Texas Bond Review Board
Annual Report 1997

Fiscal Year Ended August 31, 1997

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

José Hernández
Executive Director

November 1997

Introduction

The Texas Bond Review Board (BRB) is responsible for the approval of all state bond issues and lease purchases with an initial principal amount of greater than $250,000 or of a term longer than five years. The BRB also is responsible for the collection, analysis, and reporting of information on the debt of local political subdivisions in Texas. Lastly, the BRB is charged with the responsibility of administering the state's private activity bond allocation program. This report is a discussion of each of these activities undertaken by the Board.[1]

Chapter One is a discussion of Texas' position in the municipal bond market. Specifically, the chapter discusses the current state of the Texas economy, the fiscal condition of the state, the relative position of Texas' finances in comparison with the other fifty states, and how Texas bonds trade in relation to other states' bonds. Texas' finances remain healthy, reflecting the state's strong economy.

Chapter Two reports on Texas state debt in relation to other states. This chapter discusses the state's debt burden on a per-capita basis and its standing in comparison to the other fifty states. Data compiled by the Board reveal that the debt burden is low at the state level but high at the local level.

Chapter Three is a discussion of the bond issues that closed in fiscal 1997. The state closed on a total of $1.03 billion in new-money and refunding bonds in fiscal 1997. The chapter also discusses lease-purchases approved by the Board in fiscal 1997 and expected bond issues for fiscal 1998.

Chapter Four reviews bond issuance costs for the transactions that closed in fiscal 1997. Average issuance costs for Texas bond transactions during the fiscal year were $541,460, or $11.18 per $1,000. This compares favorably to the costs recorded in previous years.

Chapter Five reports on the current status of Texas bonds and notes outstanding. As of August 31, 1997, the state had a total of $11.7 billion of bonds outstanding. The chapter also discusses debt service on currently outstanding debt and authorized-but-unissued debt.

Chapter Six discusses local debt burden. Issued by school districts, cities, counties, and special districts, local debt makes up the lion's share of debt outstanding in Texas. Bond Review Board data indicate that the state has a total of $72 billion in debt outstanding, with local governments accounting for $60 billion of this debt.

Chapter Seven is a report on the state's private activity bond allocation program. During fiscal 1997, this program administered the allocation of $956 million in private activity bonds that financed "private activities" such as housing, industrial development, pollution control, and student loans.

The report concludes with four Appendices. Appendix A is a detailed reporting of the twenty-one state bond transactions that closed in fiscal 1997. Appendix B reports on commercial paper and variable rate debt programs used by state agencies and universities. Appendix C is a brief discussion of each of the state's bond issuing entities, and Appendix D contains the BRB's current administrative rules.

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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

Strong performance by the Texas economy has resulted in job growth, continued diversification of the economy, and improved state finances. This trend, which began in the late 1980's, continues to make Texas bonds an attractive choice for investors.

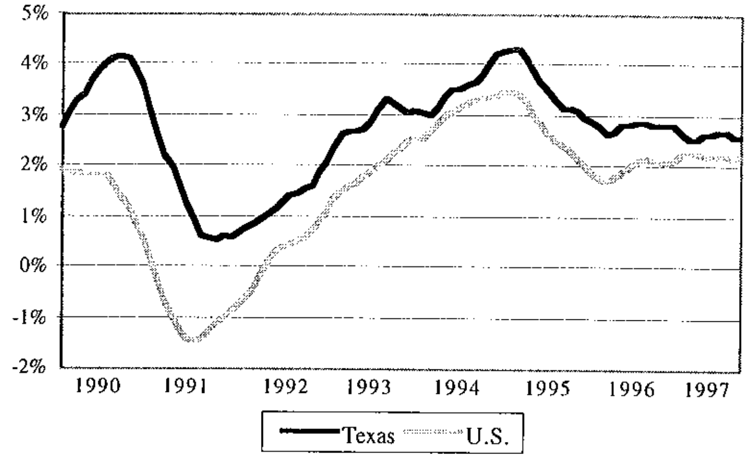
Texas Economy Continues to Perform

The economy of Texas continues to perform well, adding jobs and increasing the Gross State Product (GSP) at a steady, sustainable pace. Employment growth in Texas continues to outpace that of the U.S., but not at the rates recorded in previous years (*Figure 1*). With Texas' overall state employment growth showing a gain of 2.6 percent for fiscal 1997, this trend reflects the fact that the Texas economy has diversified from the resource-based economy of the 1980's to an economy similar to that of the rest of the United States.

Additional economic statistics show that the state is experiencing a healthy economic expansion. The Texas State Comptroller's Composite Leading Economic Indicator Index was up 2.5 percent over the previous year's reading. Additionally, new business incorporations were up 7.3 percent from 1996. The Texas Retail Sales Index logged an increase of 2.6 percent from the previous year, and the Texas Help Wanted Index showed an increase of 10.5 percent over 1996. Meanwhile, initial claims for unemployment compensation demonstrated

Figure 1

EMPLOYMENT GROWTH FOR TEXAS AND THE U.S.
January 1990 through September 1997
(three month moving average)



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

Table 1

NONAGRICULTURAL JOB GROWTH IN THE TEN MOST POPULOUS STATES
July 1996 through July 1997

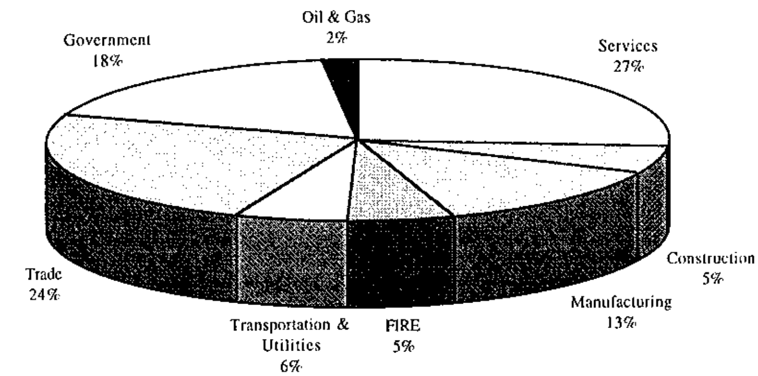
Rank (1)	State	Job Growth	Percent Change	Rank (2)
1	California	367,100	2.9	9
2	Florida	214,800	3.5	7
3	**TEXAS**	**208,400**	**2.5**	**11**
4	Pennsylvania	107,200	2.0	22
5	New York	94,700	1.2	39
6	North Carolina	86,100	2.5	12
7	Michigan	70,000	1.6	33
8	Illinois	62,900	1.1	41
9	New Jersey	59,500	1.6	35
10	Ohio	46,000	0.9	44
	UNITED STATES	2,452,000	1.9	

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

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

Figure 2

TEXAS NONFARM EMPLOYMENT DISTRIBUTION BY INDUSTRY 1997



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

a decrease of 1.7 percent from fiscal 1996.

The state's economy, while showing strength during fiscal 1997, has also shown some pockets of slowing activity. Texas Housing Permits declined 1.1 percent from 1996. Additionally, Texas Average Manufacturing Hours Per Week has also declined 0.4 percent from 1996.

On the national level, Texas dropped to third in job creation during fiscal 1997 with the addition of 208,400 jobs (*Table 1*). Emerging from a regional recession, California took the top spot with Florida placing second. In percentage terms, Texas maintained its rank of 11th among the fifty states in terms of job growth.

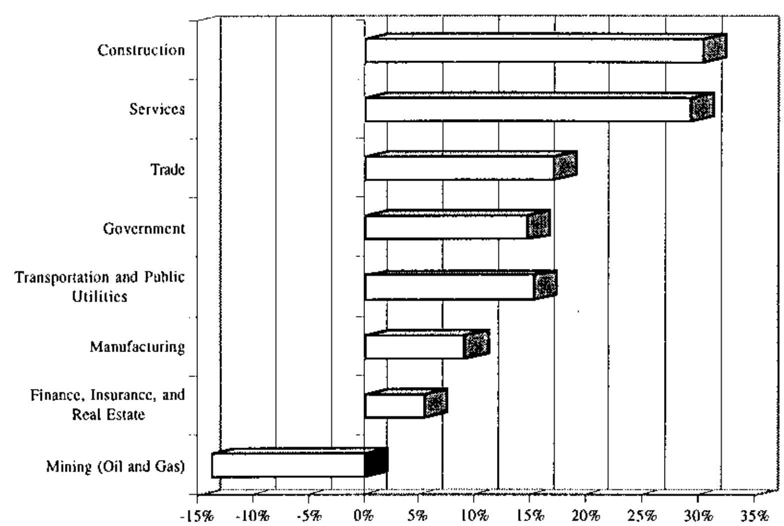
Nonfarm employment is estimated to have reached 8.3 million during fiscal 1997 compared to the 8.1 million recorded during 1996. Trade and services make up over half of the nonfarm employment in the state, accounting for 51 percent (*Figure 2*). Other employment sectors that make up a large share of nonfarm employment include government, manufacturing, and construction with a combined total of 36 percent.

The change in distribution of nonfarm employment across various sectors of the Texas economy has remained fairly steady since the 1980's (*Figure 3*). Construction and services have achieved the most growth, while the shrinkage of jobs in the oil and gas industry appears to have bottomed out. In fiscal 1997, increases of 3.5 and 4.4 percent were recorded in the services and construction sectors, respectively. Trade and transportation also logged increases of over 2 percent growth from fiscal 1996 employment figures.

Projections by the Texas Comptroller's Office and show that Texas' Gross State Product (GSP) is estimated to be $490.8 billion for fiscal 1997, versus the $476.1 billion that was recorded for fiscal 1996 (*Table 2*). Services, trade, manufacturing, and finance, insurance, and real estate

Figure 3

TEXAS NONFARM EMPLOYMENT CHANGE BY INDUSTRY
Percent Change 1991 to 1997



Source: Texas Comptroller of Public Accounts.

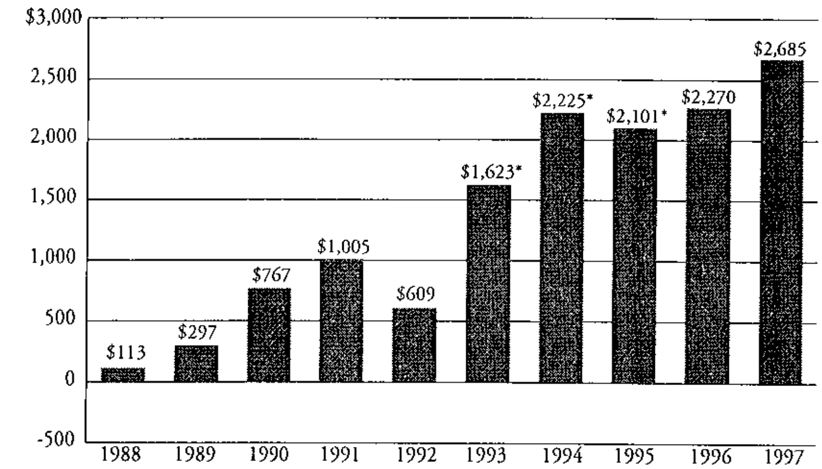
(FIRE) continue to be the primary contributing components to the GSP.

Several trends are responsible for the current state of Texas' economy. High-tech manufacturing continues to provide diversification to the Texas economy as major chip production facilities are being constructed in Austin and Fort Worth. Financial services, construction, and telecommunications continue to expand the employment market in the Dallas area. In addition, both Dallas and El Paso have also seen the relocation of several major corporations attracted by the state's location, population, and business climate. The Houston area has benefited from the rebounding oil and gas industry. The Texas State Comptroller reports that the Gulf of Mexico's mobile rig utilization rate topped 95 percent, and also reported that thirty-one offshore rigs were under construction or conversion. The rig count for the state increased over 27 percent during fiscal 1997. Texas border cities have also seen an improved economic climate since the Mexican peso devaluation of 1994.

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.

The stabilization of the economy in Mexico, Texas' largest export market, has allowed the state to capitalize on the increased trade spurred by the North American Free Trade Agreement (NAFTA). The improvement of the Mexican economy has also benefited retail and transportation businesses along the border.

Table 2

TEXAS ECONOMIC HISTORY AND OUTLOOK FOR CALENDAR YEARS 1994-1999
Spring 1997 Forecast

	1994	1995	1996	1997*	1998*
Texas Economy					
Gross State Product (billions of 1992 $)	$448.1	$461.3	$476.1	$490.8	$505.6
Annual Percentage Change	4.0	2.9	3.2	3.1	3.0
Personal Income (billions of dollars)	$370.6	$397.1	$422.0	$446.8	$471.7
Annual Percentage Change	5.5	7.2	6.3	5.9	5.6
Nonfarm Employment (thousands)	7,746.6	8,018.9	8,236.7	8,434.7	8,620.3
Annual Percentage Change	3.6	3.5	2.7	2.4	2.2
Resident Population (thousands)	18,479.1	18,839.2	19,162.1	19,458.4	19,764.4
Annual Percentage Change	2.0	1.9	1.7	1.5	1.6
Unemployment Rate (percent)	6.4	6.0	5.7	5.5	5.8
Oil Price ($ per barrel)	$14.94	$16.25	$19.99	$18.99	$18.90
Natural Gas Price ($ per MCF)	$1.62	$1.43	$2.03	$1.93	$1.97
Oil/Gas Drilling Rig Count	275	257	271	311	299
U.S. Economy					
Gross Domestic Product (billions of 1987 $)	$6,608.7	$6,742.9	$6,907.4	$7,087.3	$7,240.5
Annual Percentage Change	3.5	2.0	2.4	2.6	2.2
Consumer Price Index (1982-84 = 100)	148.3	152.5	156.9	161.2	165.7
Annual Percentage Change	2.6	2.8	2.9	2.7	2.8
Prime Interest Rate	7.1	8.8	8.3	8.6	8.4

* Projected

Sources: Texas Comptroller of Public Accounts and the WEFA Group (Spring 97).

Texas' Financial Position Remains Positive

Texas once again ended the fiscal year on a positive note with a General Revenue Fund cash balance of $2.7 billion (*Figure 4*). This amount is up from the fiscal 1996 balance of $2.3 billion. This marks the tenth straight year that Texas has ended the fiscal year in the black.

Total net revenues and other cash sources totaled $66.8 billion while total net expenditures totaled $66.4 billion (*Table 3*). Total tax collections received by the General Revenue Fund increased by 7.2 percent over fiscal 1996. During fiscal 1997, the state's main source of revenue, the sales tax, contributed 53 percent of the total taxes received. The sales tax revenues increased by 5.1 percent from the previous fiscal year. Two other large contributors to the tax base of the state, the motor vehicle sales and motor fuels taxes, increased 4.3 and 2.7 percent respectively.

Texas Joins Other States in Maintaining Strong Financial Position

The national economic expansion that began in 1991 has continued, thereby allowing state governments to maintain financial growth and enact tax cuts. Texas has been no exception in this regard. As of August 31, 1997, Texas' General Revenue Fund cash balance was equal to 4.0 percent of the General Revenue Fund fiscal 1997 expenditures. Data supplied by the National Conference of State Legislatures (NCSL) shows that all state governments are showing solid financial conditions (*Figure 5*). None of the 50 states had a negative balance, and only three states had positive balances of less than 1 percent. According to the NCSL figures, Texas' rank among the 50 states was 19th.

The 75th Legislature Passes $86.2 Billion Budget

The 75th Legislature convened in Austin in January 1997 and developed the budget for the 1998-99 biennium. This budget, House Bill 1, calls for total expenditures of $86.2 billion, an increase of 6.8 percent over actual expenditures for the 1996-97 biennium (*Table 4*). Included in this all funds amount was $53.1 billion of dedicated and non-dedicated general revenue funding. This was an increase of $3.6 billion, or 7.3 percent, over fiscal 1996-97 general revenue funding. As required by the State Constitution, the State Comptroller certified that sufficient revenue will be available to pay for the state's 1998-99 budget. The bill was signed by the Governor on June 21, 1997.

Of the total $86.2 billion (all funds) that will be spent during the biennium, 61.6 percent will come from appropriated general revenue and dedicated general revenue funds. Federal funds will comprise 28.6 percent

Table 3

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

	Fiscal 1996	Fiscal 1997	Percent Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$2,110,787	$2,270,847	7.58%
Tax Collections			
Sales Tax	10,767,725	11,316,009	5.09%
Oil Production Tax	376,975	429,149	13.84%
Natural Gas Production Tax	447,102	712,223	59.30%
Motor Fuels Taxes	2,321,014	2,383,041	2.67%
Cigarette and Tobacco Taxes	566,692	654,769	15.54%
Mtr. Vehicle Sale/Rental, Mfg. Housing Sale	1,965,269	2,050,098	4.32%
Franchise Tax	1,642,134	1,796,605	9.41%
Alcoholic Beverages Taxes	418,698	431,651	3.09%
Insurance Occupation Taxes	626,644	705,833	12.64%
Inheritance Tax	160,143	207,589	29.63%
Hotel and Motel Tax	176,456	185,606	5.19%
Utilities Taxes	240,975	258,020	7.07%
Other Taxes	32,043	33,207	3.63%
Total Tax Collections	$19,741,870	$21,163,802	7.20%
Federal Income	$10,433,618	$11,014,314	5.57%
Interest & Investment Income	104,673	80,600	-23.00%
Licenses, Fees, Permits, Fines, & Penalties	3,071,822	3,082,800	0.36%
Contributions to Employee Benefits	94,926	89,464	-5.75%
Sales of Goods and Services	91,249	116,287	27.44%
Land Income	11,287	19,262	70.66%
Settlements of Claims	13,701	5,172	-62.25%
Net Lottery Proceeds	1,718,319	1,857,290	8.09%
Other Revenue Sources	582,699	915,212	57.06%
Interfund Transfers / Other Transactions	10,001,344	28,480,984	184.77%
Total Net Revenue and Other Sources	$45,865,508	$66,825,187	45.70%
Expenditures and Ending Balance			
General Government	$1,406,270	$1,451,443	3.21%
Health and Human Services	13,587,672	15,011,967	10.48%
Public Safety and Correction	2,068,393	2,177,164	5.26%
Education	6,015,123	13,760,089	128.76%
Employee Benefits	1,592,365	1,525,315	-4.21%
Lottery Winnings Paid	380,645	429,590	12.86%
Other Expenditures	1,111,853	1,138,794	2.42%
Interfund Transfers / Other Transactions	19,542,545	30,939,438	58.32%
Total Expenditures and Other Uses	$45,704,865	$66,433,800	45.35%

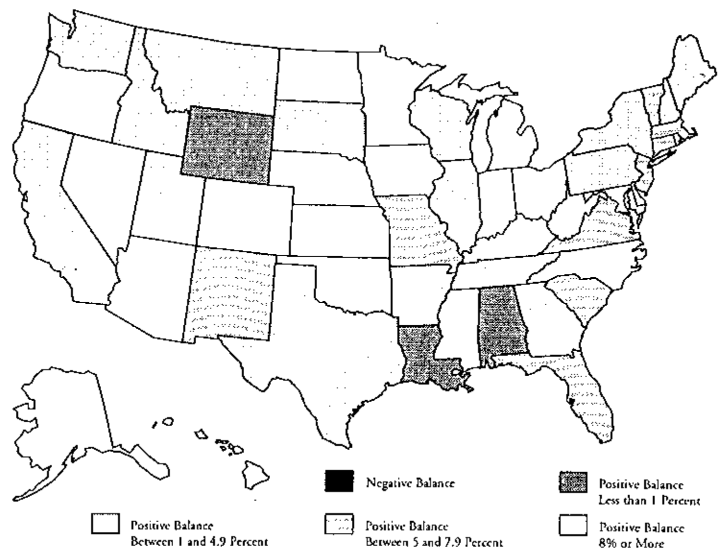
Note: The Foundation School Fund, previously classified as Special Revenue, is now classified as Consolidated General Revenue.
Source: Texas Comptroller of Public Accounts.

of the state's available revenues, with the remainder, 9.8 percent, coming from other sources.

The Texas Legislature maintained its normal expenditure patterns, allocating agencies of education and health and human services 79 percent of 1998-99 general revenue and dedicated general revenue funds. Texas public education agencies will receive an increase of 7.9 percent and institutions of higher education will receive an increase of 6.7 percent over 1996-97 dedicated general revenue and non-dedicated general revenue funding levels. For health and human services, funding levels from these funds have increased by 3.0 percent over the previous biennium. Public safety and criminal justice is the third largest expenditure of dedicated and non-dedicated general revenue and will consume 10.8 percent of these funds in 1998-99. This amount is an increase of 7.0 percent over 1996-97 funding levels.

Figure 5

ENDING BALANCE IN GENERAL FUND BY STATE, * 1997
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.

Texas GO Bonds Maintain Aa2/AA/AA+ Ratings

The major credit rating agencies, Moody's, Standard and Poor's, and Fitch, currently rate Texas general obligation debt Aa2/AA/AA+ respectively. The introduction of new rating "refinements" by Moody's led to the change from Aa to Aa2. Otherwise, the ratings on the state's general obligation debt have not changed during the past fiscal year.

