Texas Bond Review Board

1995 Annual Report

TEXAS BOND REVIEW BOARD
ANNUAL REPORT 1995

Fiscal Year Ended August 31, 1995

George W. Bush, Governor
Chairman

Bob Bullock, Lieutenant Governor

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

John Sharp, Comptroller of Public Accounts

Martha Whitehead, State Treasurer

Albert L. Bacarisse
Executive Director

November 1995

INTRODUCTION

The 1995 Annual Report presents an overview and analysis of Texas state debt and includes a recap of the Board's duties under the local debt and private activity bond allocation programs.[1] During 1995, the Board also took a leadership role in assisting state agency issuers in their compliance with the continuing disclosure requirements imposed by the United States Securities and Exchange Commission Rule 15c2-12.

Under current legislation, the Texas Bond Review Board has three direct responsibilities. First, the Board must approve Texas state bonds, unless specifically exempted, prior to issuance. State agencies and universities must also obtain the Board's approval prior to executing certain lease- or installment-purchase agreements. Second, the Board gathers information and reports on various aspects of local debt including school districts, cities, counties and special districts. Third, the Board is responsible for the administration of the private activity bond allocation program.

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

Chapter Two analyzes Texas' debt burden. The amount of Texas state debt supported by general revenue was unchanged from 1994. Texas continues to have a relatively low debt burden compared to other states.

Chapter Three contains a summary of state debt issued during fiscal 1995 and a listing of the bonds expected to be issued during fiscal 1996. During fiscal 1995, Texas state agencies and institutions of higher education issued approximately $770 million in new-money bonds and $507 million in refunding bonds.

Chapter Four is a discussion of the various costs and recent trends in issuance costs by size of issue and type of sale. Texas state bond issuers paid average issuance costs of $11.47 per $1,000 of bonds issued during fiscal 1995 compared to $12.37 per $1,000 in 1994.

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

Chapter Six is a discussion of Texas local debt and the reporting responsibilities assigned to the Board by Senate Bill 3, 72nd Legislature and House Bill 1564, 74th Legislature. Although the Board has no oversight responsibilities for local debt, the Board is required to submit a report to the Legislature that contains statistical information concerning state and local debt.

Appendix A is a summary of each bond issue that was approved by the Board and sold during fiscal 1995. Appendix B is a description of state commercial paper and variable rate note or bond programs. Appendix C outlines the Board's responsibilities under the Texas Private Activity Bond Allocation Program. Appendix D provides a description of each program under which state bonds may be issued. Appendix E contains the current administrative rules of the Board.

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

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Cautionary Statements

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

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

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

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

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

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

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

CHAPTER 1

TEXAS IN THE BOND MARKET

The market for Texas bonds remained strong during fiscal 1995. The state's economy continues to prosper, state finances are sound, and strong investor demand for Texas bonds continues.

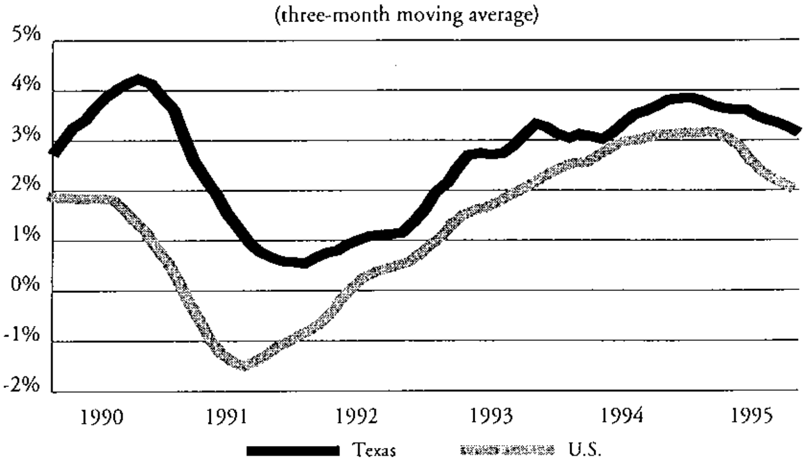
Texas Economy Continues to Prosper

The State of Texas economy continues to prosper, climbing to its highest performance level since the mid-1980s. Texas nonfarm employment is at record levels with employment growth continuing to outpace that of the U.S., a pattern that began in late 1989 *(Figure 1)*. During fiscal 1995, consumer confidence and new business incorporations reached their highest levels since 1984, the number of housing permits reached a post-1986 peak, and there was more help-wanted advertising in Texas newspapers than at any time since the Comptroller began compiling the Texas Help-Wanted Advertising Index in 1981. While the national economy endured a slowdown during the first half of 1995, the state was largely unaffected, with employment growth slowing only slightly, from 3.7 percent in January 1995 to 3.4 percent in July 1995. Texas is benefiting from continued relocations of high-tech companies to the state and a relatively robust construction industry.

In 1994, gross state product stood at $471.14 billion and is estimated at $498.84 billion for 1995, with services, trade, manufacturing and finance, insurance and real estate (FIRE) the primary components. Based on data

FIGURE 1

EMPLOYMENT GROWTH FOR TEXAS AND THE U.S.
JANUARY 1990 THROUGH SEPTEMBER 1995
(three-month moving average)



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

TABLE 1

NONAGRICULTURAL JOB GROWTH
IN THE TEN MOST POPULOUS STATES
JUNE 1994 THROUGH JUNE 1995

Rank[1]	State	Job Growth	Percentage Change	Rank[2]
1	TEXAS	284,800	3.7%	10
2	Florida	221,400	3.8	8
3	California	115,600	1.0	40
4	Michigan	106,200	2.6	18
5	Ohio	87,700	1.7	33
6	North Carolina	74,900	2.2	25
7	Illinois	57,200	1.0	39
8	New Jersey	47,200	1.3	36
9	New York	21,100	0.3	45
10	Pennsylvania	11,700	0.2	46
	United States	2,398,000	2.1%	

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

Source: U.S. Bureau of Labor Statistics.

released by the World Bank, the Texas economy would rank eleventh in the world if the state was a nation, exceeding the gross national product of Russia by nearly $100 billion.

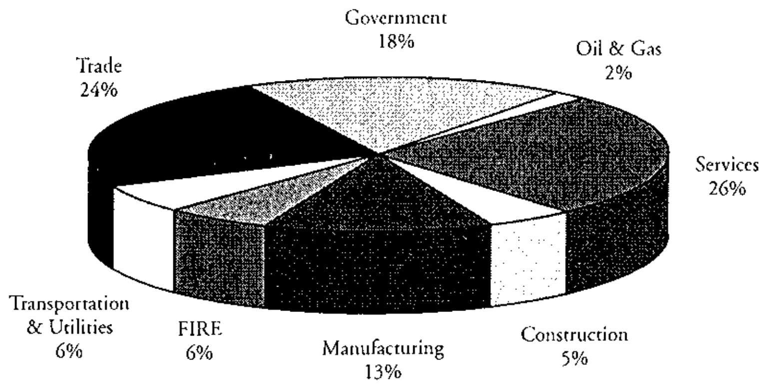
Total nonfarm employment stood at 8.02 million as of July 1995, up 892,000 (12.5%) from July 1990. The key employment sectors in Texas are trade and services, together accounting for half of all Texas jobs, with mining (oil/gas) representing approximately two percent *(Figure 2)*.

Texas continues leading all states in the number of new jobs added as it has since 1990, and ranks tenth in the rate of economic growth *(Table 1, p.1)*. Texas' employment growth has been distributed across sectors but has been most pronounced in construction and services *(Figure 3)*.

Although Texas' employment growth rate has greatly exceeded the national rate over the last year, the state's income growth has not kept pace, growing at a rate roughly equal to the nation's. Income growth has been constrained due to the loss of relatively high-wage aerospace and oil/gas jobs, and a higher share of workers in lower wage service-sector jobs. As service-sector jobs are expected to account for 94 percent of the new jobs in Texas through 1997, it is un-

FIGURE 2

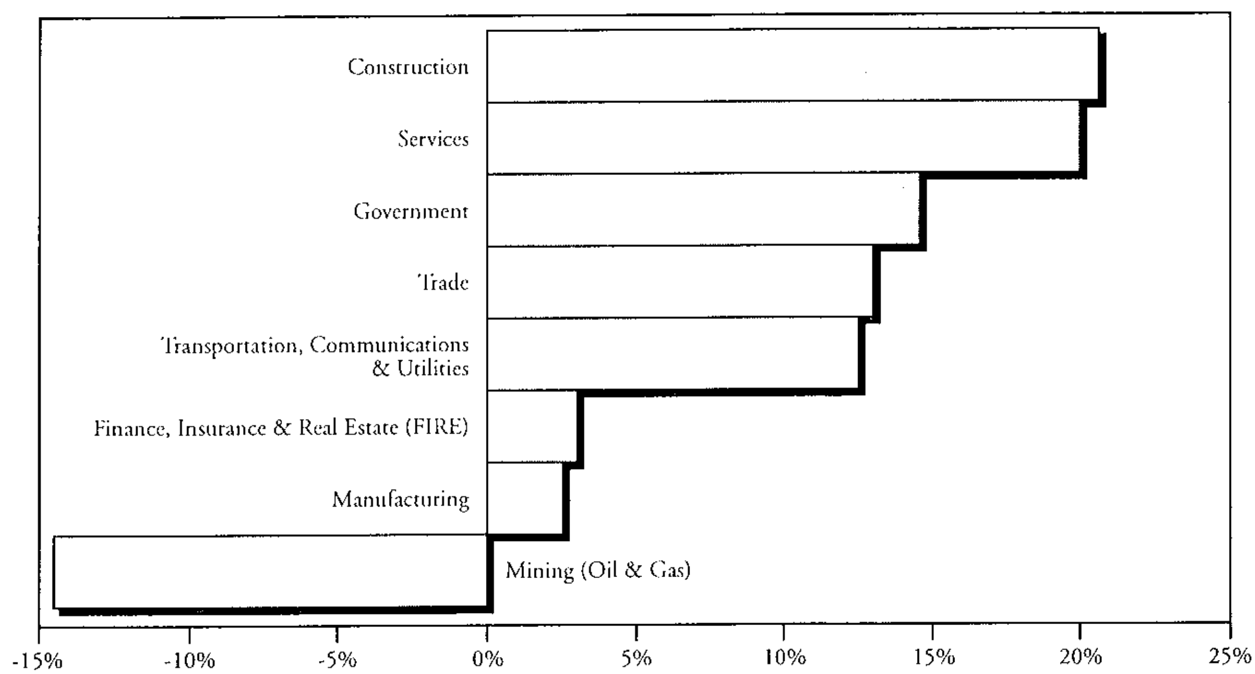
TEXAS NONFARM EMPLOYMENT DISTRIBUTION BY INDUSTRY 1994



Source: Texas Comptroller of Public Accounts.

FIGURE 3

TEXAS NONFARM EMPLOYMENT CHANGE BY INDUSTRY
PERCENT CHANGE JULY 1990 TO JULY 1995



Sources: Texas Employment Commission, Federal Reserve Bank of Dallas, and Texas Comptroller of Public Accounts.

likely that income growth will keep pace with employment growth.

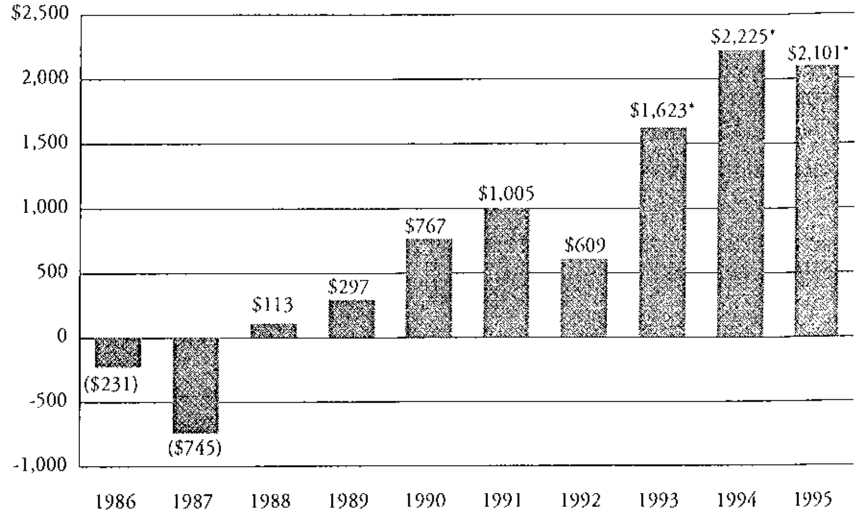
Texas is expected to experience moderate economic growth through 1997 with gross state product forecasted to increase at an annual rate of 2.6 percent over the next three years *(Table 2)*. Personal income in Texas is expected to increase at an average annual rate of 5.6 percent with nonfarm employment growing at an average annual rate of 2.1 percent over the next few years.

The military base closures and personnel reductions announced by the 1995 Base Closures and Realignment Commission will not significantly alter the outlook for continued steady growth of the Texas economy, as the role of defense-related activity as a major sector in the state's economy is diminishing. Computers, electronics and various

FIGURE 4

ENDING CASH BALANCE IN TEXAS' GENERAL REVENUE FUND

(millions of dollars)



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

Source: Texas Comptroller of Public Accounts.

TABLE 2

TEXAS ECONOMIC HISTORY AND OUTLOOK FOR CALENDAR YEARS 1993–1998

FALL 1995 FORECAST

	1993	1994	1995*	1996*	1997*	1998*
TEXAS ECONOMY						
Gross State Product (billions of 1987 $)	$361.1	$374.4	$389.4	$399.9	$409.9	$420.1
Annual Percentage Change	3.0	3.7	4.0	2.7	2.5	2.5
Personal Income (billions of dollars)	$342.8	$362.4	$385.7	$410.0	$432.7	$453.9
Annual Percentage Change	7.5	5.7	6.4	6.3	5.6	4.9
Nonfarm Employment (thousands)	7,478.9	7,743.5	7,995.0	8,195.0	8,356.5	8,498.0
Annual Percentage Change	1.2	3.5	3.2	2.5	2.0	1.7
Resident Population (thousands)	18,066.0	18,423.3	18,783.4	19,142.5	19,463.3	19,725.3
Annual Percentage Change	1.9	2.0	2.0	1.9	1.7	1.3
Unemployment Rate (percent)	7.0	6.4	6.1	6.6	6.3	6.2
Oil Price ($ per barrel)	$16.28	$15.16	$16.70	$16.54	$17.09	$17.63
Natural Gas Price ($ per MCF)	$1.81	$1.63	$1.51	$1.57	$1.62	$1.67
Oil/Gas Drilling Rig Count	262	275	257	255	249	244
U.S. ECONOMY						
Gross Domestic Product (billions of 1987 $)	$5,134.5	$5,344.0	$5,506.4	$5,640.2	$5,777.5	$5,914.8
Annual Percentage Change	2.3	4.1	3.0	2.4	2.4	2.4
Consumer Price Index (1982–84 = 100)	144.6	148.3	152.6	156.7	160.9	164.9
Annual Percentage Change	3.0	2.6	2.9	2.7	2.7	2.5
Prime Interest Rate (percent)	6.0	7.1	8.8	7.9	7.8	8.1

*Projected

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

"high-tech" industries are now leading economic growth in Texas.

Additionally, the North American Free Trade Agreement (NAFTA) continues to benefit Texas. U.S. exporters delivered $43.3 billion worth of merchandise to Mexico by truck and rail in 1994, with four-fifths passing through Texas ports of entry. Of the $42.1 billion worth of goods exported to the U.S. from Mexico, nearly 70 percent passed through Texas ports. While the peso devaluation and Mexico's recession has hurt retail trade, the impact has been predominantly felt along the Texas/Mexico border.

TABLE 3

STATEMENT OF CASH CONDITION, CONSOLIDATED GENERAL REVENUE FUND

(amounts in thousands)

	Fiscal 1994	Fiscal 1995	Percentage Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$ 1,623,491	$ 2,224,847	
Fund Consolidation Reclassification	-28	13,387	
Tax Collections			
Sales Tax	$ 9,789,233	$ 10,236,000	4.6%
Oil Production Tax	361,969	375,214	3.7
Natural Gas Production Tax	554,484	512,411	-7.6
Motor Fuels Taxes	2,170,231	2,235,343	3.0
Cigarette and Tobacco Taxes	573,337	639,019	11.5
Motor Vehicle Taxes	1,616,526	1,788,449	10.6
Franchise Tax	1,260,745	1,425,077	13.0
Alcoholic Beverages Taxes	400,484	406,696	1.6
Insurance Occuptation Taxes	766,870	607,974	-20.7
Inheritance Tax	152,354	171,606	12.6
Hotel and Motel Tax	145,655	171,362	17.7
Utilities Taxes	263,308	240,746	-8.6
Other Taxes	29,894	25,737	-13.9
Total Tax Collections	$ 18,085,089	$ 18,835,634	4.2 %
Federal Income	$ 9,464,112	$ 10,395,191	9.8
Interest & Investment Income	84,885	56,573	-33.4
Licenses, Fees, Permits & Fines	2,492,351	3,104,174	24.6
Contributions to Employee Benefits	115,499	121,647	5.3
Sales of Goods and Services	56,988	83,828	47.1
Land Income	14,199	22,986	61.9
Settlements of Claims	10,006	4,886	-51.2
Net Lottery Proceeds	1,586,028	1,662,031	4.8
Other Revenue Sources	503,042	485,779	-3.4
Interfund Transfers/Investment Transactions	16,846,230	14,918,284	-11.4
Total Net Revenue and Other Sources	$ 49,258,429	$ 49,691,013	0.9%
Expenditures and Ending Balance			
General Government	$ 1,341,917	$ 1,435,692	7.0%
Health and Human Services	12,000,958	13,536,070	12.8
Public Safety and Correction	1,648,679	1,879,302	14.0
Education	5,566,507	6,339,140	13.9
Employee Benefits	1,413,480	1,514,618	7.2
Lottery Winnings Paid	428,701	453,744	5.8
Other Expenditures	975,515	1,046,018	7.2
Interfund Transfers/Investment Transactions	25,281,288	23,623,784	-6.6
Total Expenditures and Other Uses	$ 48,657,045	$ 49,828,368	2.4%
Ending Balance, August 31	$ 2,224,847	$ 2,100,879	

Source: Texas Comptroller of Public Accounts.

Texas Finances Remain Strong

The state closed its books on the fiscal year ending August 31, 1995, with a Consolidated General Revenue Fund cash balance of $2.1 billion after posting a $2.2 billion cash balance at the end of fiscal 1994 *(Figure 4, p. 3)*. This was the eighth straight year that Texas ended with a positive cash balance in the General Revenue Fund. During 1995, total net revenues and other sources equaled $49.7 billion while total net expenditures and other uses equaled $49.8 billion, generating a modest operating deficit *(Table 3)*.

Total tax collections deposited into the General Revenue Fund increased by $751 million or 4.2 percent over 1994. Texas continues to have a sales-tax dominated tax structure, with sales tax accounting for 54 percent of 1995 tax collections.

Texas' Financial Position Continues to Rank High Relative to Other States

Texas' General Revenue Fund cash balance as of August 31, 1995 was equal to 8 percent of the General Revenue Fund's fiscal 1995 net expenditures. Based on estimated data collected by the National Conference of State Legislatures (NCSL), the projected average year-end balance as a percentage of general fund spending among all states was 2.7 percent. Texas' year-end balance as a percentage of expenditures was the fifth highest among all states.

The NCSL generally views balances of five percent or more to reflect strong state fiscal conditions. It is projected that at the end of fiscal 1995, thirty-six states held less than five percent in general fund balances and ten states held less than one percent *(Figure 5)*.

Texas Legislature Appropriates $79.9 Billion for 1996-97 Biennium

In May, without raising additional taxes, the Texas Legislature passed a $79.9 billion budget for the 1996-97 biennium, including $45.1 billion in general revenue-related funds *(Table 4)*. As required by the state Constitution, the Comptroller certified that sufficient revenue will be available to pay for the state's 1996-97 budget.

