Texas Bond Review Board Annual Report 1998

Fiscal Year Ended August 31, 1998

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 1998

Introduction

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

The Texas economy continues to perform well, experiencing employment growth at a rate higher than that of the U.S. Employment opportunities are more diverse across sectors, consumer confidence has increased, and the Gross State Product is increasing at a steady but more sustainable pace than previous years. The performance of the economy is reflected in the state's financial position, with the ending General Revenue Fund balance at $3.3 billion or 5 percent of fiscal year 1998 expenditures.

Tax-supported debt ratios for Texas rank favorably with other states, including comparisons with the ten most populous states and those rated AAA by the three major rating agencies. Although tax-supported debt outstanding increased modestly during the past fiscal year, due to the increase in unrestricted general revenue, the percentage of these funds utilized for debt service decreased. Bureau of the Census figures depict the significant level of local debt burden in the state as a percentage of combined state and local debt, and contrasts Texas with the ten most populous states. The state remains well below its constitutional debt limit of 5 percent, with a ratio of 2.4 percent.

Approximately $2.7 billion in new-money and refunding bonds and commercial paper was issued by state agencies and institutions of higher education in fiscal 1998. The refunding transactions resulted in net present value savings of approximately $36 million for state issuers. Projections for the upcoming fiscal year forecast a similar level of state debt issuance.

Issuance cost data for the transactions that closed in fiscal 1998 reveals the average issuance cost for state bonds was $768,459, or $8.29 per $1,000 in bonds issued. Although this is an increase in total average costs per issue from last fiscal year, on a per $1,000 basis, the ratio has decreased due to the average issue size more than doubling.

State of Texas bonds and notes outstanding remained virtually unchanged, $11.8 billion; when compared to last fiscal year, however, this result considers the transfer of more than $844 million in Texas Turnpike Authority debt to a regional tollway authority. Small increases in general obligation debt outstanding and debt payable from general revenue occurred — $87 million and $134 million, respectively.

Long-term debt outstanding for Texas local governments totaled approximately $66.7 billion as of the end of August 1998, an increase of $6 billion over last year. During the 1998 fiscal year, public school district debt issuance volume more than doubled, and combined state and local debt issuance increased by 52 percent over last fiscal year. At $27 billion, Texas cities have the highest amount of debt outstanding, while public school districts lead in the amount of tax-supported debt outstanding with $15.6 billion. Forty-four percent of the total state and local government new-money issued during fiscal 1998 was for educational facilities and equipment.

Although the state's private activity bond volume cap increased to $972 million for 1998, the program experienced application demand of $2.35 billion, more than 242 percent of the available authority. Initial applications for the 1999 program year indicate a similar level of requests, $2.59 billion, for bond allocation authority to finance "private activities" such as housing, industrial development, pollution control, and student loans.

The report concludes with four Appendices. Appendix A provides a detailed description of each state bond transaction that closed in fiscal 1998. 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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Cautionary Statements

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

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

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

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

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

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

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

CHAPTER 1

Texas In The Bond Market

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

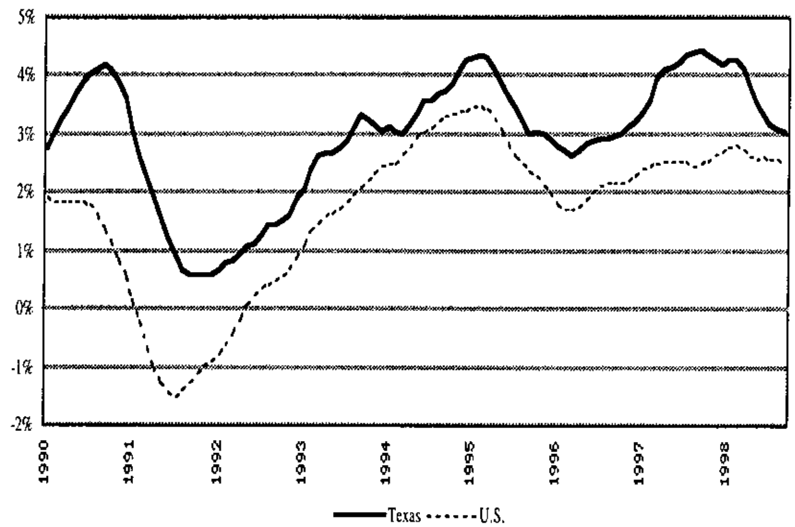
Texas Economy Continues to Perform

The Texas economy continues to perform well, adding and diversifying employment opportunities while increasing the Gross State Product (GSP) at a steady but more sustainable pace than previous years. Texas' employment growth continues to outpace that of the U.S. with an overall growth rate of 3.2 percent while the national growth rate remains healthy at 2.5 percent *(Figure 1)*.

The state's economic expansion continued in fiscal 1998. The state's composite index of leading economic indicators increased by 1.9 percent which is much slower than the 2.5 percent increase posted in fiscal 1997. The gradual slowing of the economy, as noted by the composite of leading economic indicators, has been a sound proposition for the state in that the rate of growth for fiscal 1998 is more sustainable over the long run. The slowed but more diversified economy spawned new business growth as new business incorporations were up 9.6 percent over fiscal 1997. It also impacted consumer confidence which increased by 2.4 percent. The rise in consumer confidence can be attributed to several factors: (1) the continued diversification and expansion of the state's economy; (2) employment stability as Texas created 279,700 jobs *(Table 1)*; (3) an increase in the help-wanted index (3.4 percent); (4) a decline in initial unemployment claims (4.2 percent); and (5) an increase in personal income (8.4 percent).

Figure 1

EMPLOYMENT GROWTH FOR TEXAS AND THE U.S.
January 1990 through September 1998
(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 1997 through July 1998

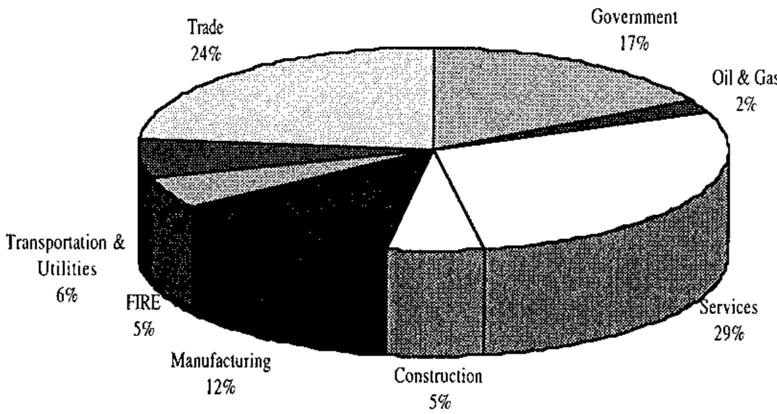
Rank (1)	State	Job Growth	Percent Change	Rank (2)
1	California	383,000	2.9	7
2	**TEXAS**	**279,700**	**3.2**	**10**
3	Florida	253,200	3.9	4
4	New York	108,300	1.3	33
5	Illinois	100,100	1.7	28
6	Massachusetts	91,100	2.9	12
7	New Jersey	68,400	1.8	25
8	Pennsylvania	67,400	1.2	36
9	Ohio	47,400	0.9	32
10	Michigan	27,900	0.6	45
	UNITED STATES	3,058,000	2.5	

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

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

Figure 2

TEXAS NONFARM EMPLOYMENT DISTRIBUTION BY INDUSTRY 1998



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

thereby leaving manufacturers with an inventory build-up. Another sign of deceleration is the 34.6 percent decline in Texas crude oil prices. The year-end closing price for Texas crude oil was $11.51 per barrel. The glut in crude oil inventories has driven prices to their lowest levels since 1986.

Nonfarm employment is estimated to have reached 8.8 million during fiscal 1998 compared to the 8.3 million recorded during 1997. Trade and services make up over half of the nonfarm employment in the state, accounting for 53 percent *(Figure 2)*. Other employment sectors that make up a large share of nonfarm employment include government, manufacturing, finance, insurance and real estate (FIRE), transportation and utilities, and construction with a combined total of 45 percent.

The change in distribution of nonfarm employment across various sectors

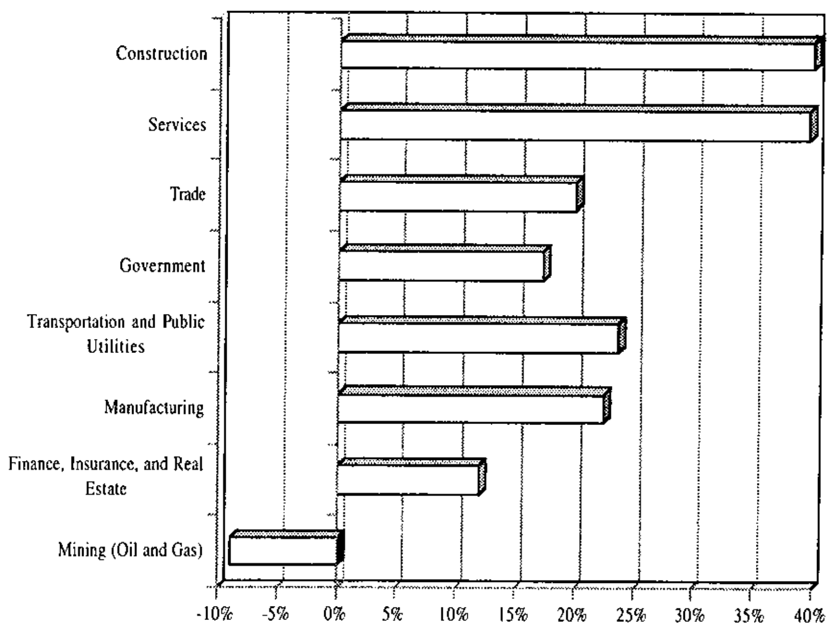
As consumer confidence rose, the retail sales index indicated that consumer consumption propensity (a 5.7 percent increase in the retail sales index) outpaced the expansion of the state's economy (4.7 percent). Additionally, the increase in personal income, coupled with low 30 year mortgage rates and flexible down payment and closing cost assistance programs, fueled the rapid expansion of the construction sector as more low-to-moderate income households were able to purchase moderately priced housing. The demand for new housing permits increased by 30.8 percent over the previous fiscal period.

Although conditions for future economic expansion in Texas are favorable, there are some signs that the pace is decelerating. The first sign of a slowing economy is the 0.2 percent decline in average manufacturing hours per week. The decline in manufacturing hours can be attributable to the high levels of inventory being maintained by manufacturing firms. The Asian crisis coupled with the Latin American problems and the strong exchange rate of the dollar has softened the Texas export markets;

Figure 3

TEXAS NONFARM EMPLOYMENT CHANGE BY INDUSTRY

Percent Change 1991 to 1998



Source: Texas Comptroller of Public Accounts.

of the Texas economy has remained fairly steady since the 1980's *(Figure 3)*. Construction and services have achieved the most growth, while the job growth in the oil and gas industry remained relatively stagnant at 2.9 percent. In fiscal 1998, the construction and transportation and utilities industries experienced job growth of 5.7 and 5.4 percent, respectively.

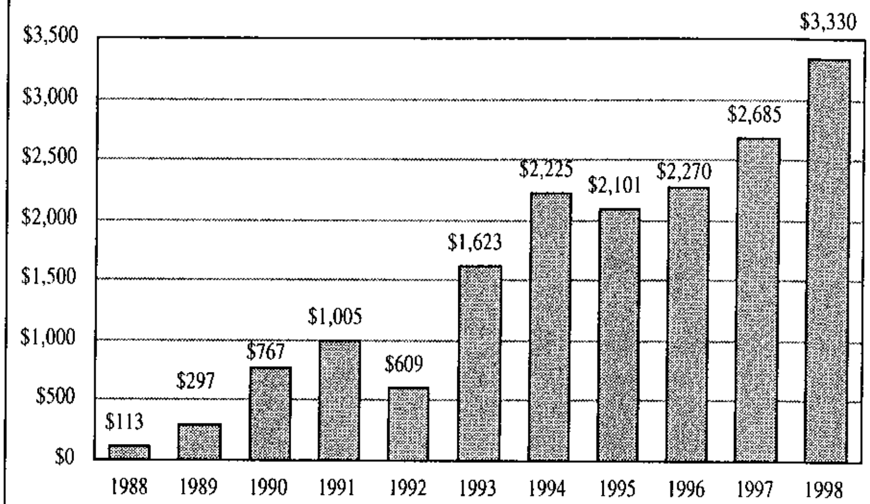
Projections by the Texas Comptroller's Office and the WEFA Group show that Texas' Gross State Product (GSP) is estimated to increase by 4.8 percent during fiscal 1998 to $559.9 billion versus the $534.9 billion in fiscal 1997 *(Table 2)*. Services, trade, and manufacturing continue to be the primary contributing components to the GSP (65 percent).

The export sector of the Texas economy has played a significant role in fueling the state's economic growth. Currently, Texas is the second largest exporting state in the U.S., after California. In fiscal 1997, Texas exports reached $84.3 billion, up 13.9 percent over 1996. This rate of export growth was faster than the U.S. average of 10.4 percent for the same fiscal period.

Figure 4

ENDING CASH BALANCE IN TEXAS' GENERAL REVENUE FUND

(millions of dollars)



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

Source: Texas Comptroller of Public Accounts.

Table 2

TEXAS ECONOMIC HISTORY AND OUTLOOK FOR CALENDAR YEARS 1995-2001

	1995	1996	1997	1998*	1999*	2000*	2001*
Texas Economy							
Gross State Product							
(billions of 1992 $)	$486.1	$502.9	$534.9	$559.9	$579.8	$600.2	$622.6
Annual Percentage Change	4.4	3.5	6.4	4.8	3.6	3.5	3.7
Personal Income							
(billions of dollars)	$400.6	$426.2	$459.9	$491.6	$522.2	$556.4	$594.4
Annual Percentage Change	7.0	6.4	7.9	6.6	6.2	6.6	6.8
Nonfarm Employment							
(thousands)	8,021.9	8,255.7	8,601.5	8,889.7	9,110.4	9,364.3	9,534.4
Annual Percentage Change	3.5	2.9	4.2	3.3	2.5	2.8	2.9
Resident Population							
(thousands)	18,781.3	19,133.8	19,482.1	19,835.8	20,188.4	20,544.5	20,927.9
Annual Percentage Change	1.9	1.9	1.8	1.8	1.8	1.8	1.9
Unemployment Rate (percent)	6.0	5.6	5.4	4.9	5.0	5.2	5.4
Oil Price ($ per barrel)	$16.18	$19.98	$18.33	$13.66	$15.31	$16.62	$17.14
Natural Gas Price ($ per MCF)	$1.41	$2.01	$2.14	$2.01	$2.05	$2.10	$2.16
U.S. Economy							
Gross Domestic Product							
(billions of 1992 $)	$6,742.0	$6,928.4	$7,191.4	$7,515.6	$7,699.1	$7,844.3	$8,024.9
Annual Percentage Change	2.0	2.8	3.8	3.4	2.4	1.9	2.3
Consumer Price Index							
(1982-84 = 100)	152.5	156.9	160.6	163.3	167.0	170.9	175.0
Annual Percentage Change	2.8	2.9	2.3	1.7	2.3	2.4	2.4
Prime Interest Rate (%)	8.8	8.3	8.4	8.5	8.9	8.9	8.5

*Projected

Sources: Texas Comptroller of Public Accounts "Texas Economic Outlook" (Fall 1998 Forecast) and WEFA Group.

Although the export sector has played a significant role in the state's economic expansion, it could experience a substantial decline in the near future. While the Texas economy has diversified significantly in recent years, the state is still specialized – relative to the U.S. as a whole – in energy-related exports. In 1997, Texas accounted for 45.6 percent of U.S. exports in the petroleum refining sector, 38.5 percent of U.S. exports in oil and gas extraction, and 20 percent of U.S. exports of chemicals and allied products.

Texas has actively cultivated and significantly expanded its trading relationships in North America (including Mexico and Canada), Latin America (excluding Mexico), East Asia, and the European Union. Although the growth of the aforementioned markets is advantageous, the economic problems in Latin America and East Asia may serve to retard growth in the electronic equipment, industrial machinery/computer equipment, and chemical industries for several reasons.

First, prolonged economic problems in the two regions coupled with the strong exchange value of the dollar, will make Texas exports less desirable. Secondly, Latin America and East Asia receive approximately 21.9 percent of Texas' exports. If these regions continue to experience economic problems, Texas could stand to lose approximately $18.5 billion in foreign trade. Thirdly, Texas may lose some of its share of other foreign markets to Latin America and East Asia because they are able to produce comparable products at a more competitive price. Finally, the natural disasters (especially flooding) in Latin America have and will continue to impair the region's ability to actively participate in foreign exchange.

In addition to the softening of the East Asian and Latin American markets, the depreciation of the Mexican peso has also weakened the North American export market. Currently, Texas ships approximately 50 percent of its total exports to its North American trading partners.

Overall, there has been a slowing of the global economy. Regionally, natural disasters and economic problems have stunted the global economical expansion. Therefore, if Texas is to continue its economic expansion, it is imperative that the state continue to diversify its economic base to satisfy the divergent needs of the global economy.

Texas' Financial Position Remains Positive

Texas ended the fiscal year on a positive note with a General Revenue Fund cash balance of $3.3 billion *(Figure 4)*. This represents a 24 percent increase from the fiscal 1997 balance of $2.7 billion, and it marks the eleventh straight year that Texas has ended the fiscal year in the black.

Total net revenues and other cash sources totaled $67 billion while total net expenditures totaled $66.4 billion

Table 3

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

	Fiscal 1997	Fiscal 1998	Percent Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$ 2,270,847	$ 2,685,462	18.26%
Tax Collections			
Sales Tax	11,316,009	12,434,209	9.88%
Oil Production Tax	429,149	303,795	-29.21%
Natural Gas Production Tax	712,223	574,584	-19.33%
Motor Fuels Taxes	2,383,041	2,506,071	5.16%
Cigarette and Tobacco Taxes	654,769	560,923	-14.33%
Mtr. Vehicle Sale/Rental, Mfg. Housing Sale	2,050,098	2,276,722	11.05%
Franchise Tax	1,796,605	1,938,265	7.88%
Alcoholic Beverages Taxes	431,651	456,037	5.65%
Insurance Occupation Taxes	705,833	747,196	5.86%
Inheritance Tax	207,589	326,820	57.44%
Hotel and Motel Tax	185,606	207,179	11.62%
Utilities Tax	258,020	241,740	-6.31%
Other Taxes	33,207	35,814	7.85%
Total Tax Collections	$21,163,802	$22,609,355	6.83%
Federal Income	$11,014,314	$11,454,554	4.00%
Interest & Investment Income	80,600	100,968	25.27%
Licenses, Fees, Permits, Fines & Penalties	3,082,800	3,095,713	0.42%
Contributions to Employee Benefits	89,464	92,864	3.80%
Sales of Goods and Services	116,287	148,575	27.77%
Land Income	19,262	36,320	88.56%
Settlements of Claims	5,172	9,651	86.60%
Net Lottery Proceeds	1,857,290	1,649,668	-11.18%
Other Revenue Sources	915,212	961,076	5.01%
Interfund Transfers/Investment Transactions	28,480,984	26,855,718	-5.71%
Total Net Revenue and Other Sources	$66,825,187	$67,014,462	0.28%
Expenditures and Ending Balance			
General Government	$ 1,451,443	$ 1,490,214	2.67%
Health and Human Services	15,011,967	14,690,798	-2.14%
Public Safety and Correction	2,177,164	2,392,952	9.91%
Education	13,760,089	15,059,189	9.44%
Employee Benefits	1,525,315	1,573,120	3.13%
Lottery Winnings Paid	429,590	387,845	-9.72%
Other Expenditures	1,138,794	1,199,477	4.33%
Interfund Transfers/Investment Transactions	30,939,438	29,576,383	-4.41%
Total Expenditures and Other Uses	$66,433,800	$66,369,978	-0.10%
Ending Balance, August 31	$ 2,685,462	$ 3,329,946	24.00%

Source: Texas Comptroller of Public Accounts

(Table 3). Total tax collections received by the General Revenue Fund increased by 6.8 percent over fiscal 1997. During fiscal 1998, the state's main source of revenue, the sales tax, contributed 55 percent of the total taxes received. Sales tax revenue increased by 9.9 percent from the previous fiscal year. Two other large contributors to the tax base of the state, the motor vehicle sales and motor fuels tax, increased 11 and 5.16 percent, respectively.

Texas Joins Other States in Maintaining Strong Financial Positions

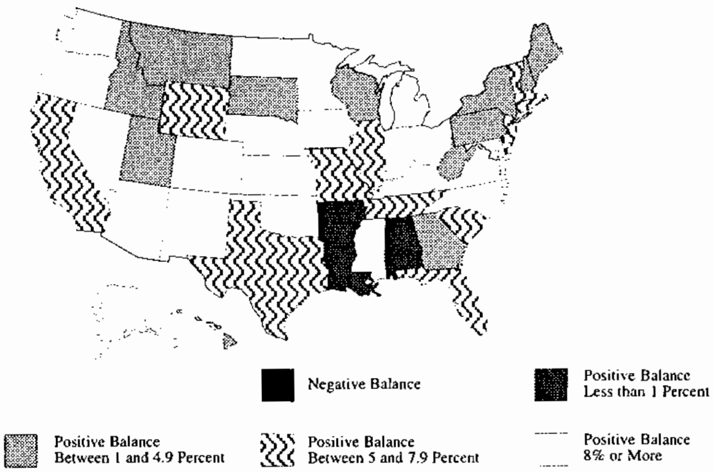
The national economic expansion that began in 1991 has continued, thereby allowing state governments to maintain financial growth and enact tax cuts. Texas has been no exception in this regard. As of August 31, 1998, Texas' General Revenue Fund cash balance was equal to 5 percent of the General Revenue Fund's fiscal 1998 expenditures (a 25 percent increase over fiscal 1997). 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 34th.