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

Texas' AAA rating was downgraded in 1987 due to the economic recession experienced by the state during the 1980s. Since that time how-

Table 4

THE BUDGET FOR TEXAS STATE GOVERNMENT FOR THE 1998-99 BIENNIUM COMPARED TO ESTIMATED EXPENDITURES FOR THE 1996-97 BIENNIUM
(millions of dollars)

	Expended 1996-97	Budgeted 1998-99	Amount Change	Percent Change
General Government *	$ 2,033.1	$ 2,111.2	$ 78.1	3.8%
Health and Human Services *	25,012.7	26,059.8	1,047.1	4.2
Education	34,802.0	37,289.9	2,487.9	7.1
Judiciary	272.6	330.8	58.2	21.4
Public Safety and Criminal Justice	6,657.4	7,010.7	353.3	5.3
Natural Resources *	1,590.8	1,689.4	98.6	6.2
Business and Economic Development *	9,762.5	10,267.8	505.3	5.2
Regulatory	397.0	427.0	30.0	7.6
General Provisions	0.0	701.1	701.1	N/A
The Legislature	242.2	246.5	4.3	1.7
Contingency Appr. - Enrollment Growth	0.0	100.0	100.0	N/A
Total	$80,770.3	$86,234.2	$ 5,463.9	6.8%

* 1996-97 amounts include emergency appropriations in Senate Bill 886, 75th Legislature.
Totals may not add due to rounding.

Source: Texas Legislative Budget Board.

ever, there has been considerable improvement in the diversification of the state's economic base. A steady shift from an economy based on mining (oil & gas) to one based increasingly on services and manufacturing has broadened Texas' income production.

The most recent rating actions taken by the agencies in regard to Texas' general obligation pledge include Standard and Poor's revision of Texas' rating outlook from stable to positive in June of 1996. Additionally, Fitch confirmed in July 1996 that "the credit characteristics of Texas are excellent." As the national economy continues to prosper under the current low-inflation environment, so too does the Texas economy.

The "refinement" of Texas' rating by Moody's stems from the firm's decision, introduced in January 1997, to expand its rating scale. The firm has added the modifiers 1, 2, and 3 to its previously established letter ratings of Aaa - C. The modifier 1 indicates a higher rating within its generic letter rating, while the modifier 3 indicates that the issue is at the lower end of the generic letter rating. The modifiers will not be used on issues rated Aaa, Caa, Ca, or C. Reasons cited by the firm for introducing the expanded system include: the change in the holders of municipal debt from banks to mutual funds; increased credit risk and volatility of public finance debt; and the need to make finer distinctions between increasingly complex financial instruments.

Eight States Now Have AAA Ratings From the Three Major Rating Agencies

The improved financial condition of state governments throughout the United States has led to a number of rating upgrades for state general obligation credits by two of the three major rating agencies during fiscal 1997 (*Table 6*).

New additions in fiscal 1997 to the group of states with AAA ratings from the three major rating agencies include Minnesota and Georgia. Minnesota's rating was raised by Standard and Poor's in July 1997 because the state has limited its spending growth and established cash flow and budgetary reserve accounts. Standard & Poor's also noted that the state's economy has remained strong, and has diversified from its former base of

Table 5

STATE GENERAL OBLIGATION BOND RATINGS
August 31, 1997

State	Moody's Investors Service	Standard & Poor's Corporation	Fitch Investors Service
Alabama	Aa	AA	AA
Alaska	Aa	AA	AA
Arkansas	Aa3	AA	*
California	A1	A+	A+
Connecticut	Aa3	AA-	AA
Delaware	Aa1	AA+	*
Florida	Aa	AA+	AA
Georgia	Aaa	AAA	AAA
Hawaii	Aa3	A+	*
Illinois	Aa3	AA	AA
Louisiana	A3	A-	A
Maine	Aa3	AA+	AA
Maryland	Aaa	AAA	AAA
Massachusetts	A1	A+	A+
Michigan	Aa2	AA	AA
Minnesota	Aaa	AAA	AAA
Mississippi	Aa3	AA	AA
Missouri	Aaa	AAA	AAA
Montana	Aa3	AA-	*
Nevada	Aa2	AA	AA
New Hampshire	Aa2	AA+	AA+
New Jersey	Aa1	AA+	AA+
New Mexico	Aa1	AA+	*
New York	A2	A	A+
North Carolina	Aaa	AAA	AAA
North Dakota	Aa	AA-	*
Ohio	Aa1	AA+	AA+
Oklahoma	Aa3	AA	AA
Oregon	Aa2	AA	AA
Pennsylvania	A1	AA-	AA-
Rhode Island	A1	AA-	AA-
South Carolina	Aaa	AAA	AAA
Tennessee	Aaa	AA+	AAA
TEXAS	Aa2	AA	AA+
Utah	Aaa	AAA	AAA
Vermont	Aa	AA-	AA
Virginia	Aaa	AAA	AAA
Washington	Aa2	AA+	AA
West Virginia	A1	AA-	AA-
Wisconsin	Aa	AA	AA+

* Not Rated

Sources: Moody's Investors Services, Standard & Poor's Rating Services, and Fitch Investors Services.

manufacturing. The state's rating was revised to Aaa by Moody's in fiscal 1996.

Georgia also received a AAA rating from Standard and Poor's in fiscal 1997. The action was taken after the state improved its financial reporting procedures and took steps to modernize its Revenue Department. Additionally, the rating upgrade accompanied a healthy post-Olympics economy.

Other states receiving improved ratings during fiscal 1997 from both Moody's and Standard and Poor's include Illinois, Ohio, and Washington. Standard and Poor's also upgraded the general obligation debt of California, Mississippi, New York, and Oregon.

The only state downgraded during fiscal 1997 was Hawaii. Both Moody's and Standard and Poor's noted the state's rising debt level, its high per-capita debt level, and the fact that the state's currently outstanding general obligation debt is consuming increasing amounts of Hawaii's general resources.

Table 6

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS
September 1996 to August 1997

State	Rating Change	Agency
UPGRADES		
California	A to A+	Standard & Poor's
Georgia	AA+ to AAA	Standard & Poor's
Illinois	A1 to Aa3 AA- to AA	Moody's Standard & Poor's
Minnesota	AA+ to AAA	Standard & Poor's
Mississippi	AA- to AA	Standard & Poor's
New York	A- to A	Standard & Poor's
Ohio	Aa to Aa1 AA to AA+	Moody's Standard & Poor's
Oregon	AA- to AA	Standard & Poor's
Washington	Aa2 to Aa1 AA to AA+	Moody's Standard & Poor's
DOWNGRADES		
Hawaii	Aa to Aa3 AA to A+	Moody's Standard & Poor's

Sources: Moody's Investors Services, Standard & Poor's Rating Services, and Fitch Investors Services.

Texas Bonds Trading Closer To AAA-Rated Bonds

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

Of the forty states that have general obligation debt outstanding, thirty-three have Moody's ratings of Aa3 or better. Standard and Poor's has ratings of AA or better on twenty-eight states, and Fitch has ratings of AA or better on twenty-seven states.

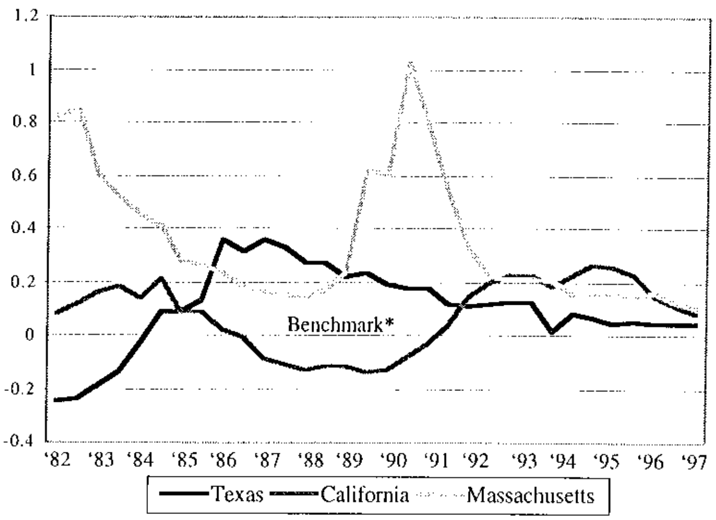
The "relative value" of a state's bonds is determined by how its bonds trade in relation to another state's bonds. This "relative value" can be used as a gauge to determine how a state's bonds should be priced at the initial pricing as well as how they trade on the secondary market.

The Chubb Corporation compiles yield differences from a semi-annual poll of major municipal bond dealers. Traders are asked to express the average yield they demand on the general obligation debt of a number of states relative to the benchmark state. The relative yields of California and Massachusetts are shown for comparison (*Figure 6*).

According to the July 1997 study, Texas general obligation bonds are trading an average of 0.041 percentage points above the interest rate on the benchmark general obligation bond.[1] This is down slightly from the 0.047 that was recorded the previous year and down considerably from 1987's 0.36 percentage points. The

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.

economic performance of Texas, and therefore its increased tax revenue is responsible for the improved trading value of Texas bonds.

Texas general obligation bonds were trading 0.086 percentage points above the average of the eight states rated AAA by Moody's, Standard & Poor's, and Fitch. This is an improvement from the 0.12 percentage points recorded in fiscal 1996 and 1995.

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

Chapter 2

Texas Debt In Perspective

Total debt outstanding in the state of Texas remains concentrated at the local level. State debt currently accounts for 14 percent of the total state and local debt outstanding. Comparisons with other states reveal that Texas' overall debt position is manageable.

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

At the state level, the current debt position of Texas compares well with the other states. Texas currently ranks 34th among all the states and 10th among the ten most populous states in net tax-supported debt per capita according to *Moody's Medians 1997* (*Table 7*). This report, published yearly, indicates that Texas had $312 in net tax-supported debt per capita compared to a national median of $422 and an average of $662. Using the Moody's data to compare Texas' net tax-supported debt per capita among the ten most populous states, the state's $312 compares well against a median of $586 for the group. The average net tax-supported debt among these ten states in 1997 was $693.

Another method of comparing Texas' current debt position is to compare it against the 8 states rated Aaa/AAA/AAA by Moody's, Standard and Poor's, and Fitch respectively (*Table 8*). Ranked against these states, Texas' net tax-supported debt per capita ranks 5th. Maryland had the highest net tax-supported debt per capita at $875 while North Carolina has only $151.

According to U.S. Department of Commerce figures utilized by the Moody's report, Texas' position in 1995 personal income per capita is 30th among the fifty states at $21,206. This amount is below the national median of $21,676 and the national average of $23,208.

However, when compared against those states rated AAA by the three major rating agencies, Texas' $21,206 ranks above three of the states: North Carolina, South Carolina, and Utah.

Examining net tax-supported debt as a percentage of 1995 personal income shows that Texas ranks 36th among the fifty states. Among the 8 states rated AAA, Texas is the second lowest at 1.5 percent. Only North Carolina had a lower amount of net tax-supported debt as a percentage of 1995 personal income at 0.7 percent. Texas' 1.5 came in below the median of 1.7 percent and the average of 2.0 percent.

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

Debt Supported by General Revenue Increases

The use of general obligation debt by the state allows for "the full faith and credit of the state" to back the payment of the bonds. This pledge states that in the event that any income used to support the bonds is insufficient to repay the debt, the first monies coming into the Office of the Comptroller - Treasury Operations not otherwise appropriated, shall be used to pay the debt service on these obligations.

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

State debt service payable from general revenue has grown as more general obligation debt is issued by the state. At the end of fiscal 1997, state debt outstanding payable from general revenue was $3.0 billion.

The increased use of general obligation debt issued by Texas state agencies increases the annual debt service on this outstanding debt (*Figure 7*). The Texas Legislature has appropriated $520.3 million for general obligation debt service during the 1998-99 biennium. Annual debt service as a percent of unrestricted general revenue during fiscal 1997 was 1.48 percent.

Table 7

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 1995 Personal Income	Rank	Net Tax- Supported Debt Per Capita	Rank
Hawaii	Aa3	10.9	1	$2,694	2
Connecticut	Aa3	9.4	2	2,997	1
Rhode Island	A1	8.7	3	2,082	4
Massachusetts	A1	8.1	4	2,263	3
New York	A2	6.7	5	1,840	5
Delaware	Aa1	6.4	6	1,655	6
Washington	Aa2	5.0	7	1,165	7
Vermont	Aa	4.7	8	992	9
Louisiana	A3	4.4	9	835	11
Kentucky	*	4.1	10	777	12
New Jersey	Aa1	3.8	11	1,136	8
Maryland	Aaa	3.3	12	875	10
Wisconsin	Aa	3.2	13	708	14
Georgia	Aaa	3.1	14	669	16
Florida	Aa	3.0	15	690	15
Illinois	Aa3	2.9	16	741	13
Mississippi	Aa	2.9	17	473	24
West Virginia	A1	2.7	18	482	23
Maine	Aa3	2.6	19	517	22
California	A1	2.6	20	612	18
New Hampshire	Aa2	2.5	21	638	17
Ohio	Aa1	2.5	22	559	19
Pennsylvania	A1	2.2	23	529	20
Minnesota	Aaa	2.2	24	520	21
Arizona	*	2.1	25	413	28
New Mexico	Aa1	2.0	26	356	31
Kansas	*	1.9	27	418	26
Oregon	Aa2	1.9	28	402	29
Alabama	Aa	1.9	29	356	32
Nevada	Aa2	1.8	30	426	25
South Dakota	*	1.8	31	347	33
Virginia	Aaa	1.7	32	414	27
Utah	Aaa	1.7	33	301	36
South Carolina	Aaa	1.6	34	305	35
Michigan	Aa2	1.5	35	360	30
TEXAS	Aa2	1.5	36	312	34
Montana	Aa3	1.4	37	262	38
Missouri	Aaa	1.3	38	276	37
North Dakota	Aa	1.0	39	181	42
Tennessee	Aaa	0.9	40	187	41
Indiana	*	0.9	41	188	40
Oklahoma	Aa3	0.9	42	162	43
Alaska	Aa	0.9	43	203	39
North Carolina	Aaa	0.7	44	151	44
Wyoming	*	0.7	45	149	45
Iowa	*	0.6	46	127	46
Arkansas	Aa3	0.6	47	102	47
Idaho	*	0.3	48	47	48
Nebraska	*	0.2	49	43	49
Colorado	*	0.1	50	24	50
U.S. Median		**2.1**		**$422**	
U.S. Mean		**2.8**		**$662**	

* No general obligation debt outstanding

Note: Net tax-supported debt per capita figures based on estimated 1996 population.

Source: *Moody's Medians, 1997.*

This is a slight decrease from the 1.56 percent paid during fiscal 1996.

Authorized but Unissued Bonds Could Add to Texas' Debt Burden

Texas continues to have a moderate amount of authorized but unissued debt on the books. As of August 31, 1997, approximately $721.3 million in bonds payable from general revenue had been authorized by the Legislature but had not yet been issued. Some of these authorized but unissued bonds may be issued at any time without further legislative action and others would require a legislative appropriation of debt service prior to issuance.

If the state of Texas were to issue all the currently authorized but unissued debt, debt service from general revenue would increase by an estimated $163.5 million annually. With the issuance of these bonds, total general revenue debt outstanding in the state would equal $3.72 billion.

Texas' Debt Limit Now Constitutional

The state of Texas is currently limited by statute to the amount of tax-supported debt that may be issued. Senate Bill 3, 72nd Legislature, passed in 1991, limits the amount of debt that may be issued. This legislation states that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including authorized but unissued debt, exceeds five percent of the average annual General Revenue Fund revenues for the previous three fiscal years.

Table 8

SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA

State	Rating *	Net Tax-Supported Debt as a % of 1995 Personal Income	Net Tax-Supported Debt Per Capita	1995 Personal Income Per Capita
Maryland	AAA	3.3	$875	$26,333
Georgia	AAA	3.1	669	21,741
Minnesota	AAA	2.2	520	23,971
Utah	AAA	1.7	301	18,232
TEXAS	AA	1.5	312	21,206
Virginia	AAA	1.7	414	23,974
South Carolina	AAA	1.6	305	18,998
Missouri	AAA	1.3	276	21,819
North Carolina	AAA	0.7	151	21,103
Median of AAA States		**1.7**	**$360**	**$21,780**
Mean of AAA States		**2.0**	**$439**	**$22,021**

* States listed as AAA are rated Aaa/AAA/AAA by Moody's, S&P, and Fitch respectively. Texas is rated Aa2/AA/AA+ by Moody's, S&P, and Fitch respectively. Median and mean figures do not include Texas.
Source: *Moody's Medians, 1997* and U.S. Department of Commerce.

This debt limit ratio was 1.8 percent for current outstanding debt as of August 31, 1997. With the inclusion of authorized but unissued debt, this ratio increases to 2.6 percent. These figures compare favorably to the 1.9 and 2.7 percent recorded during fiscal 1996.

The state's debt limit was addressed once again by the 75th Legislature during 1997 with the passage of House Joint Resolution 59. This resolution called for a constitutional amendment to limit the authorization of additional debt payable from general revenue. The limit proposed by the resolution is the same as that which exists under current Texas statutes. Placed on the ballot for decision by Texas voters, the amendment was passed in November 1997.

Debt Burden In Texas Remains Unchanged At the Local Level

Data provided by the Bureau of the Census reveals that Texas' local debt burden has remained in the 85 to 90 percent range while on the national level the use of local debt has declined (*Figure 8*).

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

Local debt per capita in Texas was $3,222 compared to the average of $2,583 for the ten most populous states. The state with the lowest local debt per capita among this group was

Table 9

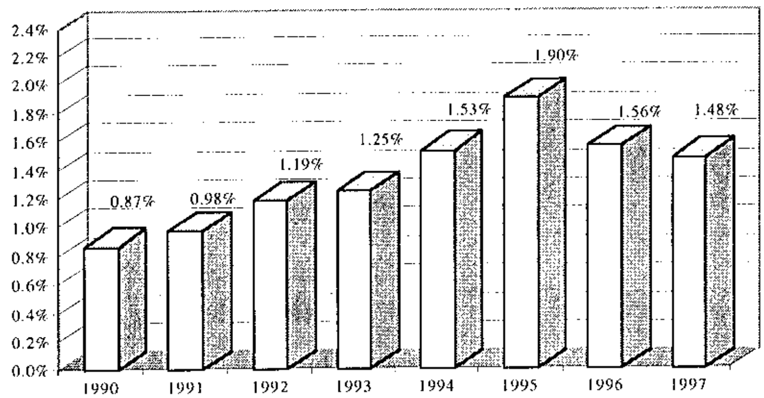
TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES

		Total State and Local Debt			State Debt				Local Debt			
State	Population (thousands)	Per Capita Rank	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount
New York	18,136	1	$130,398	$ 7,190	1	$68,466	52.5%	$ 3,775	2	$61,932	47.5%	$ 3,415
New Jersey	7,945	2	40,813	5,137	2	24,358	59.7%	3,066	8	16,455	40.3%	2,071
Pennsylvania	12,072	3	55,893	4,630	6	14,294	25.6%	1,184	1	41,599	74.4%	3,446
California	31,589	4	141,015	4,464	4	48,197	34.2%	1,526	5	92,818	65.8%	2,938
Florida	14,166	5	61,272	4,325	8	15,370	25.1%	1,085	3	45,902	74.9%	3,240
Illinois	11,830	6	48,029	4,060	3	21,950	45.7%	1,855	6	26,079	54.3%	2,204
TEXAS	18,724	7	70,249	3,752	10	9,921	14.1%	530	4	60,328	85.9%	3,222
Michigan	9,549	8	29,150	3,053	5	12,535	43.0%	1,313	9	16,615	57.0%	1,740
North Carolina	7,195	9	20,197	2,807	9	4,548	22.5%	632	7	15,649	77.5%	2,175
Ohio	11,151	10	27,662	2,481	7	12,295	44.4%	1,103	10	15,367	55.6%	1,378
Mean			$ 62,468	$ 4,190		$23,193	36.7%	$ 1,607		$39,274	63.3%	$ 2,583

Note: State population and debt figures are from the 1995 report referenced below. Local debt figures are from the 1993-94 report referenced below. Detail may not add due to rounding.
Source: Bureau of the Census: *State Government Finances 1995* and *State and Local Finances by Level of Government 1993-94.*

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.

Ohio with $1,378.

In percentage terms, local debt accounts for 86 percent of the total $70.2 billion of state and local debt outstanding. The large ratio of local debt indicates that local capital projects in Texas such as schools and infrastructure projects are the responsibility of local units of government. A more detailed look at Texas' local debt is provided in Chapter 6 of this report. Additionally, the Bond Review Board produces the biennial State and Local Debt Report.

When comparing Texas among the ten most populous states in terms of state and local debt per capita, the Census Bureau figures show that Texas ranks 7th on a combined basis at $3,752. The average among these states for this measure was $4,190. Ohio was once again the state with the lowest combined state and local debt per capita with a per capita amount of $2,481.

75th Legislature Continues Consolidation of Debt Issuance

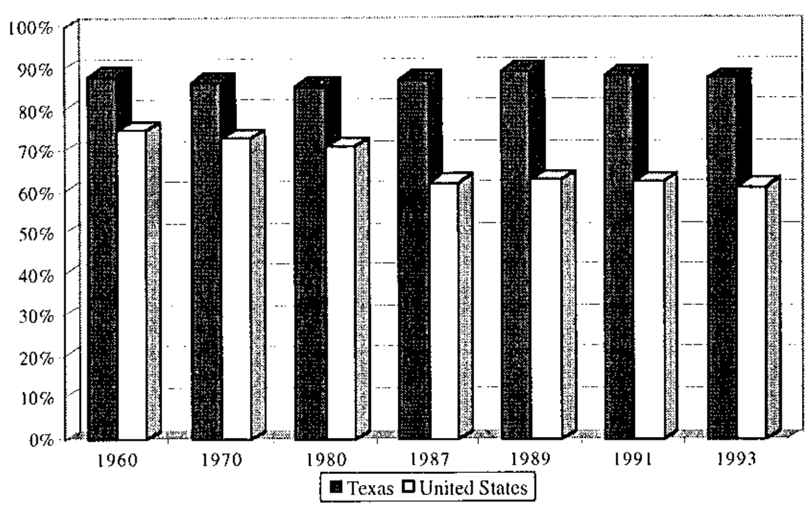
The debt issuance process in Texas remains fragmented on the local level, while it has become more consolidated at the state level. On the local level, there are more than 3,100 debt issuing entities. At the state level, the number of direct issuers has been reduced to 16.