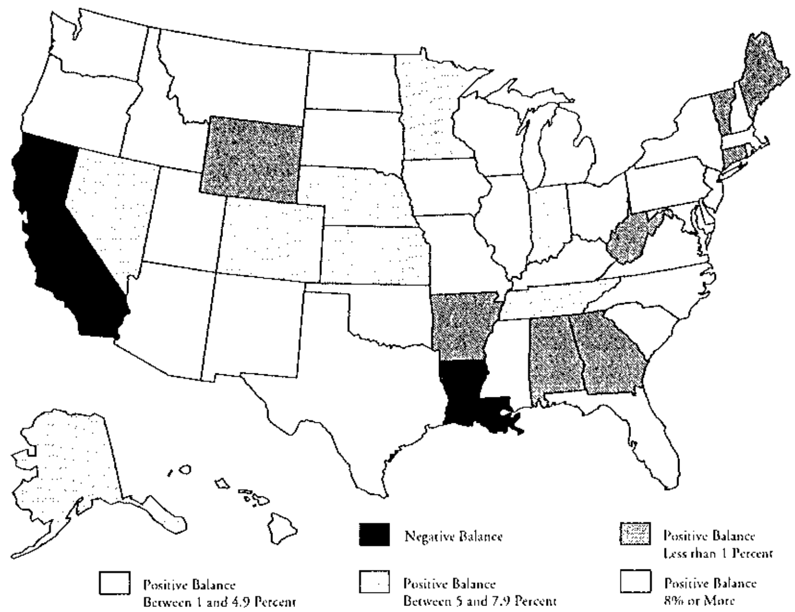
The 1996-97 budget represents an increase of $8.8 billion, or 12.5 percent, over the all-funds 1994-95 budget and a $4.3 billion, or 10.9 percent, increase in general revenue spending. The largest increases occurred in the areas of education and health and human services, which together represent over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

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

Rating agencies assess the likelihood of timely repayment of principal and interest due. Each rating agency has a unique classification system; however, bonds of the highest quality are rated AAA. Ratings of AA and A denote very sound investments, but of lower quality. Ratings below A indicate higher levels of risk. As of the end of fiscal 1995, Texas state general obligation bonds were rated as follows: Aa by Moody's Investors Services, AA by Standard & Poor's Corporation, and AA+ by Fitch Investors Service.

FIGURE 5

ENDING BALANCE IN GENERAL FUND BY STATE,* 1995
AS A PERCENTAGE OF TOTAL STATE GENERAL FUND SPENDING



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

Source: National Conference of State Legislatures.

TABLE 4

THE BUDGET FOR TEXAS STATE GOVERNMENT FOR THE 1996-97 BIENNIUM COMPARED TO ESTIMATED EXPENDITURES FOR THE 1994-95 BIENNIUM ALL FUNDS
(millions of dollars)

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

Totals may not add due to rounding.

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

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

Source: Legislative Budget Board.

Prior to 1987, Texas had a AAA rating; however, the state's economic recession in 1986-87 and the accompanying weakness in state finances led Standard & Poor's and Moody's to decrease the state's rating to Aa in 1987. However, much improvement has occurred since that time. Moody's, in its publication dated August 28, 1995, states that Texas has "an increasingly diversified economy, sound financial operations and low debt ratios." Similarly, Fitch, in research dated August 31, 1995, reports that "The credit characteristics of Texas are excellent . . . . The state's existing and potential resources together with low debt and a conservative approach to financial operations place Texas in high credit status."

TABLE 5

STATE GENERAL OBLIGATION BOND RATINGS
AUGUST 31, 1995

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

*Not rated.

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

Only Five States Have AAA Ratings From All Three Rating Agencies

Only five states, Maryland, Missouri, North Carolina, Utah, and Virginia, have AAA ratings from each of the three rating agencies. Three additional states, Georgia, South Carolina and Tennessee, have AAA bond ratings from two of the three rating agencies *(Table 5)*.

Weakness in state economies and finances has led to rating downgrades for three states over the last year. Between September 1994 and August 1995, Connecticut, Illinois and Louisiana saw their general obligation bond ratings lowered. In addition, Illinois' rating is under general review by Fitch. Four states, Delaware, Massachusetts, Michigan and Wisconsin, received rating increases *(Table 6, p. 7)*.

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

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

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

The relative interest rates demanded on Texas bonds have generally declined since 1987 as the state's economy and finances have gained strength. The Chubb Corporation compiles yield differences from a semiannual poll of major municipal bond dealers. Traders are asked to express the average yield they demand on the general obligation debt of a number of states relative to a benchmark state. According to a July 1995 survey, investors are charging Texas an average 0.04 percentage points above the interest rate on benchmark general obligation bonds[1] *(Figure 6)*. This interest rate margin is a measure of the higher risk investors place on Texas' bonds relative to highly rated general obligation bonds. The relative yields on California and Massachusetts bonds are shown for comparison.

In the summer of 1987, the interest rate penalty placed on Texas bonds peaked at 0.36 percentage points. The margin has been cut by almost 90 percent, due in large part to improvements in the state's economy and the ability of Texas' policy makers to keep state finances sound.

As of July 1995, Texas general obligation bonds were trading 0.12 percentage points above the average interest rate on general obligation bonds of the five states currently rated AAA by Moody's, Standard & Poor's and Fitch.

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

TABLE 6

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS

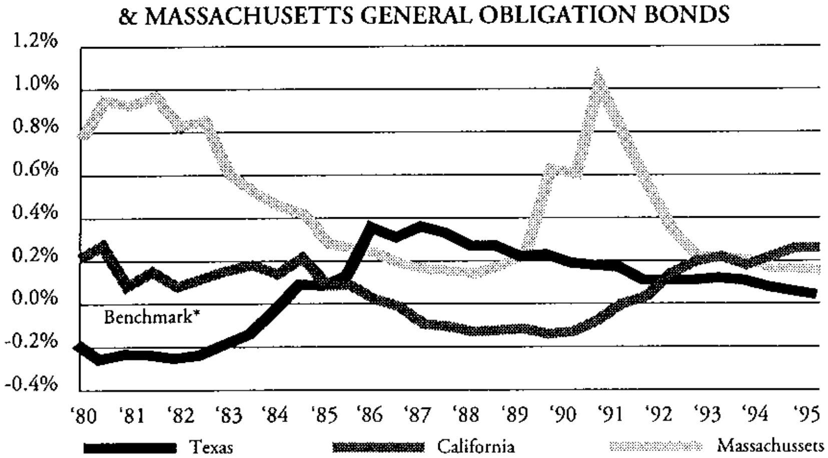
SEPTEMBER 1994 TO AUGUST 1995

UPGRADES	
State	**Rating Change**
Delaware	Aa- to Aa1 by Moody's
Massachusetts	A to A1 by Moody's
Michigan	A1 to Aa by Moody's
Wisconsin	AA- to AA+ by Fitch
DOWNGRADES	
State	**Rating Change**
Connecticut	AA+ to AA by Fitch
Illinois	Aa to A1 by Moody's
Louisiana	A to A- by Standard & Poor's

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

FIGURE 6

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



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

Source: The Chubb Corporation.

TEXAS DEBT IN PERSPECTIVE

Although the amount of Texas state debt supported by general revenues has increased significantly since the late 1980s, Texas continues to have a relatively light state debt burden and a relatively heavy local debt burden. Although state debt comprises only about 13 percent of total state and local debt, the recent growth in Texas state debt has intensified the need for prudent debt management by the state. This chapter places Texas debt in perspective and describes several recent policy initiatives aimed at improving debt management in Texas.

Low State Debt Burden

Texas has a relatively low state debt burden compared to other states. Texas ranks 32nd among all states and 8th among the ten most populous states in net tax-supported debt per capita according to a 1995 report by Moody's Investors Service. At the time of the report, Texas had $306 in net tax-supported debt per capita compared to a nationwide median of $409 per capita and a median of approximately $578 per capita among the ten most populous states.

Texas' net tax-supported debt outstanding is about 1.6 percent of 1993 personal income, compared to a nationwide median of 2.1 percent and a median of 2.8 percent among the ten most populous states. On this measure, Moody's ranks Texas 35th among all states and 8th among the ten most populous states *(Table 7, p. 9)*.

Moody's ranks Texas 31st among all states and 8th among the ten most populous states in net tax-supported debt service as a percentage of 1995 revenues. According to Moody's, this measure reflects a state's relative annual burden of supporting its outstanding net tax-supported debt. Texas' net tax-supported debt service percentage was 2.6 percent compared to a nationwide median of 3.4 percent and a median of 3.8 percent among the ten most populous states.

Texas Debt Burden Lower Than Most AAA States

Although Texas' general obligation bonds are currently rated Aa/AA/AA+ by Moody's, Standard & Poor's and Fitch, respectively, Texas' debt burden measures compare favorably to the states currently rated AAA by these rating agencies *(Table 8, p. 10)*. According to Moody's, Texas has $306 in net tax-supported debt per capita compared to an average of $369 among the states rated AAA. Maryland had the highest per capita debt figure among the AAA states at $828.

In 1995, AAA-rated states had net tax-supported debt expressed as a percentage of 1993 personal income ranging from 0.8 percent in North Carolina to 3.5 percent in Maryland. The median for all states rated AAA was 1.7 percent. Texas' net tax-supported debt as a percentage of personal income, as measured by Moody's, equaled 1.6 percent.

Texas' net tax-supported debt service expressed as a percentage of fiscal 1995 revenues totaled 2.6 percent as measured by Moody's. Among the AAA-rated states, only North Carolina at 1.4 percent and Missouri at 2.3 percent had lower net tax-supported debt service percentages than Texas. Debt service as a percentage of revenues ranged from North Carolina at 1.4 percent to Maryland at 4.4 percent.

Recent Growth in State Debt Supported by General Revenue

State debt service payable from general revenue has grown significantly since 1987. At the end of fiscal 1995, state debt payable from general revenue was approximately $3.1 billion compared to $422 million outstanding as of the end of fiscal 1987.

In the 1994-1995 budget period, debt service from general revenue averaged $286 million annually, 1.7 percent of available general revenue collections after constitutional and other restrictions. During the 1986-1987 budget period, debt service from general revenue averaged $42.5 million annually, just 0.4 percent of general revenue collections. Since 1990, debt service paid from general revenue as a percent of unrestricted general revenue has more than doubled *(Figure 7, p. 11)*.

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

Texas has the potential to substantially increase its debt burden, considering just the unused bond authorization currently on the books. As of August 31, 1995, approximately $1.7 billion in bonds payable from general revenue had been authorized by the Legislature but had not yet been issued, including $500 million authorized for the Superconducting Super Collider (SSC) project. Generally, these authorized but unissued bonds may be issued at any time without further legislative action.

Effective September 1, 1995, the remaining $250 million of SSC revenue bond authority was rescinded. Also effective September 1, 1995, $67.5 million in building revenue bond authority for renovation of the state capitol was eliminated.

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

With the issuance of all authorized but unissued bonds, excluding bonds authorized for the SSC project and the capitol renovation, debt service from general revenue would increase by an estimated $106 million annually.

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

Texas is Within Its Statutory Debt Limit

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

TABLE 7

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 1993 Personal Income	Rank	Net Tax-Supported Debt Service as a % of FY95 Revenues	Rank
Hawaii	Aa	10.5%	1	8.5%	5
Connecticut	Aa	9.6	2	12.4	1
Rhode Island	A1	8.7	3	6.4	9
Massachusetts	A1	8.4	4	9.1	4
Delaware	Aa1	8.0	5	9.9	3
New York	A	6.6	6	5.9	11
Louisiana	Baa1	5.4	7	11.5	2
Washington	Aa	5.0	8	5.1	16
Vermont	Aa	4.7	9	6.6	8
Kentucky	Aa	4.7	10	5.6	12
New Jersey	Aa1	3.7	11	2.9	28
California	A1	3.5	12	5.3	15
Maryland	Aaa	3.5	13	4.4	19
Montana	Aa	3.2	14	5.5	13
Illinois	A1	3.2	15	4.1	20
Georgia	Aaa	3.1	16	5.0	18
Wisconsin	Aa	3.0	17	3.3	26
Florida	Aa	2.9	18	5.1	17
New Hampshire	Aa	2.7	19	6.8	6
Maine	Aa	2.7	20	5.9	10
Arizona	*	2.6	21	2.3	35
Pennsylvania	A1	2.5	22	5.3	14
West Virgina	A1	2.4	23	4.0	21
Ohio	Aa	2.1	24	3.5	25
Kansas	*	2.1	25	1.8	37
Nevada	Aa	2.1	26	6.7	7
South Dakota	*	2.1	27	2.5	32
New Mexico	Aa1	2.0	28	3.6	24
Mississippi	Aa	2.0	29	2.3	33
Alabama	Aa	2.0	30	3.9	22
Minnesota	Aa1	1.9	31	2.9	29
Virginia	Aaa	1.7	32	2.8	30
Utah	Aaa	1.7	33	3.3	27
South Carolina	Aaa	1.7	34	3.6	23
TEXAS	Aa	1.6	35	2.6	31
Michigan	Aa	1.5	36	1.5	38
Alaska	Aa	1.2	37	1.3	41
Missouri	Aaa	1.2	38	2.3	34
Oregon	Aa	1.2	39	1.0	46
North Dakota	Aa	1.1	40	1.4	39
Oklahoma	Aa	1.0	41	1.2	43
Indiana	*	1.0	42	1.2	42
Tennessee	Aaa	0.9	43	2.1	36
North Carolina	Aaa	0.8	44	1.4	40
Arkansas	Aa	0.6	45	1.1	45
Iowa	*	0.6	46	0.5	48
Wyoming	*	0.4	47	0.4	49
Idaho	*	0.3	48	0.4	50
Nebraska	*	0.3	49	0.8	47
Colorado	*	0.2	50	1.1	44
U.S. Median		2.1%		3.4%	
U.S. Mean		3.2%		4.4%	

*No general obligation debt outstanding.

Source: Moody's Medians, 1995.

revenues, excluding revenues constitutionally dedicated for purposes other than payment of state debt, for the previous three fiscal years.

The debt-limit ratio was 3.1 percent as of August 31, 1995, of which 1.8 percent was attributable to debt service on outstanding bonds and 1.3 percent was attributable to estimated debt service on authorized but unissued bonds. This calculation includes estimated debt service on the $500 million authorized for the SSC project and the $67.5 million authorized for the capitol renovation.

Texas' Local Debt Burden Is High

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

Texas had local government debt per capita of $3,300 compared to an average of $2,411 per capita for the ten most populous states. The heavy local debt burden combined with the relatively light state debt burden result in Texas being ranked sixth among the ten most populous states based on combined state and local debt. Texas had a combined state and local debt per capita figure of $3,781 compared to an average of $3,834 per capita among the ten most populous states, according to the Census Bureau.

In 1993, local government debt accounted for 87 percent of the $68.2 billion in Texas' total state and local debt outstanding, according to the Census Bureau report. The average of the ten most populous states was 64 percent. The high local debt indicates the degree to which responsibility for local capital projects rests with local government and the minor role state government plays

TABLE 8

SELECTED 1995 DEBT MEASURES FOR TEXAS AND STATES RATED AAA

State	Rating*	Net Tax-Supported Debt as a % of 1993 Personal Income	Net Tax-Supported Debt Service as a % of FY95 Revenues	Net Tax-Supported Debt Per Capita
Maryland	AAA	3.5%	4.4%	$828
Utah	AAA	1.7	3.3	271
Virginia	AAA	1.7	2.8	370
TEXAS	AA	1.6	2.6	306
Missouri	AAA	1.2	2.3	232
North Carolina	AAA	0.8	1.4	146
Median of AAA States		1.7%	2.8%	$271
Mean of AAA States		1.8%	2.8%	$369

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

Source: Moody's Medians, 1995.

TABLE 9

TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES, 1993

	Total State and Local Debt			State Debt				Local Debt			
State	Per Capita Rank	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount
New York	1	$113,799	$6,254	1	$59,219	52.0%	$3,254	4	$54,581	48.0%	$2,999
New Jersey	2	36,581	4,643	2	21,779	59.5	2,764	8	14,802	40.5	1,879
Florida	3	59,284	4,334	7	13,635	23.0	997	1	45,649	77.0	3,337
Pennsylvania	4	49,889	4,141	6	12,989	26.0	1,078	3	36,900	74.0	3,063
California	5	124,758	3,997	4	41,295	33.1	1,323	5	83,463	66.9	2,674
TEXAS	6	68,180	3,781	10	8,684	12.7	482	2	59,497	87.3	3,300
Illinois	7	43,056	3,681	3	19,893	46.2	1,701	7	23,163	53.8	1,980
North Carolina	8	18,448	2,656	9	4,002	21.7	576	6	14,446	78.3	2,080
Michigan	9	23,991	2,531	8	8,849	36.9	934	9	15,142	63.1	1,598
Ohio	10	25,780	2,324	5	12,486	48.4	1,126	10	13,294	51.6	1,199
Average		$56,377	$3,834		$20,283	36.0%	$1,423		$36,094	64.0%	$2,411

Sources: Bureau of the Census: *Government Finances 1993 (Preliminary Report)* and Texas Bond Review Board, Office of the Executive Director.
Note: Amount of California local debt outstanding estimated based on 1991-92 preliminary data.

in local capital finance (e.g. schools, water and sewer services, local roads, etc.). A more detailed discussion of local debt is provided in Chapter 6.

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

Progress Has Been Made in the Debt Issuance Process

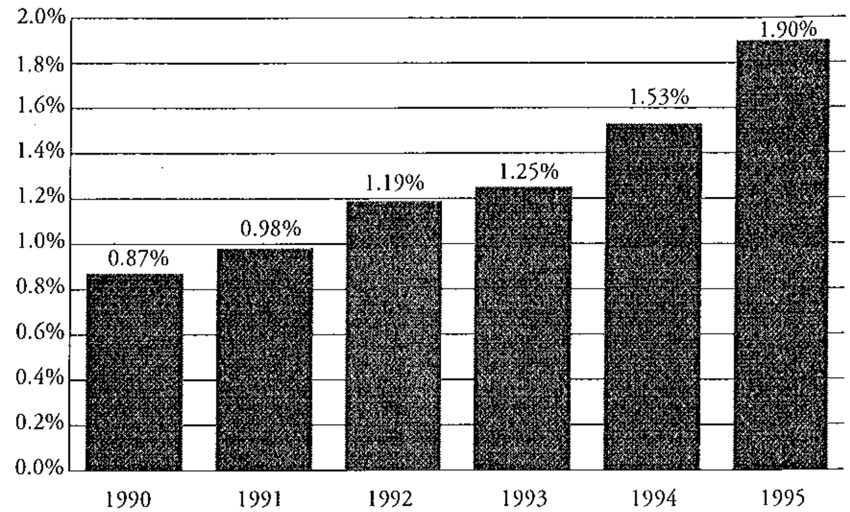
Debt issuance in Texas is a fragmented process at both the state and local levels. There are twenty-one individual state issuers and more than 3,100 local issuers with debt outstanding. However, progress has been made during the past several years in consolidating debt issuance.

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

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

FIGURE 7

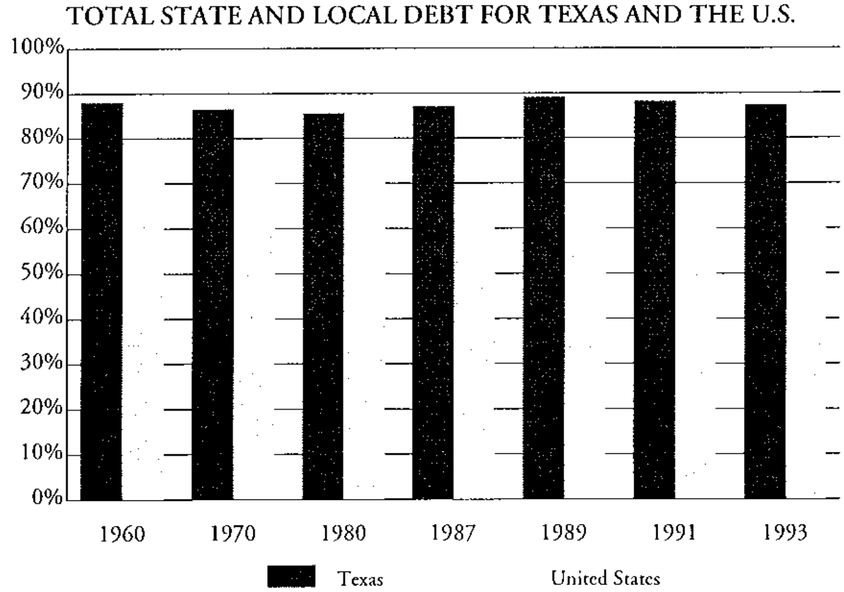
ANNUAL DEBT SERVICE AS A PERCENT OF UNRESTRICTED GENERAL REVENUE



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

FIGURE 8

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



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

During the 74th Legislative session, some further consolidation of debt issuance continued.

Effective September 1, 1995, the affairs and management of Lamar University System were transferred to the Texas State University System, which will issue debt on their behalf. Similarly, the institutions and management of East Texas State University will be transferred to the Texas A&M University System effective September 1, 1996.