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 spending. This was an increase of $3.6 billion, or 7.3 percent, over fiscal 1996-97 general revenue funding. As required

Figure 5

ENDING BALANCE IN GENERAL FUND BY STATE,* 1998
As a Percentage of Total State General Fund Spending



*The figure for Texas was revised to reflect actual year-end amount estimates provided to NCSL.

Source: National Conference of State Legislatures.

Table 4

THE BUDGET FOR TEXAS STATE GOVERNMENT FOR THE 1998-99 BIENNIUM COMPARED TO ESTIMATED EXPENDITURES FOR THE 1996-97 BIENNIUM – ALL FUNDS
(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	1,689.4	98.6	6.2
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.

Note: Totals may not add due to rounding.

Source: Texas Legislative Budget Board.

by the State Constitution, the State Comptroller certified that sufficient revenue is 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 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 sources have increased by 3 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 percent over 1996-97 funding levels.

Table 5

STATE GENERAL OBLIGATION BOND RATINGS
AUGUST 31, 1998

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

*Not Rated

Sources: Moody's Investors Services, Standard & Poor's Corporation, and Fitch IBCA, Inc.

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.

When making their assessments, rating agencies assess the likelihood of timely repayment of principal and interest. Those entities with the strongest credit quality are assigned a rating of AAA. Ratings of AA or A 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, however, there has been considerable improvement in the diversification of the state's economic base. A steady transition from a mining (oil & gas) economy to one based increasingly on services and manufacturing has broadened 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 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 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.

Nine 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 bonds by the three major rating agencies during fiscal 1998 *(Table 6)*.

Tennessee was the only new addition in fiscal 1998 to the group of states with AAA ratings from the three major rating agencies.

Other states receiving improved ratings during fiscal 1998 from the three major rating agencies were Maine, Michigan, and Massachusetts. Both Moody's and Fitch upgraded the credit rating on the general obligation debt of Pennsylvania and Washington. Moody's also upgraded the credit quality of Illinois and Louisiana, while Fitch revised and improved its rating for California.

For the second consecutive year, the only state to be downgraded was Hawaii. Moody's noted the state's rising debt level, its high debt per capita, and the fact that debt service on the state's currently outstanding general obligation debt service is consuming increasing amounts of Hawaii's general resources.

Table 6

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS
August 1997 to July 1998

Upgrades

State	Rating Change	Agency
California	A+ to AA-	Fitch
Illinois	Aa3 to Aa2	Moody's
Louisiana	A3 to A2	Moody's
Maine	A1 to A3	Moody's
	A+ to AA-	Standard & Poor's
	A+ to AA-	Fitch
Massachusetts	A1 to Aa3	Moody's
	A+ to AA-	Standard & Poor's
	A+ to AA-	Fitch
Michigan	Aa2 to Aa1	Moody's
	AA to AA+	Standard & Poor's
	AA to AA+	Fitch
Pennsylvania	A1 to A3	Moody's
	AA- to AA	Fitch
Tennessee	AA+ to AAA	Standard & Poor's
Washington	Aa2 to Aa1	Moody's
	AA to AA+	Fitch

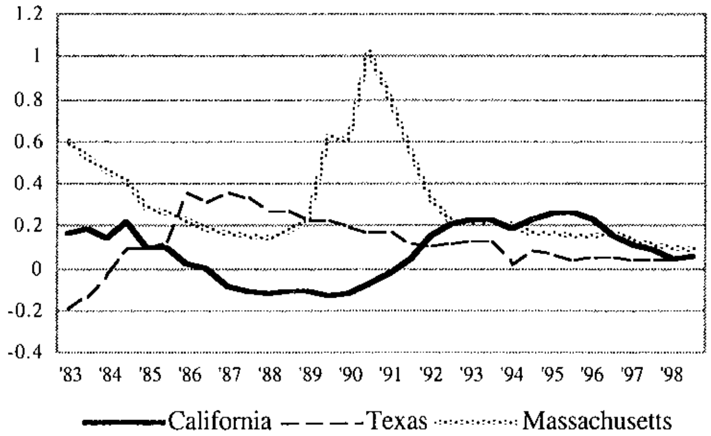
Downgrades

State	Rating Change	Agency
Hawaii	Aa3 to A1	Moody's

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

Figure 6

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



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

Source: The Chubb Corporation.

Texas Bonds 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, twenty-four have Moody's ratings of Aa2 or better. Standard and Poor's has assigned ratings of AA or better on twenty-nine states, and Fitch has assigned ratings of AA or better on twenty-eight states.

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

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

According to the July 1998 study, Texas general obligation bonds are trading an average of 0.055 percentage points above the interest rate on the benchmark general obligation bond.[1] This is up slightly from the 0.041 that was recorded the previous year, but down considerably from 1987's 0.36 percentage points. The economic performance of Texas, and therefore its increased tax revenue, is responsible for the improved trading value of Texas' bonds.

Texas general obligation bonds were trading 0.091 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, but a decline from .086 percentage points posted in fiscal 1997.

[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 15.1 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 36th among all the states *(Table 7)* and 10th among the ten most populous states in net tax-supported debt per capita according to *Moody's 1998 State Debt Medians (Table 9)*. The Moody's report indicates that Texas had $300 in net tax-supported debt per capita compared to a national median of $446 and an average of $719. Using the Moody's data to compare Texas' net tax-supported debt per capita among the ten most populous states, the state's $300 compares favorably against a median of $690 for the group. The average net tax-supported debt among these ten states was $977.

Another method of comparing Texas' current debt position is to compare it against the 9 states rated Aaa/AAA/AAA by Moody's, Standard and Poor's, and Fitch respectively *(Table 8)*. Ranked against these states, Texas' net tax-supported debt per capita ranks 7th. Maryland had the highest net tax-supported debt at $849 while Tennessee ranked 10th at $203 per capita.

According to U.S. Department of Commerce figures utilized by the Moody's report, Texas' position in 1996 personal income per capita is 29th among the fifty states at $22,285. This amount is below the national median of $22,824 and the national average of $23,311.

However, when compared against those states rated AAA by the three major rating agencies, Texas' $22,285 ranks above four of the states: North Carolina, South Carolina, Tennessee, and Utah.

Examining net tax-supported debt as a percentage of 1996 personal income shows that Texas ranks 35th among the fifty states. Among the 9 states rated AAA, Texas is 7th at 1.4 percent. Only North Carolina, Missouri, and Tennessee had a lower amount of net tax-supported debt as a percentage of 1996 personal income. Texas' 1.4 percent came in below the median of 1.9 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 state debt and 8th in combined total state and local debt.

Debt Supported by General Revenue Increases Modestly

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 revenue used to support the bonds is insufficient to repay the debt, the first monies coming into the Office of the Comptroller - Treasury Operations not otherwise constitutionally appropriated, shall be used to pay the debt service on these obligations.

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

State debt service payable from general revenue continues to grow modestly as more general obligation debt is issued by the state. At the end of fiscal 1998, state debt outstanding payable from general revenue was $3.2 billion.

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 1998 was 1.37 percent. This is a slight decrease from the 1.48 percent paid during fiscal 1997 *(Figure 7)*.

Although the debt outstanding, as well as the corresponding debt service, payable from general revenue has seen a modest increase, the funds accessible to make payments have grown significantly. Unrestricted general revenue is typically considered the source available to make bond debt service payments and to fund appropriations for state operations. As the state's overall economic performance has improved, so has its effect on state finances *(Figure 8)*.

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

Texas continues to have a moderate amount of authorized but unissued debt on the books. This is debt that has been authorized by the Legislature, but has not been issued. As of August 31, 1998, approximately $838.1 million in bonds payable from general revenue had been authorized by the Legislature but remain unissued. Some of these authorized but unissued bonds may be issued at any time without further legislative action and others would require a legislative appropriation of debt service prior to issuance.

Table 7

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 1996 Personal Income	Rank	Net Tax- Supported Debt Per Capita**	Rank
Hawaii	A1	10.7	1	$2,718	2
Connecticut	Aa3	8.7	2	2,962	1
Massachusetts	Aa3	7.8	3	2,329	3
Rhode Island	A1	6.6	4	1,618	6
New York	A2	6.5	5	1,914	4
Delaware	Aa1	5.9	6	1,619	5
New Jersey	Aa1	5.1	7	1,576	7
Washington	Aa1	4.8	8	1,192	8
Vermont	Aa2	4.2	9	946	9
Kentucky	*	3.9	10	774	12
Mississippi	Aa3	3.5	11	606	18
Florida	Aa2	3.4	12	798	11
Utah	Aaa	3.1	13	590	20
Maryland	Aaa	3.1	14	849	10
Georgia	Aaa	2.9	15	647	16
Wisconsin	Aa2	2.8	16	661	14
West Virginia	A1	2.8	17	512	23
Illinois	Aa2	2.7	18	728	13
Louisiana	A2	2.6	19	519	21
California	A1	2.6	20	652	15
Ohio	Aa1	2.5	21	591	19
New Hampshire	Aa2	2.4	22	633	17
Virginia	Aaa	2.1	23	519	22
Pennsylvania	Aa3	2.0	24	501	24
Minnesota	Aaa	1.9	25	489	25
New Mexico	Aa1	1.9	26	355	32
Arizona	*	1.9	27	388	28
Maine	Aa2	1.9	28	391	27
Alabama	Aa3	1.7	29	334	33
Kansas	*	1.7	30	380	30
Nevada	Aa2	1.6	31	403	26
South Carolina	Aaa	1.6	32	309	35
Michigan	Aa1	1.6	33	381	29
South Dakota	*	1.5	34	316	34
TEXAS	Aa2	1.4	35	300	36
Montana	Aa3	1.4	36	260	37
Oregon	Aa2	1.2	37	280	31
North Carolina	Aaa	1.0	38	229	39
Missouri	Aaa	1.0	39	238	38
Tennessee	Aaa	0.9	40	203	40
North Dakota	Aa3	0.8	41	169	42
Indiana	*	0.8	42	185	41
Oklahoma	Aa3	0.8	43	157	43
Arkansas	Aa3	0.8	44	143	45
Wyoming	*	0.7	45	147	44
Alaska	Aa	0.5	46	128	46
Iowa	*	0.5	47	113	47
Idaho	*	0.2	48	45	48
Nebraska	*	0.2	49	38	49
Colorado	*	0.1	50	18	50
U.S. Median		**1.9**		**$446**	
U.S. Mean		**2.9**		**$719**	

* No general obligation debt.
** Based on estimated 1997 population.

Sources: U.S. Department of Commerce and Moody's Investors Service, *1998 State Debt Medians.*

If the state of Texas were to issue all the authorized but unissued debt, debt service from general revenue would increase by an estimated $169.8 million annually. If the above-mentioned bonds were issued, the outstanding general revenue debt would equal $4.07 billion.

Texas' Debt Limit Now Constitutional

The state of Texas is currently limited by its constitution as to the amount of tax-supported debt that may be authorized. The 75th Legislature passed House Joint Resolution 59 which limits the amount of debt that may be issued. The resolution called for a constitutional amendment that was placed on the ballot and approved by the voters in November 1997.

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

The debt limit ratio of 1.6 percent is for outstanding debt as of August 31, 1998. With the inclusion of authorized but unissued debt, the ratio increases to 2.4 percent. These figures compare favorably to the 1.8 and 2.6 percent recorded during fiscal 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 remained relatively unchanged *(Figure 9)*.

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.

Table 8

SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA

State	Rating *	Net Tax-Supported Debt as a % of 1996 Personal Income	Net Tax-Supported Debt Per Capita**	1996 Personal Income Per Capita
Utah	AAA	3.1	$590	$19,244
Maryland	AAA	3.1	849	27,305
Georgia	AAA	2.9	647	22,906
Virginia	AAA	2.1	519	24,992
Minnesota	AAA	1.9	489	25,260
South Carolina	AAA	1.6	309	19,751
TEXAS	AA	1.4	300	22,285
North Carolina	AAA	1.0	229	22,054
Missouri	AAA	1.0	238	22,615
Tennessee	AAA	0.9	203	21,808
Median of AAA States		**1.9**	**$489**	**$22,615**
Mean of AAA States		**2.0**	**$453**	**$22,882**

* 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.

** Based on estimated 1997 population.

Sources: U.S. Department of Commerce and Moody's Investors Service, *1998 State Debt Medians.*

Local debt per capita in Texas was $2,981 compared to the average of $2,589 for the ten most populous states. The state with the lowest local debt per capita, among this group, is Ohio with $1,439.

In percentage terms, local debt accounts for 85 percent of the total $65.7 million of state and local debt outstanding in Texas. The large ratio of local debt indicates that local capital projects, such as schools and infrastructure projects, are the responsibility of local units of government. A more detailed look at 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 the ten most populous states in terms of state and local debt per capita, the Bureau of the Census figures show that Texas ranks 8th on a combined basis at $3,511. The average among these states for this measure was $4,589. Once again, Ohio had the lowest combined state and local debt per capita ($2,542).

Table 9

TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES

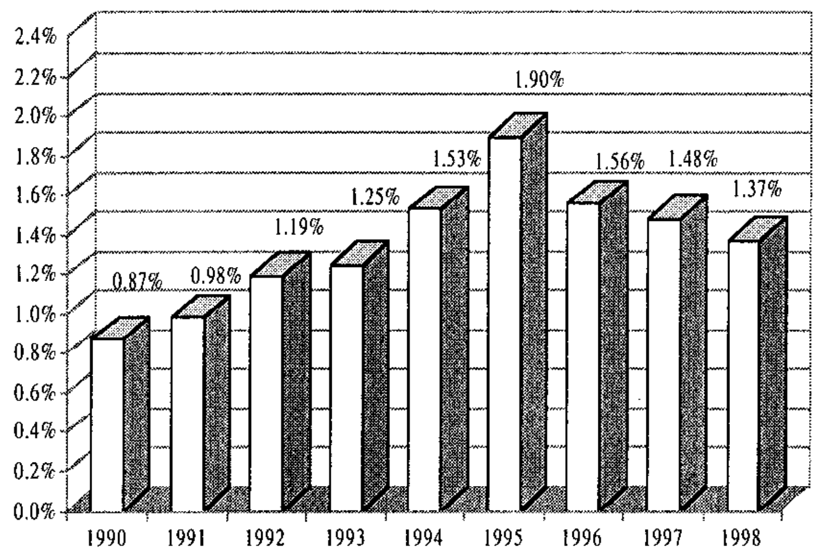
	Total State and Local Debt				State Debt				Local Debt			
State	Population (thousands)	Per Capita Rank	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount
New York	18,136	1	$ 142,160	$ 7,839	2	$ 68,466	48.2%	$ 3,775	1	$ 73,695	51.8%	$ 4,063
Massachusetts	6,074	2	38,221	6,293	1	27,734	72.6%	4,566	9	10,487	27.4%	1,727
New Jersey	7,945	3	39,781	5,007	3	24,358	61.2%	3,066	7	15,423	38.8%	1,941
Florida	14,166	4	64,451	4,550	9	15,370	23.8%	1,085	2	49,082	76.2%	3,465
California	31,589	5	141,981	4,495	5	48,197	33.9%	1,526	5	93,784	66.1%	2,969
Pennsylvania	12,072	6	52,833	4,376	7	14,294	27.1%	1,184	3	38,539	72.9%	3,192
Illinois	11,830	7	48,803	4,125	4	21,950	45.0%	1,855	6	26,853	55.0%	2,270
TEXAS	18,724	8	65,738	3,511	10	9,922	15.1%	530	4	55,816	84.9%	2,981
Michigan	9,549	9	30,088	3,151	6	12,535	41.7%	1,313	8	17,553	58.3%	1,838
Ohio	11,151	10	28,346	2,542	8	12,295	43.4%	1,103	10	16,050	56.6%	1,439
MEAN			$ 65,240	$ 4,589		$ 25,512	41.2%	$ 2,000		$ 39,728	58.8%	$ 2,589

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

Source: Bureau of the Census, *State and Local Government Finances by Level of Government: 1994-1995.*

Figure 7

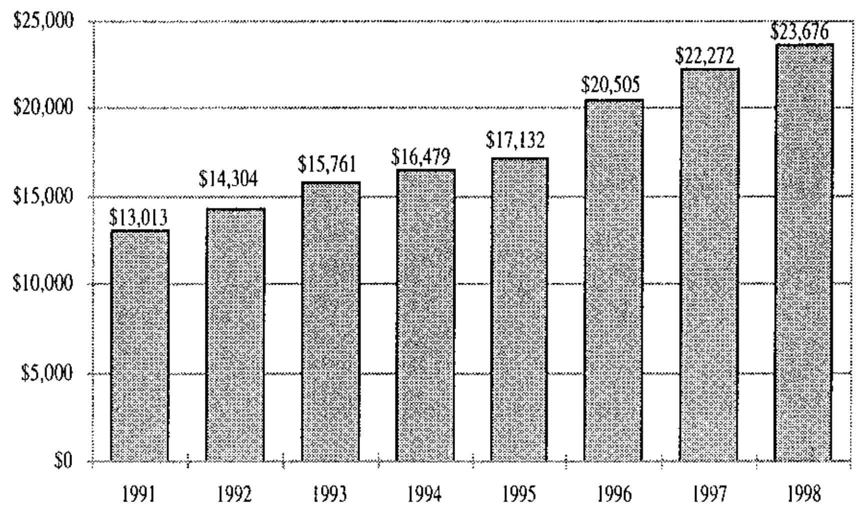
ANNUAL DEBT SERVICE AS A PERCENT OF UNRESTRICTED GENERAL REVENUE



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

Figure 8

UNRESTRICTED GENERAL REVENUE
(millions of dollars)



Source: Texas Comptroller of Public Accounts.

75th Legislature Continues Consolidation of Debt Issuance

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

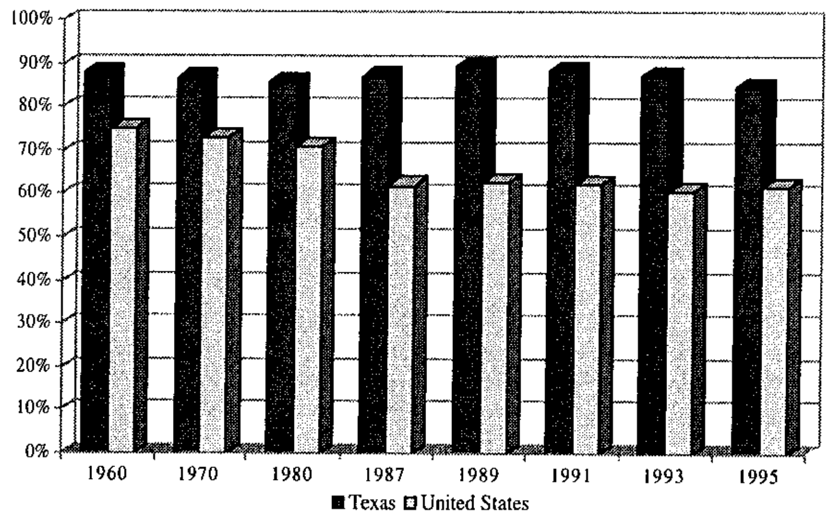
One contributing factor for this consolidation was House Bill 1077, 75th Legislature. This bill, passed in 1997, added the Texas Low-Level Radioactive Waste Disposal Authority, Midwestern State University, Stephen F. Austin State University, and Texas Southern University to the list of state entities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

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

Additionally, a rider in House Bill 1 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

Figure 9

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



Source: Bureau of the Census, State and Local Government Finances by Level of Government: 1994-1995.

acquisition, construction of buildings and other facilities, renovation of buildings and other facilities, and major information resource projects estimated to exceed $1 million.

CHAPTER 3
Texas Bonds Issued In Fiscal 1998

Texas state agencies and universities issued bonds in an aggregate amount of $2.43 billion during fiscal 1998. This amount is a significant increase over the $1.03 billion issued during fiscal 1997. The fiscal 1998 bond issues were comprised of $1.2 billion in new-money bonds and $1.22 billion in refunding bonds (Table 10).

Favorable Economic Conditions Support Increased Levels of New-Money Bond Issues

New-money bonds issued by Texas state agencies and institutions of higher education totaled $1.2 billion (not including commercial paper) during fiscal 1998. This amount represents an increase of 59 percent from the $758.8 million in new-money bonds that were issued during fiscal 1997 *(Figure 10)*. The bond issues provided funds to finance infrastructure, housing, and loan programs.

The Texas Water Development Board (TWDB) issued the largest amount of new-money bonds during fiscal 1998. The TWDB issued $592 million in new money, representing 48 percent of the total new-money bonds issued during fiscal 1998. The agency's largest issue was for $300 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 sewage treatment facilities, including treatment plants and collection lines.

The TWDB issued an additional $150 million of SRF Senior Lien Revenue Bonds during fiscal 1998. This transaction was the first installment of a $350 million bond package that was approved by the Bond Review Board in May. 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.

Another TWDB new-money transaction was a $75 million bond issue from which the proceeds were used to fund loans to political subdivisions for water supply purposes and to provide an estimated $18 million of matching funds to the Drinking Water State Revolving Fund program.

The Texas Water Development Board's Water Financial Assistance program received $67.1 million in fiscal 1998. Of this amount, $24.9 million was used to provide funds to the Economically Disadvantaged Areas Program (EDAP). This program provides financial assistance to economically distressed areas in the state

Table 10

TEXAS BONDS ISSUED DURING FISCAL 1998
SUMMARIZED BY ISSUER

ISSUER	REFUNDING BONDS	NEW-MONEY BONDS	TOTAL BONDS ISSUED
Texas A&M University System	$23,055,000		$23,055,000
Texas Department of Housing & Community Affairs	40,105,000	$178,310,000	218,415,000
Texas Higher Education Coordinating Board		75,000,000	75,000,000
Texas Public Finance Authority	532,475,000	112,450,000	644,925,000
Texas State University System		26,460,000	26,460,000
University of Houston	7,460,000	14,565,000	22,025,000
University of North Texas		4,380,000	4,380,000
University of Texas System	200,605,000	52,000,000	252,605,000
Veterans Land Board	278,120,000	150,000,000	428,120,000
Texas Water Development Board	141,970,000	592,045,000	734,015,000
Total Texas Bonds Issued	**$1,223,790,000**	**$1,205,210,000**	**$2,429,000,000**

Note: Total does not include amounts for commercial paper or variable rate notes issued during fiscal year 1998. TPFA issued an aggregate $18.1 million of general obligation notes on behalf of the Texas Youth Comission ($13.4 million) and the Texas Department of Mental Health and Mental Retardation ($4.7 million). TPFA also issued $21 million of commercial paper notes in connection with the Master Lease Purchase Program (MLPP). UT and TAMU issued Revenue Financing System commercial paper in the amounts of $123 million and $79.8 million, respectively. TDHCA issued $23.4 million in commercial paper.