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

Specifically, the TPFA was created in 1983 to issue revenue bonds to finance state office buildings. In 1987, the agency received authority to issue general obligation debt to finance

Figure 8

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



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

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

Additionally, a rider in House Bill 1 has given the Bond Review Board the responsibility for compiling a statewide capital expenditure plan for the 2000-2001 biennium. The legislation calls for the capital plan to identify the state's capital needs and alternatives to finance these needs. The capital needs to be addressed by the plan include: land acquisition, construction and renovation of buildings and other facilities, and major information resource projects estimated to exceed $1 million.

Texas Bonds Issued In Fiscal 1997

Bonds issued by Texas state agencies and universities totaled $1.03 billion during fiscal 1997. This amount was significantly less than the $2.6 billion issued during fiscal 1996. New-money bonds totaled $758.8 million, and refunding bonds totaling $269.4 million comprised the balance (Table 10).

New-Money Bonds Decrease From Fiscal 1996 Levels

New-money bonds issued by Texas state agencies and institutions of higher education totaled $758.8 million (not including commercial paper) during fiscal 1997. This amount represents a decrease of 41 percent from the $1.3 billion in new-money bonds that were issued during fiscal 1996 (*Figure 9*). The projects financed by these issues include infrastructure, housing, and loan programs.

The state issuer bringing the largest amount of new-money debt to the market in fiscal 1997 was the Texas Water Development Board (TWDB). The TWDB issued $385 million in new-money bonds during the year. The agency's largest issue in fiscal 1997 was for $185 million, the proceeds of which were used to provide partial financing for the State Revolving Fund (SRF). The SRF also receives funds from the U.S. Environmental Protection Agency and state general obligation bonds. These funds are then used to make loans to political subdivisions within Texas for the construction of

Table 10

TEXAS BONDS ISSUED DURING FISCAL YEAR 1997
SUMMARIZED BY ISSUER

Issuer	Refunding Bonds	New-Money Bonds	Total Bonds Issued
Midwestern State University	$1,691,000	$4,159,000	$5,850,000
Texas A&M University System	46,964,000	17,831,000	64,795,000
Texas Department of Housing & Community Affairs	144,036,406	125,203,594	269,240,000
Texas Public Finance Authority	45,005,000	78,400,000	123,405,000
Texas Southern University		15,090,000	15,090,000
Texas State Technical College		11,660,000	11,660,000
Texas State University System	11,230,000		11,230,000
Texas Tech University	12,327,000	66,338,000	78,665,000
Texas Water Development Board		385,000,000	385,000,000
University of Houston		5,150,000	5,150,000
University of North Texas	8,230,000		8,230,000
Veterans Land Board		50,000,000	50,000,000
Total Texas Bonds Issued	**$269,483,406**	**$758,831,594**	**$1,028,315,000**

Note: Total does not include amounts for commercial paper or variable-rate bonds issued during fiscal year 1997. TPFA issued an aggregate $58.9 million of general obligation notes on behalf of TYC, TDCJ, and TDMHMR. TPFA also issued $6.1 million of commercial paper notes in connection with the Master Lease Purchase Program (MLPP). UT issued $105.9 million Revenue Financing System (RFS) commercial paper and $85 million of Permanent University Fund (PUF) variable rate notes to finance equipment, construction, and facility rehabilitation. Texas A&M issued $25 million of RFS commercial paper and $35 million of PUF commercial paper for similar purposes. TDHCA and TAFA issued $15 million and $2 million respectively in commercial paper in fiscal 1997.

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

sewage treatment facilities, including treatment plants and collection lines.

The TWDB also closed on an additional $50 million in new-money SRF bonds in March 1997. This transaction was the first installment of a total $200 million that was approved by the Bond Review Board in February. This "shelf registration" approval structure was requested by the TWDB in an effort to be more responsive to loan demand and eliminate interest rate exposure in its loan portfolio.

The TWDB completed three additional new-money transactions totaling $150 million in fiscal 1997 that provided funds for the Texas Water Development Fund, Agricultural Water Conservation, and the Economically Disadvantaged Areas Program (EDAP). Two of these transactions, totaling $120 million, were used to augment the TWDB's Water Development Fund. The proceeds of this fund were used for water supply, water quality enhancement, and state participation (matching) purposes.

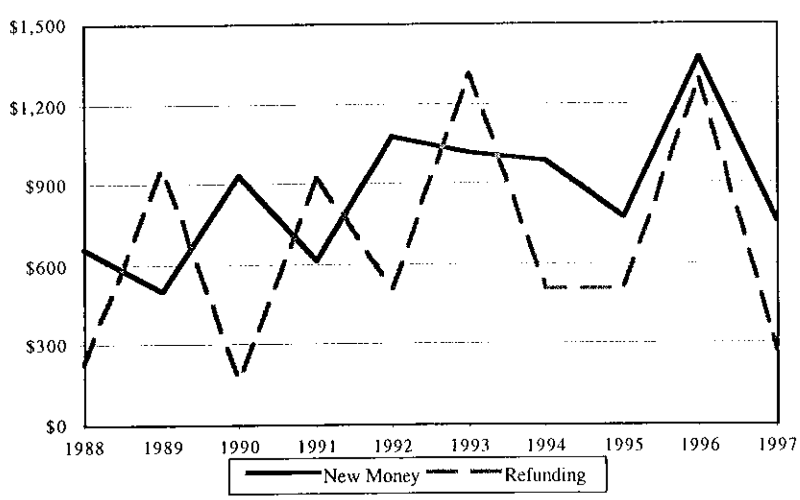
The TWDB's Agricultural Water Conservation program also received $5 million of new money to finance conservation loans to borrower districts. Finally, $25 million of bond proceeds were used to provide funds to the EDAP program. This program, established by the 71st Legislature in 1989, provides financial assistance to economically distressed areas in the state to develop water and wastewater services. Up to 90 percent of these funds may be used as grants, as opposed to loans.

The second largest state issuer of new-money bonds in fiscal 1997 was the Texas Department of Housing and Community Affairs (TDHCA) with a total of $125.2 million.

The bulk of this money, $84.6 million, was new money for the Department's single family mortgage revenue bond program. The purpose of this program is to finance the purchase of low interest rate mortgage loans made by lenders to first-time homebuyers of very low, low, and moderate income who are acquiring modestly-priced residences.

Figure 9

TEXAS NEW MONEY AND REFUNDING BOND ISSUES 1988 THROUGH 1997



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

The TDHCA also acted as a conduit issuer on two new-money affordable housing transactions during fiscal 1997. The first of these transactions, the Harbors-Plumtree Apartment Project, totaled $13 million, and will provide 480 apartment units in the Dallas area. Under federal tax law, at least 40 percent of the units in this complex must be occupied by households with an aggregate annual income that is no greater than 60 percent of the median income for the area. An additional multi-family project, the Asmara project, financed the purchase of nine multi-family projects in Dallas, Fort Worth, Arlington, and Houston. This transaction totaled $27.5 million.

The Texas Public Finance Authority completed two transactions in fiscal 1997. The first of these transactions included $37.5 million of new-money proceeds for the Texas Juvenile Probation Commission. The Commission used the money to fund grants to 18 counties for the construction of post-adjudication facilities for juvenile offenders.

The TPFA also completed a competitive transaction that totaled $40.9 million. Of the total amount, $20.9 million of the proceeds from this transaction were used to fund the construction of a state office building and parking facility in El Paso. The remainder of the proceeds were used to fund the construction of improvements on the campus of the Texas School for the Deaf in Austin.

The Texas Veterans Land Board completed a $50 million taxable bond transaction that closed in December 1996. Currently, under federal tax law, each contract for resale of land to veterans that is financed through tax-exempt bonds is limited to $20,000. By issuing taxable bonds, the TVLB is able to increase the amount of these loans up to the $40,000 threshold imposed by the Texas Legislature by blending taxable proceeds with previously-issued tax-exempt proceeds.

Educational facilities make up the remainder of the new-money bond issues during fiscal 1997. Financing a variety of projects, the combined total of these new-money financings was $120 million.

Table 11

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

Fiscal 1997

Agency/University	Total	Real Property	Equipment	
			Computer	Other
Texas Alcoholic Beverage Commission	$ 3,101,580			$ 3,101,580
Department of Information Resources	1,425,000		$ 1,425,000	
Comptroller of Public Accounts	7,500,000		7,500,000	
General Land Office	301,500		301,500	
Public Utility Commission	392,638		392,638	
University of North Texas	1,105,310		1,105,310	
University of North Texas	9,050,000			9,050,000
Total Approved Lease-Purchase Agreements	**$ 22,876,028**	**$ 0**	**$ 10,724,448**	**$ 12,151,580**

Note: Amounts listed above are Texas Bond Review Board *approved* amounts.
Source: Texas Bond Review Board, Office of the Executive Director.

The largest of these financings was for Texas Tech University. The university issued $66.3 million in new-money bonds to finance the construction of a new basketball arena as well as the construction and renovation of dormitories. The issue also included a refunding component and a $7.4 million taxable portion.

Other new-money bonds issued in fiscal 1997 by Texas state universities for infrastructure projects included Midwestern State University ($4.2 million), Texas State Technical College ($11.6 million), Texas Southern University ($15.1 million), and the University of Houston ($5.1 million).

Texas Commercial Paper-Interim Financing Tool

Several state agencies and institutions of higher education (The University of Texas and Texas A&M University) use commercial paper and variable rate notes to provide financing for equipment, interim construction, and loans. In fiscal 1997, these entities issued $333 million in commercial paper to fund their respective activities.

The Texas Public Finance Authority established its general obligation commercial paper program in fiscal 1994. The purpose of the program is to provide interim construction financing for state agencies such as the Texas Department of Criminal Justice, the Texas Youth Commission, and the Texas Department of Mental Health and Mental Retardation. As of August 31, 1997, the TPFA had $144.1 million in outstanding general revenue commercial paper debt. During fiscal 1997, the agency issued $58.9 million of the outstanding balance.

The TPFA also initiated a revenue commercial paper program in fiscal 1993 to finance the agency's Master Lease Purchase Program (MLPP). This program offers low-cost financing for Texas state agencies to purchase items such as computer equipment, automobiles, and real property. Under MLPP procedures, the TPFA purchases the requested equipment and leases it back to the using agency. Upon the completion of lease payments, the title to the equipment is turned over to the using agency. During fiscal 1997, the TPFA issued $6.1 million in variable rate debt to fund this program. As of August 31, 1997, a total of $27.5 million of revenue commercial paper debt was outstanding.

The University of Texas System uses commercial paper and variable rate notes to provide interim financing for construction projects and to purchase equipment. During fiscal 1997, the System issued $105.9 million in Revenue Financing System (RFS) commercial paper notes and $85 million in Permanent University Fund (PUF) variable rate notes. As of August 31, 1997, the System had $172.9 million of RFS and $150 million of PUF commercial paper and variable rate notes outstanding.

The Texas A&M University System also uses commercial paper and variable rate notes to finance construction projects on its campuses. During fiscal 1997, the System issued $25 million of RFS commercial paper and $35 million of PUF variable rate notes. As of August 31, 1997, the System had $20.2 million of RFS commercial paper outstanding and $65 million of PUF variable rate notes outstanding. The System also redeemed $4.5 million of RFS commercial paper during the fiscal year.

The Texas Department of Housing and Community Affairs established a commercial paper program during fiscal 1996. This program allows the TDHCA to "recycle" certain prepayments of single family mortgage loans and to preserve private activity volume cap allocation under its existing single family programs. Once the TDHCA has issued a substantial aggregate amount of notes, the notes are refunded with single family mortgage revenue bonds. Funds made available as a result of this program are used to make qualified mortgage loans to eligible very low, low, and moderate income first-time homebuyers seeking to purchase modestly-priced residences. During fiscal 1997, the TDHCA issued $15 million in commercial paper to finance this program. The total amount of commercial paper outstanding as of August 31, 1997, was $20.5 million.

The Texas Agricultural Finance Authority (TAFA) administers two commercial paper programs. The Texas Agricultural Fund is used to purchase and guarantee loans made to Texas agricultural businesses involved in the production, processing, marketing, and export of Texas agricultural products. During fiscal 1997, the TAFA issued $2 million in taxable commercial paper to support this program. The TAFA had $22 million in taxable commercial paper outstanding at the end of the fiscal year.

The TAFA also administers the Farm and Ranch Land Acquisition Program, which is used to assist eligible Texans in purchasing farms and ranches. Effective September 1, 1997, H.B. 2499, 75th Legislature increased the maximum loan amount of this program from $150,000 to $250,000. The TAFA did not issue any commercial paper during fiscal 1997 to finance this program. The fiscal year-end balance of outstanding commercial paper was $100,000.

Refundings Lower in Fiscal Year 1997

Refundings by Texas state agencies and universities dropped considerably in fiscal 1997 compared to the previous year. During fiscal 1997, $269.4 million of refunding bonds were issued versus the $1.2 billion issued during fiscal 1996.

The largest issuer of refunding bonds during fiscal 1997 was the Texas Department of Housing and Community Affairs (TDHCA). The department closed on a $169 million transaction in November 1996. This transaction included $101.8 million of refunding proceeds which were used to refund outstanding Texas Housing Agency Single Family Mortgage Revenue Bonds. Additionally, $14.7 million of the department's outstanding Single Family Mortgage Revenue (SFMR) Commercial Paper Notes were refunded, thereby allowing the department to recycle prepayments and acquire additional single family mortgages loans. The transaction enabled the Department to achieve present value savings of over $3 million.

The TDHCA also closed on an additional SFMR refunding transaction in fiscal 1997 that included $42.1 million in refunding proceeds. The proceeds were used to current refund outstanding Texas Housing Agency bonds.

Texas A&M University issued the second largest refunding issue during fiscal 1997, with $46.9 million of the $66 million transaction being used to refund outstanding obligations. The majority of the refunding money, $40.5 million, was used to current refund outstanding Revenue Financing System commercial paper. The additional funds were used to advance refund outstanding Revenue Finance System bonds.

Other Texas universities completing refunding transactions during fiscal 1997 included Midwestern State University ($1.7 million), the Texas State University System ($11.2 million), Texas Tech University ($12.3 million), and the University of North Texas ($8.2 million). All of these transactions allowed the universities to refund outstanding revenue obligations or achieve net present value savings.

The Texas Public Finance Authority (TPFA) closed an $82.5 million issue in fiscal 1997 that included $45 million of advance refunding money. The TPFA was able to achieve present value savings of $1.8 million with the transaction.

Lastly, the Texas Veterans Land Board remarketed the final Convertible Option Bond (COB) from its fiscal 1996 Veterans Housing Assistance Program, Fund I, Series 1995A-E transaction. This COB was one of two originally issued in fiscal 1996 and had a nine-month term. The transaction, for $47.9 million, essentially "fixed out" the final COB into long-term, fixed-rate securities.

Texas Lease Purchases

Lease purchases of $250,000 and greater or with a term of more than five years are required to be approved by the Bond Review Board. In fiscal 1997, $22.9 million of lease purchases were approved by the Board. The ma-

Table 12

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 1998

ISSUER	APPROXIMATE AMOUNT	PURPOSE	APPROXIMATE ISSUE DATE
General Obligation Bonds			
Self-Supporting			
Texas Higher Education Coordinating Board	$ 75,000,000	College Student Loans	Oct-97
Texas Veterans Land Board	100,000,000	Veterans Housing Assistance Program	Nov-97
Texas Veterans Land Board	50,000,000	Veterans Housing Assistance Program (Taxable)	Nov-97
Texas Veterans Land Board	35,000,000	Veterans Land Program	Feb-98
Texas Water Development Board	70,000,000	Water Supply Projects	Apr-98
Texas Water Development Board	25,000,000	Water Quality Enhancement	Apr-98
Total Self-Supporting	**$ 355,000,000**		
Not Self-Supporting			
Texas Public Finance Authority**	$ 87,000,000	Texas Department of Criminal Justice	Nov-97
Texas Public Finance Authority**	56,000,000	Texas Department of Criminal Justice	Jun-98
Texas Public Finance Authority**	8,000,000	Texas Department of Mental Health and Mental Retardation	Oct-97
Texas Public Finance Authority**	26,020,000	Texas Department of Mental Health and Mental Retardation	Dec-97
Texas Public Finance Authority**	15,800,000	Texas Youth Commission	Dec-97
Texas Public Finance Authority**	11,400,000	Texas Youth Commission	Sep-97
Texas Public Finance Authority**	6,800,000	Texas Youth Commission	Jul-98
Texas Public Finance Authority	250,000,000	GO Refunding	Nov-97
Texas State University System	25,000,000	HEAF (Facility Construction - Southwest Texas State University)	Apr-98
Texas Water Development Board	15,000,000	Economically Distressed Areas Program - Water Supply	Jun-98
Texas Water Development Board	10,000,000	Economically Distressed Areas Program - Water Quality Enhancement	Jun-98
Total Not Self-Supporting	**$ 511,020,000**		
Total General Obligation Bonds	**$ 866,020,000**		
Non-General Obligation Bonds			
Self Supporting			
Texas Department of Housing and Community Affairs	$ 44,465,000	Single Family Housing	Sep-97
Texas Department of Housing and Community Affairs	25,525,000	Single Family Housing (Taxable)	Sep-97
Texas Department of Housing and Community Affairs	44,795,000	Single Family Housing	Nov-97
Texas Department of Housing and Community Affairs	25,000,000	Single Family Housing Refunding	Nov-97
Texas Department of Housing and Community Affairs	20,000,000	Single Family Housing (Taxable)	Dec-97
Texas Water Development Board	300,000,000	State Water Pollution Control Revolving Fund	Oct-97
Texas Water Development Board	350,000,000	State Water Pollution Control Revolving Fund	As Needed
The Texas A&M University System-RFS ***	23,055,000	Current Refund/Forward Delivery	May-98
The Texas A&M University System-RFS*	35,000,000	Facility Construction & Equipment	As Needed
The University of Houston System	28,255,000	Consolidated Revenue (Energy Improvements) & Refunding Bonds	Jan-98
Texas State University System	7,000,000	Facility Construction - Angelo State University	Aug-98
Texas Tech University *	To Be Determined	Facility Construction	Jan-98
Texas Tech University - RFS*	To Be Determined	Facility Construction	Jan-98
The University of Texas System-PUF *	50,000,000	Facility Construction	May-98
The University of Texas System-RFS	150,000,000	Refinancing of Outstanding Short Term Debt to Long Term Debt	Nov-97
The University of Texas System-PUF	100,000,000	Refinancing of Outstanding Short Term Debt to Long Term Debt	Nov-97
Total Self-Supporting	**$ 1,203,095,000**		
Not-Self Supporting			
Texas Public Finance Authority	$ 61,000,000	Building Revenue Bonds	Nov-97
Texas Public Finance Authority	10,000,000	Building Revenue Bonds	Nov-97
Texas Public Finance Authority	32,700,000	Building Revenue Bonds	Jan-98
Texas Public Finance Authority	10,000,000	Parks and Wildlife Infrastructure Improvement	Jan-98
Texas Public Finance Authority	25,000,000	Building Revenue Bonds	Jun-98
Texas Public Finance Authority	1,000,000	Building Revenue Bonds	Jun-98
Texas Public Finance Authority *	25,000,000	Master Lease Purchase Program (MLPP)	As Needed
Total Not Self-Supporting	**$ 164,700,000**		
Total Non-General Obligation Bonds	**$ 1,367,795,000**		
Total All Bonds	**$ 2,233,815,000**		

* Commercial Paper or Variable Rate Note program.
** These issues assume an initial general obligation commercial paper offering with the potential to subsequently convert to long term bonds.
*** This issue is a forward delivery priced on July 27, 1997. The issue will close on May 19, 1998.
Source: Texas Bond Review Board, Office of the Executive Director, Survey of Texas State Bond Issuers.

jority of these lease purchases were financed through the TPFA's Master Lease Purchase Program (MLPP). The program assists state agencies and universities in obtaining competitive, low-interest, short-term (normally three year) acquisition financing.

The largest lease-purchase transaction approved by the Board in fiscal 1997 was for $9 million for the University of North Texas (*Table 11*). The university used the proceeds from the financing for improvements and upgrades to the energy management systems in various buildings on the campus. The improvements will assist the university in achieving up to $1.4 million in energy savings annually.

Another lease-purchase transaction approved by the Bond Review Board in fiscal 1997 was for the Comptroller of Public Accounts. Originally, the Comptroller requested and received approval for $7.5 million to upgrade computer systems. After receiving approval from the Board however, the Comptroller's office was able to add additional mainframe computer capacity at a substantially lower cost by securing an operating lease instead.

The Texas Alcoholic Beverage Commission (TABC) also used the TPFA's MLPP program to obtain new automobiles for the agency's enforcement officers. Two separate transactions were approved in fiscal 1997, allowing the agency to replace automobiles that had exceeded their useful life. Additionally, the TABC used the MLPP program in fiscal 1997 to upgrade its radio communications equipment from analog to digital.

In summary, 89 percent of the lease purchases approved in fiscal 1997 were through the MLPP program.

Bond Review Board Survey Shows Increased Debt Issuance Expected In Fiscal Year 1998

The results of an annual survey conducted by the Bond Review Board show that Texas state agencies and institutions of higher education are planning to issue approximately $2.2 billion in bonds and commercial paper during fiscal 1998 (*Table 12*). Of this amount, approximately $1.9 billion will be used to finance projects and programs and $311 million will be used to refund outstanding debt.