CHAPTER 3

TEXAS BOND ISSUANCE IN FISCAL 1995

Texas state agencies and universities issued $1.3 billion in bonds during fiscal 1995, $770 million in new-money bonds and $507 million in refunding bonds (Table 10). New-money bond issues raise additional funds for projects or programs and add to the state's outstanding debt, while refunding bonds, for the most part, replace bonds issued previously. Several state agencies and universities also issued variable rate notes and commercial paper in fiscal 1995.

New-Money Bonds Issued for a Variety of Purposes

Texas state agencies and institutions of higher education issued $770 million in new-money bonds (not including commercial paper) during fiscal 1995. This represents a slight decrease from the 1994 level of $988 million *(Figure 9, p. 13)*. The new-money bonds issued in fiscal 1995 financed a variety of purposes, including state facilities and loan programs.

The issuer with the largest volume of new-money bonds in fiscal 1995 was the Texas Veterans Land Board (VLB). The VLB issued a total of $280 million in new money bonds — $255 million in housing assistance bonds and $25 mil-

TABLE 10

TEXAS BONDS ISSUED DURING FISCAL 1995
SUMMARIZED BY ISSUER

ISSUER	REFUNDING BONDS	NEW-MONEY BONDS	TOTAL BONDS ISSUED
General Obligation Bonds			
Texas Higher Education Coordinating Board		$ 48,850,000	$ 48,850,000
Texas Public Finance Authority	$ 300,000,000		300,000,000
Texas Water Development Board		133,000,000	133,000,000
Veterans Land Board	87,843,904	280,000,000	367,843,904
Total General Obligation Bonds	$ 387,843,904	$ 461,850,000	$ 849,693,904
Revenue Bonds			
Stephen F. Austin State University		$ 6,800,000	$ 6,800,000
Texas A&M University System	$ 72,021,911	35,838,089	107,860,000
Texas Department of Housing & Community Affairs	7,855,000	84,140,000	91,995,000
Texas Public Finance Authority		37,635,000	37,635,000
Texas State University System		20,500,000	20,500,000
Texas Tech University System		25,000,000	25,000,000
Texas Turnpike Authority		26,800,000	26,800,000
University of Houston System		26,300,000	26,300,000
University of North Texas		10,000,000	10,000,000
University of Texas System	39,579,802	35,365,198	74,945,000
Total Revenue Bonds	$ 119,456,713	$ 308,378,287	$ 427,835,000
TOTAL TEXAS BONDS ISSUED	$ 507,300,617	$ 770,228,287	$ 1,277,528,904 *

*Total does not include amounts for commercial paper or variable rate bonds issued during fiscal year 1995. TPFA issued an aggregate $286.1 million of general obligation commercial paper notes on behalf of TYC, TDCJ, and TDMHMR. TPFA also issued $35.6 million of commercial paper notes in connection with the Master Lease Purchase Program (MLPP). UT issued $100.5 million of revenue financing system commercial paper notes to finance equipment, facility construction and repair and rehabilitation. A&M issued $71.5 million of revenue financing system commercial paper notes to finance facility construction and repair and renovation.

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

lion in land bonds. The proceeds from the housing assistance bonds were used to augment the Housing Assistance Program, which makes home ownership and home improvement loans to eligible Texas veterans. The proceeds from the land bonds were used to purchase land that will be resold to eligible Texas veterans and surviving spouses. The VLB debt will be repaid with revenues generated by the loan programs.

The second largest issuer of state new-money debt in fiscal 1995 was the Texas Water Development Board (TWDB). The TWDB issued a total of $133 million in new-money general obligation debt to finance water projects. Of the total amount, $95 million was issued to make loans to political subdivisions, of which $75 million was issued for water supply projects and $20 million was issued for water quality enhancement projects. Another $21 million of bonds was issued to fund loans and grants to political subdivisions in economically distressed areas of the state — $16 million for water supply projects and $5 million for water quality enhancement projects. The TWDB also issued $10 million in taxable bonds to fund loans to political subdivisions, including nonprofit water supply corporations, for water supply purposes. Finally, the TWDB issued $7 million of taxable bonds to make loans to finance the purchase of water and energy conserving agriculture equipment.

The TWDB general obligation bonds, with the exception of Economically Distressed Area Program (EDAP) bonds, are designed to be self-supporting, *i.e.*, debt service will be repaid from revenue sources associated with the loan programs. A general revenue draw will be necessary to finance the debt service on the grant portion associated with the EDAP bonds; up to 90 percent of EDAP bonds may be used for grants.

The Texas Department of Housing and Community Affairs (TDHCA) issued $84.1 million of single family mortgage revenue bonds. Proceeds of this issue are being used to provide funds to finance low-interest mortgage loans made to first time home buyers of very low, low and moderate income. Debt service on these bonds is paid from loan payments associated with the single family mortgage loan program.

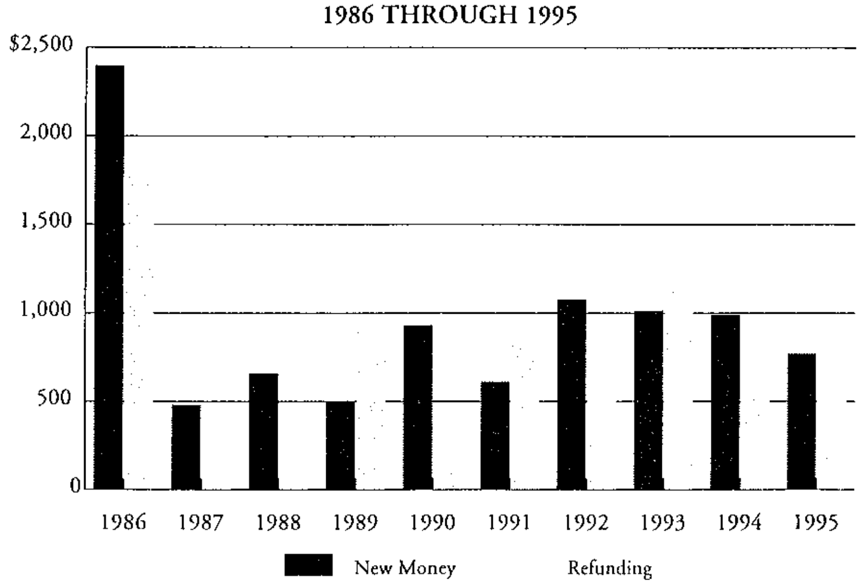
The Texas Higher Education Coordinating Board (HECB) issued $48.9 million in college student loan bonds in fiscal 1995 to finance the Hinson-Hazelwood Loan Program. This program provides low interest loans to students seeking an undergraduate, graduate, or professional education through institutions of higher education in Texas. Although the bonds are backed by a pledge of the state's credit, revenue from investments and loan repayments has historically been sufficient to pay debt service. No draw on the state's general revenue fund is expected.

The Texas Public Finance Authority (TPFA) issued $37.6 million in new-money building revenue bonds to finance various projects on behalf of the General Services Commision. The projects included $15.5 million for the rehabilitation of the Sam Houston Building, $15.8 million to purchase and renovate an office building in Houston, $5 million to purchase and renovate an office building in Waco and $1.1 million for renovations to the School for the Deaf and School for the Blind. This debt is expected to be repaid from general revenues that are subject to biennial appropriation.

Finally, Texas universities issued revenue bonds in an approximate aggregate amount of $160 million to finance various construction projects at their respective institutions.

FIGURE 9

TEXAS NEW-MONEY AND REFUNDING BOND ISSUES
1986 THROUGH 1995



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

Texas Increases Usage of Commercial Paper/Variable Rate Notes

State agencies and institutions continued to issue substantial amounts of commercial paper and variable rate notes during fiscal 1995 to finance equipment, interim construction, and loan programs.

The Texas Public Finance Authority (TPFA) established a general obligation commercial paper note program during fiscal 1994 which is designed to provide interim construction financing for state agencies that are authorized to use the program. Currently, the TPFA is providing funds for the construction and renovation projects of the Texas Department of Criminal Justice, the Texas Youth Commission, and the Texas Department of Mental Health and Mental Retardation. During fiscal 1995, the TPFA issued $286.1 million of general obligation commercial paper. As of August 31, 1995, the TPFA had $370.6 million in general obligation commercial paper notes outstanding.

The TPFA also issued approximately $35.6 million in commercial paper in fiscal 1995 to finance the state's Master Lease Purchase Program (MLPP). Under this program, which was initiated in fiscal 1992, TPFA issues debt to finance the purchase of equipment and then leases the equipment to state agencies. TPFA uses the lease payments from the agencies to pay debt service. The MLPP was expanded in 1994 to permit a maximum of $100 million outstanding and to enable the interim financing of real property.

The Texas A&M University System (TAMU) replaced a variable rate note program in fiscal 1993 with a commercial paper program to provide financing for equipment acquisition and interim construction. The TAMU issued approximately $71.5 million under its revenue financing system commercial paper program in fiscal 1995.

During fiscal 1995, The University of Texas System issued $100.5 million of revenue financing system commercial paper to provide interim financing for capital projects and to finance equipment.

The Texas Department of Housing and Community Affairs (TDHCA) established a $75 million commercial paper program during fiscal 1995. The TDHCA established the program to recycle certain prepayments of single family mortgage loans and to preserve private activity volume cap allocation under its existing single family programs. Once TDHCA has issued a substantial aggregate amount of notes, the notes will be refunded with single family mortgage revenue bonds. Funds made available as a result of the program are being used to make qualified mortgage loans to eligible low and moderate income borrowers. During fiscal 1995, the TDHCA issued $16.4 million of commercial paper notes under this program.

Current Refundings Dominate Refunding Issues

During fiscal 1995, Texas state agencies and institutions of higher education issued $507 million in refunding debt. This level of refunding activity was virtually unchanged from the $509 million in refunding bonds issued in 1994, down substantially from the post-1986 high of $1.3 billion that occurred in 1993. Although the amount of refunding bonds issued during 1995 was similar to 1994, the majority of refundings that occurred during 1995 were current refundings, whereby long-term bonds were issued to refund commercial paper issued for interim financing.

The largest issuer of refunding bonds during fiscal 1995 was the TPFA, which refunded $300 million of general obligation commercial paper notes. These commercial paper notes were originally issued to provide interim construction financing for projects of the Texas Department of Criminal Justice. The refunding secured long-term, fixed-rate financing for these projects.

Higher education institutions also issued current refunding bonds in fiscal 1995 to refund commercial paper, which provided interim financing for construction projects at component institutions. The University of Texas System and the Texas A&M University System issued a combined $110 million of refunding bonds, which provided long-term, fixed-rate financing.

The other issuer of current refunding bonds was the TDHCA which issued $7.9 million in refunding bonds during fiscal 1995. The TDHCA issued singl family mortgage revenue refunding bonds to refund commercial paper notes. The TDHCA established a home mortgage loan purchase program with the funds generated by the refundings.

The largest dollar amount of present value savings was obtained through refunding bonds issued by the Veterans Land Board (VLB). Through the issuance of $87.8 million in general obligation, housing assistance refunding bonds, the VLB was able to achieve a total present value savings of over $8.8 million, or 10.1 percent of the refunded bonds.

Lease Purchases Approved for Real Property and Equipment

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

In fiscal 1995, the Bond Review Board approved a total of $34 million in lease- and installment-purchases *(Table 11, p. 15)*. Lease purchases of real property accounted for about $6.5 million, while the lease purchase of computers, telecommunications systems, and other capital equipment accounted for the remaining $27.5 million.

The real property transaction involved the Texas Department of Housing and Community Affairs (TDHCA), which acquired three multi-family housing developments located in Arlington through the Resolution Trust Corporation's Affordable Housing Disposition Program. This program makes available to public agencies multi-family properties at below-market prices. A minimum of 35 percent of the total units in each project is set aside for low and very-low income tenants, resulting in an additional 221 affordable housing units in Texas.

Over 80 percent of the dollar amount of equipment lease purchases was for computer equipment. Approximately $25.5 million, or 92 percent of the total equipment lease purchases were proposed to be financed through the Master Lease Purchase Program (MLPP). Most of the MLPP items are included in the commercial paper issuance amount discussed earlier in this chapter.

State Agencies and Institutions Fiscal 1996 Issuance Plans

Texas state agencies and institutions of higher education plan to issue approximately $2.4 billion in bonds and commercial paper during fiscal year 1996 according to the results of an annual survey by the Bond Review Board. *(Table 12, p. 16)*. Of this amount, only $213 million is not self-supporting. Approximately $1.64 billion will be issued to finance projects or programs and about $732 million will be issued to refund existing debt.

One of the largest issuers of new-money bonds in fiscal 1996 will be the Texas Turnpike Authority (TTA). The TTA is planning to issue approximately $380 million of Dallas North Tollway System revenue bonds. Proceeds from the sale of these bonds, along with other funds, will be used to pay for the costs of the acquisition and construction of the President George Bush Turnpike.

Another major issuer of new-money bonds in fiscal 1996 will be the Texas Water Development Board. The Board plans to issue about $150 million in state revolving fund revenue bonds in early 1996. Proceeds from this issue will be used to purchase bonds or other obligations issued by political subdivisions within the state to finance the construction of wastewater treatment projects. The Board also plans to issue $60 million in general obligation bonds to finance loans (and grants under the Economically Distressed Areas Program) to political subdivisions in Texas for water and wastewater projects. A final issue for the TWDB will be $7 million to finance loans for the acquisition of agricultural water and energy conservation equipment.

The proceeds from other major new-money issues will also be used to finance various state loan programs. The Veterans Land Board (VLB) plans two new-

TABLE 11

LEASE- AND INSTALLMENT-PURCHASE AGREEMENTS APPROVED BY THE BOND REVIEW BOARD
FISCAL 1995

AGENCY/UNIVERSITY	TOTAL	REAL PROPERTY	EQUIPMENT Computer	EQUIPMENT Other
General Services Commission	$ 422,759			$ 422,759
Texas Alcoholic Beverage Commission	267,960			267,960
Texas Comptroller of Public Accounts	13,321,877		$ 13,321,877	
Texas Department of Criminal Justice	1,711,089		1,111,089	600,000
Texas Department of Housing and Community Affairs	7,500,000	$ 6,500,000		1,000,000
Texas Department of Human Services	5,031,014		5,031,014	
Texas Department of Mental Health and Mental Retardation	3,437,454			3,437,454
Texas Real Estate Commission	286,748		286,748	
University of North Texas	2,100,000		2,100,000	
TOTAL APPROVED LEASE-PURCHASE AGREEMENTS	$ 34,078,901	$ 6,500,000	$ 21,850,728	$ 5,728,173

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

TABLE 12

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 1996

Issuer	Approximate Amount	Purpose	Approximate Issue Date
General Obligation Bonds			
Self-Supporting			
Texas Higher Education Coordinating Board	$ 75,000,000	College Student Loans	Jan-96
Texas Public Finance Authority	10,000,000	Parks and Wildlife Department	Mar-96
Texas Veterans Land Board	150,000,000	Veterans Housing Assistance Refunding	Oct-95
Texas Veterans Land Board	88,490,000	Veterans Housing Assistance Refunding	Nov-95
Texas Veterans Land Board	60,000,000	Veterans Land Program	Jan-96
Texas Water Development Board	7,000,000	Agricultural Water Conservation	Jan-96
Texas Water Development Board	30,000,000	Water Supply and Quality Enhancement	Jan-96
Total Self-Supporting	**$ 420,490,000**		
Not Self-Supporting			
Texas Public Finance Authority**	$ 29,000,000	Texas Department of Criminal Justice	Oct-95
Texas Public Finance Authority**	35,000,000	Texas Youth Commission & Texas Department of Mental Health and Mental Retardation	Nov-95
Texas Public Finance Authority**	30,000,000	Texas Youth Commission	Jun-96
Texas Public Finance Authority**	20,000,000	Juvenile Probation Commission	Jul-96
Texas Water Development Board	30,000,000	Economically Distressed Areas Program	Apr-96
Total Not Self-Supporting	**$ 144,000,000**		
Total General Obligation Bonds	**$ 564,490,000**		
Non-General Obligation Bonds			
Self-Supporting			
Midwestern State University	$ 4,000,000	HEAF (Bolin Science Hall Remodel)	Feb-96
Midwestern State University	3,250,000	Student Revenue Bonds	Mar-96
Stephen F. Austin State University	3,300,000	HEAF (Facility Construction)	Dec-95
Stephen F. Austin State University	4,000,000	Revenue Bonds (Facility Improvements)	Dec-95
Texas Dept. of Housing & Community Affairs	85,764,000	Single Family Housing	Nov-95
Texas Dept. of Housing & Community Affairs	85,000,000	Single Family Housing Refunding	Nov-95
Texas Dept. of Housing & Community Affairs	112,050,000	Single Family (New Issue & Refunding)	Mar-96
Texas Dept. of Housing & Community Affairs*	84,400,000	Multi-Family Housing (New Issue & Refunding)	Jul-96
Texas Low-Level Radioactive Waste Disposal Authority	55,000,000	Revenue Bonds (Facility Construction)	Unknown
Texas State Technical College System	14,000,000	HEAF (Facility Construction)	May-96
Texas Turnpike Authority	380,000,000	Dallas N. Tollway Revenue Bonds	Jan-96
Texas Water Development Board	150,000,000	State Revolving Fund—Wastewater Projects	Mar-96
Texas Woman's University	17,000,000	HEAF (Facility Construction)	Sep-95
Texas Woman's University	7,000,000	Combined Fee Revenue Bonds	Sep-95
The Texas A&M University System—PUF	102,385,000	Refunding	Apr-96
The Texas A&M University System—PUF*	22,000,000	Facilities and Equipment	Mar-96
The Texas A&M University System—RFS	80,000,000	Refunding	Mar-96
The Texas A&M University System—RFS*	80,000,000	Facilities and Equipment	Mar-96
The Texas State University System	4,336,000	Utility System Expansion	Jun-96
The University of North Texas	15,000,000	Housing System Revenue Bonds	Feb-96
The University of Texas System	26,000,000	HEAF (Facility Construction)	Dec-95
The University of Texas System—RFS	164,000,000	Facility Construction & Refunding	Feb-96
The University of Texas System—RFS*	175,000,000	Facility Construction & Equipment	Continuous
The University of Texas System—PUF*	40,000,000	Facility Construction	Feb-96
The University of Texas System—RFS	28,000,000	Facility Construction	Jul-96
Total Self-Supporting	**$ 1,741,485,000**		
Not Self-Supporting			
Texas Public Finance Authority	67,135,000	Building Revenue Bonds	Jan-96
Texas Public Finance Authority	1,546,145	National Guard Armory Board	Aug-96
Total Not Self-Supporting	**$ 68,681,145**		
Total Non-General Obligation Bonds	**$ 1,810,166,145**		
Total All Bonds	**$ 2,374,656,145**		

*Commercial Paper Program or Variable Rate Bond Program

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

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

money general obligation bond issues in 1996. The VLB plans to issue $35 million of tax-exempt bonds and $25 million of taxable bonds, both for the land program. The Texas Higher Education Coordinating Board plans to issue $75 million in general obligation student loan bonds.

Another planned general obligation issue is $10 million for the Texas Parks and Wildlife Department. Proceeds from this issue would be used for state park development and new park equipment. These bonds are expected to be repaid from park revenues and are not expected to draw on general revenue.

The Texas Department of Housing and Community Affairs plans to issue a total of $105.8 million of new-money, single-family mortgage revenue bonds and $50 million for multi-family housing.

The Texas Low-Level Radioactive Waste Disposal Authority is contemplating the issuance of up to $55 million of revenue bonds for the construction of a disposal facility.

Institutions of higher education also plan to issue a significant amount of new-money debt in fiscal 1995. A total of approximately $507 million in bonds and commercial paper will be issued by higher education institutions to finance various construction projects, improvements, renovations, and equipment. Although the majority of these issues will be revenue bonds secured by university revenues, approximately $64.3 million are expected to be constitutional appropriation bonds (HEAF) that are secured by 50 percent of the money annually allocated to various universities, pursuant to Article VII, Section 17 of the Texas Constitution. The amount of the constitutional appropriation annually allocated among these universities increased from $100 million to $175 million effective September 1, 1995.

The Texas Public Finance Authority (TPFA) is also expected to be a large issuer of new-money bonds and commercial paper. TPFA plans to issue approximately $114 million in new-money general obligation bonds or commercial paper on behalf of the Texas Department of Criminal Justice, Texas Juvenile Probation Commission, Texas Youth Commission, and Texas Department of Mental Health and Mental Retardation. Over 74 percent of the total planned issue amount will be used to finance projects related to correctional facilities.