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

to develop water and wastewater services. Up to 90 percent of these funds may be used as grants, as opposed to loans.

The Texas Department of Housing and Community Affairs (TDHCA) was, in dollar volume, the second largest state issuer of new money in fiscal 1998. The TDHCA issued new-money bonds in the amount of $178.3 million.

The TDHCA issued $134.8 million of new-money bonds for its Single-Family Mortgage Revenue Bond program. The purpose of this program is to finance the purchase of low interest rate mortgage loans made by lenders to first-time homebuyers of very low, low, and moderate income who are acquiring modestly-priced residences.

The TDHCA also acted as a conduit issuer on four new-money multi-family affordable housing transactions during fiscal 1998. Federal tax law requires the units in the above-mentioned properties to be affordable for low-to-moderate income households.

The first of these transactions financed the construction of a $13.6 million apartment complex (232 units) in Round Rock, Texas known as Meadow Ridge Apartments. The second conduit transaction financed the construction of a $10.9 million multi-family housing project (250 units) in Denton, Texas known as Pebble Brook. The Volente project was the beneficiary of the third conduit issue. The bond proceeds of $10.8 million financed the construction of a multi-family housing project (208 units) in Cedar Park, Texas. The $8.2 million proceeds of the fourth new-money conduit issue financed the construction of a multi-family residential rental project (212 units). The project, located in Dallas, Texas and known as Residence at the Oaks, is oriented toward senior citizens of low-to-moderate incomes.

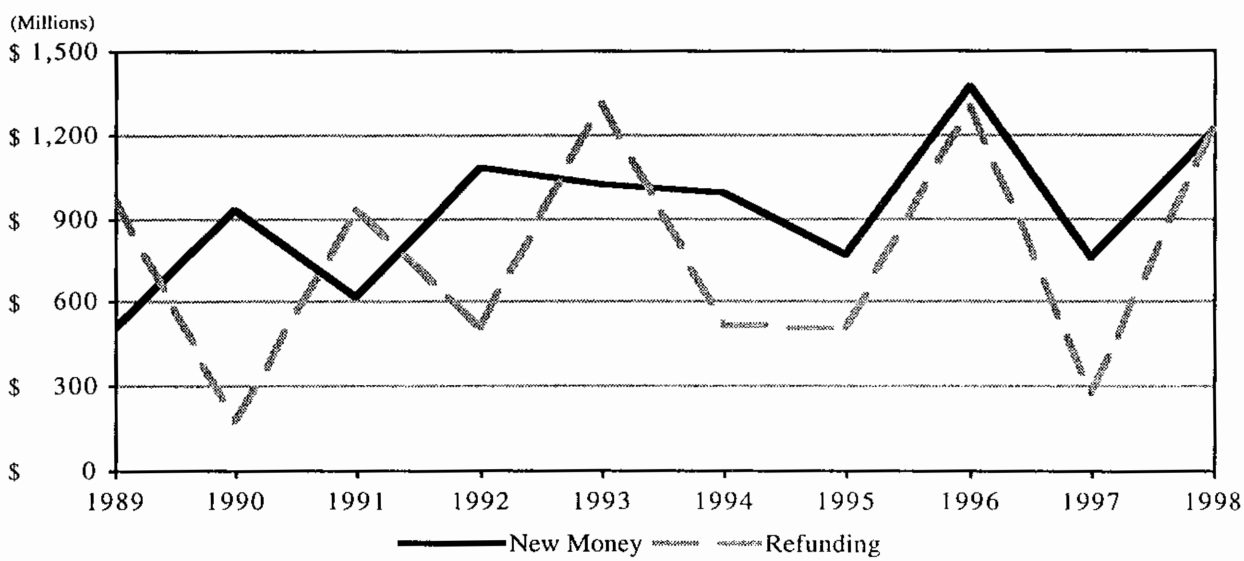
The Texas Veterans Land Board (VLB) completed two new-money transactions under the Housing Assistance Program in an aggregate amount of $150 million. The first transaction ($100 million) was issued as tax-exempt securities and the remainder ($50 million) was issued as taxable securities. The proceeds of both transactions were used to provide funds for the purpose of making housing and home improvement loans to eligible Texas veterans.

The Texas Public Finance Authority (TPFA) completed three transactions for new money in fiscal 1998. Building revenue bonds in an amount of $70.9 million was the first of these transactions. Proceeds of the bonds were used to finance the construction and renovation costs of several facilities in the Capitol Complex in Austin. The TPFA also issued $11.5 million in bonds on behalf of the Texas Parks and Wildlife Department to finance infrastructure repairs and facility improvements at various state parks. The improvements include the repair and replacement of wastewater systems, and the renovation of existing facilities.

Lastly, the TPFA issued bonds on behalf of the Texas Department of Health in an amount of $30 million. The proceeds of the bonds were used for the completion of the department's laboratory project, which includes the completion of the remaining construction of the laboratory and office building.

Figure 10

TEXAS NEW-MONEY AND REFUNDING BOND ISSUES 1989 THROUGH 1998



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

Table 11

LEASE-PURCHASE AGREEMENTS
APPROVED BY THE BOND REVIEW BOARD
Fiscal 1998

AGENCY	EQUIPMENT Computer	EQUIPMENT Other	REAL PROPERTY	TOTAL
Comptroller of Public Accounts		$1,498,653		$1,498,653
Midwestern State University		1,965,000		1,965,000
Texas Rehabilitation Commission	$830,590			830,590
Texas Department of Mental Health & Mental Retardation		2,613,265		2,613,265
Texas Department of Mental Health & Mental Retardation		921,934		921,934
Texas Department of Protective & Regulatory Services	1,651,600			1,651,600
Texas Water Development Board		600,000		600,000
Total Approved Lease-Purchase Agreements	**$2,482,190**	**$7,598,852**	**$0**	**$10,081,042**

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

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

The Texas Higher Education Coordinating Board (THECB) issued bonds in the amount of $75 million in new money during fiscal 1998. The proceeds of these bonds were used to make funds available for the Hinson-Hazelwood College Student Loan Program administered by the THECB.

Constitutional appropriation bonds were issued in the amount of $26.5 million by the Texas State University System. The bond proceeds financed a portion of the construction costs for an Arts/Technology/Physics complex at Southwest Texas State University.

Educational facilities make up the remainder of the new-money bond issues during fiscal 1998. The combined total of new-money financing was approximately $70.9 million.

The largest of these financings was for the University of Texas (UT) System. The UT System issued $52 million of Permanent University Fund bonds. The new-money bond proceeds were used to provide funds for improvements at various institutions within the UT System.

Other new-money bonds issued in fiscal 1998 by state universities include the University of Houston, which issued $14.6 million to finance energy conservation programs, and the University of North Texas, which issued $4.4 million for general capital improvements of its facilities.

Texas Commercial Paper - Interim Financing Tool

State agencies and institutions of higher education use commercial paper and variable-rate notes to provide financing for equipment, interim construction, and loans. In fiscal 1998, these entities issued $265,342,000 in commercial paper to fund their respective activities.

The TPFA established its general obligation commercial paper program in 1994. The purpose of the program is to provide interim construction financing for state agencies such as the Texas Department of Criminal Justice, the Texas Youth Commission, and the Texas Department of Mental Health and Mental Retardation. As of August 31, 1998, the TPFA had $158.4 million in general obligation commercial paper debt outstanding. During fiscal 1998, the agency issued $18.1 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 state agencies to purchase items such as computer equipment, automobiles, and real property. Under MLPP procedures, the TPFA purchases the requested equipment and leases it back to the using agency. Upon the completion of lease payments, the title to the equipment is turned over to the lessee. During fiscal 1998, the TPFA issued $21 million in variable-rate debt to fund this program. As of August 31, 1998, a total of $32.1 million of revenue commercial paper debt was outstanding.

The UT System uses commercial paper and variable-rate notes to provide interim financing for construction projects and to purchase equipment. During fiscal 1998, the System issued $123 million in Revenue Financing System (RFS) commercial paper notes, but no Permanent University Fund (PUF) variable-rate notes. As of August 31, 1998, the System had $166.6 million of RFS commercial paper and $36.9 million of PUF 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 1998, the System issued $79.8 million

Table 12

TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 1999

ISSUER	APPROXIMATE AMOUNT	PURPOSE	APPROXIMATE ISSUE DATE
General Obligation Bonds			
Self-Supporting			
Texas Higher Education Coordinating Board	$ 75,000,000	College Student Loans	Jan-99
Texas Veterans' Land Board	40,025,000	Veterans' Land Program (Refunding)	Apr-99
Texas Water Development Board	100,000,000	Water Quality Enhancement	Jan-99
Total Self-Supporting	**$ 215,025,000**		
Not Self-Supporting			
Texas Public Finance Authority**	$ 26,000,000	Texas Department of Criminal Justice - Projects	Jan-99
Texas Public Finance Authority**	38,300,000	Texas Department of Criminal Justice - Projects	Oct-98
Texas Public Finance Authority**	74,200,000	Texas Department of Criminal Justice - Projects	Feb-99
Texas Public Finance Authority**	57,300,000	Texas Department of Criminal Justice - Projects	Aug-99
Texas Public Finance Authority**	5,000,000	Texas Department of Mental Health and Mental Retardation - Projects	Sep-98
Texas Public Finance Authority**	4,500,000	Texas Department of Mental Health and Mental Retardation - Projects	Nov-98
Texas Public Finance Authority**	10,000,000	Texas Department of Mental Health and Mental Retardation - Projects	Mar-99
Texas Public Finance Authority**	6,000,000	Texas Youth Commission - Projects	Sep-98
Texas Public Finance Authority**	6,800,000	Texas Youth Commission - Projects	Sep-98
Texas Public Finance Authority**	7,000,000	Texas Youth Commission - Projects	Apr-99
Texas Public Finance Authority	223,920,000	General Obligation Refunding	Oct-98
Texas Water Development Board	25,000,000	Economically Distressed Areas Program - Water Quality Enhancement	Jun-99
Total Not Self-Supporting	**$ 484,020,000**		
Total General Obligation Bonds	**$ 699,045,000**		
Non-General Obligation Bonds			
Self Supporting			
Texas Department of Housing and Community Affairs	$ 102,055,000	Single Family Housing - Mortgage Revenue Bonds	Dec-98
Texas Department of Housing and Community Affairs	11,250,000	Single Family Housing - Mortgage Revenue Refunding Bonds	Dec-98
Texas Department of Housing and Community Affairs	23,210,000	Single Family Housing - Mortgage Revenue Bonds	Dec-98
Texas Department of Housing and Community Affairs	28,545,000	Single Family Housing - Mortgage Revenue Bonds	Dec-98
Texas Public Finance Authority	9,860,000	Midwestern State University - Facilities	Sep-98
Texas Public Finance Authority	6,000,000	Stephen F. Austin State University - Facilities	Sep-98
Texas Public Finance Authority	58,000,000	Texas Southern University - Facilities	Dec-98
Texas Veterans' Land Board	10,000,000	Veterans' Homes Revenue Bonds	Nov-98
Texas Veterans' Land Board	10,000,000	Veterans' Homes Revenue Bonds	May-99
Texas Water Development Board	300,000,000	Texas Water Resources Finance Authority (Refunding)	May-99
Texas Water Development Board	200,000,000	State Water Pollution Control Revolving Fund	Nov-98
Texas Water Development Board	350,000,000	State Water Pollution Control Revolving Fund	To Be Determined
Texas Woman's University	8,500,000	Facility Renovation	Dec-98
The Texas A&M University System - PUF*	23,845,000	Construction and Facility Renovation	As Needed
The Texas A&M University System - RFS	172,800,000	Refinancing of Outstanding Short Term Notes to Long Term Debt	Jan-99
The University of Houston System - RFS	33,350,000	Facility Construction and Renovation	Jan-99
The University of North Texas	20,000,000	Facility Construction	Feb-99
Texas Tech University - RFS*	100,000,000	Facility Construction	As Needed
Texas Tech University - RFS	60,000,000	Refunding	To Be Determined
The University of Texas - PUF*	50,000,000	Facility Construction	Dec-98
The University of Texas - RFS	153,254,000	Refinancing of Outstanding Short Term Notes to Long Term Debt	Oct-98
The University of Texas - RFS*	190,000,000	Facility Construction	As Needed
Total Self-Supporting	**$ 1,920,669,000**		
Not-Self Supporting			
Texas Public Finance Authority	$ 5,000,000	Building Revenue Bonds	Jun-99
Texas Public Finance Authority	7,100,000	Building Revenue Bonds	Jan-99
Texas Public Finance Authority	40,000,000	Building Revenue Bonds	Dec-98
Texas Public Finance Authority	70,000,000	TIES Project (Texas Integrated Eligibility System - Computer System)	Jan-99
Texas Public Finance Authority	18,000,000	Parks and Wildlife Infrastructure Improvements	Jan-99
Texas Public Finance Authority*	61,000,000	Master Lease Purchase Program (MLPP)	As Needed
Total Not Self-Supporting	**$ 201,100,000**		
Total Non-General Obligation Bonds	**$ 2,121,769,000**		
Total All Bonds	**$ 2,820,814,000**		

*Commercial Paper or Variable Rate Note Program.
**These issues assume an initial general obligation commercial paper offering with the potential to subsequently convert to long term bonds.
Source: Texas Bond Review Board, Office of the Executive Director, Survey of Texas State Bond Issuers.

of RFS commercial paper, but no PUF variable-rate notes. As of August 31, 1998, the System had $73.7 million of RFS commercial paper outstanding and $65 million of PUF variable-rate notes outstanding. The System also redeemed $26.3 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, thereby preserving the private activity volume cap allocation under its single-family programs. Once the TDHCA has issued a substantial aggregate amount of notes, the notes are refunded with single-family mortgage revenue bonds. The preservation of the volume cap facilitates the extension of additional mortgage loans for modestly priced housing. The program targets first-time homebuyers of very-low, low, and moderate income. During fiscal 1998, the TDHCA issued $23.4 million in commercial paper to finance this program. The total amount of commercial paper outstanding as of August 31, 1998 was $34.5 million.

Texas Issued More Refunding Debt than New Money in Fiscal 1998

Refunding bonds accounted for more than fifty percent of the total bonds issued during fiscal 1998. The refunding bonds issued by state agencies and universities totaled $1.2 billion. Refunding bonds were cost effective due to the low interest rates and high demand in the bond market. By issuing refunding bonds, state agencies and universities, collectively, achieved net present value savings of approximately $36 million in fiscal 1998.

The TPFA was the largest issuer of refunding bonds, issuing an aggregate amount of $532 million. The TPFA closed on two refunding transactions and one combined new-money and refunding issue. The largest refunding transaction issued by the TPFA was for $341.5 million. The proceeds of the bonds were used to refund outstanding TPFA general obligations. The TPFA achieved net present value savings of $12 million from this issue. In a transaction identified by Bond Review Board staff, the TPFA executed a refunding transaction on behalf of the Texas Department of Criminal Justice (TDCJ) for $169 million. These bonds provided for the prepayment of the TDCJ lease obligations under eleven series of bonds issued by five different local government entities since 1988. The TDCJ entered into the lease-purchase agreements for the purpose of financing criminal justice facilities, which are operated under management contracts between TDCJ and private operators. This refunding resulted in $5.8 million of present value savings and also created administrative cost efficiencies. Thirdly, the TPFA closed on a bond issue to refund $21.6 million of TPFA building revenue bonds.

The second largest issuer of refunding bonds was the Texas Veterans Land Board. The VLB issued $278 million of refunding bonds to redeem the principal amount of the Series 1985 and Series 1986 Land Refunding Bonds. This transaction resulted in $4.3 million of present value savings.

The UT System issued $200.6 million in two refunding transactions. The first, a Permanent University Fund (PUF) transaction provided $78 million for the purpose of currently refunding certain obligations of the system. The second transaction provided $122.6 million for the purpose of refunding outstanding Revenue Financing System (RFS) commercial paper.

The Texas Water Development Board issued $142 million of refunding bonds resulting in $6.5 million present value savings. The bonds were issued to refund $38 million in tax-exempt callable bonds, $46.6 million in taxable bonds, and $57.5 million in Economically Disadvantaged Areas Program (EDAP) bonds. The TWDB transaction also included new-money bonds that established the Texas Water Development Fund II.

The Texas Department of Housing and Community Affairs issued $40 million of refunding bonds in three separate transactions. The largest issue combines new-money with a refunding component. The refunding portion of this transaction was for $20.2 million to refund Series 1987B Single-Family Mortgage Revenue Bonds.This transaction allowed the TDHCA to achieve present value savings of approximately $4.3 million. The TDHCA also issued $9.5 million to refund commercial paper notes and $10.3 million to refinance a multi-family housing project located in Dallas, Texas.

Other issuers of refunding bonds were the Texas A&M University (TAMU) System, and the University of Houston. The TAMU System issued $23 million to refund the principal of the Combined Fee, Revenue System Refunding and Improvement Bonds, Series 1998A. The System achieved debt service savings of $1.4 million through this sale. The University of Houston issued $7.5 million to current refund the University's Tuition Revenue Bonds, Series 1986.

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 1998, the Texas Bond Review Board approved $10 million of lease purchases *(Table 11)*. The acquisitions were financed through the Texas Public Finance Authority's Master Lease Purchase Program (MLPP). The program assists state agencies and universities in obtaining competitive, low-interest, short-term (normally three years) acquisition financing.

The largest lease-purchase transaction approved by the board in fiscal 1998 was for $2.6 million for the Texas Department of Mental Health and Retardation (MHMR). The proceeds from the MLPP financing were used to replace 140 old vehicles with new utility vehicles under a lease-purchase agreement. The board also approved a $922,000 MLPP transaction for the purchase and installation of a PBX system, telephones, and drop-cabling for MHMR on behalf of Rusk State Hospital. The hospital's existing system is becoming obsolete.

Midwestern State University also received approval, under the MLPP program, to lease clinical and scientific equipment costing approximately $2 million. The Texas Department of Protective and Regulatory Services entered into three MLPP lease-purchase obligations totaling $1.6 million for computer equipment. The Comptroller of Public Accounts entered into a $1.5 million lease-purchase agreement for an integrated image management system.

Other MLPP approvals by the board were to the Texas Rehabilitation Commission for computer equipment, and the Texas Water Development Board for the purchase of water monitoring equipment.

Bond Review Board Survey Shows Increased Debt Issuance Expected in Fiscal Year 1999

The results of an annual survey conducted by the Bond Review Board show that Texas state agencies and institutions of higher education are planning to issue approximately $2.8 billion of bonds and commercial paper during fiscal 1999 *(Table 12)*. Of this amount, approximately $1.8 billion will be used to finance projects, programs, and facilities and $961 million will be used to refund outstanding debt.

It is expected that the state agency issuing the most new debt in fiscal 1999 will be the Texas Water Development Board (TWDB). The TWDB anticipates issuing a total of $975 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 $550 million, will provide financial assistance to local government jurisdictions in Texas that seek to improve their wastewater infrastructure. Additionally, the TWDB plans to issue $100 million for water quality enhancement purposes, $25 million in debt for the agency's EDAP program, and $300 million to refund its Texas Water Resource Authority Bonds.

The Texas Public Finance Authority is also expected to be another major issuer of debt during fiscal 1999. The TPFA has indicated that a G.O. refunding of approximately $224 million may be undertaken 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 $235 million in general obligation commercial paper.

The TPFA will also be issuing $275 million of revenue bonds during fiscal 1999. 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 projects for Midwestern State University, Stephen F. Austin State University, and Texas Southern University.

The Texas Veterans Land Board (VLB) is expected to issue $20 million of new-money debt during fiscal 1999 for its Veterans Home Program. The VLB anticipates refunding $40 million of its general obligation debt in the Veterans Land Program.

The Texas Department of Housing and Community Affairs expects to issue a total of $165 million during fiscal 1999. The proceeds, $11.3 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 1999 to provide financing for its Hinson-Hazelwood student loan program. The program is self-supporting and is repaid by payments received from the loans.

Educational institutions in Texas will also be issuing bonds and commercial paper during fiscal 1999. The proceeds of these issues will be used to fund facility expansion and renovation.

The University of Texas System expects to issue $393 million of debt during the fiscal year. The bulk of this money, $153 million, will be used to refund previously issued Permanent University Fund (PUF) variable-rate notes and Revenue Financing System (RFS) commercial paper. The System expects to issue an additional $240 million of new-money variable-rate notes to fund construction projects.

The Texas A&M University System will also be issuing $24 million of Revenue Financing System (RFS) commercial paper to fund the construction and equipping of university facilities. The System also plans to refund $173 million of its previously issued debt.

The Texas Tech University System plans to issue two series of bonds in fiscal 1999 totaling $160 million. The first of these issues will be $100 million in revenue bonds to provide funding for the construction and renovation of campus facilities. The System will also be issuing an additional $60 million in refunding bonds.

Other institutions of higher education that will be issuing bonded debt in fiscal 1999 are the University of Houston System, the University of North Texas, and Texas Woman's University. The University of Houston System plans to issue $33.3 million of tuition revenue bonds for the construction and renovation of campus facilities. The University of North Texas plans to issue $20 million in tuition revenue bonds for the construction and renovation of campus facilities. Texas Woman's University plans to issue $8.5 million in revenue bonds for the renovation of certain campus facilities.

