1) the Authority's issuance of general obligation bonds to finance assistance to local governments for economic development projects to enhance the military value of military facilities. Texas voters approved SJR 55 on September 13, 2003 and amended the Texas Constitution, Article III, Section 49-n and Texas Government Code, Chapter 436; and (2) the Authority's issuance of up to $75 million of revenue bonds to fund the FAIR Plan which provides residential property insurance of last resort.

The 79th Legislature authorized the Authority to issue revenue bonds to finance building improvements for the Texas Department of Transportation and to refinance certain of the

Texas Building and Procurement Commission's lease-purchase agreements (now the Texas Facilities Commission).

The 80th Legislature authorized the Authority to issue $3.00 billion of general obligation debt to finance cancer research (Texas Constitution, Article III, Section 67) and $1.00 billion to finance capital projects for certain state agencies (Texas Constitution, Article III Section 50-g).

In 2011, the Sunset Advisory Commission conducted a review of the Authority pursuant to the Texas Government Code Chapter 325. HB 2251, 82nd Legislature, Regular Session (2011) became effective June 17, 2011 authorizing the continuation of the Authority for another twelve years. The legislation also authorized Stephen F. Austin State University to issue debt on its own (under prior law the Authority was the exclusive issuer of debt for that university) and authorized Texas State Technical College System and other general academic teaching institutions to contract with the Authority to issue or refund debt on their behalf.

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 general obligation bonds issued under Article III, Section 49-h are used to finance the cost of constructing, acquiring and/or renovating prison facilities, youth correction facilities and mental health/mental retardation facilities. Proceeds of obligations issued under Article III, Section 50-f are used for state agency renovation, construction and equipment acquisition projects. Proceeds of obligations issued under Article III, Section 49-l are used to provide assistance to border counties for colonia roadway projects. Proceeds from the sale of general obligation bonds issued under Article III, Section 67 are used to finance grants for cancer research and the operation of the Cancer Prevention and Research Institute of Texas. Proceeds from the sale of building revenue bonds are used to purchase, construct, renovate and maintain state buildings. Proceeds of bonds issued under Article III, Section 49-n are used to fund the Texas Military Value Revolving Loan Fund to make loans to certain defense communities for improved military value or economic development projects. 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 under the Master Lease Purchase Program are used to finance equipment purchases of state agencies. For a description of the use of funds for bonds issued on behalf of the Texas Military Facilities Commission, the Texas Parks and Wildlife Department and the Texas state colleges and universities that are clients of the Authority, see the applicable sections in this appendix. Proceeds of bonds issued on behalf of the Texas National Research Laboratory Commission were used to finance costs of the Superconducting Super Collider; however, the project was canceled in 1995. The revenue bonds issued for the project were defeased in 1995 and the general obligation bonds were economically defeased in November 1999.

**Security:** Issued building revenue bonds are obligations of the Authority and are payable from "rents, issues, and profits" resulting from leasing projects to the state. These sources of revenue come primarily from legislative appropriations. The general obligation bonds pledge the first monies not otherwise appropriated by the Constitution that come into the state treasury each fiscal year to pay debt service on the bonds. Revenue debt issued for the Unemployment Compensation Insurance Fund was secured by a special obligation assessment imposed on Texas employers by the Texas Workforce

Commission. Revenue bonds issued for the Master Lease Purchase Program are secured by lease payments from state agencies which come from state appropriations.

**Dedicated/Project Revenue:** Debt service on all general obligation bonds, except the park development bonds and military value revolving program bonds is payable solely from the state's General Revenue Fund. Debt service on the general obligation bonds for park development is paid first from department revenues as described in the applicable section of this appendix. Debt service in the form of loan repayments is paid by participating defense communities to the Military Preparedness Commission to pay debt on the outstanding bonds. Debt service on the revenue bonds is payable from lease payments which are primarily general revenue funds appropriated to the respective agencies and institutions by the legislature. The legislature, however, has the option to appropriate lease payments to be used for debt service 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 Texas Department of State Health Services is appropriated from lab fees collected by the Department. Bonds issued on behalf of the Workers' Compensation Fund which are fully economically defeased and were paid in full in December 2006, were payable solely from maintenance tax surcharges authorized in Article 5.76 of the Texas Insurance Code. Issued university revenue bonds are repaid from pledged revenue such as tuition and fees. The university bonds are self-supporting and the state's credit is not pledged.