TPFA also plans to issue approximately $67 million in new-money revenue bonds on behalf of the General Services Commission for various construction, major repairs/rehabilitation, and building procurement projects.

The largest issuer of refunding bonds in fiscal 1996, according to the Bond Review Board survey, will be the Texas Department of Housing and Community Affairs (TDHCA). The TDHCA plans to issue $177 million in single family revenue refunding bonds and an additional $34 million in multi-family revenue refunding bonds.

Another major issuer of refunding bonds will be universities. The Texas A&M University System (TAMU) plans to issue $80 million in revenue financing system refunding bonds to refund outstanding commercial paper notes. The TAMU is also planning to issue an additional $102 million in Permanent University Fund (PUF) refunding bonds.

The University of Texas System plans to issue $100 million of revenue financing system refunding bonds to refund outstanding commercial paper, which was issued to provide interim construction financing.

The Texas Veterans Land Board is planning two general obligation bond refundings for fiscal 1996 aggregating $238.5 million in connection with their housing assistance program.

CHAPTER 4

TEXAS BOND ISSUANCE COSTS

Texas state bond issuers paid an average of $534,193 per issue or $11.47 per $1,000 in issuance costs on bond issues sold during 1995. Appendix A includes an accounting of the issuance costs for each 1995 issue.

Types of Fees

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

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

TABLE 13

AVERAGE ISSUANCE COSTS FOR 1995 TEXAS BOND ISSUES

	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Average Issue Size—$60.83 Million		
Underwriter's Spread	$406,912	$ 7.05
Other Issuance Costs:		
Bond Counsel	38,456	1.68
Rating Agencies	27,152	0.92
Financial Advisor	25,983	0.86
Printing	8,906	0.33
Other	26,784	0.63
Total	$534,193	$11.47

Bond insurance premiums are not included for purposes of average cost calculations. The figures are simple averages of the dollar costs and costs per $1,000 associated with each 1995 state bond issue. The underwriter's spread average does not include private placement issues, which did not include an underwriting component.

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

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

Fiscal 1995 Issuance Costs

The underwriting fee, or gross spread, is the largest component of issuance costs, averaging $406,912 per issue and $7.05 per $1,000 of State of Texas bonds sold during 1995 *(Table 13, p. 18)*. This single component accounted for, on average, 76 percent of the total cost of issuance. Legal counsel fees were next in significance, averaging $38,456 per issue and $1.68 per $1,000 of bonds sold. Rating agency fees averaged $27,152 per issue and $0.92 per $1,000 of bonds sold, while financial advisory fees averaged $25,983 per issue and $0.86 per $1,000 of bonds sold.

Gross spreads paid to issue Texas bonds continue to compare favorably to the national average. According to Securities Data Corporation, nationwide gross spreads averaged $8.25 per $1,000 for all municipal bonds sold either competitively or through negotiation during the first nine months of 1995 *(Figure 10)*.

Economies of Scale

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

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

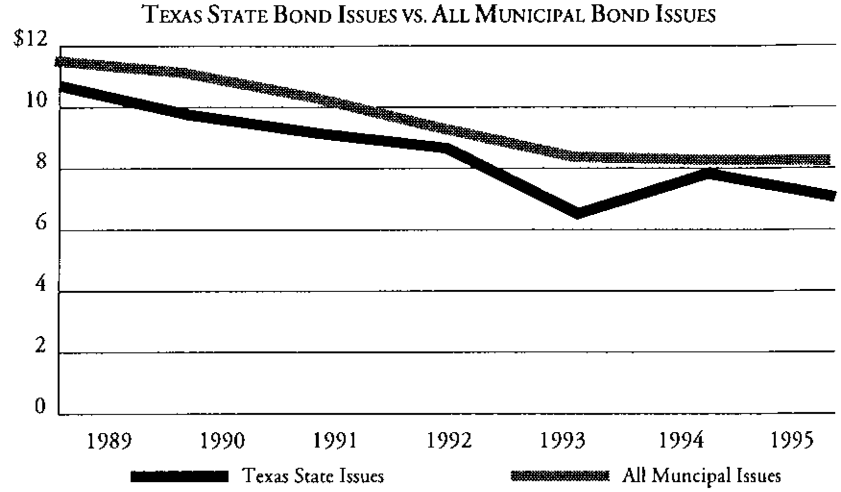
As a result, the smallest issues are by far the most costly in percentage terms *(Figure 11)*. At the extreme, total issuance costs for bond issues of less than $5 million averaged $78,420 per issue and $19.06 per $1,000 in bonds issued. Bond issues over $100 million had total costs averaging $1,733,565 per issue and $6.88 per $1,000.

Average issuance costs declined during 1995 on both a per issue and a per $1,000 of bonds issued basis. Average issuance costs declined from $567,940 per issue in 1994 to $534,193 per issue in 1995 while

FIGURE 10

GROSS UNDERWRITING SPREADS: 1989–1995

TEXAS STATE BOND ISSUES VS. ALL MUNICIPAL BOND ISSUES



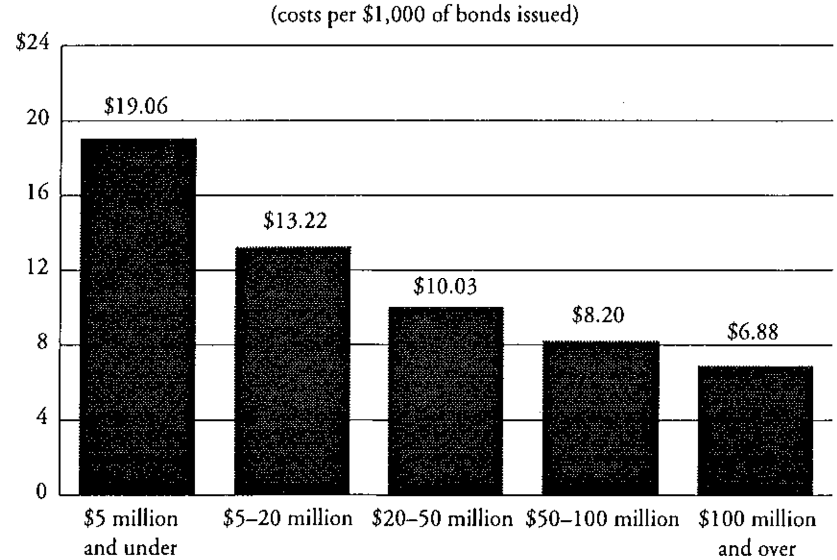
*1995 figures are for the first nine months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.

Sources: Securities Data Company (10/13/95) and Texas Bond Review Board, Office of the Executive Director.

FIGURE 11

AVERAGE 1995 ISSUANCE COSTS FOR TEXAS BOND ISSUES BY SIZE OF ISSUE

(costs per $1,000 of bonds issued)



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

average issuance costs per $1,000 decreased from $12.37 in 1994 to $11.47 per $1,000 in 1995. The average issue size equaled $60.8 million in 1995 compared to $58.3 million in 1994.

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

Negotiated Versus Competitive Sales

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

In a competitive sale, sealed bids from a number of underwriters are opened on a predetermined sale date, with the state's bonds being sold to the underwriter submitting the lowest bid meeting the terms of the sale. Underwriters bidding competitively usually do less presale marketing to investors, since in a competitive sale, underwriters cannot be sure they own the state's bonds until the day the bids are opened.

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

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

In a negotiated sale, an underwriter is chosen by the issuer in advance of the sale date and agrees to buy the state's bonds at some future date and to resell them to investors. With the knowledge that they have the bonds to sell, the underwriter can do whatever presale marketing is necessary to accomplish a successful sale. In more complicated financings, presale marketing can be crucial to obtaining the lowest possible interest cost. In addition, the negotiated method of sale offers issuers timing and structural flexibility as well as more influence in bond distribution towards selected underwriting firms or customers.

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

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

Comparisons of gross underwriting spreads for Texas bonds issued during fiscal 1995 reveals very little difference between the competitive and negotiated methods of sale. For Texas general obligation bonds sold through negotiation during fiscal 1995, the average underwriting spread equaled $6.14 per $1,000 compared to $6.16 per $1,000 for general obligation bonds sold competitively. Similarly, the average underwriting spread on revenue bonds sold competitively equaled $6.47 per $1,000 compared to $6.22 per $1,000 for revenue bonds sold through negotiation. These figures compare favorably to underwriting spreads nationally *(Figure 12, p. 21)*.

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

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

Recent Trends in Issuance Costs

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

Comparisons of average costs on negotiated and competitive financings for 1995 and past years are, therefore, based only on those issues over $20 million. In the greater than $20 million category, there were four competitively sold issues and eight issues that were sold on a negotiated basis. Among bond issues greater than $20 million, total issuance costs, including underwriter's spread, for bonds sold via negotiated sale during fiscal year 1995 averaged $8.85 per $1,000, compared to an average cost of

TABLE 14

AVERAGE ISSUANCE COSTS FOR 1995 TEXAS BOND ISSUES GREATER THAN $20 MILLION

BY NEGOTIATED AND COMPETITIVE SALE

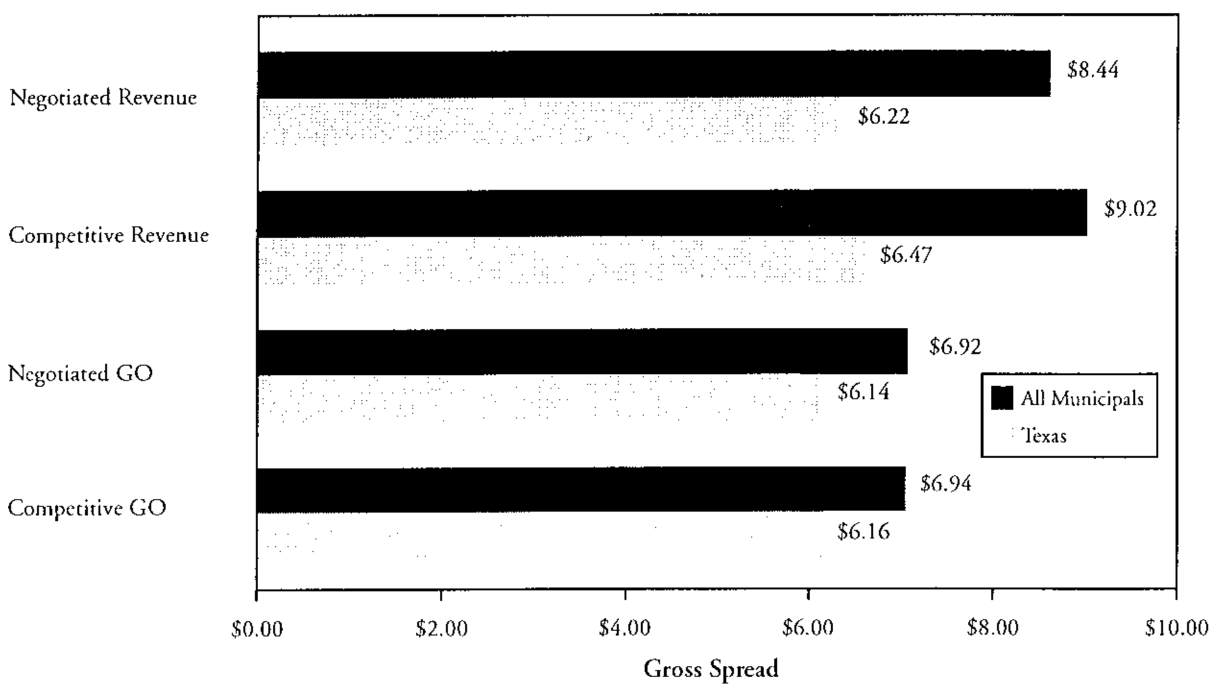
	NEGOTIATED PER $1,000	COMPETITIVE PER $1,000
Average Issue Size (in millions)	$ 116.33	$ 51.68
Underwriter's Spread	$ 6.21	$ 5.90
Other Issuance Costs:		
Bond Counsel	0.71	0.84
Rating Agencies	0.65	0.83
Financial Advisor	0.56	0.55
Printing	0.22	0.22
Other	0.50	0.31
TOTAL	$ 8.85	$ 8.65

The calculations regarding average issuance costs include only those bond issues of greater than $20 million sold via competitive or negotiated sale. Bond insurance premiums are not included for purposes of average cost calculations. The figures are the simple average of the costs per $1,000 associated with each 1995 state bond issue.

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

FIGURE 12

COMPARISON OF GROSS UNDERWRITING SPREADS FOR DIFFERENT TRANSACTION TYPES



Sources: Securities Data Corporation and Texas Bond Review Board, Office of the Executive Director.

$8.65 per $1,000 for those bonds sold by competitive sale *(Table 14, p. 21)*.

The average cost per $1,000 of issuing bonds decreased in 1995 compared to 1994, for that group of issues greater than $20 million *(Figure 13)*. Total issuance costs, including underwriting spread, averaged $8.78 per $1,000 in 1995 compared to $10.25 per $1,000 in 1994, and $8.22 in 1993.

The average cost per $1,000 of selling bonds through negotiated sale equaled $8.85 in 1995 compared to $11.32 in 1994, and $8.62 in 1993. Underwriting spreads on negotiated state financings declined during 1995 compared to 1994. Average spreads on bonds sold through negotiation equaled $6.21 per $1,000 in 1995, compared to $7.99 in 1994, and $6.71 in 1993. Other issuance costs on bonds sold through negotiation averaged $2.64 per $1,000 in 1995, compared to $3.33 in 1994, and $1.91 in 1993.

Total issuance costs on competitive financings have consistently been less than costs on negotiated sales, but the margin has fluctuated over time. Issuance costs on competitively sold bonds averaged $8.65 per $1,000 in 1995 compared to $7.30 in 1994, and $7.22 in 1993. Underwriting spreads on competitive financings equaled $5.90 in 1995, compared to $5.97 in 1994, and $5.92 in 1993. Other issuance costs on competitively sold bonds averaged $2.75 per $1,000 in 1995, compared to $1.33 in 1994 and $1.30 in 1993.

This discussion is not meant to imply that the cost differences between negotiated and competitive financings are unreasonable. A negotiated sale tends to be used on those bond issues that are more difficult, and therefore, more costly to structure and market. Further, a definitive conclusion regarding the most efficient method of sale for Texas bonds should not be drawn from such a limited sample number of state bond issues.

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

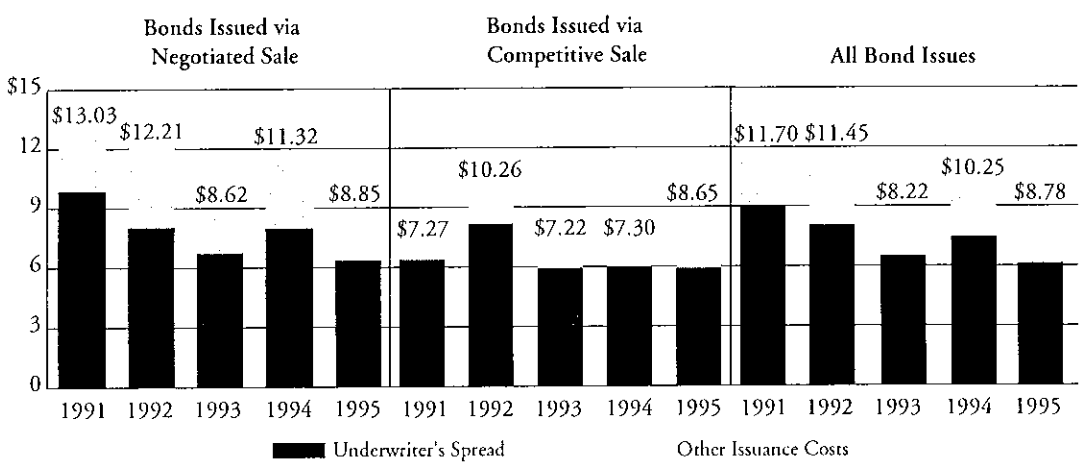
House Bill 3109, 74th Legislature, requires each state issuer to report to the Board issuance costs paid to consultants. The Board is required to send an annual report to the legislature and a semi-annual report to the joint committee charged with monitoring the implementation of historically underutilized business goals.

FIGURE 13

RECENT TRENDS IN ISSUANCE COSTS FOR TEXAS BONDS

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

(sold via competitive or negotiated sale)



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

CHAPTER 5

TEXAS BONDS AND NOTES OUTSTANDING

Texas had a total of $10.44 billion in state bonds and notes outstanding on August 31, 1995 — up from $9.97 billion on August 31, 1994 and $9.05 billion outstanding on August 31, 1993.

Increase in General Obligation Bonds Outstanding

Approximately $4.97 billion of Texas' total state debt outstanding on August 31, 1995, carries the general obligation (G.O.) pledge of the state, up $590 million from the amount of G.O. bonds outstanding at the end of fiscal 1994 *(Table 15, p. 24).* This 13 percent increase in G.O. bonds outstanding was due primarily to bonds issued in fiscal 1995 by the Texas Veterans Land Board, Texas Water Development Board, and the Texas Public Finance Authority. (See Chapter 3 for a description of bonds issued in fiscal 1995.)

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

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

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

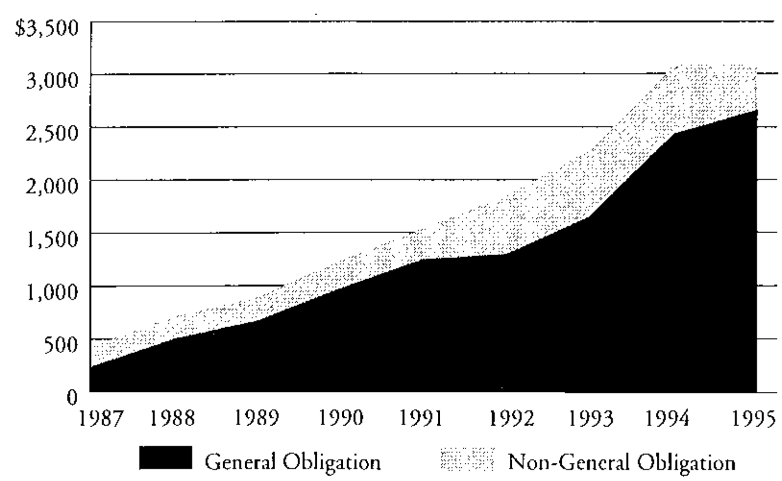
Amount of Debt Supported From General Revenue Is Unchanged From 1994

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

Bond issuance during fiscal 1995 continued a trend toward increased issuance of not self-supporting Texas bonds, however, at a much slower pace compared to previous years *(Figure 14).* The amount of non-self-supporting G.O. bonds outstanding at the end of fiscal 1995 increased $223 million over the amount outstanding at the end of fiscal 1994; however, the amount of non-self-supporting revenue bonds outstanding declined by $226 million, mainly as a result of the defeasance of all the outstanding lease revenue bonds issued to fund the Superconducting Super Collider (SSC) project ($250 million). As a result, Texas had $3.1 billion in outstanding bonds that must be paid

FIGURE 14

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



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

TABLE 15

TEXAS BONDS OUTSTANDING
(amounts in thousands)

	8/31/92	8/31/93	8/31/94	8/31/95
GENERAL OBLIGATION BONDS				
Self-Supporting				
Veterans Land and Housing Bonds	$1,092,330	$1,185,726	$1,238,893	$1,468,760
Water Development Bonds	155,220	193,965	225,935	324,420
Park Development Bonds	26,800	28,883	29,372	28,752[4]
College Student Loan Bonds	313,047	374,348	434,031	466,442
Farm and Ranch Security Bonds	0	0	0	0
Texas Agricultural Finance Authority*	17,000	20,000	18,000	18,500
Agriculture Water Conservation Bonds	0	0	7,000	13,370
Total Self-Supporting	**$1,604,397**	**$1,802,922**	**$1,953,231**	**$2,320,244**
Not Self-Supporting[1]				
Higher Education Constitutional Bonds[2]	$ 98,800	$ 67,775	$ 34,970	$ 10,700
Texas Public Finance Authority Bonds	930,000	1,313,934	2,132,432	2,365,140[4]
Texas National Research Laboratory Commission Bonds	250,000	243,584	237,822	232,254[4]
Water Development Bonds—EDAP[3]	5,435	17,325	16,940	37,530
Total Not Self-Supporting	**$1,284,235**	**$1,642,618**	**$2,422,164**	**$2,645,624**
TOTAL GENERAL OBLIGATION BONDS	**$2,888,632**	**$3,445,540**	**$4,375,395**	**$4,965,868**
NON-GENERAL OBLIGATION BONDS				
Self-Supporting				
Permanent University Fund Bonds				
Texas A&M University System	$ 288,427	$ 324,759	$ 355,319	$ 344,659[4]
University of Texas System	626,840	602,630	615,110	586,315
College and University Revenue Bonds	931,867	1,003,426	1,108,257	1,368,096
Texas Hospital Equipment Finance Council Bonds	12,500	12,100	11,900	11,700
Texas Dept. of Housing & Community Affairs Bonds	1,481,575	1,263,584	1,141,609	1,160,130
Texas Small Business IDC Bonds	99,335	99,335	99,335	99,335
Economic Development Program*	0	25,000	25,000	11,000
Texas Turnpike Authority Bonds	528,617	535,166	395,400	415,370
Texas Water Resources Finance Authority Bonds	473,235	457,820	436,040	412,350
College Student Loan Bonds	67,373	67,343	66,022	64,871
Texas Workers' Compensation Fund Bonds	300,000	288,915	277,255	169,701
Texas Water Development Board Bonds (State Revolving Fund)	50,000	291,000	409,400	400,170
Total Self-Supporting	**$4,859,769**	**$4,971,078**	**$4,940,647**	**$5,043,697**
Not Self-Supporting[1]				
Texas Public Finance Authority Bonds	$ 275,311	$ 307,320	$ 348,480	$ 351,573
TPFA Master Lease Purchase Program*	5,400	48,600	25,300	47,400[5]
National Guard Armory Board Bonds	24,065	26,955	33,135	31,320
Texas National Research Laboratory Commission Bonds	250,000	250,000	250,000	0
Total Not Self-Supporting	**$ 554,776**	**$ 632,875**	**$ 656,915**	**$ 430,293**
TOTAL NON-GENERAL OBLIGATION BONDS	**$5,414,545**	**$5,603,953**	**$5,597,562**	**$5,473,990**
TOTAL BONDS	**$8,303,177**	**$9,049,493**	**$9,972,957**	**$10,439,858**

*Commercial Paper

[1]Bonds that are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue for debt service. Not self-supporting bonds totalled $3.1 billion outstanding on August 31, 1995, $3.1 billion outstanding on August 31, 1994, $2.3 billion outstanding on August 31, 1993, and $1.8 billion outstanding on August 31, 1992.