CHAPTER 4
Texas Bond Issuance Costs

Texas state bond issuers spent an average of $768,459 per issue or $8.29 per $1,000 on bond issues sold during the 1998 fiscal year.[1] Appendix A of this report details the issuance costs associated with each 1998 issue.

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

Issuance Costs for Texas Bond Issues

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

Table 13

AVERAGE COSTS FOR TEXAS BOND ISSUES

	1997		1998	
	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued	Average Cost Per Bond Issue	Average Cost Per $1,000 in Bonds Issued
Average Issue Size (In Millions)	$54.5		$113.1	
Underwriter's Spread	$330,791	$6.27	$557,038	$5.52
Other Issuance Costs:				
Bond Counsel	52,165	1.25	64,377	0.95
Financial Advisor	33,592	0.93	47,737	0.60
Rating Agencies	37,532	1.23	46,236	0.64
Printing	10,036	0.33	10,038	0.21
Other	77,344	1.17	43,033	0.37
Total	$541,460	$11.18	$768,459	$8.29

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

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

[1] Issuance costs calcuations in this chapter do not include issues where the state acted as a conduit issuer.

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

as the "underwriter's spread". This "spread" is paid to the underwriter as compensation for the risk of holding the bonds and to cover the expenses associated with the marketing of the bonds. In 1998, the underwriter's spread accounted for 74 percent of all issuance costs *(Table 13)*.

During the last three years, Texas bond issuers were able to reduce the fees paid to underwriters as a percentage of bond issue size. For fiscal 1998, the average underwriter's spread is $557,038 per issue or $5.52 per $1,000, whereas the average underwriter's spread in 1997 was $330,791 per issue or $6.27 per $1,000. The decline in bond issuance costs per $1,000 is partially a result of the increased average issue size in 1998. Texas bond issues more than doubled in average issue size to $113.1 million, in 1998, from $54.5 million in 1997.

Other costs of issuance primarily consist of bond counsel fees, financial advisor fees, rating agency fees, and printing costs. These costs averaged $211,421 per issue or $2.77 per $1,000 in fiscal 1998 compared to $210,669 or $4.91 per $1,000 in fiscal 1997. Overall, average issuance costs per $1,000 decreased by $2.89 in 1998 as a result of the larger average issue size and the decreasing costs of issuance.

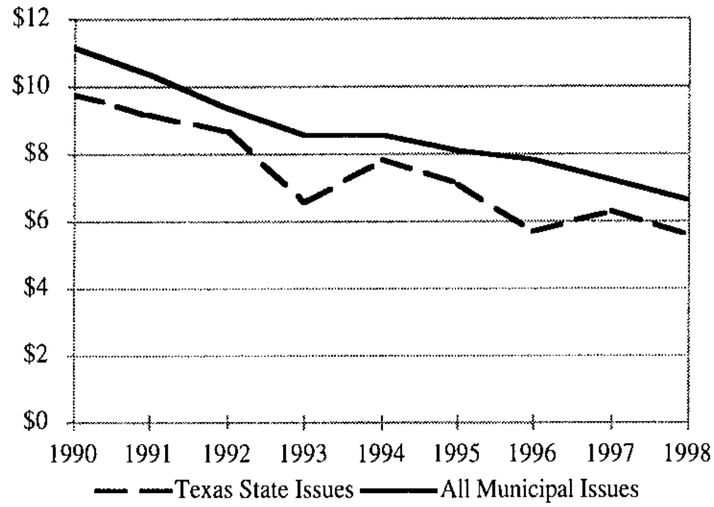
A comparison of gross spreads paid to underwriters on a national basis to those paid by Texas issuers reveals that the state's bond issuers pay lower underwriting fees than the national average *(Figure 11)*. Data published by the Securities Data Company shows that spreads paid by issuers nationally have averaged $6.61 per $1,000 compared to Texas' average of $5.52 per $1,000.

Comparison of Issuance Costs by Size

In general, the larger a bond issue, the greater the issuance cost, but the lower the issuance cost as a percentage of the size of the bond issue. This occurs because there are costs of issuance that do not vary proportionately with the size of a bond issue. For example,

Figure 11

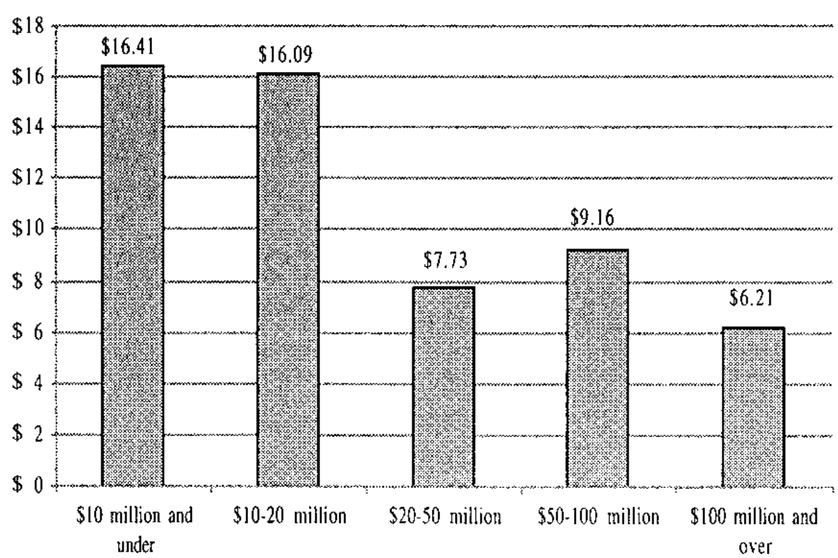
GROSS UNDERWRITING SPREADS: 1990-1998
Texas State Bond Issues vs. All Municipal Bond Issues



Note: 1998 figures are for the first six months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.
Sources: The Bond Buyer (8/10/98), Securities Data Company (7/9/98) and Texas Bond Review Board, Office of the Executive Director.

Figure 12

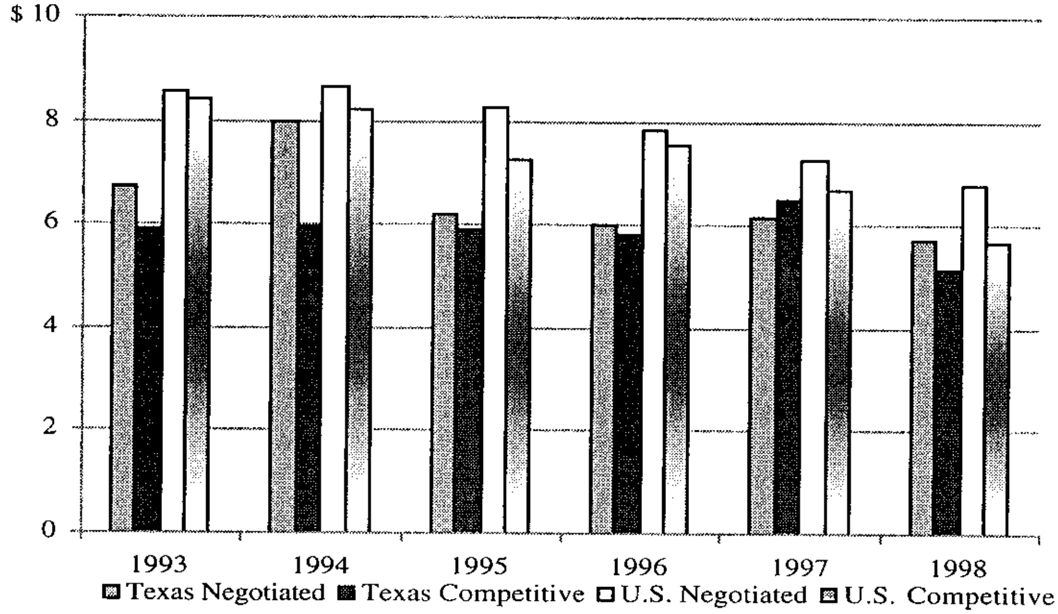
AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES BY SIZE OF ISSUE
(costs per $1,000 of bonds issued)



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

Figure 13

GROSS UNDERWRITING SPREADS: 1993-1998
Negotiated vs. Competitive Municipal Issues



Note: 1998 figures are for the first six months only. Amounts represent dollars per $1,000 face value of bond issues. Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses. Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded.

Sources: The Bond Buyer (8/10/98), Securities Data Company (7/9/98) and Texas Bond Review Board, Office of the Executive Director.

professional fees for legal services, financial advisory services, and document drafting must be paid no matter how small the size of the bond issue.

Texas bond issues followed the above-mentioned pattern, the smaller issues were more costly than the larger issues *(Figure 12)*. In fiscal 1998, total issuance costs for bond issues of less than $10 million averaged $71,897 per issue or $16.41 per $1,000. Costs for the larger issues of $100 million and over averaged $1,196,413 per issue or $6.21 per $1,000.

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

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

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

In a negotiated sale, an underwriter is chosen by the issuer in advance and agrees to buy the bonds at some future date for resale. Thereafter, the underwriter will try to ensure a successful sale by marketing the bonds. In more complicated financings, presale marketing can be crucial to obtaining the lowest possible interest cost. In addition, the negotiated method of sale offers issuers timing and structural flexibility as well as more influence in bond distribution directed to selected underwriting firms or customers.

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

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

Comparisons of the spreads paid on Texas negotiated and competitive transactions in 1998 reveal that bond issues sold in the competitive market had lower underwriting costs than the negotiated transactions *(Figure 13)*. During fiscal 1998, Texas bond issuers paid an average of $5.71 per $1,000 through negotiated sales, and $5.16 per $1,000 through competitive bids. These figures are lower than the national averages compiled by Securities Data Corporation, which recorded averages of $6.80 per $1,000 for negotiated transactions and $5.68 per $1,000 for competitive transactions.

Table 14

AVERAGE ISSUANCE COSTS FOR 1998 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)	$141.66	$75.22
Underwriter's Spread	$5.71	$3.42
Other Issuance Costs:		
Bond Counsel	0.77	0.68
Financial Advisor	0.56	0.33
Rating Agencies	0.47	0.78
Printing	0.15	0.19
Other	0.43	0.26
Total	**$8.09**	**$5.66**

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 1998 state bond issue.

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

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

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

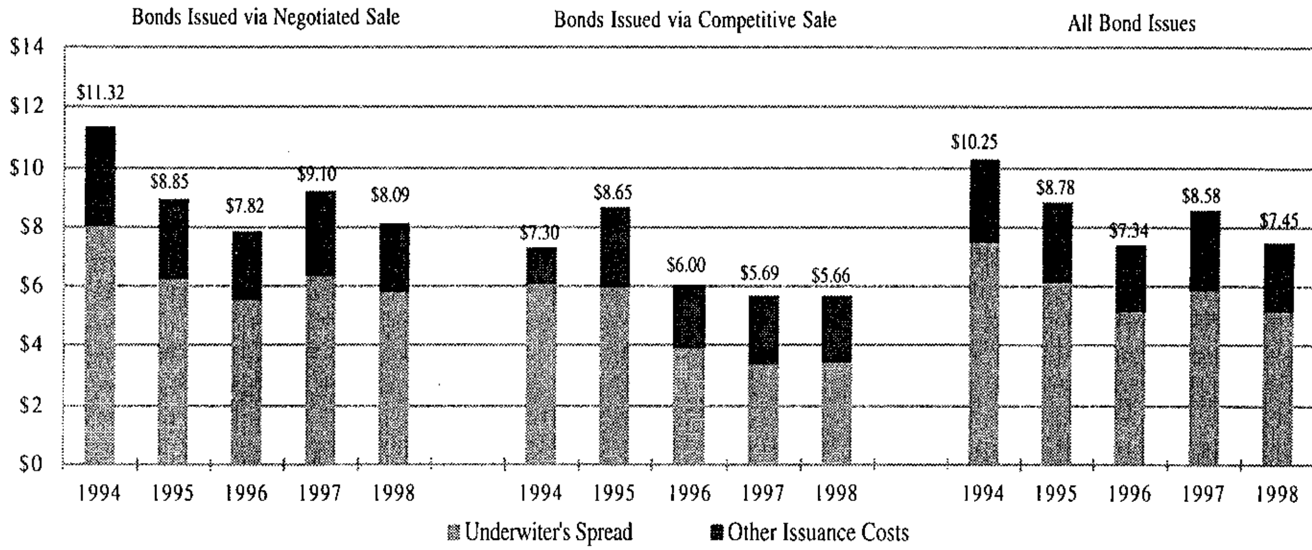
Recent Trends in Issuance Costs

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

During fiscal 1998, nineteen out of twenty-one bond issues (exclusive of conduit issues) had a par amount greater than $20 million. Five of those issues were sold via competitive bids and fourteen were negotiated transactions. Among those bond issues, total issuance costs for bonds issued via negotiated sale

Figure 14

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.

averaged $8.09 per $1,000, whereas bonds issued via competitive bid had an average cost of $5.66 per $1,000.

In fiscal 1998, the average issuance costs for negotiated and competitive transactions greater than $20 million declined by 13 percent to $7.45 per $1,000 *(Figure 14)*. The lower fees currently charged by underwriters have attributed largely to the declining costs of issuance. The average underwriter's spread, paid on Texas bond issues of a par value greater than $20 million, has declined 38 percent since 1994.

Although issuance costs are generally lower for competitive transactions, Figure 14 indicates that issuance costs of negotiated sales have declined since 1994. The issuance costs of $8.09 per $1,000 paid in 1998, was 29 percent lower than the $11.32 per $1,000 paid in 1994. The average issuance costs per $1,000 for competitive transactions have remained relatively unchanged averaging $5.78 per $1,000 during the last three years.

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

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

CHAPTER 5

Texas Bonds and Notes Outstanding

Texas had a total of $11.79 billion in state bonds and notes outstanding on August 31, 1998 – down slightly from $11.8 billion on August 31, 1997 and up from the $11.34 billion outstanding on August 31, 1996. The 1998 amount considers the transfer of more than $844 million in Texas Turnpike Authority debt to a regional tollway authority.

Small Increase in General Obligation Bonds Outstanding

Approximately $5.19 billion of Texas' total state debt outstanding on August 31, 1998 carries the general obligation (G.O.) pledge of the state, up $87.2 million from the $5.1 billion of G.O. bonds outstanding at the end of fiscal 1997 *(Table 15)*. This small increase in G.O. bonds outstanding was due primarily to self-supporting bonds issued in fiscal 1998. (See Chapter 3 for a description of bonds issued in fiscal 1998.)

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

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

Investors are willing to assume the added risk of non-G.O. bonds for a price—by charging the state a higher interest rate on such bonds. The rate of interest on a non-G.O. bond issue 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 Increases Slightly From 1997

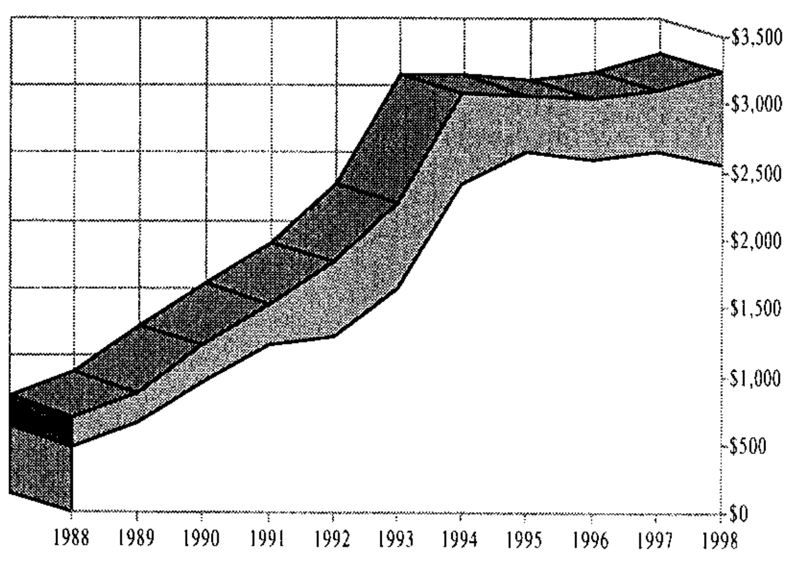
All bonds do not have the same financial impact on the state. Many bond-financed programs (G.O. and non-G.O. alike) are designed so that debt service is paid from sources outside the state's general revenue fund or from outside state government entirely. These self-supporting bonds do not put direct 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 1998 continued a recent trend toward declining issuance of non-self-supporting Texas bonds; however, the issuance of self-supporting bonds increased modestly *(Figure 15)*. The amount of non-self-supporting G.O. bonds outstanding at the end of fiscal 1998 decreased $96.5 million over the amount outstanding at the end of fiscal 1997; conversely, the amount of non-self-supporting revenue bonds outstanding increased by $231.7 million. As a result, Texas had $3.24 billion in outstanding bonds that must be paid back from the state's general revenue fund, as of August 31, 1998—up $135.2 million from the $3.1 billion of such bonds outstanding at the end of fiscal 1997. This figure compares to $3.04 billion at the end of fiscal 1996, and $3.08 billion outstanding at the end of fiscal 1995.

Tremendous growth in the amount of bonds payable from general revenue

Figure 15

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)

	8/31/95	8/31/96	8/31/97	8/31/98
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$1,468,760	$1,451,906	$1,419,053	$1,465,715
Water Development Bonds	324,420	355,227	465,953	560,740
Park Development Bonds	27,752	37,326	36,000[7]	34,284[4]
College Student Loan Bonds	466,442	523,494	500,521[7]	547,127
Farm and Ranch Security Bonds*	9	100	100	0
Texas Agricultural Finance Authority*	18,500	20,000	22,000	21,500
Agriculture Water Conservation Bonds	13,370	11,995	15,505	13,470
Total, Self-Supporting	**$2,320,244**	**$2,400,048**	**$2,459,132**	**$2,642,836**
Not Self-Supporting[1]				
Higher Education Bonds[2]	$10,700	$52,930	$72,125	$90,605
Texas Public Finance Authority Bonds	2,365,140	2,246,431	2,355,671[7]	2,284,653[4]
Texas National Research Laboratory Commission Bonds	232,254	226,916	132,315	67,136[4]
Water Development Bonds – EDAP[3]	37,530	62,090	86,050	107,400
Total, Not Self-Supporting	**$2,645,624**	**$2,588,367**	**$2,646,251**	**$2,549,794**
Total General Obligation Bonds	**$4,965,868**	**$4,988,415**	**$5,105,383**	**$5,192,630**
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds				
A&M	$344,659	$353,320	$355,703	$336,809[4]
UT	586,315	607,885	669,200	661,030
College and Universities Revenue Bonds	1,368,096	1,615,356	1,727,552[7]	1,805,646
Texas Hospital Equip. Finance Council Bonds	11,650	11,400	11,150	10,900
Texas Department of Housing & Community Affairs Bonds	1,129,816	1,107,302	1,129,259	1,209,362
Texas Small Business I.D.C. Bonds	99,335	99,335	99,335	99,335
Economic Development Program*	11,000	9,000	5,400	4,700
Texas Turnpike Authority Bonds	415,370	855,810	844,780	0[5]
Texas Water Resources Finance Authority Bonds	412,350	382,560	341,570	293,515
College Student Loan Bonds	64,871	59,962	53,078	45,547
Texas Workers' Compensation Fund Bonds	211,470	200,968	189,524	158,250
Texas Public Finance Authority Bonds (Special Revenue)	0	10,380	10,050	38,800
Texas Water Development Board Bonds (State Revolving Fund)	400,170	589,795	809,820	1,244,260
Total, Self-Supporting	**$5,055,102**	**$5,903,062**	**$6,246,421**	**$5,908,154**
Not Self-Supporting[1]				
Texas Public Finance Authority Bonds	$351,573	$381,372	$399,771[7]	$617,876
TPFA Master Lease Purchase Program*	47,400	41,400	27,500	32,100[6]
Texas Military Facilities Commission	31,320	29,085	26,710	24,205
Parks and Wildlife Improvement Bonds	0	0	0	11,460
Total, Not Self-Supporting	**$430,293**	**$451,857**	**$453,981**	**$685,641**
Total Non-General Obligation Bonds	**$5,485,395**	**$6,354,919**	**$6,700,402**	**$6,593,795**
Total Bonds	**$10,451,263**	**$11,343,334**	**$11,805,785**	**$11,786,425**

* 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 $3.2 billion outstanding on August 31, 1998, $3.1 billion outstanding on August 31, 1997, $3 billion on August 31, 1996, and $3.1 billion on August 31, 1995.
[2] While not explicitly a general obligation or full faith and credit bond, the revenue pledge has the same effect. Debt service is paid from an annual constitutional appropriation to qualified institutions of higher education from first monies coming into the State Treasury not otherwise dedicated by the Constitution.
[3] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, up to 90 percent of bonds issued may be used for grants.
[4] Amounts do not include premium on capital appreciation bonds.
[5] Effective September 1, 1997, the outstanding assets and liabilities on the Texas Turnpike Authority were transferred to a regional tollway authority.
[6] This figure reflects only the commercial paper component of the Master Lease Purchase Program (MLPP).
[7] These totals reflect fiscal year 1997 audit adjustments made to accretions on capital appreciation bonds. Also, the TPFA G.O. total has been restated to include $144.1 million in outstanding commercial paper on 8/31/97.

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

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

occurred over the 1988-94 time period, primarily as a result of the issuance of bonds to finance construction of correctional facilities and the initial phase of the Superconducting Super Collider (SSC) project. At the end of fiscal 1987, before the expansion of correctional facilities and the SSC bonds were approved, Texas had only $422 million in bonds outstanding payable from general revenue. Since that time, the state has issued over $2.4 billion in debt for correctional facilities and $500 million for the SSC, all payable solely from the state's general revenue. The $250 million in SSC project revenue bonds were defeased June 1, 1995. During fiscal 1998, through provisions contained in the General Appropriations Act, the TPFA defeased a portion, $58.6 million, of the outstanding general obligation bonds issued for the SSC project. This was the second defeasance of SSC bonds, with the first occuring in fiscal 1997 in an amount of $89.6 million.