It is expected that the state agency issuing the most new debt in fiscal 1998 will be the Texas Water Development Board. The TWDB anticipates issuing a total of $770 million during the year. Two separate bond transactions will account for the bulk of this new debt and will provide funds for the State Water Pollution Control Revolving Fund. The issues, totaling $650 million, will provide financial assistance to local government jurisdictions in Texas that seek to improve their wastewater infrastructure. Additionally, the TWDB plans to issue $70 million for water supply purposes, $25 million in debt for water quality enhancement purposes, and $25 million for the agency's EDAP program.

The Texas Public Finance Authority is also expected to be another major issuer of debt during fiscal 1998. The TPFA has indicated that a G.O. refunding of approximately $250 million may be possible if favorable interest rates allow the agency to achieve targeted present value savings.

Additionally, the TPFA plans to finance facilities construction for the Texas Department of Mental Health and Mental Retardation, the Texas Youth Commission, and the Texas Department of Criminal Justice. The TPFA plans to finance these agencies' construction projects through the issuance of $211 million in general obligation commercial paper.

The TPFA will also be issuing $139 million of revenue bonds during fiscal 1998. The proceeds of these bonds will be used to build and/or renovate state office buildings, provide infrastructure improvements for the Texas Parks and Wildlife Department, and fund construction and renovation of Texas Military Facilities Commission projects.

The Texas Veterans Land Board (VLB) is expected to issue $185 million of new-money debt during fiscal 1998. The largest portion of this money, $150 million, will be used to finance the VLB's Housing Assistance Program. The general obligation, tax-exempt portion of this issue, $100 million, will be used to make housing and home improvement loans to eligible Texas veterans who entered the service before December 31, 1976. The additional $50 million of taxable bonds will be used to fund loans to eligible Texas veterans who entered the service after December 31, 1976. The eligibility requirements of this program are determined by federal tax code.

The VLB will also be issuing $35 million of general obligation land bonds during fiscal 1998. Proceeds from this transaction will be used to fund the purchase of land to be resold to eligible Texas veterans (and certain surviving spouses).

The Texas Department of Housing and Community Affairs expects to issue a total of $160 million during fiscal 1998. The proceeds, $25 million of which will be refunding money, will be used to finance the Department's Single Family Mortgage Revenue Bond program.

Finally, the Texas Higher Education Coordinating Board will be issuing $75 million in new-money bonds during fiscal 1998 to provide financing for its Hinson-Hazelwood student loan program. The program is self-supporting and is repaid by payments received from the loans.

Higher education institutions in Texas will also be issuing bonds and commercial paper during fiscal 1998. The proceeds of these issues will be used to fund facility expansion and renovation, as well as student loans.

The University of Texas System expects to issue $300 million of debt during the fiscal year. The bulk of this money, $250 million, will be used to refund previously-issued Permanent University Fund variable rate notes and Revenue Financing System commercial paper. The System expects to issue an additional $50 million of PUF new-money variable rate notes to fund construction projects.

The Texas A&M University System will be issuing $35 million of Revenue Financing System commercial paper to fund the construction and equipping of university facilities. The System also plans to close its forward delivery of Combined Fee Revenue Refunding and Improvement Bonds, Series 1998. The issue was priced on July 23, 1997, and will close on May 19, 1998.

The University of Houston plans to issue $28.2 million of revenue and refunding bonds during fiscal 1998. Energy-saving projects will consume $15 million of this issue, and the remainder will be used to refund outstanding general Tuition Revenue Refunding Bonds, Series 1986.

The Texas State University System plans to issue two series of bonds in fiscal 1998 totaling $32 million. The first of these issues will be $25 million in Higher Education Assistance Fund (HEAF) bonds that will provide funds for the construction of an Art/Technology/Physics complex at the System's Southwest Texas State University campus. The System will also be issuing an additional $7 million in Combined Fee Revenue bonds to fund renovation and construction projects at its Angelo State University campus.

Midwestern State University (MWSU) will be using the TPFA's Master Lease Purchase Program during fiscal 1998 to equip recently renovated buildings with laboratory, clinical, and scientific equipment. This $2 million MLPP transaction is expected to serve as interim financing until the issuance of revenue bonds in fiscal 1999.

Highlights from the 75th Legislature

New legislation enacted by the 75th Legislature during 1997 will have an impact on Texas bond issuance during fiscal 1998 and beyond.

One of the more significant pieces of debt-related legislation to emerge from the 75th Legislature was Senate Bill 370. Highlights of this bill include the abolishing of the old Texas Turnpike Authority, and the creation of a new turnpike authority as a separate division of the Texas Department of Transportation. The new division will employ an Executive Director and be governed by a seven-member Board of Directors. Also included in this legislation was the creation of a State Infrastructure Bank (SIB). Federal funds, state matching funds, and bond proceeds will be used to fund the SIB, and it will be used to finance and develop transportation projects within the state.

The bill also authorized the creation of regional tollway authorities and created the North Texas Tollway Authority (NTTA) as the successor agency to the previous Texas Turnpike Authority. The NTTA, comprised of Collin, Dallas, Denton, and Tarrant counties will assume control over all Texas Turnpike Authority assets and projects located in those counties. The NTTA will also assume and be liable for all contracts and bonds secured by the revenues of these projects.

The client base of the Texas Public Finance Authority was expanded by the 75th Legislature with the passage of House Bill 1077. This bill added the Texas Low-Level Radioactive Waste Disposal Authority, Midwestern State University, Stephen F. Austin State University, and Texas Southern University to the TPFA's list of client agencies. The bill also extended the existence of the TPFA through September 1, 2009.

In November 1997, the voters of Texas were given the opportunity, and approved, a new constitutional amendment limiting the authorization of additional debt. This amendment prohibits the authorization of additional state debt if the resulting annual debt service payable from the general revenue fund exceeds five percent of an amount equal to the average of the three preceding years' unrestricted general fund revenues. Like the statute that preceded it, the amendment excludes constitutionally-dedicated revenues when determining the three year average.

Senate Joint Resolution 17 creates the Water Development Fund II and allows the Texas Water Development Board to issue or refund any previously-authorized general obligation bonds. The resolution does not grant the TWDB any additional general obligation bonding authority.

Attempts to modify the state's current tax structure were not achieved by the 75th Legislature. However, the Legislature did pass, and voters approved, a constitutional amendment which increased the "homestead" tax exemption of a primary residence to $15,000 from $5,000. The cost of the exemption will be funded by available general revenue funds.

Chapter 4

Texas Bond Issuance Costs

The average costs associated with issuing bonds decreased in fiscal 1997 to $541,460 per issue. On a per $1,000 basis however, this cost increased to $11.18. Appendix A of this report details the issuance costs associated with each 1997 issue.[1]

The Costs of Bond Issuance

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

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

Table 13

AVERAGE ISSUANCE COSTS FOR 1997 TEXAS BOND ISSUES

	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Average Issue Size—$54.50 Million		
Underwriter's Spread	$330,791	$6.27
Other Issuance Costs:		
Bond Counsel	52,165	1.25
Financial Advisor	33,592	0.93
Rating Agencies	37,532	1.23
Printing	10,036	0.33
Other	77,344	1.17
Total	**$541,460**	**$11.18**

Note: Bond insurance premiums are not included for purposes of average cost calculations. The figures are simple averages of the dollar costs and costs per $1,000 associated with each 1997 state bond issue exclusive of conduit issues.
Source: Texas Bond Review Board, Office of the Executive Director.

[1] Issuance costs calculations do not include issues where the state acted as a conduit issuer.

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

- Paying Agent/Registrar — The paying agent is responsible for transmitting payments of principal and interest from the issuer to the security holders. The registrar is the entity responsible for maintaining records on behalf of the issuer for the purpose of noting the owners of registered bonds.
- Printer — The printer produces the official statement, notice of sale, and any bonds required to be transferred between the issuer and purchasers of the bonds.

Issuance Costs Reflect Mixed Results

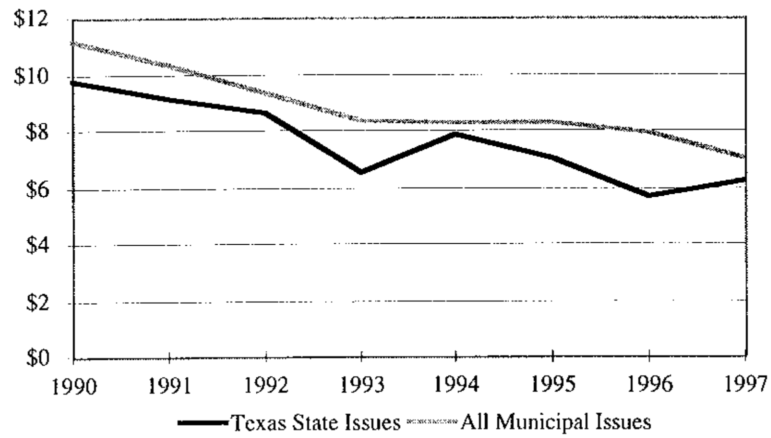
The largest portion of the costs associated with the issuance of bonds is the fee paid to the underwriter, known as the "underwriter's spread." This "spread" is paid to the underwriter as compensation for the risk of holding the bonds and to cover the expenses associated with the marketing of the bonds.

For fiscal 1997, this fee averaged $330,791 on a per issue basis (*Table 13*). This compares favorably to the $451,936 recorded during fiscal 1996. When measured on a per $1,000 basis however, the $6.27 average paid during fiscal 1997 is up from the $5.68 reported in fiscal 1996. Much of this increase can be attributed to the fact that the average issue size in fiscal 1997 was $54.5 million compared to the fiscal 1996 average issue size of $84.05 million. A smaller average issue size requires the costs associated with each issue to be spread out over a smaller total.

As would be expected, other costs associated with bonds issued during fiscal 1997 showed decreases from fiscal 1996 on a per issue basis and slight increases on a per $1,000 basis. Bond counsel fees paid during fiscal 1997 averaged $52,165 per issue or $1.25 per $1,000. Financial advisory fees paid during fiscal 1997 averaged

Figure 10

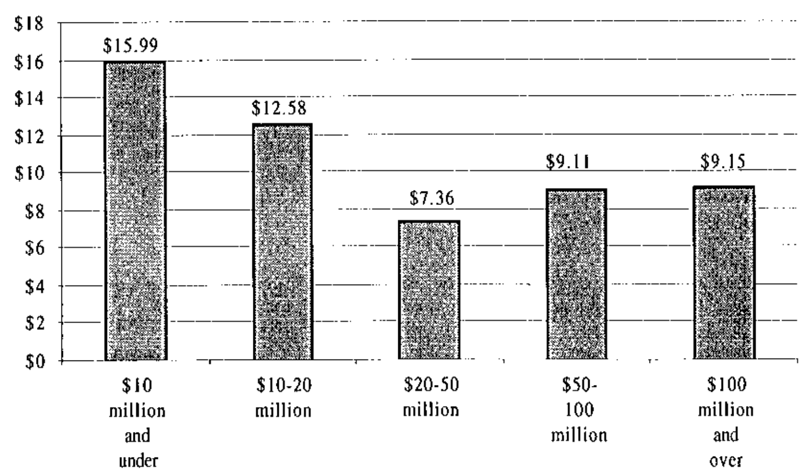
GROSS UNDERWRITING SPREADS: 1990-1997
TEXAS STATE BOND ISSUES VS. ALL MUNICIPAL BOND ISSUES



Note: 1997 figures are for the first six months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable securities are excluded.
Sources: Securities Data Company (7/2/97) and Texas Bond Review Board, Office of the Executive Director.

Figure 11

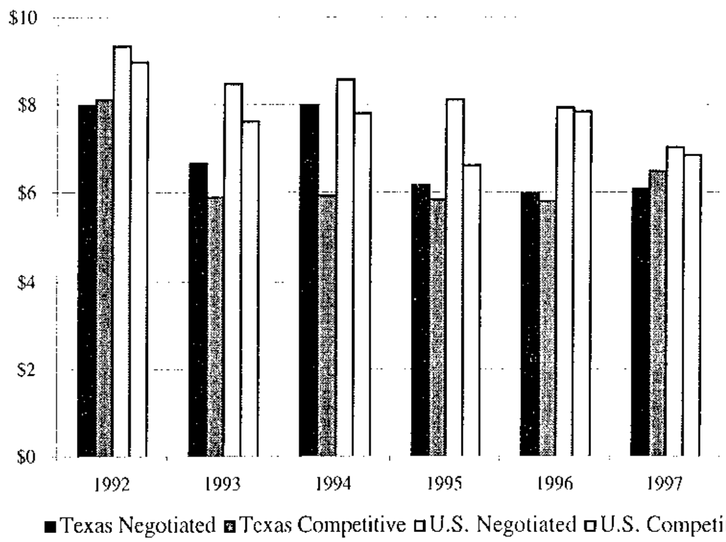
AVERAGE ISSUANCE COSTS FOR TEXAS 1997 BOND ISSUES BY SIZE OF ISSUE
(cost per $1,000 of bonds issued)



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

Figure 12

GROSS UNDERWRITING SPREADS: 1992-1997
Negotiated vs. Competitive Municipal Issues



Note: 1997 figures are for the first six months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable securities are excluded.
Sources: Securities Data Company (7/2/97) and Texas Bond Review Board, Office of the Executive Director.

$33,592 or $0.93 per $1,000, and rating agency fees paid averaged $37,532 per issue or $1.23 per $1,000.

A comparison of gross spreads paid to underwriters on a national basis to those paid by Texas issuers reveals that Texas is still below the national average (*Figure 10*). Data published by the Securities Data Company show that spreads paid by issuers nationally have averaged $7.04. This amount, like the $6.27 average paid by Texas issuers, includes the various components of the underwriter's spread such as managers' fees, underwriting fees, average takedowns, and expenses.

Comparison of Issuance Costs by Size

When comparing the issuance costs of each bond transaction, one trend that normally holds true is that, on a per $1,000 basis, larger issues have lower costs (*Figure 11*). This trend occurs due to the fact that increased issue size will result in an increased underwriter's discount being spread out over a larger par amount. Additionally, the other costs associated with bond issuance, such as bond counsel, financial advisory, ratings, and printing, do not necessarily increase proportionately with the size of the issue.

During fiscal 1997 however, this trend did not occur on the larger issues. Of the seven issues in the $50-$100 million category, two were $50 million issues, and four of the seven were below $65 million. Only one issue in this category was at the upper end at $95 million. Therefore, the costs of issuance in this category were spread out over the smaller issues, thereby increasing the costs per $1,000.

The same is true for the $100 million and over category. During fiscal 1997, only two issues ($169 million and $185 million) were over $100 million. This compares to the seven $100 million or greater transactions that took place during fiscal 1996.

Additionally, of the nine transactions of $50 million or more that occurred in fiscal 1997, only one was a competitive sale. Competitive sales are normally associated with lower costs. However, negotiated transactions do have some advantages over competitive sales and are used for various reasons.

Negotiated Versus Competitive Sales

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

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

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

Conditions favoring a competitive sale include a stable, predictable market and securities for which market demand can be easily ascertained by bidders. Stable market conditions lessen the bidder's risk of holding unsold balances. Market demand is generally easier to assess for securities issued by a well-known, highly-rated issuer that regularly borrows in the public market, securities 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.

Table 14

AVERAGE ISSUANCE COSTS FOR 1997 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)	$80.68	$45.45
Underwriter's Spread	$6.26	$3.33
Other Issuance Costs:		
Bond Counsel	0.97	0.69
Financial Advisor	0.59	0.62
Rating Agencies	0.60	0.72
Printing	0.17	0.30
Other	0.51	0.03
Total	**$9.10**	**$5.69**

Note: The calculations regarding average issuance costs include only those bond issues of greater than $20 million sold via competitive or negotiated sale. Bond insurance premiums are not included for purposes of average cost calculations. The figures are the simple average of the costs per $1,000 associated with each fiscal 1997 state bond issue.

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

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 the spreads paid on *all* Texas negotiated and competitive transactions in fiscal 1997 reveal an unusual result in that the average spread paid on competitive transactions exceeded that of negotiated transactions. For the year, the average spread paid on the seven competitive transactions in fiscal 1997 averaged $6.51 while the average spread paid on the twelve negotiated transactions in fiscal 1997 was $6.13. These figures differ from the national averages compiled by Securities Data Corporation, which recorded averages of $6.88 for competitive transactions and $7.06 for negotiated transactions (*Figure 12*).

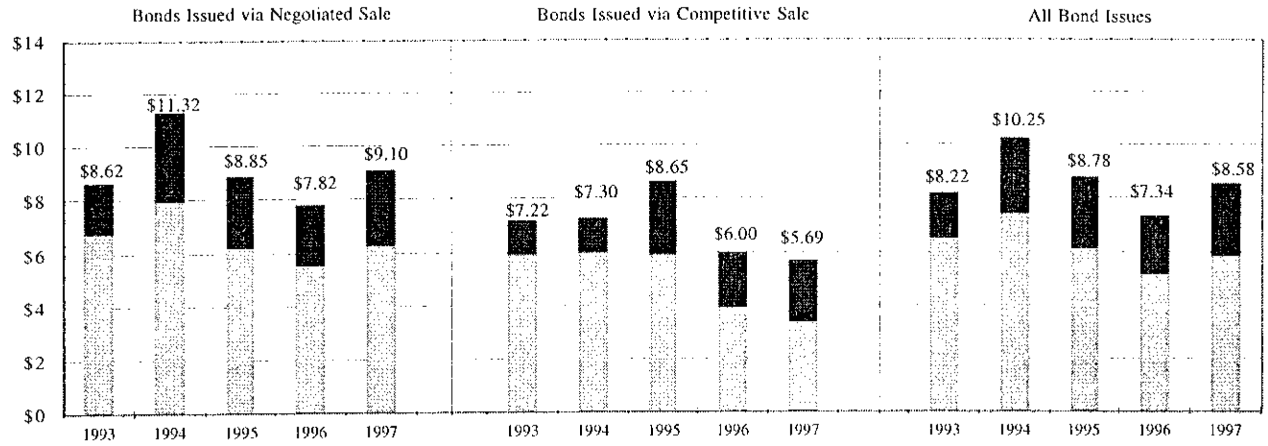
This movement towards competitive spreads exceeding those of negotiated spreads in Texas started in fis-

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.

cal 1996. Possible causes of this trend may be the inclusion of credit enhancement premiums on four of the seven fiscal 1997 competitive transactions, or the addition of a risk premium by underwriters to compensate for the uncertainty of their winning the bonds in a competitive sale.

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

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

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 the size differences between negotiated and competitively sold bond issues, as smaller issues are much more likely to be sold competitively. Furthermore, smaller issues, as previously described, tend to have higher issuance costs per $1,000, regardless of their complexity.

Therefore, comparisons of competitive and negotiated transactions greater than $20 million are helpful in gauging trends in issuance costs. For fiscal 1997, issuance costs for the two competitive transactions that were greater than $20 million averaged $5.69 per $1,000 (*Table 14*). This is down from the $6.00 per $1,000 recorded during fiscal 1996. Average issuance costs for negotiated transactions in the greater than $20 million category averaged $9.10 per $1,000 for fiscal 1997. This figure is higher than the $7.82 per $1,000 recorded in fiscal 1996.

On a combined basis, all issuance costs for all transactions greater than $20 million averaged $8.58 per $1,000 for fiscal 1997 (*Figure 13*). This figure is up from the $7.34 that was posted in fiscal 1996, but below the $8.78 recorded in fiscal 1995.

A breakout comparison of all issuance costs for competitive and negotiated transactions in fiscal 1997 reveals that on a total cost basis, costs for competitive sales were below those recorded for fiscal 1996, while those for negotiated transactions exceeded those of the previous year. For fiscal

1997, total costs for competitive and negotiated transactions averaged $5.69 and $9.10 per $1,000, respectively.

Of the two competitive transactions in fiscal 1997 that were greater than $20 million, $2.35 per $1,000 of the total average were paid for professional fees and the remainder, $3.33 per $1,000, was the average underwriter's spread paid. The average costs associated with the eleven negotiated transactions greater than $20 million were $2.85 per $1,000 for professional fees and $6.26 per $1,000 for the underwriter's spread. The total thirteen transactions of $20 million or greater in fiscal 1997 recorded averages of $2.77 per $1,000 for professional fees and $5.80 per $1,000 for underwriter's spread.

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 number of state bond issues.

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

Texas Bonds And Notes Outstanding

Texas had a total of $11.67 billion in state bonds and notes outstanding on August 31, 1997 - up from $11.34 billion on August 31, 1996, and $10.45 billion outstanding on August 31, 1995.

Slight Increase in General Obligation Bonds Outstanding

Approximately $4.95 billion of Texas' total state debt outstanding on August 31, 1997 carries the general obligation (G.O.) pledge of the state, down $35 million from the amount of G.O. bonds outstanding at the end of fiscal 1996 *(Table 15).* This small decrease in G.O. bonds outstanding was due primarily to a defeasance by the Texas Public Finance Authority. (See Chapter 3 for a description of bonds issued in fiscal 1997.)