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

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

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

[5]This figure reflects only the commercial paper component of the Master Lease Purchase Program (MLPP). An additional $32.2 million in equipment revenue bonds for the MLPP are included under Texas Public Finance Authority bonds.

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

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

back from the state's general revenue fund as of August 31, 1995 — the same amount of such bonds outstanding at the end of fiscal 1994. This figure compares to $2.3 billion at the end of fiscal 1993, and $1.8 billion outstanding at the end of fiscal 1992.

Tremendous growth in the amount of bonds payable from general revenue has occurred over the last seven years primarily as a result of the issuance of bonds to finance construction of correctional facilities and the initial phase of the SSC project. At the end of fiscal 1987, before the expansion of correctional facilities and the SSC bonds were approved, Texas had only $422 million in bonds outstanding payable from general revenue. Since that time, the state has issued over $2.4 billion in debt for correctional facilities and $500 million for the SSC, all payable solely from the state's general revenue. As mentioned previously, the $250 million in SSC project revenue bonds were defeased June 1, 1995. Additionally, the General Appropriations Act contains provisions for the defeasance of all or a portion of the outstanding general obligation bonds issued for the SSC project.

As expected, the amount of general revenue that must go to pay debt service is increasing along with the amount of bonds outstanding that are not self-supporting *(Table 16, p. 26)*. During the 1994-95 budget period, the state paid an average $289 million annually from general revenue for debt service, up from $183 annually during 1992-93, and $114 million annually during 1990-91 *(Figure 15)*.

Texas Debt Remains Well Within Prudent Limits

Even with recent debt issuance, debt service from general revenue remains well within prudent limits. During 1994–95, the state paid 1.7 percent of its unrestricted general revenues for debt service compared to the 1992–93 biennium in which debt-service payments made up 1.2 percent of unrestricted general revenue. The percentage of general revenue going to debt service remains well below the level found in most other large states. (A more detailed examination of Texas' debt burden is presented in Chapter 2.)

Texas Bonds Authorized But Unissued

As of August 31, 1995, Texas had $5.8 billion in authorized but unissued bonds, including $500 million in bond authorization for the SSC project *(Table 17, p. 27)*. As of August 31, 1995, approximately $3.4 billion (58 percent) of the authorized but unissued bonds would be state general obligations. At the end of fiscal 1995, only $1.7 billion (22 percent) of all of the authorized but unissued bonds would require the payment of debt service from general revenue. The remainder are in programs that are designed to be self-supporting.

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

New General Obligation Bond Authority — November 1995

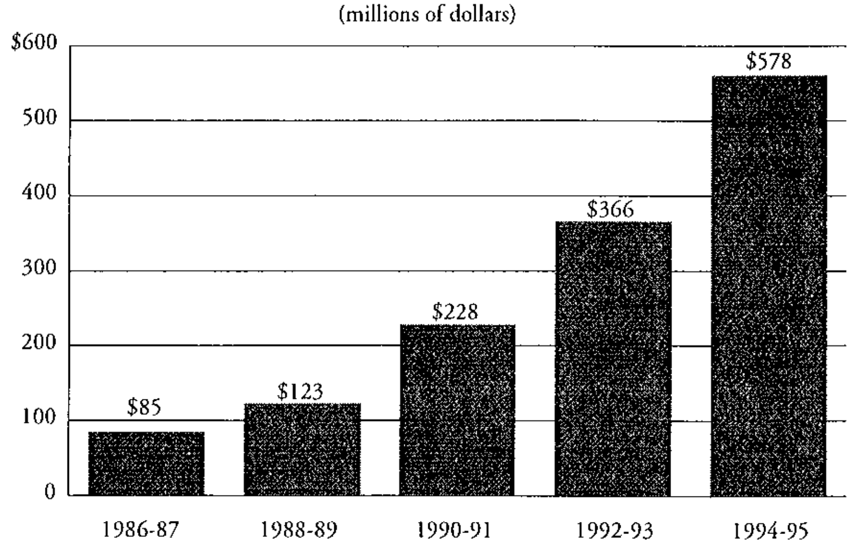
Texans approved two constitutional amendments in November 1995 that authorized another $800 million in G.O. bond issuance.

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

The passage of a second amendment authorized $300 million to augment the state's Hinson-Hazelwood College Stu-

FIGURE 15

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



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

TABLE 16

DEBT SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR

(amounts in thousands)

	1995	1996	1997	1998	1999	2000 plus
GENERAL OBLIGATION BONDS						
Self-Supporting						
Veterans Land and Housing Bonds	$ 145,036	$ 153,201	$ 158,170	$ 161,544	$ 162,841	$ 1,755,567
Water Development Bonds	25,080	28,633	30,298	30,627	30,696	488,204
Park Development Bonds	2,498	2,995	3,242	3,347	3,432	30,891
College Student Loan Bonds	44,220	46,836	50,783	54,804	51,362	520,979
Texas Agricultural Finance Authority Bonds*	1,087	1,295	1,295	1,295	1,295	61,986
Agriculture Water Conservation Bonds	1,480	2,264	2,301	2,331	2,359	8,373
Total Self-Supporting	$ 219,401	$ 235,224	$ 246,089	$ 253,948	$ 251,985	$ 2,866,000
Not Self-Supporting[1]						
Higher Education Constitutional Bonds[2]	$ 35,865	$ 4,904	$ 843	$ 840	$ 839	$ 5,063
Texas Public Finance Authority Bonds	175,313	213,431	217,127	219,387	220,636	3,061,472
Texas Nat'l Research Laboratory Commission Bonds	20,393	20,382	20,370	20,368	20,362	430,425
Water Development Bonds—EDAP[3]	1,991	2,687	2,690	3,269	3,308	57,600
Total Not Self-Supporting	$ 233,562	$ 241,404	$ 241,030	$ 243,864	$ 245,145	$ 3,554,560
TOTAL GENERAL OBLIGATION BONDS	$ 452,963	$ 476,628	$ 487,119	$ 497,812	$ 497,130	$ 6,420,560
NON-GENERAL OBLIGATION BONDS						
Self-Supporting						
Permanent University Fund Bonds						
Texas A&M University System	$ 29,684	$ 31,783	$ 32,277	$ 33,536	$ 34,309	$ 430,489
University of Texas System	66,926	57,395	57,395	57,397	57,397	756,793
College and University Revenue Bonds	135,736	152,736	152,928	155,973	151,273	1,649,686
Texas Hospital Equipment Finance Council Bonds	476	476	476	476	476	14,556
Texas Department of Housing & Community Affairs Bonds	104,212	100,960	101,811	123,437	100,478	2,735,536
Texas Small Business Industrial Development Corporation Notes	3,680	4,967	4,967	4,967	4,967	233,444
Economic Development Program*	14,928	770	770	770	770	29,380
Texas Turnpike Authority Bonds	33,009	40,463	40,463	40,871	40,873	682,283
Texas Water Resources Finance Authority Bonds	55,261	55,026	54,949	53,186	50,872	467,381
College Student Loan Bonds	3,956	5,209	5,948	6,639	7,359	101,767
Texas Workers' Compensation Fund Bonds	32,582	23,114	23,315	23,280	23,241	183,933
Texas Water Development Board Bonds (State Revolving Fund)	31,011	32,444	34,662	34,501	34,836	529,160
Total Self-Supporting	$ 511,462	$ 505,343	$ 509,962	$ 535,034	$ 506,851	$ 7,814,408
Not Self-Supporting[1]						
Texas Public Finance Authority Bonds	$ 56,649	$ 47,174	$ 40,657	$ 38,198	$ 30,671	$ 414,569
TPFA Master Lease Purchase Program*	14,806	19,097	15,101	8,308	4,352	1,123
National Guard Armory Board Bonds	3,620	4,000	4,005	3,992	4,002	27,828
Texas Nat'l Research Laboratory Commission Bonds	17,335	0	0	0	0	0
Total Not Self-Supporting	$ 92,410	$ 70,271	$ 59,763	$ 50,498	$ 39,025	$ 443,520
TOTAL NON-GENERAL OBLIGATION BONDS	$ 603,872	$ 575,614	$ 569,725	$ 585,532	$ 545,876	$ 8,257,928
TOTAL ALL BONDS	$1,056,834	$ 1,052,242	$ 1,056,844	$ 1,083,344	$ 1,043,006	$ 14,678,488

*Commercial Paper

[1]Bonds that are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totalled $326 million during fiscal 1995 and will reach $312 million in fiscal 1996.

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

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

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

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

TABLE 17

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

	8/31/93	8/31/94	8/31/95
GENERAL OBLIGATION BONDS			
Self-Supporting			
Veterans Land and Housing Bonds	$ 210,000	$ 854,999	$ 574,999
Water Development Bonds	1,224,245	1,186,245	1,081,245
Farm and Ranch Loan Bonds	500,000	500,000	500,000
Park Development Bonds	25,975	25,975	25,975
College Student Loan Bonds	125,001	50,001	1
Texas Department of Commerce Bonds	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	10,000	12,000	11,500
Agriculture Water Conservation Bonds	200,000	193,000	186,000
Total Self-Supporting	$2,340,221	$2,867,220	$2,424,720
Not Self-Supporting[1]			
Higher Education Constitutional Bonds	*	*	*
Texas Public Finance Authority Bonds	$ 624,935	$ 773,540	$ 487,440[2]
Texas National Research Laboratory Commission Bonds	250,000	250,000	250,000
Water Development Bonds—EDAP[3]	232,565	232,565	211,565
Total Not Self-Supporting	$1,107,500	$1,256,105	$ 949,005
TOTAL GENERAL OBLIGATION BONDS	$3,447,721	$4,123,325	$3,373,725
NON-GENERAL OBLIGATION BONDS			
Self-Supporting			
Permanent University Fund Bonds[4]			
Texas A&M University System	$ 79,238	$ 67,178	$ 94,822
The University of Texas System	204,006	227,385	288,850
College and University Revenue Bonds	**	**	**
Texas Department of Housing & Community Affairs Bonds	**	**	**
Texas Turnpike Authority Bonds	**	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000	500,000
Texas Department of Commerce Bonds	**	**	**
Texas Water Resources Finance Authority Bonds	**	**	**
Texas School Facilities Finance Program	750,000	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**	**
College Student Loan Bonds	0	0	0
Low-Level Radioactive Waste Disposal Authority Bonds	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**
Alternative Fuels Program	0	50,000	50,000
Texas Water Development Board (State Revolving Fund)	**	**	**
Total Self-Supporting	$1,533,244	$1,594,563	$1,683,672
Not Self-Supporting[1]			
Texas Public Finance Authority Bonds	$ 272,020	$ 340,495	$ 435,310
TPFA Master Lease Purchase Program—Commercial Paper	26,400	74,700	52,600
National Guard Armory Board Bonds	**	**	**
Texas National Research Laboratory Commission Bonds	250,000	250,000	250,000
Total Not Self-Supporting	$ 548,420	$ 665,195	$ 737,910
TOTAL NON-GENERAL OBLIGATION BONDS	$2,081,664	$2,259,758	$2,421,582
TOTAL ALL BONDS	$5,529,385	$6,383,083	$5,795,307

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

*No limit on bond issuance, but debt service may not exceed $50 million per year. Effective September 1, 1995, debt service may not exceed $87.5 million per year.

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

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

[2]This figure represents bonds that have been approved by the voters but have not been issued. The Legislature has appropriated $55.2 million from the unissued amount; the remaining $432.2 million cannot be issued until appropriated by the Legislature.

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

[4]Issuance of PUF bonds by A&M is limited to 10 percent, and issuance by UT is limited to 20 percent of the cost value of investments and other assets of the PUF, except real estate. The PUF value used in this table is as of August 31, 1995.

dent Loan Program, which provides loans to Texas residents to attend public or private institutions of higher education in Texas.

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

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

Long-term contracts and lease- or installment-purchase agreements can serve as alternatives to bonds when the issuance of bonds is not feasible or practical. These agreements, like bonds, are a method of financing capital purchases over time. Payments on these contracts or agreements are generally subject to biennial appropriations by the legislature. These contracts and agreements are not, however, classified as state bonds and must be added to bonds outstanding to get a complete picture of state debt.

An exception to contracts which are subject to biennial appropriation is a contract by the Texas Water Development Board (TWDB). The TWDB has entered into a long-term contract with the federal government to gain storage rights at a reservoir. The balance due on the contract as of September 1, 1995, was $42.4 million. This contract is a general obligation of the state; however, the TWDB does not anticipate a draw on general revenue for contract payments.

As of August 31, 1994, state capital leases outstanding for furniture and equipment totaled approximately $94.2 million. About 94 percent of the dollar amount of these capital leases are to be paid off within five years. Approximately $83.3 million of the total leases were financed through the Master Lease Purchase Program (MLPP) and therefore are already reflected in the bond outstanding figures shown in Table 15.

Lease-purchase agreements for prison facilities have greatly increased the significance of this type of debt. As of the end of fiscal 1994, the Texas Department of Criminal Justice was party to twelve long-term lease-purchase agreements for the purchase or construction of prison facilities. The TDCJ lease-purchases had a total principal amount equal to $227 million outstanding as of August 31, 1994. The lease-purchase payments for the prisons will come totally from appropriations of general revenue by the Legislature to the Texas Department of Criminal Justice *(Table 18).*

Lease purchases as of August 31, 1994, including furniture, equipment (excluding lease-purchases financed through MLPP) and prison facilities, totaled $237.8 million. Inclusion of just the lease-purchases of facilities approved by the Bond Review Board during 1995 would add another $6.5 million to the total amount of lease-purchases outstanding. All of the equipment lease-purchases approved by the Bond Review Board in 1995, with one exception, were financed through the MLPP and therefore are shown as bonds outstanding.

TABLE 18

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

(amounts in thousands)

	1995	1996	1997	1998	1999	2000 and Beyond
General Services Commission	$ 3,392	$ 3,396	$ 3,394	$ 3,395	$ 3,395	$ 59,138
Texas Department of Criminal Justice	19,076	21,574	21,279	21,483	21,456	200,549
TOTAL	$22,468	$24,970	$24,673	$24,878	$24,851	$259,687

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

CHAPTER 6

TEXAS LOCAL GOVERNMENT DEBT IN PERSPECTIVE

Local governments reached a milestone in January 1995 when the Texas Supreme Court upheld the state's system of school finance, ending a decade of litigation. This allowed the 74th Legislature to focus on other local government concerns: a major overhaul of the Education Code, a rewrite of the Water Code, new requirements for the investment of public funds, and requirements for the reporting of local government debt.

The debt outstanding for Texas local governments — public schools, counties, cities, community/junior college districts, special districts — is approximately $54 billion. This debt is nearly evenly divided between tax-supported debt and revenue debt. Cities and villages have the most debt outstanding, followed by special districts (utility, river, power, hospital districts) and school districts.

Table 19 provides detailed information by type of government. This information is based on a combination of verified and estimated data, as noted on the table. Only long-term debt ap-

TABLE 19

LONG-TERM TEXAS LOCAL GOVERNMENT DEBT
As of August 31, 1995

TYPE OF ISSUER	TAX-SUPPORTED DEBT	REVENUE DEBT
Public School Districts		
Voter approved debt	$ 9,531,968,862	
Maintenance tax obligations*	$ 228,874,000	
Lease-purchase contracts		$ 33,421,000
Athletic facilities*		$ 2,892,000
Counties		
Unlimited and limited tax debt	$ 3,271,631,674	
General and specific purpose revenue		$ 1,006,163,000
Lease-purchase contracts		$ 91,406,321
Community/junior college districts		
Unlimited and limited tax	$ 346,720,483	
General and special purpose revenue		$ 275,087,146
Lease-purchase contracts		$ 832,414
Special Districts (utility, river, power, flood, hospital, etc.)*	$ 4,709,845,641	$ 12,439,112,303
Municipalities and villages*	$ 8,262,595,315	$ 13,978,940,393
TOTALS	$ 26,351,635,975	$ 27,827,854,577

*Estimated information will be verified during FY 96. Estimates are based on available information.

Only debt approved by the Attorney General, Public Finance Division, and registered by the Comptroller of Public Accounts, is included. Not included are obligations of less than one-year maturity and special obligations not requiring Attorney General approval.

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

proved by the Attorney General, State of Texas, is included in this overall estimate of debt outstanding.

Some $1.6 billion of city and special district debt is also held as an asset of the State of Texas. These assets represent the par amount of loans to these governments made by the Texas Water Development Board and Water Resources Authority, and for which state revenue and general obligation debt has been issued to fund these loans. Combining state and local debt totals therefore overstates the value of projects financed by the value of these multiple debt issues at the state and local level.

Texas School Districts Primary Issuers of Tax-Supported Debt

Texas public school districts have nearly $10 billion in ad valorem tax debt outstanding; this represents nearly 40 percent of local government ad valorem indebtedness *(Table 19, p. 29)*. Unlike other governments, school districts have almost no revenue debt outstanding. During the state's fiscal year of September 1, 1994, through August 31, 1995, Texas public school districts issued $1.34 billion in voter-approved ad valorem tax debt, a record amount of new money for school facilities in one fiscal year *(Table 20)*. They additionally entered into lease-purchase contracts for $33.4 million to build facilities through this recently approved method of financing.

Texas Supreme Court Upholds School Finance Law

What may have helped to trigger this record amount of financing for facilities is a resolution to Texas' long-running school finance litigation, *Edgewood I through IV*. On January 30, 1995, the Texas Supreme Court upheld Texas' latest school finance legislation, Senate Bill 7, passed during 73rd Legislature, Regular Session. "We conclude that the system established by Senate Bill 7 is financially efficient," the opinion said. "Children who live in property-poor districts and children who live in property-rich districts now have substantially equal access to the funds necessary for a general diffusion of knowledge."

At issue has been the Texas Constitution's charge to the "Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools." (Art. VII, Sec. 1, Texas Constitution.) Property-poor school districts have maintained the Legislature has fallen short in achieving this constitutional requirement. The Texas Supreme Court ruled in 1989 that an "efficient system" requires the state to achieve "substantially equal access to revenue at similar levels of tax effort" for each school district. Senate Bill 7 was the Legislature's fourth attempt to meet the Supreme Court requirement to close the gap in per pupil funding between property-poor and property-rich school districts. Although the Supreme Court upheld Texas' school finance system, it stated, "Surely Texas can and must do better."