**Contact:**
Susan K. Durso
Interim Executive Director
Texas Public Finance Authority
(512) 463-5544
susan.durso@tpfa.state.tx.us

## TEXAS PUBLIC FINANCE AUTHORITY/TEXAS WINDSTORM INSURANCE ASSOCIATION BONDS

**Statutory/Constitutional Authority:** In the event of catastrophe, the Texas Public Finance Authority (the "Authority") is authorized to issue revenue obligations for the Texas Windstorm Insurance Association (the "Association") pursuant to Subchapters B-1 and M, Chapter 2210, of the Texas Insurance Code (the "Act").

The Authority and the Association are required to obtain the approval of the State Insurance Commissioner, 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 issued may be used to pay incurred claims and operating expenses of the Association; to pay for the purchase of reinsurance for the Association; to provide a reserve fund; and to pay capitalized interest and principal on the public securities for the period determined necessary by the Association.

**Security:** The bonds are special obligations of the Authority and the Association equally and ratably secured solely by and payable solely from a pledge of and lien on the Pledged Revenues. Pledged Revenues consist of revenues received by the Association from the assessment of the surcharges pursuant to the Authorizing Law, amounts on deposit in the Obligation Revenue Fund and accounts created therein and in the Program Fund and accounts created therein, including all derived investment income.

**Dedicated/Project Revenue:** Debt service on bonds issued by the Association is payable from any one or a combination of the following: premiums and other revenue of the Association, assessments on Association members, and premium surcharges on property insurance policies in the catastrophe area.

**Contact:**
Susan K. Durso
Interim Executive Director
Texas Public Finance Authority
(512) 463-5544
susan.durso@tpfa.state.tx.us

**TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION**

**Statutory/Constitutional Authority:** The Texas Public Finance Authority Charter School Finance Corporation (the "Corporation" or "Issuer") is a public, non-profit corporation created by the Texas Public Finance Authority (the "Authority" or "Sponsoring Entity") and exists as an instrumentality of the state pursuant to Texas Education Code, Section 53.351 as amended (the "Act"). The Corporation 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:** Pursuant to the Act, the Issuer is authorized to issue revenue bonds and to lend the proceeds thereof to any authorized charter schools for the purpose of aiding such schools in financing or refinancing "educational facilities" (as such term is defined in the Act) and facilities which are incidental, subordinate or related thereto or appropriate in connection therewith.

**Security:** The bonds are special and limited obligations of the Issuer, payable solely from revenues to be derived under the loan agreement, the Issuer Master Notes, and in certain circumstances, out of amounts secured through the exercise of remedies provided in the Indenture, the loan agreement, the deed of trust and the Issuer Master Notes. The bonds are not obligations of the state of Texas or any entity other than the Issuer. The Issuer has no taxing power.

**Dedicated/Project Revenue:** The Issuer issues the bonds and loans the proceeds to the Borrower (an eligible open-enrollment charter school) to finance education facilities of the Borrower. The Borrower's obligations under the Loan Agreement are expected to be paid primarily from the state general revenue allocation the Borrower receives as a charter school, pursuant to Chapter 12 of the Texas Education Code.

**Contact:**
Susan K. Durso
Interim Executive Director
Texas Public Finance Authority
(512) 463-5544
susan.durso@tpfa.state.tx.us

**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 (Title 83, Article 5190.6, Sections 4-37, Tex. Rev. Civ. Stat. Ann. as codified in the Local Government Code, Chapter 503) 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 are used to provide financing to state and local governments and to businesses and non-profit 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:**
Lee Deviney
Director of the Economic Development Bank
Office of the Governor
(512) 936-0100
lee.deviney@governor.state.tx.us

**TEXAS STATE AFFORDABLE HOUSING CORPORATION**

**Statutory Authority:** Chapter 2306, Sub-chapter Y of the Texas Government Code, authorizes the Texas State Affordable Housing Corporation (the "Corporation") to issue bonds. In accordance with the Texas Government Code, as amended, the Corporation is authorized to issue statewide 501(c)(3) bonds, qualified residential rental project bonds, and qualified mortgage revenue bonds under Section 2306.555. The 77th Legislature established the Professional Educators Home Loan Program under Section 2306.562. The 78th Legislature authorized the Fire Fighter, Law Enforcement or Security Officer, and Emergency Medical Services Personnel Home Loan Program under Section 2306.5621.