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)*. For fiscal year 1998, debt service paid from general revenue totaled $324.6 million. 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 16)*.

Texas Debt Remains Well Within Prudent Limits

Even with recent debt issuance, debt service from general revenue remains well within prudent limits. In fiscal year 1998, 1.4 percent of unrestricted general revenue was utilized for payment of debt service. 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 underlying reason for the decline in the percentage of general revenue utilized for debt service is the performance of the Texas economy and its corresponding positive effect on state finances. Combined with the stabilization of debt payable from general revenue, the growth in unrestricted general revenue has led to this favorable result.

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

Texas Bonds Authorized But Unissued

Authorized bonds are defined as those bonds which may be issued without further action by the Legislature. As of August 31, 1998, Texas had $5.3 billion in authorized but unissued bonds *(Table 17)*. As of the same date, approximately $3 billion (57 percent) of the authorized but unissued bonds would be state general obligations. At the end of fiscal 1998, only $852.5 million (16 percent) of all of the authorized but unissued bonds would require the payment of debt service from general revenue. The remainder are in programs that are designed to be self-supporting.

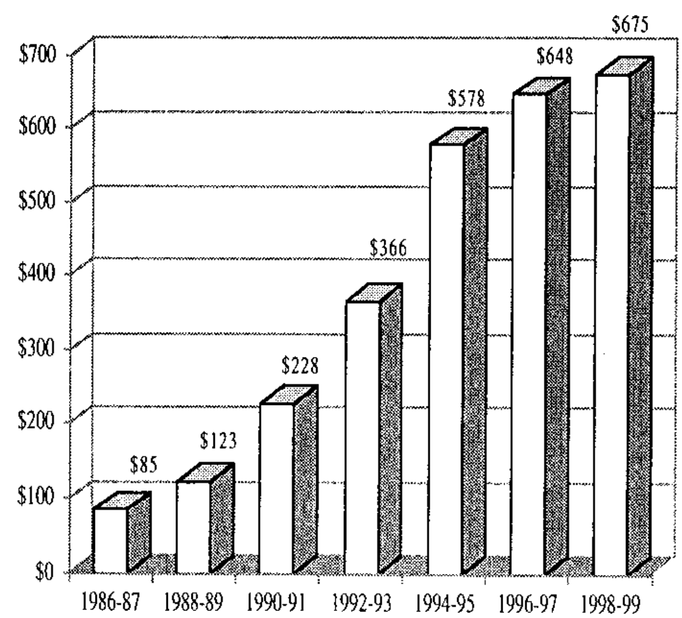
New Bond Authority - 75th Texas Legislature

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

Figure 16

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



Note: Projected debt service for 1998-99 based on debt outstanding as of August 31, 1998, including G.O. commercial paper.

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

Table 16
DEBT SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR
(amounts in thousands)

	1998	1999	2000	2001	2002	2003 plus
General Obligation Bonds						
Self-Supporting						
Veterans' Land and Housing Bonds	156,454	$173,576	$169,097	$159,751	$155,505	$2,149,374
Water Development Bonds	35,315	44,576	44,658	45,032	46,490	1,045,856
Park Development Bonds	4,123	4,203	4,200	4,202	4,201	32,184
College Student Loan Bonds	61,751	59,092	61,314	65,667	70,468	551,101
Farm and Ranch Loan Bonds	100	0	0	0	0	0
Texas Agriculture Finance Authority	2,698	1,505	1,505	1,505	1,505	45,580
Agriculture Water Conservation Bonds	3,076	3,109	3,133	3,153	3,162	4,189
Total Self-Supporting	$263,517	$286,061	$283,908	$279,310	$281,330	$3,828,284
Not Self-Supporting[1]						
Higher Education Constitutional Bonds[2]	$11,495	$16,506	$16,139	$16,139	$15,181	$45,793
Texas Public Finance Authority Bonds	226,197	232,371	226,633	226,367	226,422	2,574,022
Texas National Research Laboratory Commission	15,442	10,213	12,315	12,320	12,325	87,825
Water Development EDAP Bonds[3]	2,986	9,040	8,765	8,746	8,737	139,478
Total Not Self-Supporting	$256,121	$268,129	$263,852	$263,572	$262,665	$2,847,118
Total General Obligation Bonds	$519,637	$554,190	$547,760	$542,882	$543,996	$6,675,402
Non-General Obligation Bonds						
Self-Supporting						
Permanent University Fund Bonds						
A&M	$34,934	$36,495	$36,773	$36,826	$36,798	$368,108
UT	62,101	66,582	66,575	66,578	62,721	743,911
College and University Revenue Bonds	201,919	194,867	192,273	184,892	181,649	1,920,929
Texas Hospital Equip. Finance Council Bonds	683	435	435	435	435	12,707
Texas Dept. of Housing & Community Affairs	92,384	91,991	90,579	89,869	86,954	2,511,946
Texas Small Business I.D.C. Bonds	3,622	4,967	4,967	4,967	4,967	217,709
Economic Development Program	971	329	329	329	329	9,964
Texas Water Resources Finance Authority	49,775	44,325	41,505	40,321	38,320	291,226
College Student Loan Bonds	5,643	5,558	5,205	5,976	6,690	60,929
Texas Workers' Compensation Fund Bonds	28,970	25,851	25,799	25,746	25,689	127,357
Texas Public Finance Authority Bonds (Special Revenue)	2,425	3,144	3,140	3,138	3,143	48,579
Texas Water Development Board (State Revolving Fund)	70,450	83,437	88,551	88,951	88,948	1,806,341
Total Self-Supporting	$553,877	$557,980	$556,132	$548,027	$536,643	$8,119,707
Not Self-Supporting[1]						
Texas Public Finance Authority Bonds	$48,258	$64,971	$62,531	$62,569	$62,326	$680,252
TPFA Master Lease Purchase Program	16,013	11,912	7,672	4,246	1,390	4,803
Military Facilities Commission Bonds	3,992	4,002	4,006	4,009	4,016	15,797
Parks and Wildlife Improvement Bonds	254	900	899	903	905	14,489
Total Not Self-Supporting	$68,516	$81,786	$75,108	$71,727	$68,637	$715,341
Total Non-General Obligation Bonds	$622,393	$639,766	$631,239	$619,754	$605,280	$8,835,047
Total All Bonds	$1,142,030	$1,193,956	$1,178,999	$1,162,636	$1,149,276	$15,510,450

[1] Bonds which are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totaled $324.6 million during fiscal 1998, and will total approximately $349.9 million in fiscal 1999.
[2] While not explicitly a general obligation or full faith and credit bond, the revenue pledge has the same effect. Debt service is paid from an annual constitutional appropriation to qualified institutions of higher education from first monies coming into the state treasury not otherwise dedicated by the Constitution.
[3] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, effective September 1, 1993, up to 90 percent of the bonds issued may be used for grants.

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.

(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 non-profit entities to finance multi-family housing development, 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. Debt issuance to finance these projects will commence primarily in the 1999 fiscal year.

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. Of this amount, $11.5 million was issued in fiscal year 1998.

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 Municipal 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. During fiscal year 1999, the VLB will provide bond financing for the construction of four facilities.

Recent 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 2, 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 5 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, 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 a contract by the Texas Water Development Board (TWDB). The TWDB has entered into a long-term contract with the federal government to gain storage rights at a reservoir. The balance due on the contract as of September 1, 1995 was $43.6 million. This contract is a general obligation of the state; however, the TWDB does not anticipate a draw on general revenue for contract payments.

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

Table 17
TEXAS BONDS AUTHORIZED BUT UNISSUED
(amounts in thousands)

	08/31/96	08/31/97	08/31/98
General Obligation Bonds			
Self-Supporting			
Veterans Land and Housing Bonds	$1,005,002	$955,002	$805,002
Water Development Bonds	1,046,245	926,245	809,065
Farm and Ranch Loan Bonds[5]	474,900	474,900	475,000
Park Development Bonds	16,310	16,310	16,310
College Student Loan Bonds	224,822	224,822	149,822
Texas Department of Economic Development Bonds	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	35,000	33,000	33,500
Agriculture Water Conservation Bonds	186,000	181,000	181,000
Total Self-Supporting	**$3,033,279**	**$2,856,279**	**$2,514,699**
Not Self-Supporting[1]			
Higher Education Constitutional Bonds	*	*	*
Texas Public Finance Authority Bonds	$434,740	$338,340	$320,240[2]
Texas National Research Laboratory Commission Bonds	0	0	0
Water Development Bonds-EDAP[3]	186,565	161,565	136,700
Total Not Self-Supporting	**$621,305**	**$499,905**	**$456,940**
Total General Obligation Bonds	**$3,654,584**	**$3,356,184**	**$2,971,639**
Non-General Obligation Bonds			
Self-Supporting			
Permanent University Fund Bonds[4]			
A&M	$110,514	$141,994	$215,351
UT	319,782	325,703	443,291
College and University Revenue Bonds	**	**	**
Texas Department of Housing & Community Affairs	**	**	**
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 Disposal Authority	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**
Alternative Fuels Program	50,000	50,000	50,000
Texas Public Finance Authority Bonds (Special Revenue)	53,070	53,070	0
Texas Water Development Board (State Revolving Fund)	**	**	**
Total Self-Supporting	**$1,783,366**	**$1,820,767**	**$1,958,642**
Not Self Supporting[1]			
Texas Public Finance Authority Bonds	$189,800	$148,900	$279,100
TPFA Master Lease Purchase Program – commercial paper	58,600	72,500	67,900
Texas Military Facilities Commission Bonds	**	**	**
Parks and Wildlife Improvement Bonds	0	0	48,540
Total Not Self-Supporting	**$248,400**	**$221,400**	**$395,540**
Total Non-General Obligation Bonds	**$2,031,766**	**$2,042,167**	**$2,354,182**
Total All Bonds	**$5,686,350**	**$5,398,351**	**$5,325,821**

* 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 $298.5 million from the unissued amount; the remaining $21.7 million cannot be issued until appropriated by the Legislature.
[3] Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, up to 90 percent of bonds issued may be used for grants.
[4] Issuance of PUF bonds by A&M is limited to 10 percent, and issuance by UT is limited to 20 percent of the cost value of investments and other assets of the PUF, except real estate. The PUF value used in this table is as of August 31, 1998.
[5] Effective in November 1995, state voters authorized the use of $200 million of the existing $500 million Farm and Ranch Program authority for the purposes of the Texas Agricultural Finance Authority (TAFA). Of the $200 million, the Bond Review Board has approved an initial amount of $25 million for the Texas Agricultural Fund Program of TAFA.

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

Table 18

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

	1998	1999	2000	2001	2002	2003 and Beyond
General Services Commission	$3,395	$3,395	$3,393	$3,390	$3,387	$52,361
Texas Department of Criminal Justice*	21,483	–	–	–	–	–
TOTAL	$24,878	$3,395	$3,393	$3,390	$3,387	$52,361

* On July 9, 1998 the Texas Department of Criminal Justice exercised the purchase option on these obligations, utilizing funds provided through Texas Public Finance Authority Building Revenue Bonds, Series 1998A.

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

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

Lease purchases as of August 31, 1997, including furniture, equipment (excluding lease purchases financed through MLPP), and prison facilities, totaled $239.5 million. There were no lease purchases of facilities approved by the Bond Review Board during 1998. All of the equipment lease purchases approved by the Bond Review Board in 1998 were financed through MLPP and are shown as bonds outstanding.

CHAPTER 6

Texas Local Government Debt In Perspective

Voter-approved school debt outstanding increases $2.9 billion—a 24 percent increase in one year.

Texas Local Governments — $67 Billion In Debt

The long-term debt outstanding for Texas local governments is approximately $66.7 billion as of August 1998, a net increase of $6 billion over last year. During the prior year, the net increase was $4 billion *(Tables 19 & 20)*.

Texas cities, with $27 billion in long-term debt on their books, have the largest volume of debt outstanding. They are followed by Texas school districts, with $15.6 billion in long-term debt, and Texas water districts/authorities, with $14.7 billion. The large increase in debt issued by Texas school districts during fiscal 1998 has moved school districts from third in volume to second. This information is based on a combination of verified and estimated data *(Table 19)*. Only long-term debt approved by the Office of the Attorney General, State of Texas, is included in this overall estimate of local governmental debt outstanding.

The report on state and local debt outstanding at August 31, 1998, when compared to the prior year *(Table 20)*, highlights several fiscal year events. First, fiscal 1998 produced a 52 percent increase in issuance volume over last year. Second, public school issuance more than doubled *(Table 22)*. Third, there were some major governmental debt transfers during fiscal 1998. These included the $844.78 million transfer between the State of Texas and the North Texas Tollway Authority, and the $258 million in debt transferred from municipal utility districts to cities as a result of annexation. The fourth factor is the basic net increase in new debt issued less debt retired. Finally, the Bond Review

Table 19
TEXAS STATE AND LOCAL GOVERNMENTS DEBT OUTSTANDING SUMMARY
As of August 31, 1998

Type of Issuer	Tax-Supported	Revenue	Total Debt
Cities, Towns, Villages			**$27,167,366,331**
Tax (A-K & San Antonio)	$7,163,385,233		
Tax (L-Z estimate)*	2,944,465,220		
Revenue (A-K & San Antonio)		$15,847,591,205	
Revenue (L-Z estimate)*		1,147,079,673	
Conduit revenue		26,975,000	
Lease-purchase contracts		30,315,000	
Tax increment	7,555,000		
Community and Junior Colleges			**804,245,165**
Tax	365,758,221		
Revenue		438,486,944	
Counties			**4,578,973,861**
Tax	3,542,467,205		
Revenue		890,271,000	
Conduit revenue		30,755,000	
Lease-purchase contracts		115,480,656	
Health/Hospital Districts			**1,097,701,260**
Tax	132,987,326		
Revenue		943,008,934	
Conduit revenue		21,705,000	
Public School Districts			**15,588,306,892**
Voter-approved tax (ed. facilities)	14,871,694,799		
Maintenance tax (ed. equipment)	326,637,166		
Lease-purchase contracts (ed. facilities)	387,690,927		
Revenue (athletic facilities)		2,284,000	
Water Districts and Authorities			**14,658,251,844**
Tax	3,644,298,099		
Revenue		4,553,480,397	
Conduit Revenue		6,460,473,348	
Other Special Districts and Authorities (Road, power, housing)			**2,756,371,300**
Tax	58,029,463		
Sales Tax	148,000,000		
Revenue		2,550,341,837	
TOTAL LOCAL DEBT OUTSTANDING	**$33,592,968,659**	**$33,058,247,994**	**$66,651,216,653**
State			**$11,786,425,000**
General Obligation			
– self-supporting	$2,642,836,000		
– not self-supporting	$2,549,794,000		
Not General Obligation			
– self-supporting		$5,698,366,990	
– self-supporting conduit		209,787,010	
– not self-supporting	685,641,000		
TOTAL STATE DEBT OUTSTANDING	**$5,878,271,000**	**$5,908,154,000**	**$11,786,425,000**
TOTAL ALL DEBT OUTSTANDING	**$39,471,239,659**	**$38,966,401,994**	**$78,437,641,653**

* Estimates based on available information; the Texas Bond Review Board has verified the debt of a portion of Texas cities (A-K and San Antonio only). 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.

Board verified city debt. Some 80 percent of the volume of estimated city debt is near final verification. In prior years, the best estimates of city debt outstanding were used for summary reports.

Last year's report anticipated an increase in the ratio of tax-supported debt to revenue debt. At the end of fiscal 1997, a total of $35 billion state and local tax-supported debt was outstanding along with $37.3 billion in revenue debt. One year later, there is now an estimated $39.5 billion in tax-supported debt and $39 billion in revenue debt. Tax debt includes combination tax and revenue debt, and self-supporting general obligation debt.

Texas public school districts lead in the amount of tax debt, with $15.6 billion outstanding. This represents 46 percent of all local government tax debt and 40 percent of all state *and* local government tax debt. The school volume includes voter-approved tax debt for facilities, lease-purchase contracts for facilities, and maintenance tax debt for equipment *(Table 19)*.

Texas cities are the leading issuers of revenue debt, with $17 billion in revenue debt outstanding. This volume represents 51 percent of all local revenue debt outstanding and 44 percent of state *and* local revenue debt outstanding. Cities, unlike school districts, have access to project revenues, such as water and sewer and electric utility fees, to reduce the volume of tax debt.

The volume of conduit revenue debt outstanding lessens the debt-burden statistic for some governments. Approximately $6.7 billion of total Texas state and local debt is conduit financing. These are obligations issued by a governmental unit to finance a project to be used and repaid 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 are the primary Texas issuers of conduit revenue bonds *(Table 19)*.

Table 20

TEXAS STATE AND LOCAL GOVERNMENTS

Combined Debt Issuance By Fiscal Year			
Fiscal Year	Total Par Amount Issued	Par Amount of New-Money Bonds	Par Amount of Refunding Bonds
1998	$16,168,978,172	$9,606,321,883	$6,562,656,179
1997	10,663,187,251	6,664,800,095	3,998,387,156
1996	10,421,358,985	6,631,895,310	3,789,463,675
Local Government Debt Issuance by Fiscal Year			
Fiscal Year	Total Par Amount Issued	Par Amount of New-Money Bonds	Par Amount of Refunding Bonds
1998	$13,354,943,172	$8,014,791,993	$5,340,151,179
1997	9,501,942,251	5,820,968,501	3,680,973,750
1996	7,730,185,125	5,305,096,946	2,425,088,179
Combined Debt Outstanding			
Fiscal Year Ending	Principal Amount at Par	Increase From Prior Year	Percent Increase
8/31/98	$78,437,641,653	$6,126,079,541	8.47
8/31/97	72,311,562,112	4,565,890,960	6.74
8/31/96	67,745,671,152	–	–
Local Government Debt Outstanding			
Fiscal Year Ending	Principal Amount at Par	Increase From Prior Year	Percent Increase
8/31/98	$66,651,216,653	$6,011,622,541	9.91
8/31/97	60,639,594,112	4,242,411,960	7.52
8/31/96	56,397,182,152	–	–

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

Led by Public School Financing, Texas Local Governments Record a 40 Percent Increase in Debt Issuance

In fiscal 1998, Texas local governments issued $13.4 billion in debt obligations (including new commercial paper programs reported at the authorized amount, and conduit financing). This volume of issuance represents a 40.6 percent increase over last year. The new-money portion was $8 billion, while $5.34 billion was used to refund existing debt. The new-money portion represents a 38 percent increase over last year, and the refunding portion, a 45 percent increase *(Table 20)*.

The 120 percent increase in public school debt issuance, however, is the headline for fiscal 1998. School districts borrowed $4.86 billion for new money and for refinancing *(Table 21)*. This is a $2.65 billion increase in school bond issuance over last year and accounts for 69 percent of the overall increase in local government debt issuance. An important factor for this increased issuance was the implementation of a new state funded debt service equalization program. Some 73 percent of total school district borrowings, a record $3.5 billion, were issued as voter-approved new-money bonds, the targeted use for this program. This resulted in a record $2.86 billion and 24 percent one-year increase in voter-approved school debt outstanding *(Table 22)*.

Cities continue to be Texas' leading issuers, borrowing $5.15 billion, a 10 percent increase over last year. Issues were nearly evenly divided between new money at $2.51 billion, and refunding at $2.64 billion *(Table 21)*.

Table 21

TEXAS STATE AND LOCAL GOVERNMENTS
Debt Issued in Fiscal 1998
September 1, 1997 – August 31, 1998

BY GOVERNMENTS (AUTHORITIES)

		New-Money	Refunding	Total Par Issued
Cities, Towns, Villages				
137	Tax	$1,090,570,000	$846,930,611	$1,937,500,611
1	Tax Increment	5,000,000	0	5,000,000
152	Combination Tax/Revenue	557,864,128	19,535,000	577,399,128
85	Revenue	860,230,937	1,769,445,802	2,629,676,739
375 Issues		$2,513,665,065	$2,635,911,413	$5,149,576,478
Community and Junior Colleges				
7	Tax	8,885,000	19,260,566	28,145,566
13	Revenue	72,175,000	75,020,000	147,195,000
20 Issues		$81,060,000	$94,280,566	$175,340,566
Counties				
62	Tax	498,795,000	191,285,608	690,080,608
7	Combination Tax/Revenue	40,945,000	42,740,000	83,685,000
3	Installment Sale	36,985,000	0	36,985,000
3	Revenue	7,325,000	0	7,325,000
75 Issues		$584,050,000	$234,025,608	$818,075,608
Health/Hospital Districts				
1	Tax	0	20,067,793	20,067,793
5	Revenue	23,270,000	18,225,000	41,495,000
6 Issues		$23,270,000	$38,292,793	$61,562,793
Public School Districts				
266	Voter-Approved Tax	3,527,884,425	936,183,780	4,464,068,204
58	M&O Tax	95,525,000	6,430,000	101,955,000
37	Lease-Purchase Tax Supported	288,903,503	0	288,903,503
1	Revenue	525,000	0	525,000
362 Issues		$3,912,837,928	$942,613,780	$4,855,451,708
Water Districts and Authorities				
121	Tax	142,635,000	299,738,590	442,373,590
61	Combination Tax/Revenue	100,380,000	67,933,028	168,313,028
61	Revenue	486,309,000	847,480,403	1,333,789,403
243 Issues		$729,324,000	$1,215,152,021	$1,944,476,021
Other Special Districts and Authorities				
3	Tax	10,190,000	48,610,000	58,800,000
1	Sales Tax	130,000,000	0	130,000,000
4	Revenue	30,395,000	131,265,000	161,660,000
8 Issues		$170,585,000	$179,875,000	$350,460,000
1,089	**TOTAL LOCAL DEBT ISSUED**	**$8,014,791,993**	**$5,340,151,179**	**$13,354,943,172**
State				
8	Tax	393,505,000	761,605,000	1,155,110,000
22	Revenue	1,198,025,000	460,900,000	1,658,925,000
30 Issues	**TOTAL STATE DEBT ISSUED**	**$1,591,530,000**	**$1,222,505,000**	**$2,814,035,000**
1,119 Issues	**TOTAL ALL DEBT ISSUED**	**$9,606,321,993**	**$6,562,656,179**	**$16,168,978,172**

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

Forty-Four Percent of Debt Finance Supports Educational Facility Construction

In fiscal 1998, $9.6 billion (870 transactions) was issued by state and local governments for new-money purposes. Forty-four percent of this total volume, $4.25 billion, was for educational facilities and equipment. This is up from 33 percent of the total volume and $2.19 billion issued for educational purposes last year. These bonds were issued by Texas public school districts, public institutions of higher education, and community/ junior colleges *(Table 23)*.