Seventy-Fourth Legislature Overhauls Education Code

With this challenge, the Texas Legislature worked throughout the winter and spring of 1995 to overhaul the entire Texas Education Code. The resulting omnibus legislation, Senate Bill 1, makes changes in operations and governance, limits the role of the Texas Education Agency and provides for the establishment of charter schools. In the area of school finance and facilities finance, Senate Bill 1 retains the two-tier funding program to equalize property-tax revenues that had been upheld by the Texas Supreme Court; adds, for the first time, a permanent facilities grant component; and makes other significant changes affecting facilities finance.

The state's two-tier program to equalize property-tax revenues has a basic Tier 1 component and an enrichment Tier 2 component. School districts may use Tier 2 state-aid dollars to enrich

TABLE 20

TOTAL SCHOOL DISTRICT
VOTER-APPROVED DEBT OUTSTANDING

Date	Principal Amount at Par	Increase from Prior Year	Percent Increase
8/31/95	$9,531,968,862	$725,270,707	8.24%
8/31/94	$8,806,698,155	$435,435,434	5.20%
8/31/93	$8,371,262,721	$102,298,490	1.24%
8/31/92	$8,268,964,231	$641,642,235	8.41%

TOTAL SCHOOL DISTRICT
VOTER-APPROVED DEBT ISSUANCE BY FISCAL YEAR

Fiscal Year	Total Par Amount Issued	Par Amount of New-Money Bonds	Par Amount of Refunding Bonds
FY 95	$1,536,510,512	$1,339,130,960	$ 197,379,552
FY 94	$1,830,062,410	$1,031,355,292	$ 798,707,118
FY 93	$2,787,276,400	$ 650,515,000	$2,136,761,400

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

their operational program and to build facilities; the state equalizes up to $1.50 per $100 assessed value in local property tax rates for Tier 1 and Tier 2 components. Tier 2 property tax rates are equalized for maintenance and/or for debt service (interest and sinking fund - I&S). School districts may use these equalized state funds to lower their debt-service tax rate, to fund facilities on a cash basis, or for operational enrichment.

A facilities grant component was enacted as part of Senate Bill 1 and an appropriation of $170 million has been made for the 1996-1997 biennium. To participate, a school district must have a wealth per student of less than the guaranteed wealth level, and an effective total tax rate of $1.30 (or more) or an effective debt tax rate of $0.20 (or more). There are approximately 561 districts (out of 1,038 total districts) that meet these eligibility criteria. It is expected that the current level of funding will support grants to approximately half of the districts that are eligible. One project per eligible district each biennium will be funded and each district is required to participate in the funding of each project; the level of state assistance is based on the proportion of state assistance the district receives under Tier 2. Individual grants are expected to range from $300,000 to approximately $8 million.

Other major Senate Bill 1 changes affecting facilities and debt finance are:

- The voter-approved debt-ceiling ratio of "10 percent of debt to assessed valuation" was removed. The only debt-ceiling ratio for voter-approved debt remaining is the $0.50 tax limitation on "new debt", defined by statute as debt authorized to be issued by an election held after April 1, 1991, or issued on or after September 1, 1992. To obtain state approval for bond issuance, a district must demonstrate to the Attorney General that it has the projected ability to pay the principal of and interest on proposed bonds and existing bonds that represent "new debt" from a tax rate not to exceed $0.50 per $100 assessed value. Once issued, these bonds are not subject to further tax-rate limitations. (A handful of school districts may continue to issue limited-tax bonds, which are additionally limited to a voter-approved tax rate ceiling.)
- The combined $1.50 tax-rate limitation for maintenance and I&S taxes was repealed. The limitation effective September 1, 1995, is $1.50 on maintenance taxes only.
- A companion bill, House Bill 1128, created a new state transfer of funds schedule designed to eliminate most districts' needs to issue tax anticipation notes to meet cash-flow shortfalls at the beginning of the school year. The state, on the other hand, is increasing its annual cash-flow borrowing to accommodate this new state transfer schedule.

Lease-Revenue Bonds a New Way for Texas School Districts to Finance School Facilities

Senate Bill 826, enacted in 1993, has made it possible for school districts to borrow for facilities on a lease-purchase basis. Prior to enactment of this legislation, school districts were permitted to use lease financing for equipment or other personal property only. Voter approval is not required, although a 60-day public notice period is needed. A petition received from 5 percent of district voters, prior to the expiration of the 60-day period, will require an election to be held to determine whether the lease-purchase agreement may be executed. Districts set up nonprofit corporations to issue revenue bonds that fund the facility project. The nonprofit corporation leases the facility to the school district through an installment-sale agreement.

The State Attorney General will not approve leases payable from maintenance taxes, citing constitutional debt restrictions on the use of that tax. Funds that may be applied are surplus "maintenance" monies and Tier 2 state aid. All leases are subject to a non-appropriation clause for periods beyond the current fiscal year.

Through the end of FY 95, six districts have used lease financing for facilities; contracts outstanding total $33.4 million, with several more closed or under review since August 1995. The cost of lease-purchase borrowing is high and the statute provides no guidance on debt-ceiling limitations. Total costs of issuance, including underwriting spread, are nearly twice the cost of similarly-sized voter-approved bonds issued with the Texas Permanent School Fund (PSF) guarantee. Estimated interest costs over the life of the bond issue were 8 to 32 percent greater than similar PSF-guaranteed bonds. There are no statutory guidelines for coverage ratios, acceptable years to maturity or other debt-ceiling limitation. The alternative and primary vehicle for financing school facilities continues to be voter-approved debt with the guarantee of the Texas Permanent School Fund.

The Texas Permanent School Fund Guarantees 83 Percent of Voter-Approved Debt

The most cost-effective method to issue debt for public school facilities in Texas is with the guarantee of the PSF. All school districts with less than a AAA bond rating can be assured of bond market accessibility through the PSF guarantee program.

No other state in the nation has an endowment dedicated exclusively to public education that is the size of the PSF. The PSF, created in 1854 by the 5th Legislature of the state, had a book value of $9.417 billion (unaudited) and a market value of $12.274 billion (unaudited), as of August 31, 1995.

The constitutionally-mandated sole purpose of the PSF is to support the funding of public schools. The Texas Constitution prohibits invasion of the corpus of the PSF except to guarantee bonds issued by school districts of the state. The bond guarantee program was established as an alternative to private bond insurance, but without the cost of private insurance. No school district using the guarantee program, implemented in 1983, has ever been late or has ever defaulted on any payments. At the end of August 1995, $7.908 billion, par amount (unaudited), in outstanding school bonds are being guaranteed by the fund. This amount represents 83 percent of the total $9.53 billion in voter-approved school bonds outstanding at August 31, 1995.

Compared to private bond insurance, this program's risk-to-capital ratio is very strong. According to Standard and Poor's Corporation, the aggregate net exposure to total capital at June 1995 for four major private bond insurers is as follows: AMBAC Indemnity Corporation ($147.65 risk to $1 capital), Capital Guaranty Insurance Company ($89.50 risk to $1 capital), Financial Guaranty Insurance Company ($125.84 risk to $1 capital) and Municipal Bond Investors Assurance Corporation, MBIA, ($173.97 risk to $1 capital)[3].

[3] Standard & Poor's *Creditweek Municipal*, November 13, 1995.

A comparable ratio of aggregate exposure to total capital for the Texas PSF guarantee program is a ratio of the principal and interest guaranteed to the total assets of the endowment. Using the book value of the fund at August 31, 1995, an estimate of risk to capital is $1.42 of risk to $1 of capital; using the market value of the fund at the same date, the estimated ratio would be $1.10 of risk to $1 of capital.

Public Funds Investment Act Covers Local Governments

Numerous other bills were passed by the 74th Texas Legislature that affect some or all Texas local governments and affect debt finance directly or indirectly.

House Bill 2459, the Public Funds Investment Act, amends existing legislation regarding the investment of public funds by state agencies, most local governments and nonprofit corporations acting on behalf of local governments. This was a direct response by the 74th Legislature to a year-long outbreak of negative public fund investment news, including the events of Orange County, California, and the State Auditor's report about the use of derivative investment products by some Texas state agencies and local governments.

Investments covered by this act are those for bond proceeds, reserve funds and funds maintained for debt-service purposes, as well as those for operating, endowment and pooled investment funds. Governing boards are required to adopt a written investment policy that sets forth a separate investment strategy for each fund, addressing suitability standards, preservation and safety of principal, liquidity, marketability of investments, diversification, and yield. Reporting requirements are also established as are limitations on particular investment vehicles. Persons wishing to sell authorized investments to the governmental entity must acknowledge in writing that a copy of the investment policy has been received and reviewed, and the seller must acknowledge the suitability of the investment.

One-Stop Approval For Water and Sewer Projects

Financing water and sewer improvements has been the primary use of tax-exempt debt issuance in Texas. Municipalities and special districts issue ad valorem tax, revenue, or combined tax and revenue bonds for this purpose. The 74th Legislature completed a comprehensive recodification of the Texas Water Code. One change made by the legislation may help to streamline and lessen the cost of debt issuance for water and sewer improvements. Projects approved and financed by the Texas Water Development Board will no longer require concurrent approval from the Texas Natural Resource Conservation Commission. This is encouraging more municipalities and special districts to use this program to lower their borrowing costs.

Compiling Local Government Debt Information

For the state to compile complete information about Texas local government and municipal corporation debt issuance, House Bill 1564 requires the Attorney General to collect bond issuance information at the time of transaction review and approval, and make specific information available to the Texas Bond Review Board. Information will be compiled and analyzed for the Board's report on debt statistics.

APPENDIX A

SUMMARY OF BONDS ISSUED

TEXAS A&M UNIVERSITY SYSTEM

Issue: Board of Regents of the Texas A&M University System, Revenue Financing System Bonds, Series 1995 - $107,860,000

Purpose: The proceeds of the bonds were used to currently refund $71.5 million of outstanding RFS commercial paper notes, to provide permanent financing for the facilities financed with the note proceeds and to finance other capital improvement projects at the system's South Texas components.

Dates: Board Approval - December 13, 1994
Competitive Sale - January 5, 1995
Delivery - February 1, 1995

Structure: The bonds were issued as fixed-rate tax-exempt securities. The bonds will mature serially beginning in 1995 with a final maturity in 2012. The bonds are revenue obligations payable from the pledged revenues of the Texas A&M University System Revenue Financing System.

Bond Ratings: Moody's - Aa
S&P - AA
Fitch - AA

Interest Cost: True Interest Cost (TIC) - 6.03%
Net Interest Cost (NIC) - 5.99%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$77,056	$0.71
Financial Advisor	71,358	0.66
Rating Agencies	88,000	0.82
Printing	5,523	0.05
Paying Agent/Registrar	350	0.00
Attorney General	1,250	0.01
	$243,537	$2.25
Underwriter's Spread:	$528,514	$4.90

STEPHEN F. AUSTIN STATE UNIVERSITY

Issue: State of Texas Constitutional Appropriation Bonds (Board of Regents of Stephen F. Austin State University) Series 1995 - $6,800,000

Purpose: The proceeds of the bonds were used for the purpose of constructing and renovating certain university campus projects, including the music building, roof repairs, various other capital projects and paying costs of issuance.

Dates: Board Approval - June 22, 1995
Competitive Sale - June 28, 1995
Delivery - July 27, 1995

Structure: The bonds are fixed-rate tax-exempt securities maturing serially beginning in October 1995 with a final maturity of October 2004. The bonds are non-callable. The bonds are secured by a pledge of up to 50 percent of the funds annually appropriated to the University pursuant to Article VII, Section 17 of the Texas Constitution.

Bond Ratings: Moody's - Aa
S&P - AA

Interest Cost: True Interest Cost (TIC) - 4.86%
Net Interest Cost (NIC) - 4.82%

Consultants:
Co-Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - First Southwest Company
Senior Underwriter - Prudential Securities

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$8,828	$1.30
Financial Advisor	16,591	2.44
Rating Agencies	11,500	1.69
Printing	3,787	0.56
Paying Agent/Registrar	500	0.07
Attorney General	1,000	0.15
Miscellaneous	215	0.03
	$42,421	$6.24
Underwriter's Spread:	$64,984	$9.56

Note: Numbers may not add due to rounding.

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: Texas Higher Education Coordinating Board, State of Texas General Obligation College Student Loan Bonds, Series 1995 - $48,850,000

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

Dates: Board Approval - April 20, 1995
Competitive Sale - April 27, 1995
Delivery - May 30, 1995

Structure: The bonds were structured as fixed-rate tax-exempt securities, maturing serially beginning August 1999 with a final maturity in August 2020. The bonds are general obligations of the state. As such, the state's full faith and credit are pledged to the repayment of the bonds. The program is designed to be self-supporting by providing funding through the repayment of student loans and investment income sufficient to meet the debt service and reserve requirements without drawing funds from the state's General Revenue Fund.

Bond Ratings: Moody's - Aa
S&P - AA

Interest Cost: True Interest Cost (TIC) - 5.91%
Net Interest Cost (NIC) - 5.87%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$25,000	$0.51
Financial Advisor	24,425	0.50
Computer Structuring	2,775	0.06
Rating Agencies	30,100	0.62
OS Printing	5,050	0.10
Private Activity Fee	12,713	0.26
Paying Agent/Registrar	400	0.01
Miscellaneous	771	0.02
	$101,234	**$2.08**
Underwriter's Spread:	**$390,952**	**$8.00**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Bonds, Series 1994 (Collateralized Home Mortgage Revenue Bond Program) - $84,140,000

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

Dates: Board Approval - September 22, 1994
Private Placement - November 17, 1994
Delivery - November 17, 1994

Structure: The Texas Department of Housing and Community Affairs is participating in the Federal National Mortgage Association (FNMA) MRB Express Program. As part of the FNMA Express Program, the bonds were initially issued as convertible interest bonds ("COBs"). As mortgage loans are made, they will be converted to long-term fixed-rate debt which will mature no later than November 1, 2026.

Bond Rating: S&P - SP-1+

Interest Cost: Variable Rate Program
(Interim Rate of 4.60%)

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$110,034	$1.31
Financial Advisor	30,000	0.36
Rating Agencies	8,400	0.10
FNMA Counsel	40,000	0.48
Disclosure Counsel	20,646	0.25
Department Financing	20,000	0.24
Private Activity Fee	14,030	0.17
Attorney General	1,250	0.01
Trustee	7,800	0.09
Trustee Counsel	10,000	0.12
Miscellaneous	8,000	0.10
	$270,160	**$3.23**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Refunding Bonds, Series 1995A, (Collateralized Home Mortgage Revenue Bond Program) - $5,825,000

Purpose: The proceeds of the bonds were used to refund outstanding commercial paper notes and thereby recycle prepayments into new home mortgage loans. In this manner, TDHCA will preserve volume cap attributable to the single family mortgage revenue bond program.

Dates: Board Approval - October 20, 1994
Private Placement - January 18, 1995
Delivery - February 22, 1995

Structure: TDHCA is participating in FNMA's MRB Express Program. As part of the FNMA Express Program, the bonds will be issued in tandem with the conversion of portions of TDHCA's COBs to a long-term fixed interest rate. The bonds will bear a fixed rate and will mature no later than November 1, 2015.

Bond Rating: S&P - AAA

Interest Cost: True Interest Cost (TIC) - 6.26%
Net Interest Cost (NIC) - 6.26%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$20,000	$3.43
Financial Advisor	4,370	0.75
Rating Agencies	1,000	0.17
Disclosure Counsel	2,231	0.38
Verification Fee	500	0.09
FNMA Counsel	2,000	0.34
Trustee	1,000	0.17
Trustee Counsel	2,800	0.48
	$33,901	$5.81

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Refunding Bonds, Series 1995B, (Collateralized Home Mortgage Revenue Bond Program) - $2,030,000

Purpose: The proceeds of the bonds were used to refund outstanding commercial paper notes and thereby recycle prepayments into new home mortgage loans. In this manner, TDHCA will preserve volume cap attributable to the single family mortgage revenue bond program.

Dates: Board Approval - October 20, 1994
Private Placement - February 2, 1995
Delivery - April 26, 1995

Structure: TDHCA is participating in FNMA's MRB Express Program. As part of the FNMA Express Program, the bonds will be issued in tandem with the conversion of portions of TDHCA's COBs to a long-term fixed interest rate. The bonds will bear a fixed rate and will mature no later than November 1, 2010.

Bond Rating: S&P - AAA

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

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$19,481	$9.60
Financial Advisor	1,523	0.75
Rating Agencies	1,000	0.49
Disclosure Counsel	1,245	0.61
Verification Fee	500	0.25
FNMA Counsel	1,500	0.74
Trustee	1,000	0.49
Trustee Counsel	2,500	1.23
	$28,749	$14.16

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas Building Revenue Bonds, Series 1994A - $37,635,000

Purpose: The proceeds of the bonds were used to pay the expenses incurred for renovation of the School for the Deaf, School for the Blind, Sam Houston Building, and for the purchase of the Baker-Hughes Building in Harris County and another building in Waco.

Dates: Board Approval - August 18, 1994
Negotiated Sale - September 21, 1994
Delivery - October 13, 1994

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

Bond Ratings: Moody's - Aaa
S&P - AAA
Fitch - AAA

Interest Cost: True Interest Cost (TIC) - 6.12%
Net Interest Cost (NIC) - 6.17%

Consultants:
Bond Counsel - Ferchill & Hall, P.C.
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - Masterson Moreland Sauer Whisman, Inc.
Co-Financial Advisor - Berean Capital, Inc.
Co-Senior Underwriters - Goldman, Sachs & Co.
M.R. Beal & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$21,230	$0.56
Financial Advisor	26,950	0.72
Rating Agencies	24,500	0.65
Printing	8,324	0.22
Miscellaneous	298	0.01
	$81,301	**$2.16**
Underwriter's Spread:	**$245,541**	**$6.52**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, State of Texas General Obligation Refunding Bonds, Series 1995A - $300,000,000

Purpose: The proceeds of the bonds were used to currently refund $300 million of outstanding general obligation commercial paper notes and to pay the costs of issuance, including underwriter's spread. The notes were issued on behalf of the Texas Department of Criminal Justice.

Dates: Board Approval - January 19, 1995
Negotiated Sale - February 15, 1995
Delivery - March 9, 1995

Structure: The bonds are fixed-rate tax-exempt securities maturing serially beginning in October 1996 with a final maturity of October 2015. The bonds are general obligations of the state.

Bond Ratings: Moody's - Aa
S&P - AA
Fitch - AA+

Interest Cost: True Interest Cost (TIC) - 5.82%
Net Interest Cost (NIC) - 5.86%

Consultants:
Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Yava D. Scott, Attorney at Law
Financial Advisor - Masterson Moreland Sauer Whisman, Inc.
Co-Financial Advisor - M.R. Beal & Company
Joint Lead Senior Underwriters-Grigsby Brandford & Co., Inc.
CS First Boston
Co-Senior Underwriter - Artemis Capital, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$20,363	$0.07
Financial Advisor	38,179	0.13
Rating Agencies	52,000	0.17
Printing	8,813	0.03
Escrow Verification	1,950	0.01
Miscellaneous	1,936	0.01
	$123,241	**$0.42**
Underwriter's Spread:	**$1,236,783**	**$4.12**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Southwest Texas State University, University Housing System Revenue Bonds, Series 1995 - $4,255,000

Purpose: The proceeds of the bonds were used to provide funds to pay for the costs of constructing and equipping a replacement University bookstore.

Dates: Board Approval - April 20, 1995
Competitive Sale - July 13, 1995
Delivery - August 8, 1995

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

Bond Ratings: Moody's - Aaa
S&P - AAA

Interest Cost: True Interest Cost (TIC) - 5.57%
Net Interest Cost (NIC) - 5.56%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$4,889	$1.15
Financial Advisor	2,169	0.51
Rating Agencies	9,400	2.21
OS Preparation & Printing	4,078	0.96
Paying Agent/Registrar	300	0.07
Attorney General	750	0.18
	$21,587	**$5.08**
Underwriter's Spread:	**$76,807**	**$18.05**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Southwest Texas State University, Subordinated Junior Lien Combined Fee Revenue Bonds, Series 1995 - $16,245,000

Purpose: The proceeds of the bonds were used to provide funds to pay for the costs of constructing a new student center and an adjacent parking garage.

Dates: Board Approval - April 20, 1995
Competitive Sale - July 13, 1995
Delivery - August 8, 1995

Structure: The bonds are fixed-rate tax-exempt securities maturing serially beginning in August 1998 with a final maturity of August 2015. The bonds are insured.