The Corporation 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:** The Corporation's primary public purpose is to facilitate the provision of housing and the making of affordable loans to individuals and families of low, very low and extremely low income for eligible participants under its programs. The Corporation is required to perform such activities and services that will promote and facilitate the public health, safety and welfare through the provision of adequate, safe and sanitary housing for individuals and families of low, very low and extremely low income.

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

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

**Contact:**
David Long
President
Texas State Affordable Housing Corporation
(512) 477-3555
dlong@tsahc.org

**TEXAS WATER DEVELOPMENT BONDS**

**Statutory/Constitutional Authority:** The Texas Water Development Board (the "Board") is authorized to issue both revenue and general obligation bonds.

**General Obligation**: The Board issues self-supporting general obligation bonds for the Development Fund and Rural Water Assistance Programs. The Board may issue not self-supporting general obligation bonds for the State Participation (SP), Water Infrastructure Fund (WIF), Economically Distressed Areas Program (EDAP) and the Agricultural Water Conservation Loan Program.

**General Obligation Authority:** Article III, Sections 49-c, 49-d, 49-d-1, 49-d-2, 49-d-4, 49-d-6, 49-d-7, 49-d-8, 49-d-9, 49-d-10 and 50-d of the Texas Constitution, initially adopted in 1957 contain the authorization for the issuance of general obligation bonds by the Board.

The 71st Legislature (1989) passed comprehensive legislation that established the EDAP. Article III, Section 49-d-7(b), provides for subsidized loans and grants from the proceeds of bonds authorized by this section. The 80th Legislature authorized an additional $250 million in general obligation bonds for the EDAP detailed in Article III, Section 49-d-10.

**General Obligation Approval:** Legislative appropriation and voter approval are required for the issuance of general obligation debt. Legislative appropriation is also required for not self-supporting debt while no further legislative action is required for self-supporting debt. 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.

**General Obligation Purpose:** Proceeds from the sale of the general obligation bonds are used to make loans (and grants under the EDAP) to political subdivisions of Texas for the performance of various projects related to water conservation, transportation, storage and treatment.

**General Obligation Security:** The general obligation bonds are secured by program revenues and the first monies coming into the Comptroller of Public Accounts - Treasury Operations not otherwise dedicated by the Constitution. The Development Fund Program is designed to be self-supporting. No general revenue draw has been made on these programs since 1980.

The EDAP is anticipated to have general revenue draws. The WIF and SP Programs include certain series that are self-supporting and others that are not self-supporting. The not self-supporting series are anticipated to have general revenue draws.

**Revenue Debt Authority:** The Texas Water Resources Fund, administered by the Board was created in 1987 by the 70th Legislature (Texas Water Code, Section 17.853), to issue revenue bonds that facilitate the conservation of water resources.

**Revenue Debt Approval:** Further legislative approval of specific bond issues is not required; however, 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.

**Revenue Debt 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 fund, and to provide financial assistance to local government jurisdictions through the acquisition of their obligations.

**Revenue Debt 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. Principal and interest payments on the loans to political subdivisions for projects are pledged to pay debt service on the revenue debt issued by the Board.

**Contact:**
Piper Montemayor
Debt & Portfolio Management Director
Texas Water Development Board
(512) 475-2117
piper.montemayor@twdb.state.tx.us

**TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS**

**Statutory Authority:** The Texas Water Resources Finance Authority (the "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 are 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:** Issued bonds 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.

**Contact:**
Piper Montemayor
Debt & Portfolio Management Director
Texas Water Development Board
(512) 475-2117
piper.montemayor@twdb.state.tx.us

## VETERANS' LAND AND HOUSING ASSISTANCE BONDS

**Statutory/Constitutional Authority:** Article III, Section 49-b, 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 and established 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. Article III, Section 49-b, amended in 2001 and 2003, also authorizes the Veterans Land Board to use assets from the Veterans' Land Fund, the Veterans' Housing Assistance Fund or the Veterans' Housing Assistance Fund II in connection with veterans' cemeteries and veterans' long-term care facilities. Chapter 164 of the Texas Natural Resources Code authorized the Veterans Land Board to issue revenue bonds for its programs including the financing of veterans' long-term care facilities.

**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 make land loans to veterans, to make home mortgage loans to veterans or to provide for veterans' skilled nursing-care homes. Additionally, funds are used to provide cemeteries for veterans.