Financing for water-related facility needs continues to be the second major purpose for debt finance in Texas. Texas cities, counties, water districts and authorities, and the Texas Water Development Board borrowed $2.07 billion to provide for water and sewer capacity, safe drinking water, and flood control. This represents a $500 million increase over last year. For more information see Table 23.

Tax-Supported New-Money Issuance Volume Increases to $6.9 Billion

During fiscal 1998, Texas local governments borrowed $6.5 billion in tax-supported new-money bonds, and Texas state agencies and universities an additional $394 million. This financing represents a significant increase in tax-supported debt compared to fiscal 1997; last year local governments borrowed $3.77 billion in tax-supported obligations, and the state, $264 million. Tax-supported obligations represent 81 percent of the total local government new-money issuance and 72 percent of the combined state *and* local new-money issuance. Last year these ratios were 65 and 61 percent, respectively.

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 coming into the state treasury not otherwise appropriated by the State Constitution.

Texas school districts generate the largest volume of tax-supported debt, and in fiscal 1998, borrowed a record $3.9 billion for renovating and constructing facilities, and for equipment purchases *(Table 21)*. Last year, districts borrowed $1.88 billion for this purpose. During fiscal 1998, 318 transactions were issued and closed by Texas school districts, compared to 167 transactions the prior year. Districts also refunded $943 million, restructuring debt primarily to extend debt-service schedules and to reduce annual payment requirements.

Texas cities follow in the volume of new-money tax debt issued, borrowing some $1.65 billion. This total represents a 35 percent increase over last year. Unlike school districts, city issuance includes some combination tax and revenue debt; project revenues may therefore lessen the dependence on ad valorem taxes. 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 1998, cities closed on 246 new-money tax-backed transactions. The largest issuers were the cities of Houston, $420.3 million; Fort Worth, $84.3 million; and Dallas, $77.3 million. These amounts include new commercial paper authorizations. Texas cities also refunded $866.5 million in tax-supported debt, primarily to achieve debt-service savings.

Among other local governments, Harris County was the largest issuer of tax-supported debt–$222 million, all of which was in the form of new commercial paper authorization. Some $200 million of this total is for voter-approved roadway improvements.

Revenue Issuance Volume Remains Unchanged

In each of the past three fiscal years, state and local governments borrowed approximately $2.6 billion in new-money revenue bonds. Revenue bonds are payable from a specific source of

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
8/31/98	$ 14,871,694,799	$ 2,859,002,833	23.80%
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
1998	$ 4,464,068,204	$ 3,527,884,425	$ 936,183,780
1997	2,062,283,594	1,737,529,525	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.

Table 23
TEXAS STATE AND LOCAL GOVERNMENTS
LONG-TERM DEBT ISSUED IN FISCAL 1998
Listing By Use

Use		Govt. Type	New-Money
Education facilities/equipment			
1		Cities, Towns, Villages	$ 130,000
14		Community and Junior Colleges	81,060,000
318		Public School Districts	3,912,312,928
7		State	258,095,000
340	Issues		$4,251,597,928
Water-related			
116		Cities, Towns, Villages	$ 749,239,122
2		Counties	1,200,000
127		Water Districts and Authorities	532,054,000
4		State	792,045,000
249	Issues		$2,074,538,122
General purpose*			
110		Cities, Towns, Villages	$1,133,175,000
29		Counties	243,225,000
2		State	101,095,000
141	Issues		$1,477,495,000
Transportation			
43		Cities, Towns, Villages	$ 191,130,030
6		Counties	240,570,000
4		Water Districts and Authorities	47,850,000
3		Other Special Districts and Authorities	140,190,000
56	Issues		$ 619,740,030
Housing/Land			
4		Cities, Towns, Villages	$ 43,340,000
1		Other Special Districts and Authorities	1,485,000
10		State	353,835,000
15	Issues		$ 398,660,000
Economic Development			
8		Cities, Towns, Villages	191,505,913
8	Issues		$ 191,505,913
Recreation			
18		Cities, Towns, Villages	$ 177,770,000
1		Public School Districts	525,000
1		State	11,460,000
20	Issues		$ 189,755,000
Solid waste			
1		Cities, Towns, Villages	$ 9,825,000
8		Water Districts and Authorities	149,420,000
9	Issues		$ 159,245,000
Prisons/Detention			
17		Counties	78,635,000
17	Issues		$ 78,635,000
Student Loans			
1		State	75,000,000
1	Issue		$ 75,000,000
Power			
4		Cities, Towns, Villages	$ 13,925,000
1		Other Special Districts and Authorities	28,910,000
5	Issues		$ 42,835,000
Health-related			
1		Cities, Towns, Villages	$ 3,500,000
2		Counties	15,420,000
4		Health/Hospital Districts	23,270,000
7	Issues		$ 42,190,000
Self-Insurance			
1		Counties	5,000,000
1	Issue		$ 5,000,000
Fire			
1		Cities, Towns, Villages	125,000
1	Issue		$ 125,000
		GRAND TOTAL	**$9,606,321,993**

*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.

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. In fiscal 1998, the primary issuers of revenue debt were: state agencies and universities, $1.2 billion; Texas cities, $860 million; and Texas water districts/authorities, $486 million.

The state portion of new-money revenue debt issuance increased by 107 percent over what was issued last year, with the Texas Water Development Board at $650 million and the University of Texas System at $162.7 million, the largest individual issuers. See Chapter 3 of this report for details. Revenue debt issuance by Texas cities, on the other hand, declined by 42 percent over what was issued last year. The city of Dallas' $396 million new-money revenue issuance represents nearly half of all such city issuance.

Dallas' major projects included $140.38 million for a new multipurpose indoor sports arena. Pledged revenues for this financing include the hotel occupancy tax and the motor vehicle rental tax. The Dallas civic center convention complex will be expanded through a $110.8 million financing, to be repaid with pledged civic center revenues and the hotel occupancy tax. Additionally, Dallas increased its commercial paper authorization by $120 million to make improvements and expansions to the city's water and sewer system.

The cities of Austin and Fort Worth borrowed $109.1 million and $76.68 million respectively. Austin increased its utility system commercial paper authorization by $60 million and issued an additional $49.05 million for the new Austin-Bergstrom International Airport. Fort Worth borrowed funds to extend and improve its water and sewer system; this included a $60.98 million private placement financing through the Texas Water Development Board.

Water authorities were the other major issuers of revenue debt in fiscal 1998. The Gulf Coast Waste Disposal Authority completed three new-money conduit financings for a total of $84.5 million for solid waste recycling and disposal facilities. The Port of Port Arthur completed four new-money transactions totaling $75.3 million. Three transactions, totaling $68.43 million, were issued as conduit revenue bonds to provide solid waste and sewage disposal financing; the remaining issue for $6.85 million will be used for port expansions and improvements.

Local governments refunded $2.84 billion in revenue debt, with cities refunding $1.77 billion and water districts refunding $847 million – mostly to achieve debt-service savings.

Leading Issuers Include Four School Districts

During the 1998 fiscal year, Texas state and local governments issued $16.17 billion, at par; this volume includes new-money and refunding issuance. There are 15 Texas issuers whose volume accounts for 50 percent of the total state *and* local issuance. Between fiscal 1997 and fiscal 1998, the State of Texas replaced the city of Houston as the number one issuer, with $2.81 billion closed; the city of Houston followed with $1.68 billion in total issuance *(Table 24)*.

New additions to the leading issuer list are four independent school districts: San Antonio with $263.3 million, Hurst-Euless-Bedford with $176.9 million, Irving with $167.5 million and Arlington with $134.7 million. Other new additions are the cities of Fort Worth and El Paso as well as the Port of Port Arthur.

Texas' Largest Cities — $17.5 Billion in Debt Outstanding

As noted earlier, the Bond Review Board has been verifying the debt of Texas cities; this verification process will be completed during 1999. The debt of all other local governments has been verified and is being updated on an annual basis. The debt verification process for Texas' five largest cities, however, has been completed.

Home to 27 percent of the Texas population, the cities of Houston, Dallas, San Antonio, Austin and El Paso carry an estimated 64 percent of all Texas city debt on their books. Their debt outstanding also represents 22 percent of all state *and* local debt outstanding at August 1998. The total tax and revenue debt for these five governments is $17.5 billion *(Table 25)*.

Table 24

TEXAS' LEADING GOVERNMENTAL ISSUERS
In Fiscal 1998
September 1, 1997 - August 31, 1998

Government	Total Par Issued	New-Money*	Refunding
State of Texas Agencies & Universities	$ 2,814,035,000	$ 1,591,530,000	$ 1,222,505,000
City of Houston	1,683,951,739	420,340,000	1,263,611,739
City of Dallas**	713,046,436	478,440,913	234,605,523
City of Austin	567,760,000	154,440,000	413,320,000
Brazos River Authority	369,000,000	0	369,000,000
Harris County	287,670,000	187,000,000	100,670,000
San Antonio ISD	263,280,000	263,280,000	0
City of San Antonio	220,855,000	51,315,000	169,540,000
City of Fort Worth	210,280,000	160,980,000	49,300,000
Hurst-Euless-Bedford ISD***	176,907,489	171,234,452	5,673,037
Lower Colorado River Authority	170,775,000	45,895,000	124,880,000
Irving ISD***	167,495,167	125,725,232	41,769,935
Port of Port Arthur	159,415,000	75,275,000	84,140,000
Arlington ISD	134,681,768	15,200,000	119,481,768
City of El Paso	133,670,000	99,080,000	34,590,000
SUBTOTAL	$ 8,072,822,599	$ 3,839,735,597	$ 4,233,087,002
All Other Issuers	8,096,155,573	5,766,586,396	2,329,569,177
TOTAL	$ 16,168,978,172	$ 9,606,321,993	$ 6,562,656,179

*Includes commerical paper at authorized amount.

**Includes percentage of Dallas-Fort Worth Regional Airport issuance.

***Includes new-money premium.

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

Texas cities have an estimated $27.17 billion in total debt outstanding: $10.12 billion in tax-supported debt, and $17.05 billion in revenue bonds *(Table 19)*.

The tax debt per capita for the five largest cities ranges from $504 for El Paso to $1,044 for Austin. Two cities, Houston and Dallas, have issued debt on behalf of tax increment financing reinvestment zones; this tax debt is shown separately on Table 25.

Revenue debt is separated into the primary uses for which these governments may have debt outstanding: water, airports, convention centers and power. Financing for water and wastewater represents a major component of revenue debt, ranging from a low of $301 per capita for El Paso to $1,772 for Houston. Only San Antonio and Austin run public utility companies to provide power for their communities; public power financing has been a major component of revenue debt for these two cities, representing 75 percent of revenue debt outstanding for San Antonio, and 53 percent for Austin.

Tax Debt Per Capita Statewide Now Over $2,000

Statewide ratios for tax-supported debt continue to rise; tax-debt per capita has grown from $1,735 at the end of fiscal year 1996 to $2,014 at the end of fiscal year 1998. The ratio represents an

Table 25

TEXAS' LARGEST CITIES – WITH POPULATIONS OF 500,000 OR MORE REPORT ON DEBT OUTSTANDING AND DEBT RATIOS As of August 31, 1998

	Houston	Dallas	San Antonio	Austin	El Paso
TAX DEBT					
Tax	$1,438,776,230	$632,610,670	$684,058,108	$634,769,277	$302,480,000
Tax-commercial paper	290,000,000				
Tax increment	2,880,000	4,675,000			
Subtotal - tax	$1,731,656,230	$637,285,670	$684,058,108	$634,769,277	$302,480,000
REVENUE DEBT					
Water	$3,066,891,017	$766,370,000	$602,145,000	$911,711,375	$170,664,000
Water-commercial paper	194,980,000	62,000,000	100,000,000	128,014,000	10,000,000
Power			2,582,638,276	1,622,991,709	
Power-commercial paper			450,000,000	150,200,000	
Airport	410,015,000	634,930,939	118,870,000	443,295,000	45,675,000
Airport-commercial paper	62,300,000				
Convention	132,245,000	326,230,000	184,637,480	80,240,000	
Other	22,125,000	152,235,000	2,600,000		3,365,000
Lease-purchase				24,535,000	
Subtotal-revenue	$3,888,556,017	$1,941,765,939	$4,040,890,756	$3,360,987,084	$229,704,000
REVENUE-CONDUIT			$4,500,000		$13,975,000
TOTAL DEBT OUTSTANDING	$5,620,212,247	$2,579,051,609	$4,729,448,864	$3,995,756,361	$546,159,000
ESTIMATED POPULATION	1,841,064	1,123,626	1,085,614	608,063	600,277
Tax debt/capital	$939	$563	$630	$1,044	$504
Water revenue/debt/capita	$1,772	$737	$647	$1,710	$301
Total debt/capital	$3,062	$2,295	$4,352	$6,571	$887
TAX DEBT RATING S&P/Moody's/Fitch IBCA	AA-/Aa3/AA	AAA/Aaa	AA/Aa2/AA	AA/Aa2/AA	AA/Aa3/AA-

Note: Conduit revenue debt not included in any debt ratios; tax increment financings not included in tax-debt ratios. Tax debt includes general obligation bonds, certificates of obligation, contractual obligations, and combination tax and revenue bonds.

Sources: Texas Bond Review Board, Office of the Executive Director, with the assistance of the finance staff of the cities listed; January 1998 population estimate by Texas State Data Center, Texas A&M University.

estimate of state *and* local tax debt outstanding, including general obligation bonds, self-supporting general obligation bonds, and combination tax and revenue bonds, to the total population of Texas. The ratio is the weighted average, a summation of the total debt by type of government divided by the total Texas population *(Table 26)*.

The most significant factor for the increase in the statewide ratio is the increase in public school debt. The statewide public school ratio has grown from a tax debt per capita of $589 to $796; this is a 35 percent increase in two years. Among other major issuers, the statewide city ratio increased by 13 percent and the State of Texas ratio by 5 percent. Conversely, the statewide ratio for Texas water districts declined by 4 percent.

Table 26

TEXAS STATE & LOCAL GOVERNMENTS
TAX DEBT PER CAPITA
As of August 31, 1998

Tax Debt by Government	Debt Per Capita Fiscal 1998	Prior Year Statewide Ratios	
		Fiscal 1997	Fiscal 1996
Cities*			
($10,115,405,453/19,598,471)	$516	$486	$455
Community/Junior Colleges			
($365,758,221/19,598,471)	19	20	19
Counties			
($3,542,467,205/19,598,471)	181	178	173
Health/Hospital Districts			
($132,987,326/19,598,471)	7	8	18
Public School Districts			
Voter-approved tax:			
($14,871,694,799/19,598,471)	759	621	571
Maintenance tax:			
($326,637,166/19,598,471)	17	16	13
Lease-purchase contracts:			
($387,690,927/19,598,471)	20	6	5
Water Districts/Authorities			
($3,644,298,099/19,598,471	186	195	194
Other Special Districts/Authorities			
($206,029,463/19,598,471)	11	3	3
State of Texas			
($5,878,271,000/19,598,471	300	279	284
Estimate-State + Local Debt–TOTAL	$2,014	$1,812	$1,735
Federal Government			
($5,370,000,000,000/267,636,061)	$20,065	$19,629	$19,216

*Not all city debt is verified; represents an estimate.

Notes: 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 1998 estimates from Texas State Data Center, Texas A&M University; Federal Government Information Sources: Department of Commerce, Bureau of the Census from July 1, 1997, U.S. population estimate; Congressional Budget Office with assistance from the Texas Office of State-Federal Relations for 1997 actual U.S. debt outstanding.

CHAPTER 7

Texas Private Activity Bond Allocation Program

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

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

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

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

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

For the 1998 and 1999 program years, the Act specifies that, for the first eight months of the year, the state's ceiling must be set aside as follows:

- 31.5 percent is to be made available for single-family housing to issuers of qualified mortgage bonds (MRBs). Of that amount, one-third is available to the Texas Department of Housing and Community Affairs (TDHCA) and two-thirds is available for local issuers. A local issuer may apply for an amount determined by a formula which is based on their population, but in no event for more than $25,000,000.
- 13 percent is to be made available for issues authorized by a state constitutional amendment. The Texas Higher Education Coordinating Board may apply for a maximum of $75,000,000 but other issuers eligible in this category are limited to a maximum of $50,000,000.
- 7.5 percent is to be made available for issuers of qualified small issue IDBs and empowerment zone bonds (EZ bonds) for use in federally-designated empowerment zones and enterprise communities. The maximum application amount in this subceiling is $10,000,000.

Table 27

1998 SET-ASIDE ALLOCATION AMOUNTS vs. ISSUED ALLOCATION AMOUNTS

SUBCEILINGS	ALLOCATION SET ASIDE	PERCENT OF TOTAL	ALLOCATION ISSUED	PERCENT OF TOTAL
Single Family Housing	$306,169,558	31.50%	$368,331,074	37.90%
State-Voted Issues	126,355,690	13.00%	-	0.00%
Small Issue IDBs	72,897,514	7.50%	71,336,000	7.34%
Multi-Family Housing	72,897,514	7.50%	105,574,776	10.86%
Student Loan Bonds	106,916,354	11.00%	140,000,000	14.40%
All Other Issues	286,730,220	29.50%	286,725,000	29.50%
TOTALS	**$971,966,850**	**100.00%**	**$971,966,850**	**100.00%**

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

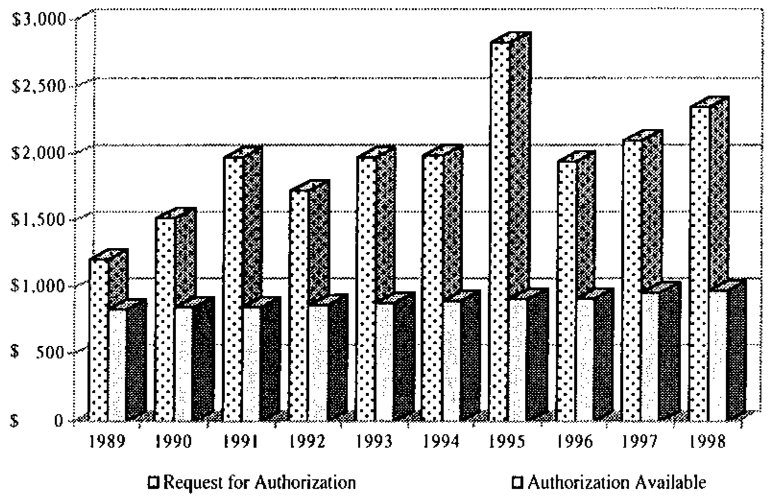
- 7.5 percent is to be made available for issuers of qualified residential rental project issue bonds (multi-family housing). Issuers within this category have a maximum application limit of the lesser of $15,000,000 or 15 percent of the amount set aside for this purpose.
- 11 percent is to be made available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

Generally, with the exception of single family housing and student loan bonds, the reservations of state ceiling have been allocated by lottery for applications received from October 10 – October 20 of the year preceding the program year, and thereafter on a first-come, first-served basis. Single family housing and student loan bonds have a separate priority system based on prior applications and prior bond issues. This system, used exclusively within these two subceilings, is in place from January until August 31 of each year. Unreserved allocation, from all subceilings, is combined on September 1 and redistributed by lot order, regardless of project type.

All issuers, except MRB issuers, must complete their transaction and close on the bond issue within 120 days of the reservation date. Issuers of MRBs must close within a 180-day time limit. If an applicant receives a reservation for allocation and is unable to consummate the transaction, or closes for a lesser amount, the original request is considered satisfied. Subsequently, the unused reservation or excess allocation is redistributed and used by another applicant. This often results in an actual distribution which varies from the predetermined set-asides at the beginning of the program year *(Table 27)*.

Figure 17

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



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

Texas has the second largest state ceiling in the nation, second only to California in population and volume cap. Texas once again experienced an increase of volume cap for the 1998 Private Activity Bond Allocation Program. Based on the population estimate for Texas of 19,439,337, the 1998 volume cap was set at $971,966,850, an increase of $15,566,850 (1.63 percent) from the 1997 cap of $956,400,000. 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 17)*. Applications received in 1998 totaled $2.35 billion or 242 percent of the available allocation amount *(Table 28)*. The 1998 program year will end leaving $1.2 billion in requests for allocation outstanding. This figure represents an increase in unsatisfied requests of over 31 percent above the 1997 program year.

Since the state ceiling is currently based on population, with no adjustment for inflation, the $50 per person allocation will actually decrease in real value over time, increasing demand relative to the available ceiling. This dilemma creates a difficult problem in Texas, with its growing economy, critical affordable housing needs, large student population, and increasing environmental demands. Demand for private activity bond cap allocation will certainly continue to increase dramatically. The need increases each year, as does the cost of financing the facilities. For example, applications received as of November 1, 1998 for the 1999 program year already exceed $2.59 billion. However, without amendments to the per capita formula at the federal level, the volume cap will rise at a minimal rate as the population increases. If Texas experiences a population loss, the volume cap will be decreased.

In October, 1998 Congress passed, and the President is expected to sign, a bill to phase in an increase in the volume cap formula beginning in 2003. Beginning that year the volume cap will increase by $5 per capita each year through 2007, when it will cap out at

$75 per capita, an increase of 50 percent. The new legislation does not include an inflation index for the years following 2007.