Bond Ratings: Moody's - Aaa
S&P - AAA

Interest Cost: True Interest Cost (TIC) - 5.50%
Net Interest Cost (NIC) - 5.44%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$13,729	$0.85
Financial Advisor	4,686	0.29
Rating Agencies	22,400	1.38
OS Preparation & Printing	5,898	0.36
Paying Agent/Registrar	300	0.02
Attorney General	1,000	0.06
	$48,013	**$2.96**
Underwriter's Spread:	**$126,714**	**$7.80**

TEXAS TECH UNIVERSITY

Issue: Board of Regents of Texas Tech University, Revenue Financing System Bonds, Second Series (1995) - $25,000,000

Purpose: The proceeds of the bonds were used to construct a library for Texas Tech University and a library conference center for the Texas Tech University Health Center, as well as other capital improvement projects for Texas Tech University.

Dates: Board Approval - February 23, 1995
Competitive Sale - March 21, 1995
Delivery - April 25, 1995

Structure: The notes are fixed-rate tax-exempt securities which will mature serially beginning February 1996 and ending in February 2015. Bonds maturing in 2005-2015 are insured.

Bond Ratings: Moody's - A1
S&P - AA

Interest Cost: True Interest Cost (TIC) - 5.82%
Net Interest Cost (NIC) - 5.81%

Consultants:
Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
OS Preparation - Akin, Gump, Strauss, Hauer & Feld, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - Prudential Securities

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$18,912	$0.76
Financial Advisor	14,973	0.60
Rating Agencies	31,500	1.26
OS Preparation & Printing	17,421	0.70
Paying Agent/Registrar	375	0.02
Attorney General	1,250	0.05
	$84,430	**$3.39**
Underwriter's Spread	**$226,785**	**$9.07**

TEXAS TURNPIKE AUTHORITY

Issue: Texas Turnpike Authority, Dallas North Tollway Revenue Bonds (Addison Airport Toll Tunnel Project), Series 1994 - $26,800,000

Purpose: The proceeds of the bonds were used for the purpose of constructing the Addison Airport Toll Tunnel, an east-west, two-lane roadway and a two-lane tunnel crossing under Addison Airport with sufficient right-of-way for two future lanes. The project is an addition to and extension of the Dallas North Tollway.

Dates: Board Approval - July 21, 1994
Negotiated Sale - December 1, 1994
Delivery - January 5, 1995

Structure: The bonds were sold as fixed-rate tax-exempt securities, including both serial and term bonds, maturing serially beginning January 1998 with a final maturity January 2023. The bonds are insured.

Bond Ratings: Moody's - Aaa
S&P - AAA
Fitch - AAA

Interest Cost: True Interest Cost (TIC) - 7.03%
Net Interest Cost (NIC) - 6.83%

Consultants:
Co-Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Satterthwaite, P.C.
Financial Advisor - First Southwest Company
Senior Underwriter - Grigsby Brandford & Co., Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$37,328	$1.39
Financial Advisor	20,100	0.75
Rating Agencies	29,000	1.08
Issuer's Counsel	15,000	0.56
Printing	19,186	0.72
Rating Meeting/Closing	10,348	0.39
Consulting Engineer	20,000	0.75
Traffic Engineer	10,499	0.39
CPA Fee	6,500	0.24
Trustee/Escrow Agent	7,340	0.27
Miscellaneous	26,625	0.99
	$201,925	**$7.53**
Underwriter's Spread:	**$197,288**	**$7.36**

THE UNIVERSITY OF HOUSTON SYSTEM

Issue: The University of Houston System, Higher Education Assistance Fund Anticipation Notes, Series 1994 - $3,900,000

Purpose: The proceeds of the notes were used to convert the Developmental Arts Building at University of Houston - Clear Lake from a fitness and recreation center to a computer science-oriented academic building, to remodel and renovate the Bayou and Arbor Buildings, and to pay issuance costs.

Dates: Board Approval - September 22, 1994
Competitive Sale - October 20, 1994
Delivery - November 22, 1994

Structure: The notes are fixed-rate tax-exempt securities dated November 22, 1994 and maturing October 1, 1995. Interest will be payable at maturity calculated on the basis of actual number of days elapsed in a 365-day year.

Bond Rating: S&P - SP-1+

Interest Cost: True Interest Cost (TIC) - 4.24%
Net Interest Cost (NIC) - 4.24%

Consultants:
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Co-Bond Counsel - Medina & Associates
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - Masterson Moreland Sauer Whisman, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$25,000	$6.41
Financial Advisor	20,000	5.13
Rating Agencies	4,400	1.13
Printing	2,689	0.69
Paying Agent/Registrar	250	0.06
Miscellaneous	2,671	0.68
	$55,010	**$14.10**
Underwriter's Spread:	**$4,187**	**$1.07**

THE UNIVERSITY OF HOUSTON SYSTEM

Issue: The University of Houston System, Consolidated Revenue Bonds, Series 1995 - $22,400,000

Purpose: The proceeds of the bonds were used for the purpose of financing the construction and equipping of an academic and student services building at the University of Houston-Downtown and paying the costs of issuing the bonds. The master resolution establishing the consolidated revenue financing program was also amended to add pledged general tuition to the pledged revenues securing the bonds.

Dates: Board Approval - February 23, 1995
Negotiated Sale - March 17, 1995
Delivery - April 19, 1995

Structure: The bonds are fixed-rate tax-exempt securities which will mature serially beginning February 1997 and ending in February 2017. The bonds are insured.

Bond Ratings: Moody's - Aaa
S&P - AAA
Fitch - AAA

Interest Cost: True Interest Cost (TIC) - 5.99%
Net Interest Cost (NIC) - 5.91%

Consultants:
Co-Bond Counsel - Vinson & Elkins, L.L.P.
Co-Bond Counsel - Medina & Associates
Co-Bond Counsel - Wickliff & Hall, P.C.
Financial Advisor - Masterson Moreland Sauer Whisman, Inc.
Senior Underwriter - Rauscher Pierce Refsnes, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$25,973	$1.16
Financial Advisor	32,875	1.47
Rating Agencies	26,400	1.18
Printing	5,500	0.25
Paying Agent/Registrar	250	0.01
Attorney General	1,250	0.06
Miscellaneous	350	0.02
	$92,599	$4.15
Underwriter's Spread:	$111,552	$4.98

UNIVERSITY OF NORTH TEXAS

Issue: Board of Regents of The University of North Texas, General Tuition Revenue Bonds, Series 1994 (The University of North Texas Health Science Center at Fort Worth) - $10,000,000

Purpose: The proceeds of the bonds were used to pay the costs of expanding the existing campus animal care facility, the construction of an ambulatory health care treatment and teaching facility, and to pay issuance costs.

Dates: Board Approval - August 18, 1994
Competitive Sale - September 21, 1994
Delivery - October 18, 1994

Structure: The bonds are fixed-rate tax-exempt securities maturing serially beginning in June 1995 with a final maturity of June 2014. The bonds are insured.

Bond Ratings: Moody's - Aaa
S&P - AAA

Interest Cost: True Interest Cost (TIC) - 6.12%
Net Interest Cost (NIC) - 6.11%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$11,869	$1.19
Financial Advisor	5,900	0.59
Rating Agencies	22,700	2.27
Printing	4,648	0.46
Paying Agent/Registrar	350	0.04
Miscellaneous	449	0.04
	$45,916	$4.59
Underwriter's Spread:	$97,820	$9.78

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Revenue Financing System Bonds, Series 1995A - $74,945,000

Purpose: The proceeds of the bonds were used to refund approximately $34.8 million of outstanding RFS Commercial Notes, Series A, to refund the outstanding Board of Regents of Pan American University Tuition Revenue Bonds, Series 1986, and to provide approximately $35.2 million of new money for the purpose of acquiring, purchasing, constructing, improving, enlarging, and equipping the property and facilities of the members of the Revenue Financing System, and to pay costs of issuance.

Dates: Board Approval - May 18, 1995
Negotiated Sale - June 8, 1995
Delivery - July 12, 1995

Structure: The bonds are fixed-rate tax-exempt securities maturing serially beginning in August 1996 with a final maturity of August 2017. The bonds are revenue obligations payable from the pledged revenues of The University of Texas System Revenue Financing System.

Bond Ratings: Moody's - Aa1
S&P - AA+
Fitch - AA+

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

Consultants:
Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel - Lannen & Oliver, P.C.
Senior Underwriter - Morgan Stanley & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$57,460	$0.77
Rating Agencies	71,000	0.95
Printing	11,156	0.15
Miscellaneous	12,205	0.16
	$151,822	$2.03
Underwriter's Spread:	$452,112	$6.03

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Fund II Series 1994A Bonds (AMT)
Texas Veterans Land Board, Veterans' Housing Assistance Fund II Series 1994B Taxable Bonds
Texas Veterans Land Board, Veterans' Housing Assistance Fund I Refunding Series 1994C Bonds (Non-AMT)
Texas Veterans Land Board, Veterans' Housing Assistance Fund I Series 1994D Bonds (AMT)
Total issuance: $342,843,904

Purpose: Proceeds of the Series 1994C bonds were used to refund the outstanding Series 1984B bonds in the amount of $87,845,000 to generate net present value savings. Remaining proceeds will also be used to make loans to veterans at below-market rates in an effort to "blend down" the loan rate of the loans transferring as a result of the refunding.

Dates: Board Approval - September 22, 1994
Negotiated Sale - October 12, 1994
Delivery - October 27, 1994

Structure: The bonds are structured as fixed-rate securities comprised of both serial and term bonds. The bonds are scheduled to mature beginning in 1995 with a final maturity in 2025. The bonds are general obligations of the state.

Bond Ratings: Moody's - Aa
S&P - AA

		Ser. A,C,D	Ser. B
Interest Cost:	True Interest Cost (TIC) -	6.68%	8.58%
	Net Interest Cost (NIC) -	6.67%	8.52%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$194,194	$0.57
Financial Advisor	120,183	0.35
Rating Agencies	50,000	0.15
Printing	29,961	0.09
Paying Agent/Registar	400	0.00
College Saver Marketing	14,714	0.04
Miscellaneous	2,331	0.01
	$411,783	**$1.21**
Underwriter's Spread:	**$2,656,836**	**$7.75**

TEXAS VETERANS LAND BOARD

Issue: Texas Veterans Land Board, State of Texas Veterans' Land Bonds, Taxable Series 1995 - $25,000,000

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

Dates: Board Approval - February 23, 1995
Competitive Sale - March 21, 1995
Delivery - April 6, 1995

Structure: The bonds are structured as fixed-rate taxable securities, with the final maturity in 2026. The bonds will mature serially commencing December 1, 1997, with principal being paid semi-annually. The bonds are general obligations of the state.

Bond Ratings: Moody's - Aa
S&P - AA

Interest Cost: True Interest Cost (TIC) - 8.18%
Net Interest Cost (NIC) - 8.19%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$34,358	$1.37
Financial Advisor	9,422	0.38
Rating Agencies	16,000	0.64
OS Preparation & Printing	21,265	0.85
Attorney General	1,250	0.05
	$82,295	**$3.29**
Underwriter's Spread:	**$41,000**	**$1.64**

TEXAS WATER DEVELOPMENT BOARD

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

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

Dates: Board Approval - September 22, 1994
Negotiated Sale - September 28, 1994
Delivery - October 25, 1994

Structure: The bonds are non-callable fixed-rate taxable securities maturing serially beginning in August 1996 with a final maturity of August 2003. The bonds are general obligations of the state.

Bond Rating: Moody's - Aa
S&P - AA

Interest Cost: True Interest Cost (TIC) - 8.00%
Net Interest Cost (NIC) - 7.96%

Consultants:
Bond Counsel - McCall, Parkhurst & Horton, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - Artemis Capital Group, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$8,008	$1.14
Financial Advisor	6,000	0.86
Rating Agencies	7,900	1.13
Printing	8,932	1.28
Paying Agent/Registrar	350	0.05
Attorney General	1,000	0.14
	$32,190	**$4.60**
Underwriter's Spread:	**$51,488**	**$7.36**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Tax-Exempt General Obligation Texas Water Development Bonds, Series 1994A-D - $65,000,000

Purpose: The proceeds of the bonds were used to augment the Texas Water Development Fund established as a special revolving fund in the Treasury. The Series 1994A&C were for water supply purposes and the Series 1994B&D were for water quality enhancement purposes. The Series 1994C&D were part of the Economically Distressed Area Program (EDAP).

Dates: Board Approval - November 17, 1994
Negotiated Sale - November 29, 1994
Delivery - December 20, 1994

Structure: The bonds were sold as fixed-rate tax-exempt securities. The Series 1994A and Series 1994B mature serially beginning in 1997 with final maturities of 2035 and 2015, respectively. The Series 1994C and Series 1994D bonds mature serially beginning in 1998 with a final maturity in 2018. The bonds are general obligations of the state.

Bond Ratings: Moody's - Aa
S&P - AA

Interest Cost: True Interest Cost (TIC) - 6.91%
Net Interest Cost (NIC) - 6.90%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$43,779	$0.67
Financial Advisor	35,000	0.54
Rating Agencies	28,200	0.43
Printing	7,844	0.12
Paying Agent/Registrar	1,000	0.02
Attorney General	3,750	0.06
	$119,573	**$1.84**
Underwriter's Spread:	**$458,250**	**$7.05**

TEXAS WATER DEVELOPMENT BOARD

Issue: Texas Water Development Board, Tax-Exempt General Obligation Texas Water Development Bonds, Series 1995A&C, Texas Water Development Board, Taxable General Obligation Texas Water Development Bonds, Series 1995B - $61,000,000

Purpose: The proceeds of the bonds were used to augment the Texas Water Development Fund established as a special revolving fund in the Treasury. The Series 1995A bonds were for water supply purposes and the Series 1995B bonds were for taxable water supply purposes. The Series 1995C bonds were for water supply purposes as part of the Economically Distressed Area Program (EDAP).

Dates: Board Approval - March 23, 1995
Negotiated Sale - April 11, 1995
Delivery - May 10, 1995

Structure: The Series 1995 A&C bonds were sold as fixed-rate tax-exempt securities. The Series 1995A bonds mature serially beginning in August 1997 with a final maturity in August 2026. The Series 1995C bonds mature serially beginning in August 1998 with a final maturity in August 2018. The Series 1995B bonds were sold as fixed-rate taxable securities maturing serially beginning in August 1997 with a final maturity in August 2020. The bonds are general obligations of the state.

Bond Ratings: Moody's - Aa
S&P - AA

		Ser. A&C	Ser. B
Interest Cost:	True Interest Cost (TIC) -	5.88%	8.19%
	Net Interest Cost (NIC) -	5.81%	8.16%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$30,904	$0.51
Financial Advisor	33,000	0.54
Rating Agencies	33,000	0.54
OS Preparation & Printing	10,368	0.17
Attorney General	3,250	0.05
	$110,522	**$1.81**
Underwriter's Spread:	**$356,795**	**$5.85**

APPENDIX B

TEXAS COMMERCIAL PAPER AND VARIABLE RATE NOTE/BOND PROGRAMS

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

As of August 31, 1995, a total of $1.645 billion was authorized for state commercial paper or variable rate bond programs. Of this amount, $884 million was outstanding as of the end of fiscal 1995 *(Table 21)*. (The figures shown in Table 21 were included in the bond outstanding and authorized but unissued figures reported in Chapter 5). A brief summary of each variable rate debt program is provided below.

THE UNIVERSITY OF TEXAS SYSTEM

The University of Texas System has authorized two variable rate financing programs: a variable rate note program secured by the income from the Permanent University Fund (PUF) and a commercial paper program secured by revenues of The University of Texas System.

The System's commercial paper program was established in 1990 to provide interim financing for capital projects, including construction, acquisition, renovation, or equipping of facilities. The commercial paper is secured by a pledge of all legally available revenues to The University of Texas System, including pledged tuition fees, general fees, and other revenue sources. In fiscal 1994, the System increased the authorized amount of commercial paper from $100 million to $150 million, converted to self-liquidity and expanded the pledge to include tuition revenues. During fiscal 1995, the System increased the authorized amount of commercial paper from $150 million to $250 million.

TEXAS A&M UNIVERSITY SYSTEM

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

The System's commercial paper program was established in 1992 to provide interim financing for capital projects,

TABLE 21

TEXAS COMMERCIAL PAPER AND VARIABLE RATE NOTE/BOND PROGRAMS
AS OF AUGUST 31, 1995

ISSUER	TYPE OF PROGRAM	AUTHORIZED AMOUNT	AMOUNT OUTSTANDING
The University of Texas System			
Permanent University Fund	Variable Rate Notes	$ 250,000,000	$ 40,000,000
Revenue Financing System	Commercial Paper	250,000,000	157,664,000
The Texas A&M University System			
Permanent University Fund	Variable Rate Notes	95,000,000	80,000,000
Revenue Financing System	Commercial Paper	125,000,000	100,000,000
Texas Department of Agriculture	Commercial Paper	25,000,000	18,500,000
	Commercial Paper	100,000,000	0
Texas Department of Commerce	Commercial Paper	25,000,000	11,000,000
Texas Department of Housing and Community Affairs	Commercial Paper	75,000,000	8,535,000
Texas Water Development Board	Variable Rate Demand Bonds	100,000,000	50,000,000
Texas Public Finance Authority			
Revenue	Commercial Paper	100,000,000	47,400,000
General Obligation	Commercial Paper	500,000,000	370,600,000
TOTAL		$1,645,000,000	$883,699,000

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

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

TEXAS DEPARTMENT OF AGRICULTURE

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

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

TEXAS DEPARTMENT OF COMMERCE

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

TEXAS WATER DEVELOPMENT BOARD

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

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

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

TEXAS PUBLIC FINANCE AUTHORITY

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

During fiscal 1994, TPFA established a variable rate financing program that is secured by the state's general obligation pledge. The proceeds are used to provide interim financing for capital projects that have been authorized by the Legislature to be financed through general obligation bonds. The liquidity facility is provided by the State Treasury. In fiscal 1995, TPFA converted $300 million of outstanding commercial paper into fixed-rate bonds in order to use the commercial paper authorization to finance new projects.

LEGISLATION PASSED TO ENABLE STATE TREASURER TO SERVE AS LIQUIDITY FACILITY PROVIDER

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

APPENDIX C

TEXAS PRIVATE ACTIVITY BOND ALLOCATION PROGRAM

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

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

Additionally, the Tax Act imposes a volume ceiling on the aggregate principal amount of tax-exempt, private activity bonds that may be issued within each state during any calendar year. The state ceiling imposed by the Tax Act, is $50 per capita or $150 million, whichever is greater. Section 146(e) of the Internal Revenue Code provides for each state to devise an allocation formula or process for allocating the state's ceiling. This provision has given each state the ability to allocate this limited resource in a manner consistent with the needs of that state. Since different states have different needs and demands, there are many varied allocation systems in place.

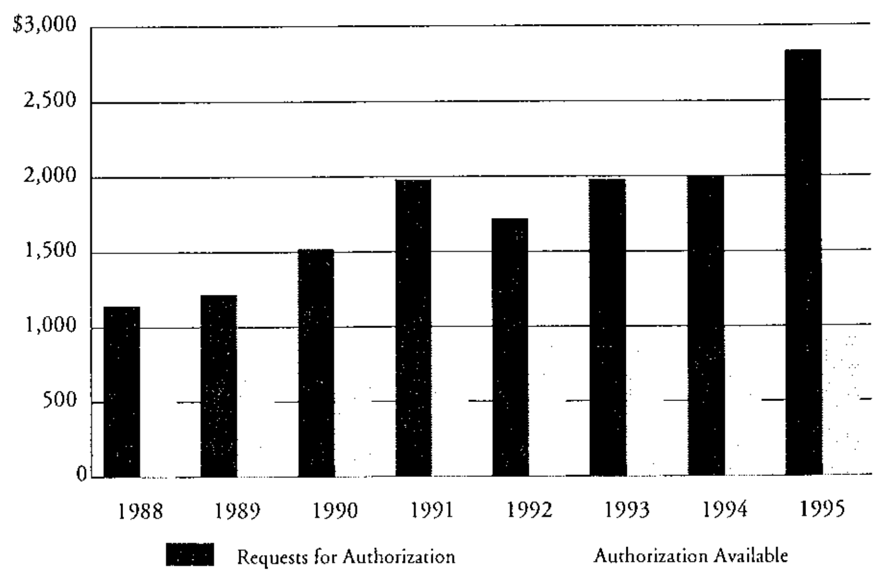
State legislation, Texas Revised Civil Statutes, as amended, Article 5190.9a (the "Act"), mandates the allocation process for the State of Texas. The Private Activity Bond Allocation Program (as it is commonly referred to) regulates this volume ceiling and monitors the amount of demand and the use of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

In an effort to address high demand for most types of private activity bond financing, Texas has devised a system that ensures an opportunity for some allocation for each eligible project type. Because of the limited state ceiling, it is impossible to meet all the demands, but a system must be in place that ensures an equitable method of allocation.