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

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

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

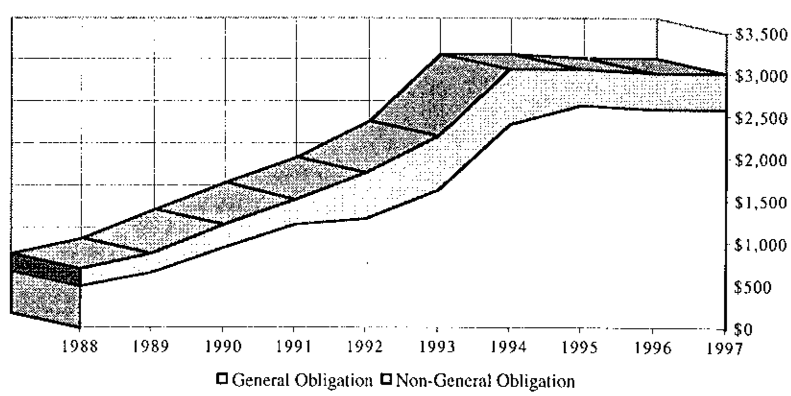
Amount of Debt Supported From General Revenue Is Unchanged From 1996

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 1997 continued a trend toward decreased issuance of non-self-supporting Texas bonds; however, the issuance of self-supporting bonds increased modestly *(Figure 14).* The amount of non-self-supporting G.O. bonds outstanding at the end of fiscal 1997 decreased $88.1 million over the amount outstanding at the end of fiscal 1996;

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)

	8/31/94	8/31/95	8/31/96	8/31/97
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$1,238,893	$1,468,760	$1,451,906	$1,419,053
Water Development Bonds	225,935	324,420	355,227	465,953
Park Development Bonds	29,372	28,752	37,326	35,583 [4]
College Student Loan Bonds	434,031	466,442	523,494	494,958
Farm and Ranch Security Bonds*	0	0	100	100
Texas Agricultural Finance Authority*	18,000	18,500	20,000	22,000
Agriculture Water Conservation Bonds	7,000	13,370	11,995	15,505
Total, Self-Supporting	**$1,953,231**	**$2,320,244**	**$2,400,048**	**$2,453,152**
Not Self-Supporting [1]				
Higher Education Constitutional Bonds [2]	$34,970	$10,700	$52,930	$72,125
Texas Public Finance Authority Bonds	2,132,432	2,365,140	2,246,431	2,209,797 [4]
Texas National Research Laboratory Commission Bonds	237,822	232,254	226,916	132,315 [4]
Water Development Bonds—EDAP [3]	16,940	37,530	62,090	86,050
Total, Not Self-Supporting	**$2,422,164**	**$2,645,624**	**$2,588,367**	**$2,500,287**
Total General Obligation Bonds	**$4,375,395**	**$4,965,868**	**$4,988,415**	**$4,953,439**
Non -General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds				
A&M	$355,319	$344,659	$353,320	$355,703 [4]
UT	615,110	586,315	607,885	669,200
College and University Revenue Bonds	1,108,257	1,368,096	1,615,356	1,750,637
Texas Hospital Equip. Finance Council Bonds [5]	11,900	11,650	11,400	11,150
Texas Department of Housing & Community Affairs Bond	1,141,609	1,129,816	1,107,302	1,129,259
Texas Small Business I.D.C. Bonds	99,335	99,335	99,335	99,335
Economic Development Program *	25,000	11,000	9,000	5,400
Texas Turnpike Authority Bonds	395,400	415,370	855,810	844,780
Texas Water Resources Finance Authority Bonds	436,040	412,350	382,560	341,570
College Student Loan Bonds	66,022	64,871	59,952	53,078
Texas Workers' Compensation Fund Bonds	277,255	211,470	200,968	189,524
Texas Public Finance Authority Bonds (Special Revenue)	0	0	10,380	10,050
Texas Water Development Board Bonds (State Revolving Fund)	409,400	400,170	589,795	809,820
Total, Self-Supporting	**$4,940,647**	**$5,055,102**	**$5,903,062**	**$6,269,506**
Not Self-Supporting [1]				
Texas Public Finance Authority Bonds	$348,480	$351,573	$381,372	$394,813
TPFA Master Lease Purchase Program*	25,300	47,400	41,400	27,500 [6]
Texas Military Facilities Commission	33,135	31,320	29,085	26,710
Texas National Research Laboratory Commission Bonds	250,000	0	0	0
Total, Not Self-Supporting	**$656,915**	**$430,293**	**$451,857**	**$449,023**
Total Non-General Obligation Bonds	**$5,597,562**	**$5,485,395**	**$6,354,919**	**$6,718,529**
Total Bonds	**$9,972,957**	**$10,451,263**	**$11,343,334**	**$11,671,968**

* commercial paper

1 Bonds which are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue fund for debt service. Not self-supporting bonds totaled $3 billion outstanding on August 31, 1997, $3 billion outstanding on August 31, 1996, $3.1 billion outstanding on August 31, 1995, and $3.1 billion outstanding on August 31, 1994.

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 1997 figure is estimated.

6 This figure reflects only the commercial paper component of the Master Lease Purchase Program (MLPP). An additional $7.2 million in equipment revenue bonds for the MLPP are included under Texas Public Finance Authority bonds.

Note: The quarterly debt outstanding figures include the accretion on capital appreciation bonds as of the most recent accretion date; however, the year end figures include accretions as of August 31.

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

similarly, the amount of non-self-supporting revenue bonds outstanding decreased by $2.8 million. As a result, Texas had $3.0 billion in outstanding bonds that must be paid back from the state's general revenue fund, as of August 31, 1997—slightly under the amount of such bonds outstanding at the end of fiscal 1996, $3.04 billion. This figure compares to $3.08 billion at the end of fiscal 1994, and $3.1 billion outstanding at the end of fiscal 1993.

Tremendous growth in the amount of bonds payable from general revenue occurred over the fiscal 1988-94 time period, primarily as a result of the issuance of bonds to finance construction of correctional facilities and the initial phase of the Superconducting Super Collider (SSC) project. At the end of fiscal 1987, before the expansion of correctional facilities and the SSC bonds were approved, Texas had only $422 million in bonds outstanding payable from general revenue. Since that time, the state has issued over $2.6 billion in debt for correctional facilities and $500 million for the SSC, all payable solely from the state's general revenue. The $250 million in SSC project revenue bonds were defeased June 1, 1995. During fiscal 1997, through provisions contained in the General Appropriations Act, the TPFA defeased a portion, $89.6 million, of the outstanding general obligation bonds issued for the SSC project.

The amount of general revenue that must go to pay debt service has, as expected, increased along with the amount of bonds outstanding that are not self-supporting *(Table 16)*. During the 1996-97 budget period, the state paid an average $324 million *annually* from general revenue for debt service, up from $289 million annually during 1994-95, and $183 million annually during 1992-93 *(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 the 1996-97 biennium, the state paid 1.5 percent of its unrestricted general revenues for debt service compared to the 1994–95 biennium in which debt-service payments made up 1.7 percent of unrestricted general revenue. The reason underlying the decline in the percentage of general revenue utilized for debt service is the performance of the Texas economy and its corresponding positive effect on state finances. Combined with the stabilization of debt payable from general revenue, the growth in unrestricted general revenue has led to this favorable result.

The percentage of general revenue going to debt service remains well below the level found in most other large states. (A more detailed examination of Texas' debt burden is presented in Chapter 2.)

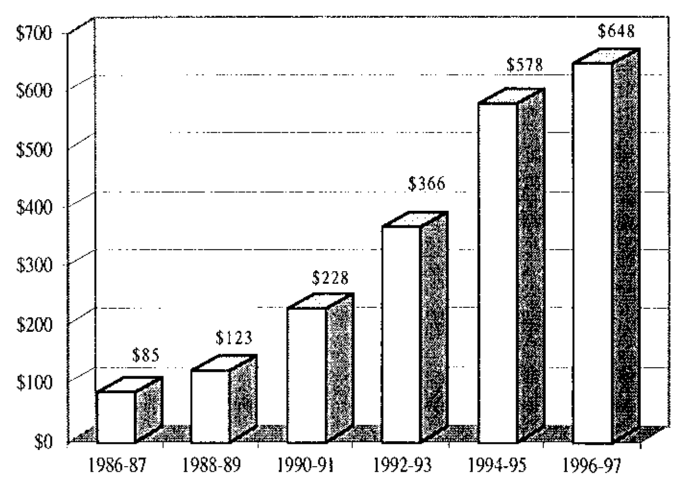
Texas Bonds Authorized But Unissued

Authorized bonds are defined as those bonds which may be issued without further action by the Legislature. As of August 31, 1997, Texas had $5.4 billion in authorized but unissued bonds *(Table 17)*. As of the same date, approximately $3.4 billion (62 percent) of the authorized but unissued bonds would be state general obligations. At the end of fiscal 1997, only $721 million (13 percent) of all the authorized but unissued bonds would require the payment of debt service from general revenue. The remainder

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)

	1997	1998	1999	2000	2001	2002 plus
General Obligation Bonds						
Self-Supporting						
Veterans' Land and Housing Bonds	$153,847	$161,376	$163,371	$164,122	$163,703	$2,067,280
Water Development Bonds	36,824	39,845	40,844	41,827	41,959	688,301
Park Development Bonds	3,812	4,123	4,203	4,200	4,202	36,385
College Student Loan Bonds	54,704	58,725	55,283	57,505	60,948	517,233
Farm and Ranch Loan Bonds	6	7	7	7	7	212
Texas Agricultural Finance Authority	1,330	1,400	1,400	1,400	1,400	44,400
Agriculture Water Conservation Bonds	2,476	3,076	3,109	3,133	3,153	7,351
Total Self-Supporting	**$252,999**	**$268,552**	**$268,217**	**$272,194**	**$275,372**	**$3,361,162**
Not Self-Supporting[1]						
Higher Education Constitutional Bonds [2]	$11,315	$11,495	$11,525	$11,567	$11,561	$42,777
Texas Public Finance Authority Bonds	221,801	227,670	226,934	226,143	225,973	2,790,905
Texas National Research Laboratory Commission	20,370	15,442	15,436	15,438	15,443	173,639
Water Development EDAP Bonds [3]	4,581	6,427	7,144	7,176	7,160	121,234
Total Not Self-Supporting	**$258,067**	**$261,034**	**$261,039**	**$260,323**	**$260,137**	**$3,128,555**
Total General Obligation Bonds	**$511,066**	**$529,586**	**$529,257**	**$532,517**	**$535,509**	**$6,489,717**
Non-General Obligation Bonds						
Self-Supporting						
Permanent University Fund Bonds,						
A&M	$32,395	$35,716	$36,495	$36,773	$36,826	$368,577
UT	57,986	61,767	61,772	61,769	61,770	830,469
College and University Revenue Bonds	194,733	202,540	196,056	193,081	183,787	1,984,097
Texas Hospital Equip. Finance Council Bonds	435[4]	435	435	435	435	13,142
Texas Dept. of Housing & Community Affairs	102,780	88,273	89,003	86,881	88,227	2,272,001
Texas Small Business I.D.C. Bonds	3,594	4,967	4,967	4,967	4,967	222,676
Economic Development Program	434	378	378	378	378	11,448
Texas Turnpike Authority Bonds	62,195	62,603	62,605	54,400	54,403	1,488,080
Texas Water Resources Finance Authority	55,026	50,115	48,307	46,153	43,057	357,292
College Student Loan Bonds	6,236	5,643	6,274	5,886	6,731	72,295
Texas Workers' Compensation Fund Bonds	29,016	28,970	28,922	28,865	28,804	171,227
Texas Public Finance Authority Bonds (Special Revenue)	836	838	839	835	834	12,548
Texas Water Development Board (State Revolving Fund)	53,589	59,409	61,338	63,104	62,331	1,157,566
Total Self-Supporting	**$599,257**	**$601,654**	**$597,391**	**$583,525**	**$572,552**	**$8,961,418**
Not Self-Supporting[1]						
Texas Public Finance Authority Bonds	$45,198	$45,948	$38,441	$38,507	$38,514	$474,829
TPFA Master Lease Purchase Program	21,529	14,396	8,305	3,440	812	900
Military Facilities Commission Bonds	4,005	3,992	4,002	4,006	4,009	19,813
Total Not Self-Supporting	**$70,731**	**$64,336**	**$50,748**	**$45,953**	**$43,335**	**$495,541**
Total Non-General Obligation Bonds	**$669,988**	**$665,989**	**$648,139**	**$629,478**	**$615,887**	**$9,456,959**
Total All Bonds	**$1,181,054**	**$1,195,575**	**$1,177,396**	**$1,161,995**	**$1,151,395**	**$15,946,676**

[1] Bonds which are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totaled $328.8 million during fiscal 1997, and will total approximately $330.3 million in fiscal 1998.

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

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

[4] The 1997 figure is estimated.

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

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

are in programs that are designed to be self-supporting.

New Debt Issuance Authorized

The 75th Texas Legislature established new debt-financed programs and also added authority to existing issuers.

The Texas Department of Transportation was given the authority to create a State Infrastructure Bank (SIB) to be financed by federal funds, state matching funds, and the proceeds of revenue bonds payable from receipt of revenues and income of the SIB. The SIB will be used to fund transportation infrastructure development projects. The outstanding debt of the previous Texas Turnpike Authority has been assumed by the newly established North Texas Tollway Authority which is a regional authority and not an agency of the state.

The Texas Department of Housing and Community Affairs received legislative direction to act as a conduit issuer for qualified 501(c)(3) entities. This program will enable multi-family housing development financing, both acquistion and new construction, for affordable housing purposes.

Texas institutions of higher education received new revenue bond authority totaling $638.4 million. Proceeds from these bonds will finance capital projects at various state universities and health science centers.

The Texas Parks and Wildlife Department was given $60 million of revenue bond authority to finance capital projects. These bonds will be issued by the Texas Public Finance Authority, on behalf of the Department.

The Texas Public Finance Authority received new revenue bond authority for several capital project initiatives. The TPFA was authorized to issue bonds to provide funds for the construction of parking facilities in the Capitol complex, for various construction projects related to the State Aircraft Pooling Board, and the development of a state complex at Robert Mueller Airport in Austin. Also, the TPFA was authorized to issue bonds to fund the construction of the Texas History Museum and a state office building, as well as to finance an automated data processing system for the Department of Health and Human Services.

Although the Veterans Land Board already had revenue bond authority, the Texas Legislature established a new revenue bond financed program that will create veterans' assistance centers.

New Debt-Related Constitutional Amendments

Texans approved three debt-related constitutional amendments in November 1997, none of which authorized additional general obligation bond issuance.

The first one, as mentioned in Chapter Two, changed the statutory debt limitation to a constitutional one. This amendment, virtually identical to the statute, prohibits the authorization of new debt payable from general revenue once debt service payable from general revenue reaches five percent of the average of the preceding three years' unrestricted general revenue.

The second amendment authorized the creation of the Texas Water Development Fund II and allows the Texas Water Development Board to issue or refund any previously authorized general obligation bonds for separate purposes from this new fund on a consolidated basis.

The third constitutional amendment passed by the voters does not directly change any state general obligation debt program; however, it does extend the same full faith and credit of the state to support the Texas Tomorrow Fund, the state's prepaid tuition program, if necessary. Appropriations out of current state funds will be made if Texas Tomorrow trust fund amounts are insufficient to meet applicable tuition and fee charges. The Fund is designed and operated in a manner that will provide sufficient and timely funds to meet its program objectives of providing a pre-paid tuition mechanism; therefore, the likelihood that the program will draw on general revenue is remote.

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 one 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 bal-

Table 17

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

	08/31/95	08/31/96	08/31/97
General Obligation Bonds			
Self-Supporting			
Veterans Land and Housing Bonds	$574,999	$1,005,002	$955,002
Water Development Bonds	1,081,245	1,046,245	926,245
Farm and Ranch Loan Bonds [5]	500,000	474,900	474,900
Park Development Bonds	25,975	16,310	16,310
College Student Loan Bonds	0	224,822	224,822
Texas Department of Economic Development Bonds	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	11,500	35,000	33,000
Agriculture Water Conservation Bonds	186,000	186,000	181,000
Total Self-Supporting	**$2,424,719**	**$3,033,279**	**$2,856,279**
Not Self-Supporting [1]			
Higher Education Constitutional Bonds	*	*	*
Texas Public Finance Authority Bonds	$487,440	$434,740	$338,340 [2]
Texas National Research Laboratory Commission Bonds	250,000	0	0
Water Development Bonds-EDAP [3]	211,565	186,565	161,565
Total Not Self-Supporting	**$949,005**	**$621,305**	**$499,905**
Total General Obligation Bonds	**$3,373,724**	**$3,654,584**	**$3,356,184**
Non-General Obligation Bonds			
Self-Supporting			
Permanent University Fund Bonds [4]			
A&M	$94,822	$110,514	$141,994
UT	288,850	319,782	325,703
College and University Revenue Bonds	**	**	**
Texas Department of Housing & Community Affairs	**	**	**
Texas Turnpike Authority Bonds	**	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000	500,000
Texas Department of Economic Development Bonds	**	**	**
Texas Water Resources Finance Authority Bonds	**	**	**
Texas School Facilities Finance Program	750,000	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**	**
College Student Loan Bonds	0	0	0
Low-Level Radioactive Waste Disposal Authority	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**
Alternative Fuels Program	50,000	50,000	50,000
Texas Public Finance Authority Bonds (Special Revenue)	0	53,070	53,070
Texas Water Development Board (State Revolving Fund)	**	**	**
Total Self-Supporting	**$1,683,672**	**$1,783,366**	**$1,820,767**
Not Self-Supporting [1]			
Texas Public Finance Authority Bonds	$435,310	$189,800	$148,900
TPFA Master Lease Purchase Program—Commercial Paper	52,600	58,600	72,500
Texas Military Facilities Commission Bonds	**	**	**
Texas National Research Laboratory Commission Bonds	250,000	0	0
Total Not Self-Supporting	**$737,910**	**$248,400**	**$221,400**
Total Non-General Obligation Bonds	**$2,421,582**	**$2,031,766**	**$2,042,167**
Total All Bonds	**$5,795,306**	**$5,686,350**	**$5,398,351**

*No limit on bond issuance, but debt service may not exceed $87.5 million per year.

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

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

[2] This figure represents bonds that have been approved by the voters but have not been issued. The Legislature has appropriated $316.6 million from the unissued amount; the remaining $21.7 million cannot be issued until appropriated by the Legislature.

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

[4] Issuance of PUF bonds by A&M is limited to 10 percent, and issuance by UT is limited to 20 percent of the cost value of investments and other assets of the PUF, except real estate. The PUF value used in this table is as of August 31, 1997.

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

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

ance due on the contract as of September 1, 1995, was $43.6 million. This contract is a general obligation of the state; however, the TWDB does not anticipate a draw on general revenue for contract payments.

Lease-purchase agreements for prison facilities have greatly increased the significance of lease-purchase debt. As of the end of fiscal 1997, 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 $208.7 million outstanding as of August 31, 1997. 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, 1997, including furniture, equipment (excluding lease-purchases financed through MLPP), and prison facilities, totaled $244.6 million. Inclusion of just the lease-purchases of facilities approved by the Bond Review Board during 1997 would add another $22.9 million to the total amount of lease-purchases outstanding. The majority of the equipment lease-purchases approved by the Bond Review Board in 1997 were financed through MLPP and therefore are shown as bonds outstanding.

Table 18

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

(amounts in thousands)

	1997	1998	1999	2000	2001	2002 and Beyond
General Services Commission	$ 3,394	$ 3,395	$ 3,395	$ 3,393	$ 3,390	$ 55,748
Texas Department of Criminal Justice	21,279	21,483	21,456	21,470	19,618	180,931
TOTAL	$ 24,673	$ 24,878	$ 24,851	$ 24,863	$ 23,008	$ 236,679

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

Texas Local Government Debt In Perspective

Texas local governments issued 89 percent of all Texas public debt during fiscal 1997. Cities dominated the public market issuing $4.66 billion in new money and refunding bonds. Public school districts were a distant second issuing $2.2 billion in bonds, mostly new money for construction and equipment.

Local Governments—$60 Billion in Debt

The long-term debt outstanding for Texas local governments is approximately $60.6 billion as of August 1997. This is nearly $4 billion more than the amount reported last year. The increase comes from a combination of factors: the basic net increase of new debt issued less debt retired, additional Bond Review Board local debt verification, and the addition of commercial paper debt outstanding for Texas cities – this last factor has not been part of prior city debt estimates. The commercial paper addition increases city debt by $1.34 billion.

Texas cities continue to shoulder the largest overall debt burden among Texas local governments with an estimated $25.42 billion debt outstanding, which is 42 percent of the total local debt. Texas water districts and authorities follow with $14.5 billion and Texas school districts are third with $12.43 billion outstanding. This information is based on a combination of verified and estimated data, as noted on (*Table 19*). Only long-term debt approved by the Attorney General,

Table 19

TEXAS STATE AND LOCAL GOVERNMENT DEBT OUTSTANDING SUMMARY
As of August 31, 1997

Type of Issuer	Tax-Supported	Revenue	Total Debt
Cities, Towns, Villages			**$25,423,503,177**
Tax *	$ 9,073,204,410		
Revenue *		$ 15,013,230,767	
Commercial Paper	317,000,000	1,020,068,000	
Community and Junior Colleges			**763,674,383**
Tax	384,314,590		
Revenue		379,359,793	
Counties			**4,506,032,657**
Tax	3,447,316,048		
Revenue		945,014,000	
Conduit revenue		31,005,000	
Lease-purchase contracts		82,697,609	
Health / Hospital Districts			**1,141,452,219**
Tax	155,198,050		
Revenue		963,909,169	
Conduit revenue		22,345,000	
Public School Districts			**12,433,822,955**
Voter-approved tax (ed. facilities)	12,012,691,966		
Maintenance tax (ed. equipment)	311,232,989		
Lease-purchase contracts (ed. facilities)	107,521,000		
Revenue (athletic facilities)		2,377,000	
Water Districts and Authorities			**14,506,738,178**
Tax	3,711,084,863		
Revenue		4,575,528,500	
Conduit revenue		6,220,124,815	
Other Special Districts and Authorities (Road, power, housing)			**1,807,805,360**
Tax	48,998,861		
Revenue		1,758,806,499	
Total Local Debt Outstanding	**$29,568,562,777**	**$31,014,466,152**	**$ 60,583,028,929**
State			**11,671,968,000**
General Obligation			
- self-supporting	2,453,152,000		
- not self-supporting	2,500,287,000		
Not General Obligation			
- self-supporting		6,269,506,000	
- not self-supporting	449,023,000		
Total State Debt Outstanding	**$ 5,402,462,000**	**$ 6,269,506,000**	**$ 11,671,968,000**
Total All Debt Outstanding	**$34,971,024,777**	**$37,283,972,152**	**$ 72,254,996,929**

* Estimates based on available information: the Texas Bond Review Board has not verified the debt of Texas cities.
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.