**Security:** The general obligation bonds pledge the first monies coming into the Comptroller of Public Accounts - Treasury Operations not otherwise dedicated by the Constitution in addition to program revenues. 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 the Texas Constitution and Chapter 164. The revenue bonds do not create or constitute a pledge, gift, or loan of the full faith, credit or taxing authority of the state.

**Dedicated/Project Revenue:** Debt service on the general obligation bonds is payable from principal and interest payments on the underlying loans to veterans. Debt service for the revenue bonds is paid from all available revenue from the projects financed which is 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:**

Rusty Martin
Deputy Commissioner of Funds Management
Texas Veterans Land Board
(512) 463-5120
rusty.martin@glo.state.tx.us

**Appendix F**
**The Private Activity Bond Program**

Since the passage of the Tax Reform Act of 1986 (the "Tax Act"), federal law has limited the use of tax-exempt financing for private activities. Tax-exempt private activity bonds may be used to finance certain privately-owned projects that serve a public purpose and meet 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 to be directly or indirectly secured by, or payments are to be derived from a private business use; and 3) Private Loan Financing Test - proceeds are to be used to make or finance loans to persons other than governmental units.

The Tax Act authorizes the issuance of six types (subceilings) of private activity bond issues: 1) Single-Family housing projects (permitted to issue qualified mortgage revenue bonds (MRB) or mortgage credit certificates (MCC); 2) Certain state-voted bond issues; 3) Qualified small-issue industrial development bonds (IDBs) or enterprise zone bonds (EZBs); 4) Multifamily residential rental projects; 5) Student loan bonds; and 6) All other issues that include a variety of exempt facilities such as sewage facilities, solid waste disposal facilities and hazardous waste disposal facilities. In recent years a widening variety of projects have been permitted to utilize tax-exempt private activity bonds including non-governmental airports, high-speed intercity rail facilities, environmental enhancements to hydroelectric generating facilities and qualified public educational facilities.

In addition, the Tax Act imposes a volume ceiling (or cap) on the aggregate principal amount of tax-exempt private activity bonds that may be issued within each state during any calendar year. As described below, the current volume cap is the greater of $95 per capita or $225.0 million. Section 146(e) of the Internal Revenue Code also provides for each state to devise an allocation formula or a process for allocating the state's volume cap. This provision gives each state the ability to allocate this limited resource in a manner consistent with its own specific needs.

Chapter 1372 of the Texas Government Code mandates the allocation process for the state of Texas. The Private Activity Bond Allocation Program (PAB or Program) regulates the volume cap and monitors the amount of demand and use of private activity bonds each year. The BRB has administered this program since January 1, 1992.

The federal government determines the state's private activity ceiling, but historically the demand for financing for qualified private activities outstrips the supply of available volume cap. In an effort to address the excess demand over supply for most types of private activity bond financing, the BRB devised a lottery system that ensures an equal allocation opportunity for each eligible project type.

With the exception of single-family housing and student loan bonds, reservations of state ceilings are allocated by lottery for applications received from October 5 through October 20 of the preceding 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 is used exclusively within these two subceilings and is in place from January through August 14th of each year. On August 15th (the collapse date) all unreserved allocation from all the subceilings are combined and redistributed by lottery number or on a first-come, first-served basis if all applicants from the lottery have received a reservation.

## Appendix G
## Glossary

**Allocation** – The amount of private activity bond authority from the state ceiling assigned to a bond issuer that is using the issuance proceeds for a private activity that qualifies for exemption from federal income tax under the IRS Code.

**Allotment** – Amount of securities distributed to each member of the underwriting syndicate to fill orders.

**Advance Refunding** – A refunding in which the refunded issue remains outstanding for a period of more than 90 days after the issuance of the refunding issue.

**Bond** – Debt instrument in which an investor loans money to the issuer that specifies: when the loan is due ("term" or "maturity" such as 20 years), the interest rate the borrower will pay (such as 5%), when the payments will be made (such as monthly, semi-annually, annually) and the revenue source pledged to make the payments.

**Bond Counsel** – Attorney retained by the issuer to give a legal opinion that the issuer is authorized to issue the proposed securities, the legal requirements necessary for issuance have been met and the proposed securities will be exempt from federal income taxation and state and local taxation where applicable.

**Bond Insurance** – A legal commitment by an insurance company to make timely payments of principal and interest in the event that the issuer of the debt is unable to make the payments.