FIGURE 16

PRIVATE ACTIVITY BOND AUTHORIZATION AVAILABLE vs. AUTHORIZATION REQUESTED

(millions of dollars)



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

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

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

Generally, with the exception of single family housing, the state ceiling is allocated by lottery for applications received from January 2 - January 10, and thereafter on a first-come, first-served basis. Single family housing has a separate priority system based on prior applications and prior bond issues. This system, used exclusively within the single family subceiling, is in place from January until August 31 of each year. Unreserved allocation, from all subceilings, is combined on September 1 and redistributed by lot order, regardless of project type. Several of the applicants that receive reservations for allocation are unable to complete the transaction, or close for a lesser amount than anticipated. In these cases, the original request is considered satisfied but unused, and the excess allocation is redistributed and used by another applicant. This often results in an actual distribution which varies from the predetermined set asides at the beginning of the program year *(Table 22)*.

Compared to all states, Texas once again experienced one of the largest increases of volume cap for the 1995 Private Activity Bond Allocation Program. Based on the population estimate for Texas of 18,378,000, the 1995 volume cap was set at $918,900,000, an increase of $17,350,000 (1.9 percent) from the 1994 cap of $901,550,000. However, the increase falls far short of the demand expressed for the program. Although the allocation program in Texas has been oversubscribed each year since 1988, the 1995 data is the most significant thus far *(Figure 16)*. Applications received in 1995 totaled $2.83 billion or 308 percent of the available allocation amount *(Table 23, p. 48)*. The 1995 program year will end leaving $1.83 billion in requests for allocation outstanding. This figure represents an increase in unsatisfied requests of 115 percent over the 1994 program year.

The 74th Legislature passed House Bill 2726, which made significant amendments to the statute to provide for a broader distribution of the limited volume cap. All new provisions will be in place for the 1996 program year. The amendments include, but are not limited to the following:

- In most categories, the maximum application amount is reduced to allow a greater number of applications to re-

TABLE 22

1995 PRIVATE ACTIVITY BOND ALLOCATION
SET-ASIDE AMOUNTS vs. ISSUED AMOUNTS

Subceilings	Allocation Set Aside	% of Total Volume Cap	Allocation Issued	% of Total Volume Cap
Single Family Housing	$257,292,000	28.00%	$306,410,450	33.35%
State-Voted Issues	160,807,500	17.50	48,850,000	5.32
Small Issue IDBs	68,917,500	7.50	58,295,000	6.34
Multi-Family Housing	45,945,000	5.00	45,945,000	5.00
All Other Issues	385,938,000	42.00	459,399,550	49.99
Total	$918,900,000	100.00%	$918,900,000	100.00%

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

ceive some allocation. (i.e. In the "all other" subceiling, the maximum application amount for student loan bonds was reduced from $50 million to $35 million. Other application amounts in the subceiling were further restricted to $25 million.)

- The number of applications which can be filed for multiple projects at any one project site is limited to one per site to allow more companies to access allocation.
- For the 1996 and 1997 program years, the amendments provide for a $20 million set-aside from the single family subceiling to be used by the Texas Department of Housing and Community Affairs to structure a mortgage revenue bond program specifically for use in the colonias and for assisting with restructuring existing contracts-for-deed. The $20 million will be taken from the local housing issuer portion for two years.
- All local single-family housing programs must create a set-aside of fifty percent of their non-targeted funds for the first six months to be available for families with an income of 80 percent or less of the area median income.
- Additionally, the Texas Housing Finance Corporations Act was amended to require that an annual report be filed with the Texas Department of Housing and Community Affairs for each single-family or multi-family housing issue financed with tax-exempt, private activity bonds and all mortgage credit certificate programs. The data obtained from these reports can be used to track the use of proceeds and determine the population receiving benefit from the proceeds.

Presumably, these statutory amendments will result in less apparent demand on the program, a greater number of successful applicants, a broader geographic distribution of volume cap, and better accountability of the housing programs financed with private activity bonds.

It should be noted that the demand, as measured by the 1996 applications, will probably decrease in dollar amount due to the restrictions on maximum application amounts and allowable number of applications. However, it is unlikely that the actual demand, projects which need tax-exempt financing, will decrease. The need increases each year, as does the cost of financing the facilities.

Since the state ceiling is based on population, with no adjustment for inflation, the $50 per person allocation will actually decrease in real value over time, increasing demand relative to the available ceiling. This dilemma creates a difficult problem in Texas, with its growing economy, critical affordable housing needs, enormous student population, and increasing environmental demands. Demand for private activity bond cap allocation will certainly continue to increase dramatically, however, the volume cap will rise at a minimal rate as the population increases. If Texas experiences a population loss, the volume cap will be decreased.

TABLE 23

1995 APPLICATIONS FOR STATE PRIVATE ACTIVITY BOND AUTHORIZATION BY SUBCEILING

(as of November 1, 1995)

Subceiling	Authorization Available	Authorization Requested	Request as a % of Availability
Mortgage Revenue Bonds	$257,292,000	$ 759,251,750	295.09%
State-Voted Bonds	160,807,500	48,850,000	30.38
Qualified Small Issue Bonds	68,917,500	75,850,000	110.06
Residential Rental Project Bonds	45,945,000	213,483,000	464.65
All Other Bonds Requiring Allocation	385,938,000	1,732,100,000	448.80
Total	$918,900,000	$2,829,534,750	307.93%

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

APPENDIX D

TEXAS STATE BOND PROGRAMS

TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

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

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

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

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

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

COLLEGE STUDENT LOAN BONDS

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

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

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

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

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

COLLEGE AND UNIVERSITY REVENUE BONDS

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

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

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

Legislative approval is not required for specific projects or for each bond issue. The governing boards are required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuing bonds and are required to register their bonds with the Comptroller of Public Accounts.

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

Security: The revenue bonds issued by the governing boards are pledged against the income of the institutions and are not an obligation of the state of Texas. Neither the state's full faith and credit nor its taxing power is pledged toward payment of the bonds.

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

Contact:
Individual colleges and universities.

TEXAS DEPARTMENT OF COMMERCE BONDS

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

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

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

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

Contact:
W. Lane Lanford
Director, Business Services
Texas Department of Commerce
(512) 936-0223

TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS

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

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

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

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

Contacts:

Lorie Mason
Deputy Director of
Housing Finance
Texas Dept. of Housing
& Community Affairs
(512) 475-2122

Natalia Sanchez
Chief Financial Officer
Texas Dept. of Housing
& Community Affairs
(512) 475-3345

FARM AND RANCH LOAN BONDS

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

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

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

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

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

HIGHER EDUCATION CONSTITUTIONAL BONDS

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

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

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

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

Contact:
Individual colleges and universities.

TEXAS HOSPITAL EQUIPMENT FINANCING COUNCIL BONDS

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

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

Security: The bonds are obligations of the Council and are payable from lease or other project revenues. The Council's bonds are not an obligation of the state of Texas, and neither the state's full faith and credit nor its taxing power is pledged toward payment of the Council's bonds.

Dedicated/Project Revenue: Bonds are to be repaid from revenues received by the Council from the repayment of loans from the program.

Contact:
Jim Howell
General Counsel
Texas State Treasury
(512) 463-5971

TEXAS LOW-LEVEL RADIOACTIVE WASTE DISPOSAL AUTHORITY

Statutory Authority: The Texas Low-Level Radioactive Waste Disposal Authority was created in 1982 (Health and Safety Code, Chapter 402) and authorized to issue revenue bonds in 1987 (Health and Safety Code, Chapter 402.291). The Authority is required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance and to register its bonds with the Comptroller of Public Accounts.

Purpose: Proceeds from the sale of bonds will be used to reimburse the general revenue fund for the expenses incurred and paid by the Authority, to pay the expenses of selecting, licensing, constructing a disposal site, provide required reserve fund and capitalized interest and operating costs of the Authority that were not paid from the general revenue fund.

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

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

NATIONAL GUARD ARMORY BOARD BONDS

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

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

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

Security: Any bonds issued are obligations of the Board and are payable from "rents, issues, and profits" of the Board. The Board's bonds are not a general obligation of the state of Texas, and neither the state's full faith and credit nor its taxing power is pledged toward payment of Armory Board bonds.

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

Contact:
Michael Huff, Ph.D.
Executive Director
Texas National Guard Armory Board
(512) 406-6905

PARK DEVELOPMENT BONDS

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

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

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

Dedicated/Project Revenue: Entrance fees to state parks are pledged to pay debt service on the park-development bonds. The program is designed to be self-supporting. No draw on general revenue is anticipated.

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

PERMANENT UNIVERSITY FUND BONDS

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

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

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

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

Contacts:

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

TEXAS PUBLIC FINANCE AUTHORITY BONDS

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

The Authority was created by the Legislature in 1983 (Article 601d, Tex.Rev.Civ.Stat.Ann.) and given the authority to issue revenue bonds to finance state office buildings. The Legislature approves each specific project and limits the amount of bonds issued by the Authority.

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

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

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

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

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

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

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

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

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

PUBLIC SCHOOL FINANCE PROGRAM

Statutory/Constitutional Authority: The 1989 Texas Legislature adopted the Public School Facilities Funding Act (S.B. 951, 71st Legislature, amended in S.B. 3, 71st Legislature, Sixth Called Session and H.B. 1608, 73rd Legislature). The Act authorizes the Bond Review Board to make loans or purchase the bonds of qualifying public school districts. The Board is authorized to direct the State Treasurer to issue revenue bonds to finance the school district loans.

Purpose: The proceeds of bonds issued under this program are to be used to make loans to qualifying school districts for the acquisition, construction, renovation, or improvement of instructional facilities; for equipment and minor repair; for cash management purposes; and for refunding of school district bonds.

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

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

Contacts:

Mike Doyle	Sonja Suessenbach
Deputy Treasurer	Director of Local
Texas State Treasury	Government Services
(512) 305-9112	Texas Bond Review Board
	(512) 463-1741

TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

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

The authority of TSBIDC to issue bonds was repealed by the Legislature, effective September 1, 1987.

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

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

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

Contact:
W. Lane Lanford
Director, Business Services
Texas Department of Commerce
(512) 936-0223

TEXAS NATIONAL RESEARCH LABORATORY COMMISSION BONDS

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

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

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

Security: The general obligation bonds pledge the first monies not otherwise appropriated by the Constitution that come into the State Treasury each fiscal year.

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

Dedicated/Project Revenue: Debt service on the general obligation bonds is payable from the state's general revenue fund. Debt service on the revenue bonds is payable solely from rental payments made by the Commission under the lease-purchase agreement. Each revenue bond must state on its face that such revenues shall be available to pay debt service only if appropriated by the Legislature for that purpose.

Contact:
Robert P. Carpenter
Director for Fiscal Affairs
Texas National Research Laboratory Commission
(214) 935-7800

TEXAS TURNPIKE AUTHORITY BONDS

Statutory Authority: The Texas Turnpike Authority was created as a state agency in 1953 (Art. 6674V, Tex.Rev. Civ.Stat.Ann.) and authorized to issue revenue bonds. Legislative approval is not required for specific projects or for each bond issue. The Authority is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to bond issuance and to register its bonds with the Comptroller of Public Accounts.

Purpose: Proceeds from the sale of bonds are used to finance toll roads, bridges, and tunnels.

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

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

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

VETERANS LAND AND HOUSING BONDS

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

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

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

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

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

TEXAS WATER DEVELOPMENT BONDS

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

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

Article III, Sections 49c, 49d, 49d-1, 49d-2, 49d-4, 49d-6, 49d-7, and 50d of the Texas Constitution, initially adopted in 1957, contain the authorization for the issuance of general obligation bonds by the Texas Water Development Board.

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

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

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

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

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

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

TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS

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

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

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

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

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

APPENDIX E

BOND REVIEW BOARD RULES

Sec. 181.1. Definitions.

The following words and terms, when used in this chapter, shall have the following meanings, unless the context clearly indicates otherwise:

Board—The Bond Review Board, created by Acts of the 70th Legislature, 1987, particularly Senate Bill 1027.

State bond—

(a) a bond or other obligation issued by:

(1) a state agency;

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

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

(b) an installment sale or lease-purchase obligation issued by or on behalf of an entity listed in clauses (1), (2), or (3) of this subparagraph that has a stated term of longer than five years or has an initial principal amount of greater than $250,000.

Sec. 181.2. Notice of Intention to Issue.

(a) An issuer intending to issue state bonds shall submit a written notice to the bond finance office no later than three weeks prior to the date requested for board consideration. The director of the bond finance office shall forward one copy of the notice to each member of the board.

Prospective issuers are encouraged to file the notice of intention as early in the issuance planning stage as possible. The notice is for information purposes only, to facilitate the scheduling of board review activities.

(b) A notice of intention to issue under this section shall include:

(1) a brief description of the proposed issuance, including, but not limited to, the purpose, the tentative amount, and a brief outline of the proposed terms;

(2) the proposed timing of the issuance with a tentative date of sale and a tentative date for closing;

(3) a request to have the bond issue scheduled for consideration by the board during a specified monthly meeting; and

(4) an agreement to submit the required application set forth herein in Sec. 181.3 of this title (relating to application for board approval of state bond issuance) no later than the first Tuesday of the month in which the applicant requests board consideration.

(c) An issuer may reschedule the date requested for board consideration of the state bonds by submitting an amended notice of intention at any time prior to the application date in the same manner as provided in this section.

(d) The requested date for board consideration shall be granted whenever possible; however, if it becomes necessary in the board's discretion to change the date of the board meeting for consideration of the proposed issuance of state bonds, written notice of such change shall be sent to the issuer as soon as possible. Priority scheduling for consideration at board meetings shall be given to refunding issues and to those state bonds which also require a submission to the Bond Review Board to obtain a private activity bond allocation.

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

(a) An officer or entity may not issue state bonds unless the issuance has been approved or exempted from review by the Bond Review Board. An officer or entity that has not been granted an exemption from review by the board and that proposes to issue state bonds shall apply for board approval by filing one application with original signatures and nine copies with the director of the bond finance office. The director of the bond finance office shall forward one copy of the application to each member of the board and one copy to the Office of the Attorney General.

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

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

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

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

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

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

(d) An application for all state bonds other than lease-purchase agreements must include:

(1) a substantially complete draft or summary of the proposed resolution, order, or ordinance providing for the issuance of state bonds;

(2) a brief description of the program under which the state bonds are proposed to be issued, which may include a reference to a legislative enactment or to existing rules if the program is established in accordance with an existing statute or existing rules;

(3) the applicant's plans for use of state bond proceeds, including a description of, statement of the need for, and cost of each specific project for which bond proceeds are proposed to be used;

(4) the applicant's plans for the administration and servicing of the state bonds to be issued, including, when applicable, a disbursement schedule of bond proceeds, the proposed flow of funds, the sources and methods of repayment, and an estimated debt-service schedule;

(5) a description of the applicant's investment provisions for bond proceeds, including any specific provisions for safety and security and a description of the duties and obligations of the trustee and paying agent/registrar as applicable;

(6) a timetable for financing that contains dates of all major steps in the issuance process, including all necessary approvals;

(7) if the applicant has authority to issue both general obligation and revenue bonds and the proposed issuance is of one of these, a statement of the applicant's reasons for its choice of type of state bonds;

(8) a statement of the applicant's estimated costs of issuance, listed on an item by item basis, including, as applicable, the estimated costs for:

(A) bond counsel
(B) financial advisor
(C) paying agent/registrar
(D) rating agencies
(E) official statement printing
(F) bond printing
(G) trustee
(H) credit enhancement
(I) liquidity facility
(J) miscellaneous issuance costs;

(9) an estimate, if bond sale is negotiated, of underwriter's spread, broken down into the following components and accompanied by a list of underwriters' spreads from recent comparable bond issues:

(A) management fee
(B) underwriter's fees
(C) selling concessions
(D) underwriter's counsel
(E) other costs;

(10) a list of the firms providing the services reported in subsections (8) and (9) of this section and a statement of prior representation of the issuer by each firm;

(11) a justification of the decision of whether or not to apply for municipal bond insurance or other credit enhancement, including a comparison of expected bond ratings and borrowing costs for the issue with and without the particular enhancement(s) considered;

(12) a statement of any potential liability of the general revenue fund or any other state funds resulting from the issuance;

(13) a copy of any preliminary written review of the issuance that has been made by the attorney general;

(14) a statement addressing the participation of women and minorities. The purpose of this section is to promote economic opportunity by affording equal access to the procurement of contracts for professional services for the financing of bonds by state issuers. Therefore, the following information about each participant (including, but not limited to, bond counsel, underwriters, underwriter's counsel, and financial advisor) must be included:

(A) the degree of ownership and control of each participant firm by minorities and women;

(B) the number and percentage of professionally employed women and minorities in each participant's firm; and

(C) a brief description of the effort made by each participant to encourage and develop participation of women and minorities. This description can include internal firm recruitment efforts, any offers tendered for apportioning responsibilities by subcontract or joint venture, and the equal opportunity goals and policies of each participant's firm.

(15) The notification procedures used by or on behalf of the issuer to select the participants referenced in subsection (14) above.

(e) In addition to the information required by Subsections (c) or (d) of this section, an application under this section may include any other relevant information the applicant wants to submit to the board.

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

Sec. 181.4. Meetings.

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

(b) As chairman of the board, the governor may call additional meetings of the board and is responsible for filing notice of meetings as required by Texas Civil Statutes, Article 6252-17, and giving timely notice of meetings to members of the board. On the petition of three or more members of the board, the governor shall call an additional meeting of the board or cancel a meeting.

(c) A planning session will be held regarding applications pending before the board on or before the second Tuesday of each month. Planning sessions regarding applications to be heard at additional meetings of the board will be held as far in advance of the additional board meeting as is practicable. At a planning session, board members, their designated representatives, or their staff representatives may discuss pending applications, but may not conduct board business. Applicants may be required to attend a planning session and may be asked to make a presentation and answer questions regarding their application. Applicants may be asked to submit written answers to questions regarding their application in lieu of, or in addition to, their attendance at a planning session.

(d) At a meeting of the board, a board member or designated representative may allow an applicant to make an oral presentation to the board.

(e) At a meeting, the board may, by order, resolution, or other process adopted by the board, approve an issuance of state bonds as proposed in the application; may approve an issuance of state bonds on conditions stated by the board; or may fail to act on a proposed issuance. If the board does not act on a proposed issuance during the meeting at which the application is scheduled to be considered, the application is no longer valid on the occurrence of the earlier of the expiration of 45 days from the date of the meeting at which the application was scheduled to be considered or immediately following the board's next meeting, if the board fails to act on the proposed issuance at that meeting. If an application becomes invalid under this subsection, the applicant may file a new application for the proposed issuance.

(f) The executive director of the bond finance office shall notify applicants in writing of any action taken regarding their application. A letter of approval shall contain the terms and conditions of the issue as approved by the board. Issuers must inform the director of the bond finance office of changes to the aspects of their application that are specified in the approval letter. Such changes may prompt reconsideration of the application by the Bond Review Board. A copy of the approval letter shall be forwarded to the attorney general.

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

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

Sec. 181.5. Submission of Final Report.

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

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

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

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

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

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

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

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

Sec. 181.6. Official Statement.

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

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

Sec. 181.7. Designation of Representation.

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

Sec. 181.8. Assistance of Agencies.

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

Sec. 181.9. Exemptions.

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

Sec. 181.10. Annual Issuer Report.

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

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

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

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

Sec. 181.11. Filing of Requests for Proposal.
The Bond Review Board wishes to encourage use of the request for proposal process to maximize participation in the bond issuance process. Any state bond issuer whose bonds are subject to review by the board is requested, for information purposes only, to submit to the executive director at the time of distribution one copy of any request for proposal for consultants prepared in connection with the planned issuance of state bonds. The Bond Finance Office, upon request, will make the request for proposals available to consultants, other state bond issuers and the general public.

Sec. 181.12. Charges for Public Records.
The charge to any person requesting copies of any public records of the Texas Bond Review Board will be the charge established by the General Services Commission; however, the Texas Bond Review Board will charge the following amounts necessary to recoup the costs of items as follows:

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

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

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

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

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

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

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

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

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.

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1-800-732-6637

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