State of Texas, is included in this overall estimate of local governmental debt outstanding.

This debt is nearly evenly divided between tax-supported and revenue debt. Texas public school districts continue to lead in the volume of tax-supported debt outstanding, and Texas cities continue to lead in the volume of revenue debt outstanding. With

$12.43 billion in tax-supported debt, school districts carry 42 percent of all tax-backed local debt on their books; this includes voter-approved tax debt for facilities, lease-purchase contracts for facilities, and maintenance tax debt for equipment. Cities carry $16.03 billion, or 52 percent, of local revenue debt, including commercial paper outstanding. Cities, unlike school districts, have access to project revenues, such as water and sewer fees and electric utility fees, to reduce the volume of tax debt.

What lessens the debt burden statistic for some governments is the volume of conduit revenue debt outstanding. Some $6.3 billion, or 10 percent, of total Texas local debt has been identified as conduit financing. These are obligations issued by a governmental unit to finance a project to be used primarily by a third party. The third party is generally a corporation engaged in private enterprise, or it may be a nonprofit corporation, which is the case for a few Texas hospital authorities. Texas water authorities, as can be seen on Table 19, are the primary Texas issuers of conduit revenue bonds. Forty-three (43) percent of total water district/authority debt is conduit revenue debt. These financings primarily support air and water pollution control and solid waste disposal efforts.

Table 20

TEXAS STATE AND LOCAL GOVERNMENTS
Debt Issued in Fiscal 1997
September 1, 1996 - August 31, 1997

BY GOVERNMENTS (AUTHORITIES)

Cities, Towns, Villages		New-Money	Refunding	Total Par Issued
110	Tax	$ 879,806,000	$ 443,259,798	$ 1,323,065,798
119	Combination Tax/Revenue	346,402,039	1,785,000	348,187,039
89	Revenue	1,493,312,000	1,500,425,000	2,993,737,000
318 Issues		$ 2,719,520,039	$ 1,945,469,798	$ 4,664,989,838
Community and Junior Colleges				
5	Tax	33,030,000	15,769,997	48,799,997
7	Revenue	74,785,000	3,790,000	78,575,000
12 Issues		$ 107,815,000	$ 19,559,997	$ 127,374,997
Counties				
32	Tax	288,413,320	76,234,584	364,647,903
13	Combination Tax/Revenue	71,140,000	171,190,000	242,330,000
2	Revenue	0	83,400,000	83,400,000
47 Issues		$ 359,553,320	$ 330,824,584	$ 690,377,903
Health / Hospital Districts				
2	Tax	14,150,000	0	14,150,000
8	Revenue	26,180,000	108,850,000	135,030,000
10 Issues		$ 40,330,000	$ 108,850,000	$ 149,180,000
Public School Districts				
126	Voter-Approved Tax	1,737,526,977	324,754,069	2,062,281,046
56	M&O Tax	129,230,000	0	129,230,000
5	Lease-Purchase Tax	12,625,000	0	12,625,000
187 Issues		$ 1,879,381,977	$ 324,754,069	$ 2,204,136,046
Water Districts and Authorities				
77	Tax	165,448,600	115,475,726	280,924,326
64	Combination Tax/Revenue	92,700,000	47,559,577	140,259,577
65	Revenue	424,527,017	788,480,000	1,213,007,017
206 Issues		$ 682,675,617	$ 951,515,302	$ 1,634,190,919
Other Special Districts and Authorities				
1	Tax	2,690,000	0	2,690,000
1	Revenue	29,000,000	0	29,000,000
2 Issues		$ 31,690,000	$ -	$ 31,690,000
782	TOTAL LOCAL DEBT ISSUED	$5,820,965,953	$ 3,680,973,750	$ 9,501,939,703
State				
8	Tax	264,250,000	92,935,000	357,185,000
15	Revenue	579,581,594	224,478,406	804,060,000
23 Issues	TOTAL STATE DEBT ISSUED	$ 843,831,594	$ 317,413,406	$ 1,161,245,000
805 Issues	TOTAL ALL DEBT ISSUED	$6,664,797,547	$ 3,998,387,156	$10,663,184,703

Note: Commercial paper programs are listed at the authorized dollar amount (City of Austin-$100 million, City of Houston-$532 million, City of San Antonio-$225 million, Bexar Metropolitan Water District-$25million, and Texas Municipal Power Agency-$29 million).
Source: Texas Bond Review Board, Office of the Executive Director.

Nearly $10 Billion In Debt Issued By Texas Local Governments And Authorities During Fiscal 1997

In fiscal 1997, Texas local governments issued $9.50 billion in debt obligations (including new commercial paper programs reported at the authorized dollar amount, and conduit financings issued by river authorities). The new-money bond portion was $5.82 billion, while $3.68 billion was used to refund existing debt (*Table 20*). The volume of total debt issued in fiscal 1997 was $1.77 billion higher than in fiscal 1996. Over 70 percent of this increase ($1.26 billion) was in the volume of issuance for debt refundings.

As was the case last year, Texas cities issued the greatest volume of debt among local governments with $4.66 billion and 318 transactions closed in fiscal 1997. Additionally, the overall local debt increase between fiscal 1996 and 1997 is primarily an increase in debt issuance by Texas cities. City debt issuance is 49 percent of total local debt issuance and 44 percent of total state *and* local debt issuance.

Texas public school districts were a distant second with $2.2 billion and 187 transactions closed, and Texas water districts and authorities were third with $1.6 billion and 206 transactions closed.

Table 21

TEXAS STATE AND LOCAL GOVERNMENTS LONG-TERM DEBT ISSUED IN FISCAL 1997
Listing By Use

Use		Govt Type	New-Money
Education facilities/equipment			
10		Community and Junior Colleges	$ 107,815,000
167		Public School Districts	1,879,381,977
8		State	205,228,000
185	Issues		$ 2,192,424,977
Water-related			
122		Cities, Towns, Villages	656,808,900
143		Water Districts and Authorities	495,574,810
1		Other Special Districts and Authorities	2,690,000
5		State	385,000,000
271	Issues		$ 1,540,073,710
General Purpose*			
108		Cities, Towns, Villages	940,766,139
23		Counties	99,798,320
1		Water Districts and Authorities	6,600,807
1		State	40,900,000
133			$ 1,088,065,266
Power			
4		Cities, Towns, Villages	603,420,000
1		Other Special Districts and Authorities	29,000,000
5	Issues		$ 632,420,000
Transportation			
35		Cities, Towns, Villages	450,265,000
7		Counties	134,335,000
2		Water Districts and Authorities	28,500,000
44	Issues		$ 613,100,000
Housing / Land			
1		Cities, Towns, Villages	4,000,000
5		State	175,203,594
6	Issues		$ 179,203,594
Prisons / Detention			
2		Cities, Towns, Villages	2,410,000
7		Counties	106,100,000
1		State	37,500,000
10	Issues		$ 146,010,000
Solid Waste			
3		Cities, Towns, Villages	11,040,000
7		Water Districts and Authorities	152,000,000
10			$ 163,040,000
Health-related			
1		Counties	13,935,000
7		Health/Hospital Districts	38,180,000
8	Issues		$ 52,115,000
Recreation			
10		Cities, Towns, Villages	35,130,000
2		Counties	5,385,000
12	Issues		$ 40,515,000
Fire			
2		Cities, Towns, Villages	2,150,000
1		Health/Hospital Districts	9,080,000
3	Issues		$ 11,230,000
Economic Development			
1		Cities, Towns, Villages	6,600,000
1	Issues		$ 6,600,000
		GRAND TOTAL	**$6,664,797,547**

*Some issuers, especially cities, borrowed for multipurpose uses. No attempt was made to disaggregate multipurpose borrowings. From a review of official statements, this slightly understates debt financings for water and transportation purposes. Other general purpose financings include those for municipal buildings, state office buildings, etc.
Source: Texas Bond Review Board, Office of the Executive Director.

Texas' First Priority For Debt Finance—Responding To Educational Facility Needs

The combined new-money issuance for educational facilities and equipment in fiscal 1997 was $2.19 billion, one-third of all new-money issuance by Texas state and local governments. This amount was issued by Texas public school districts, public institutions of higher education, and community/junior colleges.

The second major purpose for debt finance is responding to water-related facility needs. Texas cities, water districts and authorities, and the Texas Water Development Board borrowed $1.54 billion to provide for water and sewer capacity, safe drinking water, and flood control. It is only in the water-related area where there may be two financings reported that result in only one water project being constructed. This is because both the Texas Water Development Board and some water authorities issue debt for the purpose of subsequently loaning these funds to Texas cities and water districts. For information about other financing uses being tracked, see (*Table 21*).

Two-Thirds Of New-Money Debt Is Tax-Supported

During fiscal 1997, Texas local governments borrowed $3.77 billion in tax-backed new-money bonds; Texas state agencies and universities borrowed an additional $264 million in tax-backed obligations. For local governments, tax-supported debt is generally secured by a pledge of the issuer's ad valorem taxing power. State tax-supported debt is generally secured by a state pledge of the first monies com-

Table 22

TEXAS PUBLIC SCHOOL DISTRICTS
Total Voter-Approved Tax Debt Outstanding

Fiscal Year Ending	Principal Amount at Par	Increase From Prior Year	Percent Increase
8/31/97	$12,012,691,966	$1,091,223,319	9.99%
8/31/96	10,921,468,647	1,389,499,785	14.58%
8/31/95	9,531,968,862	725,270,707	8.24%
8/31/94	8,806,698,155	435,590,434	5.20%
8/31/93	8,371,262,721	102,298,490	1.24%
8/31/92	8,268,964,231	641,642,235	8.41%

Total Voter-Approved Tax Debt Issuance by Fiscal Year

Fiscal Year	Total Par Amount Issued	Par Amount of New-Money Bonds	Par Amount of Refunding Bonds
1997	$2,062,281,046	$1,737,526,977	$324,754,069
1996	2,550,906,253	2,000,227,592	550,678,661
1995	1,536,510,512	1,339,130,960	197,379,552
1994	1,830,062,410	1,031,355,292	798,707,118
1993	2,787,276,400	650,515,000	2,136,761,400

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

ing into the state treasury not otherwise appropriated by the State Constitution. Included are obligations issued as combination tax and revenue bonds, and self-supporting general obligation bonds.

Tax-backed obligations represent 65 percent of the total local government new-money issuance and 61 percent of the combined state *and* local new-money issuance. Last year, the percentages were 70 and 60, respectively. Although this is only two years of experience, this shift to increasing reliance on tax-supported debt may emerge as a trend. The estimate of total debt outstanding for state and local governments is nearly evenly divided between tax-backed ($35 billion) and revenue ($37.3 billion) debt.

Texas school districts continue to generate the largest volume of tax-supported debt. During the 1997 fiscal year, school districts borrowed $1.88 billion for renovating and constructing facilities and for equipment purchases. This is a 12.7 percent decline from last year's record $2.15 billion; and the first year in five years (for which records have been maintained) that voter-approved issuance volume declined (*Table 22*). The largest new-money issues were by Plano ISD, $118.22 million; Austin ISD, $117.9 million; Arlington ISD, $65.47 million; Lewisville ISD, $60 million; and Aldine ISD, $59.4 million. Districts also refunded $325 million in tax debt, primarily to restructure existing debt and to extend repayment periods.

Texas cities borrowed $1.23 billion in tax-backed bonds, a 44 percent increase over last year. Cities generally borrow for multiple purposes, with water and sewer projects, municipal facilities, and street and drainage work being among the most common financing uses. During fiscal 1997, cities closed on 229 tax-backed transactions. There were very few large tax-backed borrowings during the year. Houston borrowed $332 million, with nearly all of this financing in the form of new commercial paper authorizations. Dallas borrowed $71.5 million; Austin, $60.7 million; and San Antonio, $50.3 million. Texas cities also refunded $499 million in tax-supported debt, a 99 percent increase over last year's refunding total.

Table 23

TEXAS' LEADING GOVERNMENTAL ISSUERS
In Fiscal 1997
September 1, 1996 - August 31, 1997

Government	Total Par Issued	New-Money*	Refunding
City of Houston	$ 1,302,565,000	$ 634,150,000	$ 668,415,000
State of Texas Agencies & Universities	1,161,245,000	843,831,594	317,413,406
City of San Antonio	1,065,550,000	643,290,000	422,260,000
City of Austin	645,940,000	169,490,000	476,450,000
Harris County	489,409,600	165,000,000	324,409,600
Brazos River Authority	317,880,000	1,615,000	316,265,000
City of Dallas**	272,742,000	216,742,000	56,000,000
Lower Colorado River Authority	268,971,016	60,391,016	208,580,000
SUBTOTAL	$ 5,524,302,616	$ 2,734,509,610	$ 2,789,793,006
All Other Issuers	5,138,882,087	3,930,287,937	1,208,594,150
TOTAL	$ 10,663,184,703	$ 6,664,797,547	$ 3,998,387,156

*Includes commerical paper at authorized amount.
**Includes 60 percent of issuance for Dallas-Fort Worth Regional Airport.

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

Table 24

TEXAS' HEALTH/HOSPITAL DISTRICTS, AUTHORITIES, CENTERS, AND FINANCING AGENCIES
Debt Outstanding as of August 31, 1997

	Principal Outstanding	
Type of Facility	Tax-Supported	Revenue
Emergency Service Districts	$ 5,212,072	$ 49,000
Hospital Authorities, Boards, Agencies, Centers [TDH-hosp]*		515,986,568
Hospital Authorities [non-TDH]		5,257,000
Hospital Districts [TDH-hosp]*	147,540,978	312,824,601
Hospital Districts [non-TDH]	2,445,000	4,367,000
MHMR Centers		147,770,000
TOTAL	$155,198,050	$986,254,169

*Facilities licensed by the Texas Department of Health.

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

There were few large tax-supported transactions among other local governments. A notable exception was Harris County's issuance of $80 million for road improvements and $85 million for construction of a criminal justice center.

Fiscal 1997 Revenue Debt Volume Unchanged

State and local governments borrowed $2.63 billion in new-money revenue bonds during fiscal 1997 — a one percent decrease over last year. Revenue bonds are payable from a specific source of revenue to which the full faith and credit of an issuer with taxing power is *not* pledged. Pledged revenues may come from operating income of the projects, grants, endowment income, or other non-tax sources. Revenue debt issuance was concentrated among three governmental groups: $1.49 billion by Texas cities, $580 million by state agencies and universities, and $425 million by Texas water districts and authorities.

The largest local government revenue transactions were all associated with city construction projects. The City of San Antonio borrowed $500 million for its electric and gas system with $150 million of the total to be used for expansion of its commercial paper authorization. San Antonio borrowed an additional $93 million for its water system (SAWS), of which $75 million was also for a new commercial paper program. The City of Houston issued $108.15 to acquire and construct improvements for its water and sewer system and $190 million for airport improvements, with financing secured by a lease agreement with Continental Airlines. The Nueces River Authority issued $118.2 million to finance the construction of a water transmission line for the City of Corpus Christi. These bonds are secured and payable by the city through a facilities transmission contract. The Dallas-Fort Worth Regional Airport issued $112 million for improvements, including parking garages and terminal upgrades. This revenue debt is a responsibility of the City of Dallas and the City of Fort Worth.

During fiscal 1997, some $2.5 billion in revenue refunding bonds were closed by local governments. Cities and water districts completed 92 percent of these refundings, primarily for cash and present value savings.

City of Houston - Leader In Issuance Volume

During the 1997 fiscal year, Texas state and local governments issued $10.66 billion at par. There are eight Texas issuers whose volume ac-

Table 25

TEXAS OTHER SPECIAL DISTRICTS/AUTHORITIES
Debt Outstanding as of August 31, 1997

	Principal Outstanding	
Type of Special District	Tax-Supported	Revenue
Housing Authorities		$8,459,573
Power Agencies		1,576,796,926
Road Districts and Metro Transit Authorities	$45,888,861	171,050,000
Miscellaneous	3,110,000	2,500,000
TOTAL	$48,998,861	$1,758,806,499

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

counts for 50 percent of state and local issuance, including new-money and refunding volume (*Table 23*). The City of Houston debt issuance volume and commercial paper authorization of $1.3 billion surpassed that of the combined volume of all Texas state agencies and universities.

Health/Hospital Districts, Power, And Road Districts - New Additions to BRB Database

The Bond Review Board has recently verified and added to its database debt information on health and hospital districts, road districts, power agencies, and a few other local governments and political subdivisions (*Tables 24&25*).

Included in the health/hospital category are hospital districts and emergency service districts with taxing authority; and hospital authorities, centers, boards, and financing agencies without taxing authority that issue revenue bonds for facilities construction. Entities were further disaggregated to track those that operate hospitals licensed by the Texas Department of Health and those that operate other types of health-related facilities, such as nursing homes. Mental health and mental retardation governmental units included are those centers created under the Texas Health and Safety Code to provide community-based mental health and mental retardation services to a specified local service jurisdiction. These centers have no taxing authority and issue revenue bonds to construct or renovate facilities.

Compared to other local governments, these health-related issuers carry a minor portion, 2 percent, of total local government debt on their books. At August 31, 1997, these entities had $155 million in tax-supported debt and $986 million in revenue debt outstanding. During the 1997 fiscal year, 10 out of a total of 252 health-related entities borrowed $40.3 million for new money and $108.8 million for refundings.

A small group of other special districts and authorities were identified, including road districts, housing authorities, and power agencies. Total debt outstanding as of August 31, 1997 for this small group is $1.8 billion. Most of this debt is held by three entities: Texas Municipal Power Agency,

Table 26

TEXAS STATE & LOCAL GOVERNMENTS
TAX DEBT PER CAPITA
as of August 31, 1997

Tax Debt by Government	Debt Per Capita Statewide
Cities	
($9,390,204,410/19,334,173) Estimate	$486
Community/Junior Colleges	
($384,314,590/19,334,173)	$20
Counties	
($3,447,316,048/19,334,173	$178
Health / Hospital Districts	
($155,198,050/19,334,173)	$8
Public School Districts	
Voter-approved tax:	
($12,012,691,966/19,334,173)	$621
Maintenance tax:	
($311,232,989/19,334,173)	$16
Lease-purchase contracts:	
($107,521,000/19,334,173)	$6
Water Districts/Authorities	
($3,711,084,863/19,334,173)	$192
Other Special Districts/Authorities	
($48,998,861/19,334,173)	$3
State of Texas	
($5,402,462,000/19,334,173)	$279
Estimate–State + Local Debt—TOTAL	$1,809
Federal Government	
($5,207,298,000,000/265,283,783)	$19,629

Notes: Federal numbers for 1997 are not available; numbers shown are hard numbers for 1996. State and local tax debt includes self-supporting and not self-supporting debt as well as combination tax and revenue debt.
Sources: Texas Bond Review Board, Office of the Executive Director; State of Texas Population Source: Texas Comptroller of Public Accounts- January 1997 estimate from Texas State Data Center/Texas A&M University; Federal Government Information Sources: Office of Management & Budget; U.S. Department of Commerce, Bureau of the Census; U.S. Treasury with assistance from the Texas Office of State-Federal Relations.

$1.33 billion; Sam Rayburn Municipal Power Agency, $243 million; and Dallas Area Rapid Transit, $140 million. Table 25 summarizes information by type of special district.

Government Debt Burdens

How indebted are Texas governments? One measure of debt burden is debt per capita (*Table 26*). A ratio of direct tax debt per capita of $800 or more is generally considered high, especially if the debt is to be repaid by primarily taxing residences and individuals, rather than industrial and commercial entities.

Texas school districts continue to record the highest statewide ratio for tax-supported debt per capita at $643. This is a $54, or 9 percent increase over last year. Cities follow with an estimated $486 per capita, a 7 percent increase over last year. The state of Texas is third with a ratio of $279 — a 2 percent decrease from last year.

This statewide ratio is the weighted average, the total debt by type of government divided by the total Texas population. Weighted average ratios for only those governments with debt will be higher.

Information was compiled about federal government debt per capita to complete the picture of public debt outstanding. Once all Texas local debt is verified, few, if any, Texas governments will be found that have a debt-per-capita ratio as high as that of the federal government, at $19,629. On a statewide basis, the combined state and local tax-supported debt is an estimated $1,809 per capita, a four percent increase over last year.

Texas Private Activity Bond Allocation Program

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

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

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

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

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

For the 1997 program year, 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). Of that amount, one-third is available to the Texas Department of Housing and Community Affairs (TDHCA) and two-thirds is available for local issuers. Additionally, for the 1996 and 1997 program years, the TDHCA has a $20 million set-aside from the single-family

Table 27

1997 SET-ASIDE ALLOCATION AMOUNTS vs. ISSUED ALLOCATION AMOUNTS

Subceilings	Allocation Set Aside	Percent of Total	Allocation Issued	Percent of Total
Single Family Housing	$ 267,792,000	28.00%	$ 303,290,585	31.71%
State-Voted Issues	167,370,000	17.50%	75,000,000	7.84%
Small Issue IDBs	71,730,000	7.50%	71,730,000	7.50%
Multi-Family Housing	47,820,000	5.00%	104,694,415	10.95%
All Other Issues	401,688,000	42.00%	401,685,000	42.00%
Totals	**$956,400,000**	**100.00%**	**$ 956,400,000**	**100.00%**

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

subceiling to be used specifically in the colonias for assisting with restructuring contract-for-deeds.