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

Table 28

1998 APPLICATIONS FOR STATE PRIVATE ACTIVITY BOND AUTHORIZATION
(as of November 1, 1998)

	Authorization Available	Authorization Requested	Requests as a % of Availability
Mortgage Revenue Bonds	$306,169,558	$679,219,590	221.84%
State-Voted Issue Bonds	126,355,690	35,000,000	27.70%
Industrial Development Bonds	72,897,514	119,036,000	163.29%
Multi-Family Rental Project Bonds	72,897,514	484,554,897	664.71%
Student Loan Bonds	106,916,354	175,000,000	163.68%
All Other Bonds Requiring Allocation	286,730,850	858,500,000	299.41%
Total	$971,966,850	$2,351,966,850	241.91%

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

APPENDIX A
Summary of Bonds Issued

Texas A&M University

Issue: Texas A&M University System, Revenue Financing System Refunding Bonds, Series 1998 - $23,055,000

Purpose: The bonds were issued to refund $22,560,000 in principal of the Combined Fee, Revenue System Refunding and Improvement Bonds, Series 1988A maturing in 1999 through 2004. Due to certain provisions of tax law, the 1998A bonds are not eligible for an advance refunding, however, they may be refunded on a current basis at the first call date which is August 15, 1998. The TAMU System achieved debt service savings by locking into current interest rates through a forward delivery bond sale.

Dates:

Board Approval -	February 20, 1997
Negotiated Sale -	July, 24, 1997
Closing Date -	May 19, 1998

Structure: The bonds were sold as fixed-rate, tax-exempt securities that mature serially commencing in 1999 through 2004.

Bond Ratings:

Moody's -	Aa2
Standard & Poor's -	AA
Fitch -	AA

Interest Cost:

True Interest Cost (TIC) -	4.69%
Net Interest Cost (NIC) -	4.75%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$17,935	$0.78
Financial Advisor	25,626	1.11
Rating Agencies	18,000	0.78
Printing	10,881	0.47
Escrow Agent	1,500	0.07
Paying Agent/Registrar	200	0.01
Escrow Verification	4,000	0.17
Attorney General	1,250	0.05
Miscellaneous	224	0.01
	$79,616	**$3.45**
Underwriter's Spread	**$138,351**	**$6.00**

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Single-Family Mortgage Revenue Bonds, Series 1997A-C - $79,500,000

Purpose: Proceeds from Series A bonds were used to finance low-interest mortgage loans for first-time homebuyers of very-low to moderate income; Series B bonds were used to refund outstanding commercial paper notes; Series C taxable bonds were used to provide additional mortgage loans and pay the costs of issuance.

Dates:

Board Approval -	June 18, 1997
Negotiated Sale -	August 19, 1997
Closing Date -	September 17, 1997

Structure: Series A bonds were issued as fixed-rate, tax-exempt term bonds maturing in September 2013 and 2029; Series B bonds are fixed-rate, tax-exempt term bonds maturing in March 2019; Series C bonds are fixed-rate, taxable term bonds maturing in September 2029. The bonds are insured.

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

Interest Cost:	Tax-exempt	Taxable
True Interest Cost (TIC) -	5.69%	6.79%
Net Interest Cost (NIC) -	5.67%	6.80%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$136,530	$1.72
Financial Advisor	85,000	1.07
Rating Agencies	58,750	0.74
Printing	19,405	0.24
TDHCA Fees	25,000	0.31
Bond Insurer Counsel	10,000	0.13
Servicer	5,000	0.06
Servicer's Counsel	13,627	0.17
O.S. Preparation	66,962	0.84
Trustee	17,200	0.22
Trustee's Counsel	24,600	0.31
Escrow Verification	15,000	0.19
Private Activity Fee	11,616	0.15
Attorney General	2,500	0.03
Miscellaneous	7,051	0.09
	$498,241	**$6.27**
Underwriter's Spread	**$659,850**	**$8.30**

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Single-Family Mortgage Revenue Bonds, Series 1997D-F - $85,090,000

Purpose: Proceeds from Series D bonds were used to finance low-interest mortgage loans for first-time homebuyers of very-low to moderate income; Series E bonds were used to refund outstanding Series 1987B Single-Family Mortgage Revenue bonds and to pay a portion of the costs of issuance; Series F taxable bonds were used to provide additional mortgage loans and pay a portion of the costs of issuance.

Dates:		
	Board Approval -	October 23, 1997
	Negotiated Sale -	November 4, 1997
	Closing Date -	December 4, 1997

Structure: Series D bonds were issued as fixed-rate, tax-exempt term bonds maturing in March and September 2029; Series E bonds are fixed-rate, tax-exempt term bonds maturing in March 2007 and 2016; Series F bonds were issued as fixed-rate, taxable term bonds maturing in September 2029. The bonds are insured.

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

Interest Cost:	Tax-exempt	Taxable
True Interest Cost (TIC) -	5.81%	6.77%
Net Interest Cost (NIC) -	5.86%	6.77%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$99,917	$1.17
Financial Advisor	75,000	0.88
Rating Agencies	49,500	0.58
Printing	17,465	0.21
TDHCA Fees	35,000	0.41
Bond Insurer Counsel	10,000	0.12
Servicer	5,000	0.06
Servicer's Counsel	15,000	0.18
O.S. Preparation	39,130	0.46
Trustee	15,300	0.18
Trustee's Counsel	18,450	0.22
Escrow Verification	15,500	0.18
Private Activity Fee	11,700	0.14
Attorney General	2,500	0.03
Miscellaneous	9,298	0.11
	$418,760	**$4.93**
Underwriter's Spread	**$706,247**	**$8.30**

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Meadow Ridge), Series 1997 - $13,575,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Round Rock Meadows Ltd., a Texas limited partnership, to finance the acquisition, construction, equipment, and long-term financing of a new 232-unit multi-family residential rental project to be located in Round Rock. The project will include set-aside units and rent caps to ensure availability for low-to-moderate income households. Proceeds were also used to pay the costs of issuance.

Dates:		
	Board Approval -	November 20, 1997
	Negotiated Sale -	December 2, 1997
	Closing Date -	December 18, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing in August 2008 and August 2030 with mandatory redemptions commencing in 2001 and 2009, respectively. The bonds are insured.

Bond Rating:	Standard & Poor's -	AAA

Interest Cost:

True Interest Cost (TIC) -	5.52%
Net Interest Cost (NIC) -	5.07%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$55,000	$4.05
Financial Advisor	20,000	1.47
Rating Agencies	16,000	1.18
Printing	12,500	0.92
TDHCA Fees	111,812	8.24
Trustee	12,500	0.92
Trustee's Counsel	14,500	1.07
Disclosure Counsel	5,000	0.37
Private Activity Fee	3,750	0.28
Attorney General	2,500	0.18
Cashflow Preparation	5,000	0.37
Cashflow Verification	2,500	0.18
Miscellaneous	2,000	0.15
	$263,062	**$19.38**
Underwriter's Spread	**$160,388**	**$11.81**

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Pebble Brook), Series 1998 - $10,900,000 (Private Activity)

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

Dates:	Board Approval -	March 24, 1998
	Negotiated Sale -	April 16, 1998
	Closing Date -	April 30, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing in December 2008, 2010, 2018, 2024 and 2030 with mandatory redemptions commencing in 2001, 2009, 2011, 2019, and 2025, respectively. The bonds are insured.

Bond Rating: Standard & Poor's - AAA

Interest Cost:
True Interest Cost (TIC) - 5.52%
Net Interest Cost (NIC) - 5.53%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$60,000	$5.50
Financial Advisor	20,000	1.83
Rating Agencies	13,500	1.24
Printing	12,500	1.15
TDHCA Fees	125,250	11.49
Trustee	12,500	1.15
Trustee's Counsel	15,000	1.38
Disclosure Counsel	5,000	0.46
Private Activity Fee	2,725	0.25
Attorney General	1,250	0.11
Cashflow Preparation	5,000	0.46
Cashflow Verification	2,500	0.23
Miscellaneous	5,000	0.46
	$280,225	**$25.71**
Underwriter's Spread	**$137,850**	**$12.65**

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Volente), Series 1998 - $10,850,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Volente I Ltd., a Texas limited partnership, to finance the acquisition, construction, equipment, and long-term financing of a new 208-unit multi-family residential rental project to be located in Cedar Park, Texas. The project will include set-aside units and rent caps to ensure availability for low-to-moderate income households.

Dates:	Board Approval -	March 24. 1998
	Negotiated Sale -	April 23, 1998
	Closing Date -	May 14, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt term securities maturing in 2008, 2018, 2024 and 2031 with mandatory redemptions commencing in 2001, 2009, 2019, and 2025, respectively. The bonds are insured.

Bond Rating: Standard & Poor's - AAA

Interest Cost:
True Interest Cost (TIC) - 5.57%
Net Interest Cost (NIC) - 5.58%

Consultants:

Bond Counsel -	Vinson & Elkins, L.L.P.
Financial Advisor -	Dain Rauscher, Inc.
Underwriter -	M.R. Beal & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$65,000	$5.99
Financial Advisor	20,000	1.84
Rating Agencies	13,500	1.24
Printing	10,000	0.92
TDHCA Fees	123,700	11.40
Trustee	9,196	0.85
Trustee's Counsel	15,000	1.38
Disclosure Counsel	5,000	0.46
Private Activity Fee	2,734	0.25
Attorney General	1,250	0.12
Cashflow Verification	4,250	0.39
Miscellaneous	13,928	1.28
	$283,558	**$26.12**
Underwriter's Spread	**$117,225**	**$10.80**

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs, Multi-Family Mortgage Revenue Bonds (Residence at the Oaks), Series 1998A-C - $8,200,000 (Private Activity, Private Placement)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Residencial Los Robles Limited Partnership, Ltd., a Texas limited partnership, to finance the acquisition, construction, equipment, and long-term financing of a new 212-unit multi-family residential rental project oriented toward senior citizens to be located in Dallas, Texas. The project will include set-aside units and rent caps to ensure availability for low-to-moderate income households.

Dates: Board Approval - April 23, 1998
Closing Date - May 1, 1998

Structure: Series A and B bonds were issued as fixed-rate, tax-exempt securities maturing in November 2030 with mandatory redemptions commencing in May 2001; Series C bonds are fixed-rate, taxable securities maturing in November 2030 with mandatory redemptions commencing in May 2001. The bonds are insured.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) - 5.99%
Net Interest Cost (NIC) - 5.60%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$70,000	$8.54
Financial Advisor	20,000	2.44
Borrower's Consultant	116,000	14.15
Borrower's Counsel	75,000	9.15
TDHCA Fees	98,300	11.99
Trustee	11,750	1.43
Trustee's Counsel	14,800	1.80
Disclosure Counsel	5,000	0.61
Private Activity Fee	2,025	0.25
Attorney General	2,500	0.30
	$415,375	**$50.66**
Placement Agent	**$25,000**	**$3.05**

Texas Department of Housing and Community Affairs

Issue: Texas Department of Housing and Community Affairs (TDHCA), Multi-Family Mortgage Revenue Refunding Bonds (Dallas-Oxford), Series 1998 - $10,300,000 (Private Placement)

Purpose: The proceeds were used to refund the bonds that were previously issued by TDHCA's predecessor, the Texas Housing Agency, in 1984 to finance a mortgage loan to Dallas-Oxford Associates Limited Partnership, a Maryland limited partnership. The mortgage loan facilitated the acquisition, construction, equipment, and long-term financing of a 372-unit multi-family residential rental project located in Dallas, Texas.

Dates: Board Approval - June 18, 1998
Closing Date - July 15, 1998

Structure: The bonds were issued as fixed-rate securities with final maturity on April 2018.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) - 7.84%
Net Interest Cost (NIC) - 7.25%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$54,732	$5.31
Financial Advisor	15,000	1.46
Borrower's Counsel	28,638	2.78
TDHCA Fees	113,000	10.97
Trustee	7,912	0.77
Trustee's Counsel	15,560	1.51
Attorney General	1,250	0.12
Miscellaneous	6,309	0.61
	$242,401	**$23.53**

Texas Higher Education Coordinating Board

Issue: Texas Higher Education Coordinating Board, College Student Loan Bonds, Series 1997 - $75,000,000

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

Dates:		
	Board Approval -	September 18, 1997
	Competitive Sale -	October 16, 1997
	Closing Date -	November 13, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 2001 with a final maturity on August 2017. The issue also contains term bonds, which will mature on August 2022. The bonds are general obligations of the state.

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

Interest Cost:

True Interest Cost (TIC) -	5.11%
Net Interest Cost (NIC) -	5.10%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton, L.L.P.
Co-Bond Counsel -	Wickliff & Hall, P.C.
Financial Advisor -	First Southwest Company
Co-Financial Advisor -	M.R. Beal & Company
Senior Underwriter -	Goldman, Sachs, & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$30,000	$0.40
Financial Advisor	40,000	0.53
Rating Agencies	23,060	0.31
Printing	8,300	0.11
Paying Agent	500	0.01
Private Activity Fee	19,250	0.26
Computer Structuring	10,000	0.13
Attorney General	1,250	0.02
Miscellaneous	5,000	0.07
	$137,360	**$1.84**
Underwriter's Spread	**$237,423**	**$3.17**

Texas Public Finance Authority

Issue: Texas Public Finance Authority, Building Revenue and Revenue Refunding Bonds, Series 1997A&B - $92,535,000

Purpose: The proceeds of the Series 1997A bonds were used to: (1) finance the construction costs of two parking facilities in the Capitol Complex, (2) to pay for the relocation and construction of the Aircraft Pooling Board facilities at Austin-Bergstrom International Airport, (3) to fund additional improvements to the Robert E. Johnson Building in the Capitol Complex, (4) to pay for renovation of the State Board of Insurance Building in Austin and (5) refund portions of outstanding Building Revenue and Refunding Bonds, Series 1992B and 1994A. The proceeds of the Series 1997B were used to finance the initial phase of construction of a State History Museum to be located in the Capitol Complex. The proceeds were also used to pay the costs of issuance.

Dates:		
	Board Approval -	October 23, 1997
	Negotiated Sale -	November 5, 1997
	Closing Date -	December 11, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 1999 with a final maturity on February 2018. The bonds are insured.

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

Interest Cost:

True Interest Cost (TIC) -	5.22%
Net Interest Cost (NIC) -	5.19%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$66,300	$0.72
Financial Advisor	46,309	0.50
Rating Agencies	49,593	0.54
Printing	6,311	0.07
Escrow Agent	2,000	0.02
Escrow Verification	5,000	0.05
Attorney General	2,500	0.03
Miscellaneous	3,206	0.03
	$181,219	**$1.96**
Underwriter's Spread	**$421,049**	**$4.55**

Texas Public Finance Authority

Issue: Texas Public Finance Authority, General Obligation Refunding Bonds, Series 1997 - $341,515,000

Purpose: The proceeds of the bonds were used to refund outstanding TPFA general obligation bonds and to pay the costs of issuance.

Dates:		
	Board Approval -	October 23, 1997
	Negotiated Sale -	December 5, 1997
	Closing Date -	January 7, 1998

Structure: The bonds were issued as current interest and capital appreciation fixed-rate, tax-exempt securities. The current interest bonds mature serially beginning in October 1998 with a final maturity of October 2015. The capital appreciation bonds will mature in October 2013 and 2014. 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) - 4.99%
Net Interest Cost (NIC) - 5.36%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$33,273	$0.10
Financial Advisor	40,258	0.12
Rating Agencies	55,000	0.16
Printing	5,546	0.02
Escrow Agent	2,000	0.01
Escrow Verification	4,000	0.01
Attorney General	1,250	0.00
Miscellaneous	1,369	0.00
	$142,696	**$0.42**
Underwriter's Spread	**$1,412,479**	**$4.14**

Texas Public Finance Authority

Issue: Texas Public Finance Authority, Revenue Bonds (Texas Parks and Wildlife Department Projects), Series 1998 - $11,460,000

Purpose: The proceeds of the bonds were used to provide funding for the Texas Parks and Wildlife Department to finance infrastructure repairs and facility improvements at various state parks. The improvements include the repair and replacement of water facilities and systems, the repair and replacement of wastewater systems, and the renovation of existing facilities.

Dates:		
	Board Approval -	January 22, 1998
	Competitive Sale -	February 18, 1998
	Closing Date -	March 17, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt serial and term securities with final maturity in August 2018. The bonds are insured.

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

Interest Cost:

True Interest Cost (TIC) - 4.81%
Net Interest Cost (NIC) - 4.74%

Consultants:

Bond Counsel -	Fulbright & Jaworski, L.L.P.
Co-Bond Counsel -	Yava D. Scott
Financial Advisor -	First Southwest Company
Co-Financial Advisor -	Walton Johnson & Company
Underwriter -	PaineWebber Incorporated

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$35,625	$3.11
Financial Advisor	23,662	2.06
Rating Agencies	13,460	1.17
Printing	3,724	0.32
Attorney General	1,000	0.09
	$77,471	**$6.76**
Underwriter's Spread	**$107,036**	**$9.34**

Texas Public Finance Authority

Issue: Texas Public Finance Authority, Special Revenue Bonds (Texas Department of Health Laboratory Project), Series 1998 - $30,095,000

Purpose: The proceeds of the bonds were used to provide funds for the second phase of the Texas Department of Health Laboratory Project. The second phase of the project included the construction of the laboratory and office building. The bonds were also used to pay the costs of issuance.

Dates:	Board Approval -	February 19, 1998
	Negotiated Sale -	February 25, 1998
	Closing Date -	March 19, 1998

Structure: The Series 1998 bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning August 1, 1998 with a final maturity of August 1, 2018. The bonds that mature on August 1, 1998 are not insured, whereas the balance of the bonds are insured.

Bond Ratings:	Moody's -	Aaa*
	Standard & Poor's -	AAA*
*1998 maturity uninsured:	S&P rating of A+	
	Moody's rating of A1	

Interest Cost:
True Interest Cost (TIC) - 4.99%
Net Interest Cost (NIC) - 4.93%

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$41,646	$1.38
Financial Advisor	27,678	0.92
Rating Agencies	17,600	0.58
Printing	8,340	0.28
Attorney General	1,250	0.04
Miscellaneous	2,736	0.09
	$99,250	**$3.30**
Underwriter's Spread	**$179,653**	**$5.97**

Texas Public Finance Authority

Issue: Texas Public Finance Authority, Building Revenue Bonds (Texas Department of Criminal Justice (TDCJ) Refunding Project), Series 1998A - $169,320,000

Purpose: The bonds provided the funds for the prepayment of the TDCJ lease obligations under eleven series of bonds issued since 1998 by five different local government entities. The TDCJ entered into the lease purchase agreements for the purpose of financing criminal justice facilities. The facilities are operated under management contracts between the TDCJ and private operators.

Dates:	Board Approval -	May 21, 1998
	Negotiated Sale -	June 10, 1998
	Closing Date -	July 9, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning February 1999 with a final maturity of February 2015. The bonds that mature in February 1999 are not insured whereas, the balance of the bonds are insured.

Bond Ratings:	Moody's -	Aaa*
	Standard & Poor's -	AAA*
*1999 maturity uninsured:	S&P rating of A+	
	Moody's rating of A1	

Interest Cost:
True Interest Cost (TIC) - 4.69%
Net Interest Cost (NIC) - 4.66%

Consultants:
Bond Counsel - Fulbright & Jaworski, L.L.P.
Co-Bond Counsel - Yava D. Scott
Financial Advisor - First Southwest Company
Co-Financial Advisor - Walton Johnson & Company
Senior Underwriter - Southwest Securities

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$90,502	$0.53
Financial Advisor	23,739	0.14
Co-Financial Advisor	11,102	0.07
Rating Agencies	40,000	0.24
Printing	7,500	0.04
Real Estate Counsel	12,500	0.07
Real Estate Closing Costs	1,350	0.01
Escrow Verification	5,000	0.03
Paying Agent	24,200	0.14
Attorney General	1,250	0.01
Miscellaneous	473	0.00
	$217,616	**$1.28**
Underwriter's Spread	**$691,966**	**$4.09**

Texas State University System

Issue: Texas State University System, Southwest Texas State University, Constitutional Appropriation Bonds, Series 1998 - $26,460,000

Purpose: The bond proceeds financed a portion of the construction cost for the Arts/Technology/Physics complex. The five-story complex will include classrooms, class labs, research labs and office space.

Dates:		
	Board Approval -	April 23, 1998
	Competitive Sale -	April 30, 1998
	Closing Date -	May 28, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 1999 with a final maturity in August 2005.

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

Interest Cost:
True Interest Cost (TIC) - 4.46%
Net Interest Cost (NIC) - 4.49%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$17,230	$0.65
Financial Advisor	8,740	0.33
Rating Agencies	34,000	1.28
Printing	8,280	0.31
Paying Agent	500	0.02
Attorney General	1,250	0.05
	$70,000	**$2.64**
Underwriter's Spread	**$42,601**	**$1.61**

The University of Houston

Issue: The University of Houston System, Consolidated Revenue Bonds, Series 1998 - $22,025,000

Purpose: The proceeds of the bonds were used to provide funds to finance energy conservation projects at the University of Houston in the amount of $14.6 million. Additionally, $7.5 million of the proceeds were used to current refund the University's outstanding General Tuition Revenue Bonds, Series 1986, and to pay the costs of issuance.

Dates:		
	Board Approval -	December 18, 1997
	Competitive Sale -	January 6, 1998
	Closing Date -	February 3, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in February 1999 with a final maturity of February 2009.

Bond Ratings:		
	Moody's -	A1
	Standard & Poor's -	AA-

Interest Cost:
True Interest Cost (TIC) - 4.38%
Net Interest Cost (NIC) - 4.36%

Consultants:

Bond Counsel -	Vinson & Elkins, L.L.P.
Financial Advisor -	First Southwest Company
Senior Underwriter -	Lehman Brothers

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$27,256	$1.24
Financial Advisor	17,479	0.79
Rating Agencies	19,250	0.87
Printing	9,444	0.43
Paying Agent	700	0.03
Escrow Agent	2,550	0.12
Escrow Verification	2,000	0.09
Attorney General	1,250	0.06
Miscellaneous	791	0.04
	$80,720	**$3.67**
Underwriter's Spread	**$92,505**	**$4.20**

The University of North Texas

Issue: The University of North Texas, Revenue Financing System Bonds, Series 1997 - $4,380,000

Purpose: The proceeds of the bonds were used to provide funds for general capital improvements to university facilities, including Fouts Field and various residence halls, and to pay the costs of issuance.