**Carryforward** – A private activity bond term for the three types of state ceiling that can be carried over for use by an issuer in the subsequent three years. The three types are:

1) Traditional Carryforward - The amount of the state ceiling not reserved before December 15 and any amount previously reserved that becomes available on or after that date because of a reservation cancellation.
2) Non-Traditional Carryforward - The amount of state ceiling reserved by an issuer for a specific purpose and for which the closing date extends beyond the year in which the reservation was granted.
3) Unencumbered Carryforward - The amount of state ceiling at the end of the year that is not reserved, nor designated as carryforward, and for which no application for carryforward is pending.

**Certificate of Obligation** – A bond issued by a city or taxing authority without the approval of voters to finance public projects. Although voter approval is not required the sale can be stopped if 5 percent of the total voters in the taxing area sign a petition and submit it prior to approval of the ordinance to sell such certificates.

**Certificate of Participation** – Financing in which an individual buys a share of the lease revenues of an agreement made by a municipal or governmental entity, rather than the bond being secured by those revenues.

**Commercial Paper** – Short-term, unsecured promissory notes that mature within 270 days and are backed by a liquidity provider (usually a bank) that stands by to provide liquidity in the event the notes are not remarketed or redeemed at maturity.

**Competitive Sale** – A sale in which the issuer solicits bids from underwriting firms and sells the securities to the underwriter or syndicate offering the most favorable bid that meets the specifications of the notice of sale.

**Conduit Issuer** – An issuer, usually a government agency, that issues municipal securities to finance revenue-generating projects in which the funds generated are used by a third party (known as the "conduit borrower" or "obligor") for debt-service payments.

**Costs of Issuance** – The expenses associated with the sale of a new issue of municipal securities including printing, legal fees, rating agency fees and other fees associated with the transaction.

**Coupon** – The interest rate paid on a security.

**Current Refunding** – A refunding transaction in which the municipal securities being refunded will mature or be redeemed within 90 days or less from the date of issuance of the refunding issue.

**CUSIP** – A unique nine-character identification for each class of security approved for trading in the U.S. CUSIPs are used to facilitate clearing and settlement for market trades.

**Dealer Fee** – Cost of underwriting, trading or selling securities.

**Disclosure** – The act of releasing accurately and completely all material information to investors and the securities markets for outstanding or to be issued securities.

**Discount** – The amount by which the price paid for a security is less than its par value.

**Escrow** – Fund established to hold monies or securities pledged to pay debt service.

**Escrow Agent** – Commercial bank or trust company retained to hold the investments purchased with the proceeds of an advance refunding and to use the invested funds to pay debt service on the refunded debt.

**Expenses** – Component of the underwriting spread representing the costs of operating the syndicate such as financial advisors, legal counsel, travel, printing, day loans, wire fees and other associated fees.

**Financial Advisor** – A securities firm that assists an issuer on matters pertaining to a proposed issue such as structuring, timing, marketing, fairness of pricing, terms and debt ratings.

**General Obligation Debt** – Debt legally secured by a constitutional pledge of the first monies coming into the State Treasury not otherwise constitutionally dedicated for another purpose. General obligation debt must be approved by a 2/3 vote of both houses of the Texas Legislature and by a majority of the voters.

**Indenture** – Deed or contract which may be in the form of a resolution that sets forth the legal obligations between the issuer and the securities holders. The indenture also names the trustee that represents the interests of the securities holders.

**Issuer** – A legal entity that sells securities for the purpose of financing its operations. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities.

**Lease Purchase** – Financing the purchase of an asset over time through lease payments that include principal and interest. Lease purchases can be financed through a private vendor or through one of the state's pool programs such as the Texas Public Finance Authority's Master Lease Purchase Program.

**Letter of Credit** – A credit enhancement used by an issuer to secure a higher rating for its securities. A Letter of Credit is usually a contractual agreement between a major financial institution and the issuer consisting of an unconditional pledge of the institution's credit to make debt-service payments in the event of a default.

**Liquidity** – The relative ability of a security to be readily traded or converted into cash without substantial transaction costs or loss in value.

**Liquidity Provider** – A financial institution that facilitates the trading of a security by insuring that it will be purchased if tendered to the issuer or its agent because it cannot be immediately remarketed to new investors.

**Management Fee** – Component of the underwriting spread that compensates the underwriters for assistance in creating and implementing the financing.