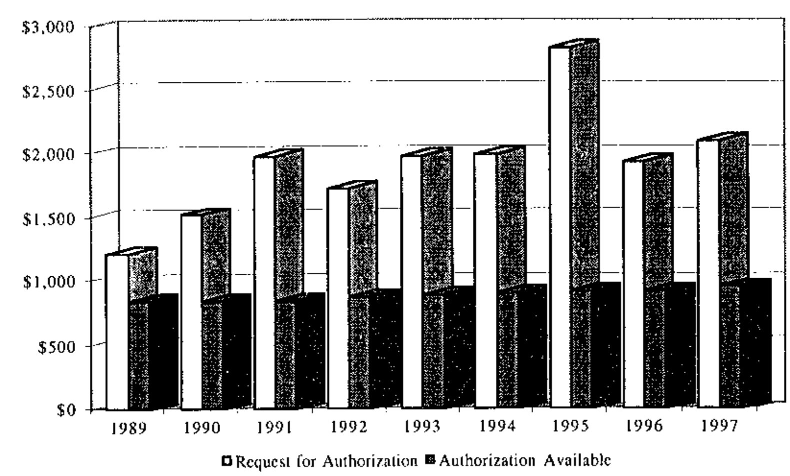
- 17.5 percent is to be made available for issues authorized by a state constitutional amendment.
- 7.5 percent is to be made available for issuers of qualified small issue IDBs and empowerment zone bonds (EZ bonds) for use in federally designated empowerment zones and enterprise communities.
- 5 percent is to be made available for issuers of qualified residential rental project issue bonds (multi-family housing).
- 42 percent is to be made available for issuers of "all other" bonds requiring an allocation. This final subceiling receives applications from local issuers of student loan bonds and exempt facility bonds not covered by other subceilings.

Generally, with the exception of single family housing, the state ceiling has been 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 27*).

Figure 16

PRIVATE ACTIVITY BOND AUTHORIZATION AVAILABLE vs. AUTHORIZATION REQUESTED

(millions of dollars)



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

The 75th Legislature passed House Bill 2798 which made significant amendments to the statute to provide for a broader distribution of the limited volume cap and a more favorable time period in which to apply for and use the reservation. All new provisions will be in place for the 1998 program year. The amendments include, but are not limited to the following:

- The distribution of the cap has been significantly amended to create an additional subceiling and adjust the size of each subceiling to address demand and the priorities of the state. Beginning with the 1998 program year, calendar basis, the set-aside amounts and purposes will be as follows:

- 31.5 percent is to be made available for single-family housing to issuers of qualified mortgage bonds (MRBs), and of that amount, one-third is available to the Texas Department of Housing and Community Affairs (TDHCA) and two-thirds is available for local issuers.
- 13 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.
- 7.5 percent is to be made available for issuers of qualified residential rental project issue bonds (multi-family housing).

- 11 percent is to be made available for issuers of qualified student loan bonds authorized by §53.47, Education Code.
- 29.5 percent is to be made available for issuers of "all other" bonds requiring an allocation. This final subceiling receives applications from issuers of exempt facility bonds and bonds not covered by other subceilings.
- The application period has been moved to October 10—October 20 of the year preceding the program year. The lottery to determine order within subceilings has also been moved to October of the preceding year.
- The time limit in which to use a reservation has been increased from 90 days to 120 days for all types of issues except single-family issues, which will receive 180 days.
- The priority system for single-family housing applications has been amended to prevent the restructuring of issuers for the purposes of gaining a more advantageous priority position.
- The maximum amount of a reservation for multi-family housing will not exceed the lesser of $15,000,000 or 15 percent of the amount set aside for multi-family housing projects.

Presumably, these statutory amendments will result in a more focused use of volume cap, a greater number of successful applicants, and a broader geographic distribution of volume cap.

Texas now has the second largest state ceiling in the nation, second only to California in population and volume cap. Compared to all states, Texas once again experienced one of the largest increases of volume cap for the 1997 Private Activity Bond Allocation Program. Based on the population estimate for Texas of 19,128,000, the 1997 volume cap was set at $956,400,000, an increase of $37,500,000 (4 percent) from the 1996 cap of $918,900,000. However, the increase falls far short of the demand expressed for the program. The allocation program in Texas has been over-subscribed each year since 1988 (*Figure 16*). Applications received in 1997 totaled $2.1 billion or 219.9 percent of the available allocation amount (*Table 28*). The 1997 program year will end leaving $961.8 million in requests for allocation outstanding. This figure represents an increase in unsatisfied requests of 22 percent over the 1996 program year.

Table 28

1997 APPLICATIONS FOR STATE PRIVATE ACTIVITY BOND AUTHORIZATION

(as of November 1, 1997)

	Authorization Available	Authorization Requested	Request as a % of Availability
Mortgage Revenue Bonds	$267,792,000	$719,105,825	268.53%
State-Voted Issue Bonds	167,370,000	75,000,000	44.81%
Industrial Development Bonds	71,730,000	125,175,000	174.51%
Multi-Family Rental Project Bonds	47,820,000	342,769,000	716.79%
All Other Bonds Requiring Allocation	401,688,000	840,800,000	209.32%
Total	$956,400,000	$2,102,849,825	219.87%

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

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, large student population, and increasing environmental demands. Demand for private activity bond cap allocation will certainly continue to increase dramatically. The need increases each year, as does the cost of financing the facilities. For example, applications received only as of November 1, 1997, for the 1998 program year already exceed $2 billion. However, without amendments to the per capita formula at the federal level, the volume cap will rise at a minimal rate as the population increases. If Texas experiences a population loss, the volume cap will be decreased.

Summary of Bonds Issued

Midwestern State University

Issue: Board of Regents of Midwestern State University, Building Revenue and Refunding Bonds, Series 1996 - $5,850,000

Purpose: The proceeds of the bonds were used to refund the University's outstanding Building Revenue Bonds, Series 1965 and 1994, in the aggregate principal amount of $1,605,000. Proceeds were also used to expand and renovate the Clark Student Center, and pay the costs of issuance.

Dates: Board Approval - August 22, 1996
Negotiated Sale - September 11, 1996
Closing Date - October 8, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in June 1997 with a final maturity of June 2016. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.644%
Net Interest Cost (NIC) - 5.684%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$11,281	$1.93
Financial Advisor	10,830	1.85
Rating Agencies	18,400	3.15
Printing	4,122	.70
Paying Agent/Registrar	300	.05
Escrow Agent	500	.09
Escrow Verification	2,500	.43
Attorney General	1,000	.17
	$48,933	$8.37
Underwriter's Spread	$27,671	$4.73

Texas A&M University

Issue: Board of Regents of The Texas A&M University System, Revenue Financing System and Refunding Bonds, Series 1997 - $64,795,000

Purpose: The proceeds of the bonds were used to advance refund the University's outstanding Revenue System Refunding, Series 1990B and Revenue Financing System, Series 1991C bonds in the aggregate principal amount of $7.6 million, current refund $40.5 million of commercial paper, provide $17.8 million of new-money for capital projects, and pay the costs of issuance.

Dates: Board Approval - February 20, 1997
Negotiated Sale - June 11, 1997
Closing Date - July 17, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in May 1998 with a final maturity of May 2013. The issue also contains term bonds which will mature in May 2017.

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

Interest Cost: True Interest Cost (TIC) - 5.093%
Net Interest Cost (NIC) - 5.110%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$47,892	$0.74
Financial Advisor	41,250	.64
Rating Agencies	46,000	.71
Printing	7,483	.12
Paying Agent/Registrar	350	.01
Escrow Agent	14,550	.22
Escrow Verification	2,000	.03
Attorney General	1,250	.02
Miscellaneous	819	.01
	$161,594	$2.50
Underwriter's Spread	$427,647	$6.60

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (The Harbors and Plumtree Apartments), Series 1996A-D - $13,050,000

Purpose: The proceeds of the bonds were used to provide funds for two multi-family residential rental housing properties (The Harbors and Plumtree Apartments) in Dallas. Under federal tax law, at least 40 percent of the units in each project must be occupied by households with an aggregate annual income that is not greater than 60 percent of the median income for the area. Proceeds were also used to pay the costs of issuance.

Dates: Board Approval - June 28, 1996
Negotiated Sale - October 3, 1996
Closing Date - November 5, 1996

Structure: The bonds were issued in four separate series. Series A, C, and D were issued as fixed-rate, tax-exempt securities. The Series B bonds were issued as fixed-rate, taxable securities. All series of bonds were issued as term bonds. Series A is composed of two term bonds that will mature in January 2005 and January 2006. The Series B bonds will mature in January 1999. The Series C and D bonds will mature in January 2006 and January 2027 respectively.

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

Interest Cost: True Interest Cost (TIC) - 7.16%
Net Interest Cost (NIC) - 7.19%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$103,900	$7.96
Financial Advisor	17,000	1.30
Rating Agencies	50,000	3.83
Printing	15,000	1.15
TDHCA Fees	97,500	7.47
Disclosure Counsel	7,500	.57
Borrower's Counsel	40,000	3.07
Trustee	15,500	1.19
Trustee's Counsel	16,500	1.26
Attorney General	2,500	.19
Miscellaneous	20,000	1.53
	$385,400	$29.52
Underwriter's Spread	$214,087	$16.41

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Single-Family Mortgage Revenue Bonds, Series 1996A,B&C - $59,140,000

Purpose: The proceeds of the Series A bonds were used to finance low-interest mortgage loans to first-time homebuyers of very low, low, and moderate income who are acquiring modestly-priced residences. The proceeds of the Series B bonds were used to refund outstanding Texas Housing Agency (THA), Series 1986A bonds. Proceeds from the 1996C bonds were used to pay the redemption premium on the 1986A bonds and pay the costs of issuance.

Dates: Board Approval - August 22, 1996
Negotiated Sale - September 11, 1996
Closing Date - October 1, 1996

Structure: The Series A bonds were issued as fixed-rate, tax-exempt term bonds maturing in 2001 and 2028. The Series B bonds are fixed-rate, tax-exempt term bonds maturing in March 2011, September 2011, and March 2017. The Series C bond is a fixed-rate, taxable term bond maturing in 2017. All bonds except the September 1, 2011 maturity are insured.

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

		Series A&B	Series C
Interest Cost:	True Interest Cost (TIC) -	5.97%	8.30%
	Net Interest Cost (NIC) -	6.01%	8.30%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$198,900	$3.37
Financial Advisor	61,750	1.04
Rating Agencies	41,550	.70
Printing	25,000	.42
TDHCA Fees	25,000	.42
Disclosure Counsel	75,000	1.27
Bond Insurer's Counsel	10,000	.17
Servicer	5,000	.08
Trustee	16,700	.28
Trustee's Counsel	22,500	.38
Escrow Verification	15,000	.25
Private Activity Fee	4,250	.07
Attorney General	2,500	.04
Miscellaneous	30,000	.51
	$533,150	$9.00
Underwriter's Spread	$489,929	$8.28

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Single-Family Mortgage Revenue Bonds, Series 1996D&E - $169,490,000

Purpose: The proceeds of the Series D bonds were used to finance low-interest loans to first-time homebuyers of very low, low, and moderate income who are acquiring modestly-priced residences. Proceeds of the Series E bonds were used to refund Texas Housing Agency Series 1985C and 1986D bonds. Proceeds of these bonds were also used to refund outstanding commercial paper notes and pay the costs of issuance.

Dates: Board Approval - October 2, 1996
Negotiated Sale - October 24, 1996
Closing Date - November 14, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities consisting of both serial and term bonds. The Series D bonds are term bonds maturing in March 2021, March 2028, and September 2028. The Series E issue includes serial bonds that begin maturing in March 1997 with a final maturity of September 2010. The issue also includes term bonds that mature in September 2014, 2016, 2017. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 6.25%
Net Interest Cost (NIC) - 5.96%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$233,792	$1.38
Financial Advisor	90,000	.53
Rating Agencies	70,000	.41
Printing	26,000	.15
TDHCA Fees	30,000	.18
Disclosure Counsel	87,000	.51
Trustee	26,500	.16
Trustee's Counsel	15,000	.09
Servicer	5,000	.03
Escrow Verification	10,000	.06
BRB Private Activity Fee	18,190	.11
Attorney General	2,500	.01
Miscellaneous	20,000	.12
	$633,982	$3.74
Underwriter's Spread	$1,266,904	$7.47

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (NHP-Asmara Project), Series 1996A&B - $27,560,000

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

Dates: Board Approval - October 17, 1996
Negotiated Sale - October 30, 1996
Closing Date - November 21, 1996

Structure: The Series A bonds were issued as fixed-rate, tax-exempt securities. All of the bonds are term bonds and will mature in January 2005, 2006, 2016, and 2027. The Series B bonds are taxable and will mature in January 1999.

Bond Ratings: Standard & Poor's - A

Interest Cost: True Interest Cost (TIC) - 6.40%
Net Interest Cost (NIC) - 6.36%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$110,400	$4.01
Financial Advisor	35,000	1.27
Rating Agencies	95,000	3.45
Printing	20,000	.73
TDHCA Fees	140,000	5.08
Disclosure Counsel	25,000	.91
Borrower's Counsel	100,000	3.63
Rating Agency Counsel	10,000	.36
Trustee	6,000	.22
Trustee's Counsel	12,500	.45
Third Party Reports	64,000	2.32
Title Insurance	66,500	2.41
TDHCA App. Fee	11,000	.40
Attorney General	2,500	.09
Miscellaneous	11,900	.43
	$709,800	$25.76
Underwriter's Spread	$319,086	$11.58

Texas Public Finance Authority

Issue: Texas Public Finance Authority, General Obligation and Refunding Bonds, Series 1996C - $82,505,000

Purpose: The proceeds of the bonds were used to fund grants from the Juvenile Probation Commission to 18 counties for the acquisition, construction, and equipment of county-owned and operated post-adjudication facilities for juvenile offenders. In addition, proceeds of the issue were also used to advance refund $45,045,000 of outstanding 1989A, 1991B, and 1992B bonds, and pay the costs of issuance.

Dates: Board Approval - September 24, 1996
Negotiated Sale - November 1, 1996
Closing Date - November 14, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in October 1997 with a final maturity of October 2013. The issue also includes term bonds that mature in October 2016. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.27%
Net Interest Cost (NIC) - 5.19%

Consultants:
Co-Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Yava D. Scott
Co-Financial Advisor - First Southwest Company
Co-Financial Advisor - Friedman, Luzzatto & Company
Senior Underwriter - Rauscher Pierce Refsnes, Inc.

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$39,321	$0.48
Financial Advisor	35,904	.44
Rating Agencies	42,000	.51
Printing	7,201	.09
Escrow Agent	1,500	.02
Escrow Verification	2,000	.02
Attorney General	1,250	.02
Miscellaneous	858	.01
	$130,034	$1.59
Underwriter's Spread	$322,049	$3.90

Texas Public Finance Authority

Issue: Texas Public Finance Authority, Building Revenue Bonds, Series 1997 - $40,900,000

Purpose: The proceeds of the bonds were used to provide funds for the construction of a state office building and parking facility in El Paso with a project cost of $20.9 million. Additionally, proceeds were used for new construction and improvements to existing buildings at the Texas School for the Deaf in Austin and pay the costs of issuance.

Dates: Board Approval - May 22, 1997
Competitive Sale - July 16, 1997
Closing Date - August 6, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 1998 with a final maturity of August 2015. The issue also includes term bonds that mature in August 2017. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.06%
Net Interest Cost (NIC) - 5.05%

Consultants:
Co-Bond Counsel - Winstead Sechrest & Minick P.C.
Co-Bond Counsel - Wickliff & Hall P.C.
Co-Financial Advisor - First Southwest Company
Co-Financial Advisor - Friedman, Luzzatto & Company
Senior Underwriter - Raymond James & Associates

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$29,077	$0.71
Financial Advisor	35,795	.88
Rating Agencies	36,750	.90
Printing	4,724	.12
Attorney General	1,250	.03
	$107,596	$2.64
Underwriter's Spread	$194,275	$4.75

Texas State Technical College

Issue: Board of Regents of the Texas State Technical College, Constitutional Appropriation Bonds, Series 1996 - $11,660,000

Purpose: The proceeds of the bonds were used for the purpose of constructing the Computer Applications Center on the TSTC Waco campus, for the construction of the Science and Technology Building at the TSTC Harlingen campus, and pay the costs of issuance.

Dates: Board Approval - August 22, 1996
Competitive Sale - September 24, 1996
Closing Date - October 23, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in August 1997 with a final maturity of August 2005. The bonds are non-callable.

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

Interest Cost: True Interest Cost (TIC) - 4.96%

Consultants:
Bond Counsel - Mayor Day Caldwell & Keeton, L.L.P.
Financial Advisor - Chase Securities of Texas, Inc.
Co-Financial Advisor - Estrada Hinojosa & Company
Senior Underwriter - NationsBanc Capital Markets

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$20,265	$1.74
Financial Advisor	19,065	1.64
Rating Agencies	17,400	1.49
Printing	2,579	.22
Paying Agent/Registrar	350	.03
Attorney General	1,000	.09
	$60,659	$5.21
Underwriter's Spread	$116,600	$10.00

Texas Southern University

Issue: Board of Regents of Texas Southern University, Constitutional Appropriation Bonds, Series 1996 - $15,090,000

Purpose: The proceeds of the bonds were used to provide funds for the construction of a new business school and pay the costs of issuance.

Dates: Board Approval - August 22, 1996
Competitive Sale - September 11, 1996
Closing Date - October 15, 1996

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in August 1997 with a final maturity of August 2005. The bonds are non-callable.

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

Interest Cost: True Interest Cost (TIC) - 4.97%
Net Interest Cost (NIC) - 4.99%

Consultants: Bond Counsel - Vinson & Elkins, L.L.P.
Co-Bond Counsel - Yava D. Scott
Financial Advisor - First Southwest Company
Senior Underwriter - First Albany Corporation

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$32,100	$2.13
Financial Advisor	20,971	1.39
Rating Agencies	17,500	1.16
Printing	4,264	.28
Paying Agent/Registrar	908	.06
Attorney General	1,000	.07
	$76,743	$5.09
Underwriter's Spread	$72,432	$4.80

Texas State University System

Issue: Board of Regents of the Texas State University System, Lamar University, Combined Fee Revenue and System Refunding Bonds, Series 1997 - $11,230,000

Purpose: The proceeds of the bonds were used to provide funds to advance refund a portion of outstanding Combined Fee and Revenue System Refunding and Improvement Bonds, Series 1990A and 1990B, in the amount of $10,320,000 and pay the costs of issuance.

Dates: Board Approval - March 20, 1997
Competitive Sale - May 7, 1997
Closing Date - May 29, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in April 1998 with a final maturity of April 2010. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.17%
Net Interest Cost (NIC) - 5.14%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$16,834	$1.50
Financial Advisor	12,065	1.07
Rating Agencies	26,675	2.38
Printing	5,981	.53
Paying Agent/Registrar	400	.04
Escrow Agent	3,500	.31
Escrow Verification	950	.08
Attorney General	1,000	.09
	$67,405	**$6.00**
Underwriter's Spread	**$74,522**	**$6.64**

Texas Tech University

Issue: Board of Regents of Texas Tech University, Revenue Financing System Refunding and Improvement Bonds, Third Series 1996 and Fourth Series 1996 (Taxable) - $78,665,000

Purpose: The proceeds of the Third Series Bonds were used to refund all of the University's outstanding Housing Revenue Bonds (Series 1962E, 1963A and 1966), to fund a portion of the acquisition and construction of an arena and housing complex, and to pay the cost of issuance. Proceeds from the Fourth Series Bonds were used to fund a portion of the arena complex and pay the costs of issuance.

Dates: Board Approval - November 21, 1996
Negotiated Sale - December 5, 1996
Closing Date - December 17, 1996

Structure: The Third Series Bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 1998 with a final maturity of February 2009. The issue also includes three term bonds that mature in 2012, 2015, and 2017. The Fourth Series Bonds were issued as fixed-rate, taxable securities maturing serially beginning in February 1998 with a final maturity of 2007. The bonds are insured.

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

Interest Cost:

	3rd Series	4th Series
True Interest Cost (TIC) -	5.25%	6.72%
Net Interest Cost (NIC) -	5.29%	6.79%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$57,435	$0.73
Financial Advisor	62,659	.80
Rating Agencies	86,200	1.10
Printing	11,984	.15
Escrow Agent	250	.01
Escrow Verification	2,000	.03
Attorney General	2,250	.03
Miscellaneous	7,259	.09
	$230,037	**$2.94**
Underwriter's Spread	**$442,855**	**$5.63**

The University of Houston System

Issue: Board of Regents of the University of Houston System, Consolidated Revenue Bonds, Series 1997 - $5,150,000

Purpose: The proceeds of the bonds were used to purchase land and a building for the University of Houston at Victoria, and pay the costs of issuance.

Dates: Board Approval - July 17, 1997
Competitive Sale - July 30, 1997
Closing Date - August 28, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 1998 with a final maturity of February 2014. The issue also contains term bonds due in February 2017. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 5.090%
Net Interest Cost (NIC) - 5.050%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$15,735	$3.06
Financial Advisor	16,674	3.24
Rating Agencies	18,400	3.57
Printing	7,793	1.51
Paying Agent	750	.15
Attorney General	1,000	.19
Miscellaneous	553	.11
	$60,905	$11.83
Underwriter's Spread	$50,013	$9.71

The University of North Texas

Issue: Board of Regents of the University of North Texas, Consolidated University Revenue Refunding Bonds, Series 1997 - $8,230,000

Purpose: The proceeds of the bonds were used to current refund the University's outstanding Consolidated University Revenue Refunding Bonds, Series 1987, and pay the costs of issuance.

Dates: Board Approval - March 11, 1997
Competitive Sale - March 18, 1997
Closing Date - April 14, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in April 1998 with a final maturity of April 2005. The bonds are insured.