Dates:

Board Approval -	July 17,1997
Competitive Sale -	August 29, 1997
Closing Date -	September 18, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in April 1998 with a final maturity of April 2007. The bonds are insured.

Bond Ratings:

Moody's -	Aaa
Standard & Poor's -	AAA

Interest Cost:

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

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$11,350	$2.59
Financial Advisor	4,652	1.06
Rating Agencies	8,000	1.83
Printing	4,396	1.00
Paying Agent	500	0.11
Attorney General	750	0.17
	$29,648	**$6.76**
Underwriter's Spread	**$42,249**	**$9.65**

The University of Texas System

Issue: The University of Texas System, Permanent University Fund (PUF) Bonds, Series 1997 - $130,000,000

Purpose: The proceeds of the bonds were used for the purpose of refunding certain obligations of the Board, to provide funds for improvements at various institutions within the System, and to pay for the costs of issuance.

Dates:

Competitive Sale -	December 11, 1997
Closing Date -	January 6, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in July 1999 with a final maturity of July 2018.

Bond Ratings:

Moody's -	Aaa
Standard & Poor's -	AAA
Fitch -	AAA

Interest Cost:

True Interest Cost (TIC) -	4.85%
Net Interest Cost (NIC) -	4.89%

Consultants:

Bond Counsel -	Vinson & Elkins, L.L.P.
Co-Bond Counsel -	Yava D. Scott
Senior Underwriter -	Merrill Lynch & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$70,203	$0.54
Disclosure Counsel	9,958	0.08
Rating Agencies	91,200	0.70
Printing	4,386	0.03
Escrow Agent	500	0.00
Escrow Verification	1,195	0.01
Attorney General	1,250	0.01
Miscellaneous	945	0.01
	$179,637	**$1.38**
Underwriter's Spread	**$422,500**	**$3.25**

The University of Texas System

Issue: The University of Texas System, Revenue Financing System Bonds, Series 1998A&B - $122,605,000

Purpose: The proceeds of the bonds were used for the purpose of refunding outstanding Revenue Financing System commercial paper, and to pay the costs of issuance.

Dates:		
	Board Approval -	November 20, 1997
	Competitive Sale -	January 15, 1998
	Closing Date -	February 11, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 1999 with a final maturity of August 2018.

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

Interest Cost:	Series A	Series B
True Interest Cost (TIC) -	4.66%	4.59%
Net Interest Cost (NIC) -	4.60%	4.51%

Consultants:

Bond Counsel -	McCall, Parkhurst and Horton, L.L.P.
Senior Underwriter (Ser. A) -	Dain Rauscher, Inc.
Senior Underwriter (Ser. B) -	Prudential Securities, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$71,987	$0.59
Disclosure Counsel	30,000	0.24
Rating Agencies	89,425	0.73
Printing	8,948	0.07
Paying Agent	6,000	0.05
Escrow Agent	500	0.00
Escrow Verification	1,195	0.01
Attorney General	2,250	0.02
Miscellaneous	1,927	0.02
	$212,232	**$1.73**
Underwriter's Spread	**$598,250**	**$4.88**

Texas Veterans Land Board

Issue: Texas Veterans Land Board, Housing Assistance Program, Fund II, Series 1997A - $100,000,000

Purpose: The proceeds of the bonds were used to provide funds for the purpose of making housing and home improvement loans to eligible Texas veterans, and to pay the costs of issuance.

Dates:		
	Board Approval -	October 23, 1997
	Negotiated Sale -	November 5, 1997
	Closing Date -	November 25, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in June 1999 with a final maturity of December 2013. The issue also includes term bonds that will mature in 2017, 2024, 2029. The bonds are general obligations of the state.

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

Interest Cost:

True Interest Cost (TIC) -	5.41%
Net Interest Cost (NIC) -	5.47%

Consultants

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$80,285	$0.80
Financial Advisor	35,717	0.36
Rating Agencies	39,500	0.40
Printing	9,388	0.09
Attorney General	1,250	0.01
Miscellaneous	6,006	0.06
	$172,146	**$1.72**
Underwriter's Spread	**$741,125**	**$7.41**

Texas Veterans Land Board

Issue: Texas Veterans Land Board, Housing Assistance Program, Fund II, General Obligation Bonds, Series 1997B1&B2 - $50,000,000

Purpose: The proceeds of the bonds were used to provide funds for the purpose of making housing and home improvement loans to eligible Texas veterans, and to pay the costs of issuance.

Dates:		
	Board Approval -	October 23, 1997
	Negotiated Sale -	November 12, 1997
	Closing Date -	December 18, 1997

Structure: The bonds were issued in two series. Series 1997B1 ($25,000,000) were issued as fixed-rate, taxable bonds. Series 1997B2 ($25,000,000) were issued as variable-rate, taxable bonds. Both series are composed of serial and term bonds which will mature semiannually between 1999 and 2029. The bonds are general obligations of the state.

Bond Ratings:	Fixed-Rate	Var.-Rate
Moody's -	Aa2	VMIG1
Standard & Poor's -	AA	A-1+

Interest Cost:	Fixed-Rate
True Interest Cost (TIC) -	6.70%
Net Interest Cost (NIC) -	6.71%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$56,378	$1.13
Financial Advisor	17,860	0.36
Rating Agencies	38,875	0.78
Printing	14,263	0.29
Paying Agent	500	0.01
Attorney General	2,500	0.05
Miscellaneous	10,000	0.20
	$140,376	**$2.82**
Underwriter's Spread	**$276,250**	**$5.53**

Texas Veterans Land Board

Issue: Texas Veterans Land Board (VLB), Veterans Land Board General Obligation Refunding Bonds, Taxable Series 1998A and 1998B - $278,120,000

Purpose: The proceeds of the Series 1998A bonds were used to redeem the outstanding principal of the VLB's Series 1985 Land Refunding Bonds. The proceeds of the Series 1998B bonds were used to redeem the outstanding principal amount of the VLB's Series 1986 Land Refunding Bonds. The refunding issues allowed the VLB to attain a net present value savings of approximately $4.3 million.

Dates:		
	Board Approval -	November 20, 1997
	Negotiated Sale -	April 2, 1998
	Closing Date -	April 28, 1998

Structure: The bonds were issued as fixed-rate, taxable securities maturing serially beginning in December 1998 with a final maturity of December 2003.

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

Interest Cost:	Series 98A	Series 98B
True Interest Cost (TIC) -	5.91%	5.97%
Net Interest Cost (NIC) -	6.13% (Blended Rate)	

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$52,079	$0.19
Financial Advisor	101,342	0.36
Rating Agencies	50,000	0.18
Printing	9,263	0.03
Escrow Agent	800	0.00
Attorney General	2,500	0.01
Miscellaneous	226	0.00
	$216,210	**$0.77**
Underwriter's Spread	**$715,663**	**$2.57**

Texas Water Development Board

Issue: Texas Water Development Board, Water Development Bonds, Series 1997D - $75,000,000

Purpose: The proceeds of the bonds were used to fund loans to political subdivisions for water supply purposes and to provide matching funds for the Safe Drinking Water Revolving Fund program. The proceeds were also used to pay the costs of issuance.

Dates:		
	Board Approval -	July 17, 1997
	Negotiated Sale -	July 29, 1997
	Closing Date -	September 4, 1997

Structure: The Series 1997D bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in August 1999 with a final maturity of August 2014. The issue also includes term bonds maturing in August 2016 and August 2019. 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) -	5.10%
Net Interest Cost (NIC) -	5.06%

Consultants:

Bond Counsel -	Vinson & Elkins, L.L.P.
Co-Bond Counsel -	McCall, Parkhurst & Horton, L.L.P.
Financial Advisor -	First Southwest Company
Senior Underwriter -	Banc One Capital Corporation

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$22,367	$0.30
Financial Advisor	42,887	0.57
Rating Agencies	30,000	0.40
Printing	10,680	0.14
Attorney General	2,437	0.03
	$108,371	**$1.44**
Underwriter's Spread	**$436,550**	**$5.82**

Note: This transaction was part of a $100 million transaction. The remaining $25 million closed on August 28, 1997 (fiscal 1997). The above costs are shown on a percentage basis for the $75 million that closed in fiscal 1998.

Texas Water Development Board

Issue: Texas Water Development Board, State Revolving Fund Senior Lien Revenue Bonds, Series 1997B - $300,000,000

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 stormwater and non-point source pollution control projects and other authorized purposes pursuant to the SRF Act and federal law. The proceeds were also used to pay the costs of issuance.

Dates:		
	Board Approval -	February 20, 1997
	Amendment Approval -	September 18, 1997
	Negotiated Sale -	October 8, 1997
	Closing Date -	October 30, 1997

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in July 2000 with a final maturity of July 2017. 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) -	5.20%
Net Interest Cost (NIC) -	5.13%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$47,654	$0.16
Financial Advisor	110,740	0.37
Rating Agencies	112,750	0.38
Printing	17,058	0.06
Attorney General	1,250	0.00
	$289,452	**$0.97**
Underwriter's Spread	**$1,632,000**	**$5.44**

Texas Water Development Board

Issue: Texas Water Development Board, Refunding and Water Financial Assistance General Obligation Bonds, Series 1998A, Taxable Series 1998B, and Series 1998C - $209,015,000

Purpose: Proceeds of the Series 1998A Bonds were used to refund a certain amount of the Board's outstanding Texas Water Development Bonds, and to provide financial assistance to political subdivisions. The proceeds of the Series 1998B Bonds were used to refund certain of the Board's outstanding taxable Texas Water Development Bonds. The Series 1998C Bonds were used to refund, certain of the Board's outstanding Texas Water Development Bonds (Economically Distressed Areas Program) and to fund loans and grants to political subdivisions in economically distressed areas.

Dates:		
	Board Approval -	April 23, 1998
	Negotiated Sale -	May 5, 1998
	Closing Date -	May 28, 1998

Structure: Series 1998A- $37,820,000 issued as fixed-rate securities maturing serially beginning in August 2002 with a final maturity in August 2009; $42,180,000 issued as fixed-rate securities maturing serially beginning in August 1999 with a final maturity in August 2018. Taxable Series 1998B- $19,480,000 issued as fixed-rate securities maturing serially beginning in August 1999 with a final maturity in August 2006; $10,505,000 issued as term bonds due August 2009; $16,630,000 issued as term bonds due August 2020. Series 1998C- $82,400,000 issued as fixed-rate securities maturing serially beginning in August 1999 with a final maturity in August 2018. The bonds with maturities between 2013 and 2018 are insured.

Bond Ratings: Moody's - Aa2 S & P's - AA Fitch - AA+

Interest Cost:	True Int. Cost (TIC)	Net Int. Cost (NIC)
Series 1998A -	4.98%	4.99%
Series 1998B -	6.90%	6.84%
Series 1998C -	5.04%	5.05%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$291,579	$1.40
Financial Advisor	86,562	0.41
Rating Agencies	53,000	0.25
Printing	9,161	0.04
Escrow Agent	12,800	0.06
Verification Agent	16,000	0.08
Attorney General	3,750	0.02
Redemption Notice	18,219	0.09
	$491,071	**$2.35**
Underwriter's Spread	**$1,326,550**	**$6.35**

Texas Water Development Board

Issue: Texas Water Development Board State Revolving Fund, Senior Lien Revenue Bonds, Series 1998A - $150,000,000

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 stormwater and non-point source pollution control projects and other authorized purposes pursuant to the SRF Act and federal law.

Dates:		
	Board Approval -	May 21, 1998
	Negotiated Sale -	August 12, 1998
	Closing Date -	August 25, 1998

Structure: The bonds were issued as fixed-rate, tax-exempt securities maturing serially beginning in July 2001 with a final maturity of July 2018. The issue also contained term bonds which will mature in July 2020.

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

Interest Cost:

True Interest Cost (TIC) -	4.98%
Net Interest Cost (NIC) -	5.00%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$51,830	$0.35
Financial Advisor	82,656	0.55
Rating Agencies	80,000	0.53
Printing	18,054	0.12
Attorney General	1,250	0.01
	$233,790	**$1.56**
Underwriter's Spread	**$817,499**	**$5.45**

Note: This transaction was the first of a $350 million authority approved by the Texas Bond Review Board. The second tranche of the transaction ($200 million) is expected to be issued during fiscal 1999. The above are costs that were incurred for the first installment.

APPENDIX B

Texas Commercial Paper and Variable-Rate Note Programs

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

As of August 31, 1998, a total of $1.7 billion was authorized for state commercial paper or variable-rate note programs. Of this amount, $593.4 million was outstanding as of the end of fiscal 1998 *(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 is provided below.

The University of Texas System

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

Table 29

TEXAS COMMERCIAL PAPER AND VARIABLE-RATE NOTE PROGRAMS
as of August 31, 1998

Issuer	Type of Program	Authorized Amount	Amount Outstanding
The University of Texas System			
Permanent University Fund	Variable-Rate Notes	$ 250,000,000	$ 36,920,000
Revenue Financing System	Commercial Paper	350,000,000	166,639,000
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	73,700,000
Texas Tech University System			
Revenue Financing SYstem	Commercial Paper	100,000,000	–
Texas Department of Agriculture	Commercial Paper	50,000,000	21,500,000
	Commercial Paper*	25,000,000	–
Texas Department of Economic Development	Commercial Paper	25,000,000	4,700,000
Texas Department of Housing and Community Affairs	Commercial Paper	75,000,000	34,460,000
Texas Public Finance Authority			
Revenue	Commercial Paper	100,000,000	32,100,000
General Oblivation	Commercial Paper	500,000,000	158,400,000
Total		**$1,695,000,000**	**$593,419,000**

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

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

The System's commercial paper program was established in 1990 to provide interim financing for capital projects, including construction, acquisition, renovation, or equipping of facilities. The commercial paper is secured by a pledge of all legally available revenues to The University of Texas System, including pledged tuition fees, general fees, and other revenue sources. In fiscal 1994, the System increased the authorized amount of commercial paper from $100 million to $150 million, converted to self-liquidity and expanded the pledge to include tuition revenues. During fiscal 1995, the System increased the authorized amount of commercial paper from $150 million to $250 million. The System subsequently increased its authorized commercial paper amount to $350 million in fiscal 1998.

Texas A&M University System

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

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

Texas Tech University System

On November 7, 1997, the Texas Tech University System authorized a Revenue Financing System commercial paper program in an amount not to exceed $100 million. Under the terms of the authorization, commercial paper notes cannot be issued in an aggregate principal amount at any one time exceeding $50 million without approval of the Board of Regents of the Texas Tech University.

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

Texas Department of Agriculture

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

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

Texas Department of Economic Development

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

Texas Department of Housing and Community Affairs

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 to diversify its debt portfolio. Similarly, the Texas Water Development Board (TWDB) is authorized to issue subordinate-lien variable-rate-demand revenue bonds (VRDBs) as part of the State Revolving Fund program. 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 voters abolished the office of the State Treasurer, effective September 1, 1996. The duties of this office have since been transferred to the Comptroller of Public Accounts - Treasury Operations.

APPENDIX C

Texas State Bond Programs

Texas Agricultural Finance Authority Bonds

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

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

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

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

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

College Student Loan Bonds

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

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

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

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

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

College and University Revenue Bonds

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

The 1991 Texas Legislature authorized the Texas Public Finance Authority, effective January 1, 1992, to issue bonds on behalf of all institutions of higher education authorized to issue bonds under Chapter 55, Education Code, with the exception of The University of Texas System, The Texas A&M University System, a component of those systems, and higher education institutions authorized to issue bonds under Article VII, Section 17, of the Texas Constitution. As a result of these exceptions, the only higher education institution for which the Texas Public Finance Authority (TPFA) issued bonds was Texas State Technical College.

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

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

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

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

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

Contact:
Individual colleges and universities.

Texas Department of Economic Development Bonds

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

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

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

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

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

Texas Department of Housing & Community Affairs

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:
Ed Morris
Bond Finance Manager
Texas Department of Housing and Community Affairs
(512) 475-3856

Bill Dally
Acting Chief Financial Officer
Texas Department of Housing and Community Affairs
(512) 475-3801

Farm and Ranch Bonds

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

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

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

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

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

Higher Education Constitutional Bonds

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

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

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

Dedicated/Project Revenue: Debt service is payable solely from state General Revenue Fund appropriations to institutions of higher education.

Contact:
Individual colleges and universities.

Texas Hospital Equipment Financing Council Bonds

Statutory Authority: The Texas Hospital Equipment Financing Council was created as a state agency in 1983 (Article 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 (Senate Bill 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 may 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. The Authority may finance project costs from sources other than bond proceeds.

Security: If bonds were issued, the bonds are 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.

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

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

Texas Military Facilities Commission Bonds

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

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

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

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

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

Contacts:
Jerry D. Malcolm
Executive Director
Texas Military Facilities Commission
(512) 406-6905

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

Park Development Bonds

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

Purpose: Proceeds from the sale of the general obligation bonds are to be used to purchase and develop state park lands. Proceeds from the sale of revenue bonds are to 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. The Department's obligations to TPFA are repaid from the Department's lease revenue. These revenues are appropriated to the Department out of general revenue.

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

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

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.

Contacts:
Pamela Clayton
Assistant Vice Chancellor for Finance
University of Texas System
(512) 499-4334

Greg Anderson
Associate Deputy Chancellor and Treasurer
Texas A&M University System
(409) 845-4046

Texas Public Finance Authority Bonds

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

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

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

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

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

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

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

The Authority was subject to Sunset Commission review during the 75th Legislature in 1997. The Legislature continued the Authority for twelve years and 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. For a description of the use of funds for bonds issued on behalf of the Texas Military Facilities Commission, the Texas National Research Laboratory Commission (Superconducting Super Collider Bonds), the Texas Parks and Wildlife Department, and the Texas state colleges and universities that are TPFA clients, see the applicable sections in this Appendix.

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

Dedicated/Project Revenue: Debt service on the general obligation bonds for correctional and mental health facilities are payable solely from the state's General Revenue Fund. Debt service on the general obligation bonds for park facilities is paid first from department revenues, as further described in the applicable section of this appendix. Debt service on the revenue bonds is also payable from general revenue appropriated by the Legislature. The Legislature, however, has the option to appropriate debt service payments on the bonds from any other source of funds that is lawfully available. For example, debt service on the bonds issued on behalf of the Department of Health is appropriated from lab fees collected by the Department. Bonds issued on behalf of the Workers' Compensation Fund are payable solely from maintenance tax surcharges and other fees the Fund is authorized to levy. College and university revenue bonds issued are repaid from pledged revenue such as tuition and fees. The bonds are self-supporting, and the state's credit is not pledged.

Contact:
Kimberly K. Edwards
Executive Director
Texas Public Finance Authority
(512) 463-5544

Public School Finance Program

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

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

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

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

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

Sonja Suessenbach
Director of Local Government Services
Texas Bond Review Board
(512) 463-1741

Texas Small Business Industrial Development Corporation Bonds

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

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

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

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

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

Texas National Research Laboratory Commission Bonds

Statutory/Constitutional Authority: The Texas National Research Laboratory Commission was created in 1987 by the 70th Legislature and given the authority to issue both revenue and general obligation bonds. Article 4413, Section 47g, Tex. Rev. Civ. Stat. Ann. authorizes the Commission to issue revenue bonds. Article III, Section 49g of the Texas Constitution authorizes the Commission to issue general obligation bonds. Senate Bill 3, 72nd Legislature authorizes the Texas Public Finance Authority to issue bonds on behalf of the Texas National Research Laboratory Commission. The Commission was dissolved 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 and on May 27, 1998 the Authority defeased an additional $58,596,908 par amount of the 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 Article III, Section 30 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 $148,161,908 of 1992C bonds. After the partial defeasances, approximately $49,688,091.60 of par amount ($123,910,000 of maturity amount, including capital appreciation bonds) 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.

Contact:
Kimberly K. Edwards
Executive Director
Texas Public Finance Authority
(512) 463-5544

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. (Senate Bill 370 also established the North Texas Tollway Authority, consisting of Collin, Dallas, Denton, and Tarrant counties, as a successor agency to the previous Texas Turnpike Authority. The North Texas Tollway Authority does not require Bond Review Board approval to issue bonds).

The 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.

Contact:
Frank Smith
Director - Budget and Finance Division
Texas Department of Transportation
(512) 463-8684

Veterans Land and Housing Assistance Bonds

Statutory/Constitutional Authority: Article III, Section 49b of the Texas Constitution, initially adopted in 1946, authorized the issuance of general obligation bonds to finance the Veterans Land Program. Article III, Section 49-b-1 of the Texas Constitution, adopted in 1983, authorized additional land bonds and created the Veterans' Housing Assistance Program, establishing the Veterans' Housing Assistance Fund within the program. Article III, Section 49-b-2 of the Texas Constitution, adopted in 1993, authorized additional land bonds and the issuance of general obligation bonds to finance the Veterans Housing Assistance Program, Fund II. Section 164 of the Natural Resources Code authorizes the VLB to issue revenue bonds for its programs, including the financing of veterans' homes.

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

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

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

Contact:
Rusty Martin
Director of Funds Management
General Land Office
(512) 463-5120

Texas Water Development Bonds

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

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

Article III, Sections 49c, 49d, 49d-1, 49d-2, 49d-4, 49d-6, 49d-7, 49d-8, and 50d of the Texas Constitution, initially adopted in 1957, contain the authorization for the issuance of general obligation bonds by the Texas Water Development Board.

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

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

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

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

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

Contact:
J. Kevin Ward
Development Fund Manager
Texas Water Development Board
(512) 463-8221

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.

Contact:
J. Kevin Ward
Development Fund Manager
Texas Water Development Board
(512) 463-8221

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.