**Maturity Date** – The date principal is due and payable to the security holder.

**Mortgage Credit Certificate** – A certificate issued by certain state or local governments that allows a taxpayer to claim a tax credit for some portion of the mortgage interest paid during a given tax year.

**Municipal Bond** – A debt security issued to finance projects for a state, municipality or county. Municipal securities are exempt from federal taxes and from most state and local taxes.

**Negotiated Sale** – A sale in which an issuer selects an underwriting firm or syndicate to assist with the issuance process. At the time of sale, the issuer negotiates a purchase price for its securities with that underwriting firm or syndicate.

**Not Self-Supporting Debt** – Either general obligation or revenue debt intended to be repaid with state general revenues.

**Notice of Sale** – Publication by an issuer describing the terms of sale of an anticipated new offering of municipal securities.

**Official Statement** – The document published by the issuer which provides complete and accurate material information to investors on a new issue of municipal securities including the purposes of the issue, repayment provisions and the financial, economic and social characteristics of the issuing government.

**Par** – The face value of a security that is due at maturity. A "par bond" is a bond selling at its face value.

**Paying Agent** – The entity responsible for processing debt-service payments from the issuer to the security holders.

**Premium** – The amount by which the price paid for a security exceeds par value.

**Printer** – Produces offering and other documents.

**Private Placement** – A securities sale in which an issuer sells its securities directly to investors through a placement agent without a public offering.

**Rating Agency** – An entity that provides publicly available ratings of the credit quality of securities issuers, measuring the probability of the timely repayment of principal and interest on municipal securities.

**Refunding Bond** – Bonds issued to retire or defease all or a portion of outstanding bonds.

**Registrar** – An entity responsible for maintaining ownership records on behalf of the issuer.

**Remarketing Fee** – Compensation to an agent for remarketing a secondary offering of short-term securities, usually for a mandatory or optional redemption or put (return of the security to the issuer).

**Reservation** – The notice given by the BRB to a private activity bond issuer reserving a specific amount of the state ceiling for a specific issue of bonds for 120 to 180 days, depending on the type of bond issuance.

**Revenue Debt** – Debt that is legally secured by a specified revenue source(s). Revenue debt does not require voter approval and usually has a maturity based on the life of the project to be financed.

**Self-Supporting Debt** – Debt that is designed to be repaid with revenues other than state general revenues. Self-supporting debt can be either general obligation debt or revenue debt.

**Selling Group** – Group of municipal securities brokers and dealers that assist in the distribution of a new issue of securities.

**State ceiling** – The amount of the authority granted to a state under the IRS Code to issue tax-exempt private activity bonds during a calendar year.

**Structuring Fee** – Component of the underwriting spread that compensates the underwriters for assistance with developing a marketable securities offering within the issuer's legal and financial constraints.

**Syndicate** – Group of underwriters formed to purchase a new issue of securities from the issuer and offer it for resale to investors.

**Takedown** – The discount that the members of the syndicate receive when they purchase the securities from the issuer. Takedown is also known as the selling concession.

**Trustee** – Bank or trust company designated by the issuer or borrower under the indenture or resolution as the custodian of funds. The trustee represents the interests of the security holders including making debt-service payments.

**Underwriter** – An investment banking firm that purchases securities directly from the issuer and resells them to investors.

**Underwriting Spread** – Amount representing the difference between the price at which securities are bought from the issuer by the underwriter and the price at which they are reoffered to the investor. The underwriting spread generally includes the takedown, management fee, expenses and underwriting fee.

**Underwriting Risk Fee** – A portion of the underwriting spread designed to compensate the underwriter for the risk associated with market shifts and interest rate fluctuations.

**Underwriter's Counsel** – Attorney who prepares or reviews the issuer's offering documents on behalf of the underwriter and prepares documentation for the underwriting agreement and the agreement among underwriters.

**Underwriter's Risk** – The underwriter's risk of resale.

**Variable Rate** – An interest rate that fluctuates based on market conditions or a predetermined index or formula. (Fixed rates do not change during the life of the obligation.)

**Yield** – The investor's rate of return.

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

**In compliance with the Americans with Disabilities Act, this document may be requested in alternative formats by contacting or visiting the agency.**


**TEXAS BOND REVIEW BOARD**
**300 West 15th Street – Suite 409**
**P.O. Box 13292**
**Austin, TX 78711-3292**

**512-463-1741 or 800-732-6637**
**http://www.brb.state.tx.us**