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

Interest Cost: True Interest Cost (TIC) - 4.65%
Net Interest Cost (NIC) - 4.67%

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 $1000
Bond Counsel	$10,971	$1.33
Financial Advisor	6,050	.74
Rating Agencies	19,900	2.42
Printing	4,699	.57
Escrow Verification	2,500	.30
Paying Agent	300	.04
Attorney General	1,250	.15
	$45,670	$5.55
Underwriter's Spread	$64,112	7.79

Texas Veterans Land Board

Issue: Texas Veterans Land Board, Veterans' Land Bonds, Taxable Series 1996A - $50,000,000

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

Dates: Board Approval - November 21, 1996
Competitive Sale - December 3, 1996
Closing Date - December 19, 1996

Structure: The bonds are structured as fixed-rate, taxable securities comprised of both serial and term bonds. The serial bonds are scheduled to mature beginning in December 1998 with a final maturity of December 2012. The term bonds included in the issue will mature in December 2017 and 2027. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 7.10%
Net Interest Cost (NIC) - 7.15%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$ 33,074	$ 0.66
Financial Advisor	18,354	.37
Rating Agencies	27,000	.54
Printing	9,043	.18
O.S. Preparation	15,000	.30
Attorney General	1,250	.03
	$ 103,721	$ 2.08
Underwriter's Spread	$ 95,000	$ 1.90

Texas Veterans Land Board

Issue: Texas Veterans Land Board, Veterans' Housing Assistance Program, Fund I, Series 1995E Refunding Bonds - $47,930,000

Purpose: The Series 1995E bonds were "fixed out," having been converted from Convertible Option Bonds (COBs) to long term, fixed-rate securities. The costs reported are for the remarketing of the bonds.

Dates: Board Approval - September 21, 1995
Negotiated Sale - October 22, 1996
Closing Date - November 6, 1996

Structure: The Series 1995D&E bonds included two COBs, each with principal amounts of $47,930,000. The Series 1995D were "fixed out" in fiscal 1996. The Series 1995E were converted into long-term, fixed-rate bonds. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 6.12%
Net Interest Cost (NIC) - 6.15%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$ 36,315	$ 0.76
Financial Advisor	17,727	.37
Printing	9,568	.20
Escrow Verification	10,000	.21
	$ 73,610	$ 1.54
Underwriter's Spread	$ 261,218	$ 5.45

Texas Water Development Board

Issue: Texas Water Development Board, Taxable Water Supply Bonds, Series 1996E - $30,000,000

Purpose: The proceeds of the bonds were used to fund loans to political subdivisions, including non-profit water supply corporations, for taxable water supply purposes. Proceeds were also used to pay the costs of issuance.

Dates: Board Approval - July 18, 1996
Negotiated Sale - July 30, 1996
Closing Date - September 5, 1996

Structure: The bonds were issued as fixed-rate, taxable securities. The bonds mature serially beginning in August 1998 with a final maturity of 2016. The issue also included term bonds with final maturities of August 2022. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 7.82%
Net Interest Cost (NIC) - 7.78%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$ 12,127	$0 .40
Financial Advisor	18,448	.62
Rating Agencies	15,000	.50
Printing	5,338	.18
Attorney General	1,773	.06
	$52,686	**$1.76**
Underwriter's Spread	**$172,500**	**$5.75**

Texas Water Development Board

Issue: Texas Water Development Board, State Revolving Fund Senior Lien Revenue Bonds, Series 1996B - $185,000,000

Purpose: The proceeds of the bonds were used to provide partial funding for the State Revolving Fund (SRF). The SRF also receives funds from the U.S. Environmental Protection Agency and state general obligation bonds. The TWDB used the bond proceeds to purchase political subdivision bonds issued for the purpose of constructing wastewater treatment works, including storm water and non-point source pollution control projects and other authorized purposes pursuant to the SRF Act and federal law. Proceeds were also used to pay the costs of issuance.

Dates: Board Approval - November 21, 1996
Negotiated Sale - December 11, 1996
Closing Date - December 19, 1996

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

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

Interest Cost: True Interest Cost (TIC) - 5.54%
Net Interest Cost (NIC) - 5.41%

Consultants:
Bond Counsel - Vinson & Elkins, L.L.P.
Financial Advisor - First Southwest Company
Senior Underwriter - PaineWebber Incorporated

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$ 49,594	$0.27
Financial Advisor	78,144	.42
Rating Agencies	77,000	.42
Printing	11,583	.06
Attorney General	1,250	.01
	$217,571	**$1.18**
Underwriter's Spread	**$1,091,500**	**$5.90**

Texas Water Development Board

Issue: Texas Water Development Board, Water Development Bonds, Series 1997A-C & Agricultural Water Conservation Taxable Bonds, Series 1997 - $95,000,000

Purpose: The proceeds of the Water Development bonds were used to provide loans to political subdivisions for water supply purposes, to fund loans for water quality enhancement (wastewater) purposes, and to provide financial assistance for water supply purposes. Proceeds from the sale of the taxable bonds ($5,000,000) were used to provide financial assistance to designated political subdivisions for agricultural water conservation loans. Proceeds were also used to pay the costs of issuance.

Dates: Board Approval - November 21, 1996
Negotiated Sale - December 5, 1996
Closing Date - January 14, 1997

Structure: The Series 1997A-C bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 2000 with a final maturity of August 2017. The issue also included term bonds maturing in August 2028. The Series 1997 taxable bonds will mature serially beginning in August 1998 with a final maturity of August 2006. The bonds are general obligations of the state.

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

Interest Cost:

	Taxable	Tax-Exempt
True Interest Cost (TIC) -	6.65%	5.54%
Net Interest Cost (NIC) -	6.48%	5.38%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$ 64,927	$0.68
Financial Advisor	51,521	.54
Rating Agencies	30,000	.32
Printing	11,206	.12
Attorney General	4,000	.04
	$161,654	$1.70
Underwriter's Spread	$570,800	$6.01

Texas Water Development Board

Issue: Texas Water Development Board, State Revolving Fund Senior Lien Revenue Bonds, Series 1997A - $50,000,000

Purpose: The proceeds of the bonds were used to provide partial funding for the State Revolving Fund (SRF). The SRF also receives funds from the U.S. Environmental Protection Agency and state general obligation bonds. The TWDB used the bond proceeds to purchase political subdivision bonds issued for the purpose of constructing wastewater treatment works, including storm water and non-point source pollution control projects and other authorized purposes pursuant to the SRF Act and federal law. Proceeds also paid for the costs of issuance of the bonds.

Dates: Board Approval - February 20, 1997
Negotiated Sale - March 11, 1997
Closing Date - March 27, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in July 1999 with a final maturity of July 2015. The issue also includes term bonds which will mature in July, 2019.

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

Interest Cost: True Interest Cost (TIC) - 5.46%
Net Interest Cost (NIC) - 5.37%

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

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$ 66,587	$1.33
Financial Advisor	26,753	.54
Rating Agencies	75,800	1.52
Printing	13,560	.27
Attorney General	1,250	.03
	$183,950	$3.69
Underwriter's Spread	$399,500	$7.99

Texas Water Development Board

Issue: Texas Water Development Board, Economically Distressed Areas Program (EDAP) Bonds, Series 1997E&F - $25,000,000

Purpose: The proceeds of the bonds were used to fund loans and/or grants to political subdivisions in the economically distressed areas of the state for water-supply and water-quality enhancement (wastewater) purposes. Proceeds were also used to pay the costs of issuance.

Dates: Board Approval - July 17, 1997
Negotiated Sale - July 28,1997
Closing Date - August 28, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities. The bonds mature serially beginning in August 1999 with a final maturity of 2014. Also included in the issue are term bonds with final maturities of August 2016 and August 2020. The bonds are general obligations of the state.

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

Interest Cost: True Interest Cost (TIC) - 5.060%
Net Interest Cost (NIC) - 5.040%

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 - Banc One Capital Corporation

Issuance Costs:

	Amount	Per $1000
Bond Counsel	$14,675	$0.59
Financial Advisor	14,296	.57
Rating Agencies	10,000	.40
Printing	3,560	.14
Attorney General	813	.03
	$43,344	**$1.73**
Underwriter's Spread	**$145,450**	**$5.82**

Note: This transaction was part of a $100 million transaction. The additional $75 million closed on September 4, 1997 (fiscal 1998). The above costs are shown on a percentage basis for the $25 million that closed in fiscal 1997.

Texas Commercial Paper And Variable Rate Note 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, 1997, a total of $1.495 billion was authorized for state commercial paper or variable rate note programs. Of this amount, $627.8 million was outstanding as of the end of fiscal 1997 *(Table 29)*. (The figures shown in *Table 29* were included in the bonds outstanding and authorized but unissued figures reported in Chapter 5.) A brief summary of each variable rate debt program follows.

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

Table 29

TEXAS COMMERCIAL PAPER AND VARIABLE RATE NOTE PROGRAMS
as of August 31, 1997

Issuer	Type of Program	Amount Authorized	Amount Outstanding
The University of Texas System			
Permanent University Fund	Variable Rate Notes	$250,000,000	$150,000,000
Revenue Financing System	Commercial Paper	250,000,000	172,953,000
The Texas A&M University System			
Permanent University Fund	Variable Rate Notes	95,000,000	65,000,000
Revenue Financing System	Commercial Paper	125,000,000	20,200,000
Texas Department of Agriculture	Commercial Paper	50,000,000	22,000,000
	Commercial Paper *	25,000,000	100,000
Texas Department of Commerce	Commercial Paper	25,000,000	5,400,000
Texas Dept. of Housing and Community Affairs	Commercial Paper	75,000,000	20,550,000
Texas Public Finance Authority			
Revenue	Commercial Paper	100,000,000	27,500,000
General Obligation	Commercial Paper	500,000,000	144,100,000
Total		**$ 1,495,000,000**	**$ 627,803,000**

* - Represents issuance amount approved by Bond Review Board. TAFA Board has approved a $100 million program amount.
Note: Variable rate notes are modal instruments, meaning their monthly maturity duration may change. For example, the basis for reset of the interest rate on the note may be daily, weekly, or monthly.
Source: Texas Bond Review Board, Office of the Executive Director.

of Texas System, including pledged tuition fees, general fees, and other revenue sources. In fiscal 1994, the System increased the authorized amount of commercial paper from $100 million to $150 million, converted to self-liquidity and expanded the pledge to include tuition revenues. During fiscal 1995, the System increased the authorized amount of commercial paper from $150 million to $250 million.

Texas A&M University System

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

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

Texas Department of Agriculture

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

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

Texas Department of Economic Development

In 1992, the Texas Department of Economic Development (TDED) was granted the authority to issue commercial paper to fund loans to Texas businesses under 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, TDED is focusing on loans to local industrial development corporations. The commercial paper issued by TDED is taxable. The program is designed to be self-supporting.

Texas Department of Housing and Community Affairs

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

Texas Public Finance Authority

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

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

Other State Issuers of Variable Rate Debt

Many other state issuers have the authority to issue debt in variable rate form. State issuers may utilize variable rate debt in order to diversify their debt portfolio and to take the opportunity of lower short-term interest rates that may be available. The Veterans Land Board, for instance, has issued variable rate housing assistance bonds in order to introduce this structure as a component of their total debt portfolio mix. Similarly, the Texas Water Development Board (TWDB) is authorized to issue subordinate lien variable rate demand revenue bonds (VRDBs) as part of the State Revolving Fund program. 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.

Liquidity Facility Provider Duties Transferred to the Comptroller of Public Accounts

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

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

Texas State Bond Programs

Texas Agricultural Finance Authority Bonds

Statutory Authority: The Texas Agricultural Finance Authority was created in 1987 (Texas Agriculture Code, Chapter 58) and authorized to issue revenue bonds. In 1989, a constitutional amendment authorizing the issuance of general obligation bonds under Article III, Section 49-i of the Texas Constitution was approved. In 1993, a constitutional amendment authorized the issuance of general obligation bonds under the Article in an amount not to exceed $200 million. Legislative approval of bond issues is not required. The Authority is required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance and to register its bonds with the Comptroller of Public Accounts.

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

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

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

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

College Student Loan Bonds

Statutory/Constitutional Authority: Article III, Sections 50b and 50b1, b2, b3, and b4 of the Texas Constitution, adopted in 1965, 1969, 1989, 1991, and 1995 authorize the issuance of general obligation bonds by the Texas Higher Education Coordinating Board. In 1991, legislation was enacted giving the Coordinating Board authority to issue revenue bonds. The Board is required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance and to register its bonds with the Comptroller of Public Accounts.

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

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

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

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

College and University Revenue Bonds

Statutory Authority: Section 55.13 of the Education Code authorizes the governing boards of institutions of higher education to issue revenue bonds. The statute that provides this authority (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 (TPFA), effective January 1, 1992, to issue bonds on behalf of all institutions of higher education authorized to issue bonds under Chapter 55, Education Code, with the exception of The University of Texas System, The Texas A&M University System, a component of those systems, and higher education institutions authorized to issue bonds under Article VII, Section 17, of the Texas Constitution. As a result of these exceptions, the only higher education institution for which the Texas Public Finance Authority issued bonds was Texas State Technical College.

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

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

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

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

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

Contact:
Individual colleges and universities.

Texas Department of Economic Development Bonds

Statutory Authority: The Texas Department of Economic Development was created by Senate Bill 932, 75th Legislature, 1997 as the successor agency to the Texas Department of Commerce and given the authority to issue revenue bonds. In 1989, a constitutional amendment authorizing the issuance of general obligation bonds was approved. Legislative approval of bond issues is not required. The Department is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance and to register its bonds with the Comptroller of Public Accounts.

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

Security: Revenue bonds are obligations of the Department and are payable from funds of the Department. The Department's revenue bonds are not an obligation of the State of Texas and neither the state's full faith and credit nor its taxing power is pledged toward payment of the Department's bonds. The Department is also authorized to issue general obligation debt which is payable from revenues, income, etc. House Bill 1, 75th Legislature, Rider 6 specifically prohibits the use of general revenue for debt service on the Department's general obligation bonds. Therefore, any general obligation bonds issued by the Department are required to be self-supporting, and no draw on general revenue is anticipated.

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

Contact:
Jim Albright
Director of Finance
Texas Department of Economic Development
(512) 936-0268

Texas Department of Housing & Community Affairs

Statutory Authority: The Texas Department of Housing and Community Affairs (the "Department"), a public and official governmental agency of the State and a body corporate and politic, was created pursuant to the Act of June 16, 1991, ch. 762, 1991 Tex.Sess.Law Serv. 2672, Section 2 of which has been codified as Chapter 2306, Texas Government Code. The Department is the successor agency to the Texas Housing Agency and the Texas Department of Community Affairs, both of which were abolished by the Act and their functions and obligations transferred to the Department.

Pursuant to the Act, the Department may issue bonds, notes, or other obligations to finance or refinance residential housing and to refund bonds previously issued by the Agency, the Department, or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the Agency become revenue bonds of the Department. Legislative approval of bond issues is not required.

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

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

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

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

Contacts:

Lori Mason	Melinda Smith
Director of Bond Finance	Chief Financial Officer
Texas Dept. of Housing and Community Affairs	Texas Dept. of Housing and Community Affairs
(512) 475-3856	(512) 475-3345

Farm and Ranch Bonds

Statutory/Constitutional Authority: Article III, Section 49f of the Texas Constitution, adopted in 1985, authorizes the issuance of general obligation bonds by the Veterans Land Board. The program was transferred from the Veterans Land Board to the Texas Agricultural Finance Authority with the passage of House Bill 1684 by the 73rd session of the Legislature. In 1993, a constitutional amendment was authorized and approved that transfers the constitutional authority for the program from the Veterans Land Board to the Texas Agricultural Finance Authority and allows no more than $200 million of the authority to be used for the purposes defined in Article III, Section 49-i of the Texas Constitution. In 1997, House Bill 2499, 75th Legislature increased the maximum loan amount to $250,000.

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

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

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

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

Higher Education Constitutional Bonds

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

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

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

Dedicated/Project Revenue: None. Debt service is payable solely from state General Revenue Fund appropriations to institutions of higher education.

Contact:
Individual colleges and universities.

Texas Hospital Equipment Financing Council Bonds

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

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

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

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

Contact:
Jim Howell
Legal Counsel
Comptroller of Public Accounts - Treasury Operations
(512) 463-5971

Texas Low-Level Radioactive Waste Disposal Authority

Statutory Authority: The Texas Low-Level Radioactive Waste Disposal Authority was created in 1981 (Health and Safety Code, Chapter 402) and authorized to issue revenue bonds in 1987 (Health and Safety Code, Chapter 402.291). The Authority is required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance and to register its bonds with the Comptroller of Public Accounts.

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

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

Security: If bonds were issued, the bonds would be obligations of the Authority and would be 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

Texas Military Facilities Commission Bonds

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

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

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

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

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

Contacts:

Lydia Cruz	Kimberly K. Edwards
Acting Executive Director	Executive Director
Texas Military Facilities Commission	Texas Public Finance Authority
(512) 406-6905	(512) 463-5544

Park Development Bonds

Statutory/Constitutional Authority: Article III, Section 49e of the Texas Constitution, adopted in 1967, authorized the Texas Parks and Wildlife Department to issue general obligation bonds for the purposes described below. Senate Bill 3, 72nd Legislature, authorized the Texas Public Finance Authority to issue bonds on behalf of the Parks and Wildlife Department. House Bill 3189, 75th Legislature, authorized the Texas Public Finance Authority to issue revenue bonds or other revenue obligations not to exceed $60 million in the aggregate on behalf of the Department.

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

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

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

Dedicated/Project Revenue: Entrance fees to state parks are pledged to pay debt service on the general obligation park development bonds. Additionally, Sporting Goods Sales Tax Revenue in Capital Account 5004 may also be used to pay debt service on general obligation park development bonds. The program is designed to be self-supporting. No draw on general revenue is anticipated.

Contacts:

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Permanent University Fund Bonds

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

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

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

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

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University of Texas System	Texas A&M University System
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Texas Public Finance Authority Bonds

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

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

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

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

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

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

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

The Authority was subject to Sunset Commission review during the 75th Legislature in 1997. The Legislature continued the Authority for twelve years and broadened the agency's authority to issue bonds on behalf of other state agencies and institutions of higher education. Beginning September 1, 1997, the Authority is authorized to issue bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority, Midwestern State University, Texas Southern University, and Stephen F. Austin State University. Other legislation passed during the 75th Legislature authorized the Authority to issue revenue bonds on behalf of the Health and Human Services Commission and the Texas Parks and Wildlife Department. In the General Appropriations Act, the Legislature also authorized the Authority to issue bonds to finance the Texas State History Museum on behalf of the State Preservation Board.

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

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

Security: Building revenue bonds issued are obligations of the Authority and are payable from "rents, issues, and profits" resulting from leasing projects to the state. These sources of revenue come primarily from legislative appropriations. The general obligation bonds issued for correctional and mental health facilities pledge the first monies not otherwise appropriated by the Constitution that come into the Comptroller of Public Accounts - Treasury Operations each fiscal year to pay debt service on the bonds. Bonds issued on behalf of the Workers' Compensation Insurance Fund are secured solely by pledged revenues of the Fund. Revenue bonds issued for the Master Lease Purchase Program are secured by lease-purchase payments from state agencies which come from state appropriations.

Dedicated/Project Revenue: Debt service on the general obligation bonds for correctional and mental health facilities is payable solely from the state's General Revenue Fund. Debt service on the revenue bonds is also payable from general revenue appropriated by the Legislature. The Legislature, however, has the option to appropriate debt service payments on the bonds from any other source of funds that is lawfully available. Bonds issued on behalf of the Workers' Compensation Fund are payable solely from maintenance tax surcharges and other fees the Fund is authorized to levy. The bonds are self-supporting, and the state's credit is not pledged.

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Public School Finance Program

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

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

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

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

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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.

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Texas National Research Laboratory Commission Bonds

Statutory/Constitutional Authority: The Texas National Research Laboratory Commission was created in 1987 by the 70th Legislature and given the authority to issue both revenue and general obligation bonds. 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. The Commission was dissolved July 29, 1997 and the Texas Public Finance Authority assumed all bond-related responsibilities of the Commission.

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

Purpose: Proceeds from the sale of bonds were to be used to finance construction of buildings, the acquisition of land, installation of equipment, and other "eligible undertakings" related to the Superconducting Super Collider project.

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

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

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

Current Status: In June 1995, the Commission redeemed $109,510,000 of revenue bonds issued in 1991. The remaining $140,490,000 of outstanding revenue bonds were defeased in June 1995. On May 30, 1997, the Authority defeased $89,565,000 of the outstanding Series 1992C General Obligation Refunding Bonds. The 1992C Bonds had been issued to refund $250,000,000 of General Obligation Bonds issued in 1990. The 74th Legislature appropriated remaining settlement monies from the U.S. Department of Energy and proceeds from the sale of facility assets for the purpose of defeasing a portion of the outstanding 1992C bonds. Pursuant to Art. III, Sec. 31 of the General Appropriations Act, the Authority deposited available funds into a special escrow fund and purchased U.S. Government obligations sufficient to pay principal and interest, until the 2002 call date, on $89,565,000 of 1992C term bonds due in 2020. After the partial defeasance, approximately $132.3 million of par amount was left outstanding. Future defeasance of outstanding Series 1992C bonds is expected as the proceeds from the sale of Commission assets are deposited into the special escrow fund.

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Texas Department of Transportation Bonds

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

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

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

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

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

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

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Veterans Land And Housing Bonds

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

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

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

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

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Texas Water Development Bonds

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

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

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

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

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

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

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

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

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Texas Water Resources Finance Authority Bonds

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

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

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

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

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Appendix D

Bond Review Board Rules

Sec. 181.1. Definitions.

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