Texas Bond Review Board
Annual Report 2002

Fiscal Year Ended August 31, 2002

Rick Perry, Governor
    Chairman
Bill Ratliff, Lieutenant Governor
James E. "Pete" Laney, Speaker of the House of Representatives
Carole Keeton Rylander, Comptroller of Public Accounts

Jim Buie
Executive Director

November 2002

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 a term of longer than five years. In addition, the BRB 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 the activities undertaken by the Board, and related events of the past fiscal year.

The Texas economy has experienced an economic slowdown, but has done better than the nation as a whole. The ramifications of the economic slowdown are reflected in the state's financial position, with the ending General Revenue Fund balance totaling approximately $2.7 billion, a decrease of 45.8 percent from 2001. For fiscal 2002, total net general revenues increased by 13.4 percent, from $80.7 billion to $91.5 billion; and total expenditures increased 17.1 percent to $93.7 billion from $80 billion in fiscal 2001.

Tax-supported debt ratios for Texas rank well below other states, including comparisons with the ten most populous states and those rated AAA by the three major rating agencies. Tax-supported debt outstanding increased modestly during the past fiscal year, but due to lower interest rates, debt service payable from general revenue showed a slight decrease. The U.S. 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 2.22 percent, an increase from the fiscal 2001 ratio of 1.91 percent.

Approximately $4.5 billion in new-money and refunding bonds and commercial paper were issued by state agencies and institutions of higher education in fiscal 2002. This figure more than doubles the issuance of $2.0 billion from fiscal 2001. The majority of this debt ($3.8 billion) is considered new money. A large portion can be attributed to the $2.2 billion issued by the Texas Department of Transportation for the Central Texas Turnpike Project. The refunding transactions resulted in net present value savings of approximately $12 million for state issuers. Projections for fiscal year 2003 show a decrease in state debt issuance.

Issuance cost data for the transactions that closed in fiscal 2002 reveal the average issuance cost for state bonds was $1,284,410, or $9.19 per $1,000 in bonds issued. This is an increase from the $612,913 or $7.92 per $1,000 issued in fiscal 2001. For fiscal 2002, most of Texas' competitive issues were smaller issues with an average size of just under $28.9 million, while the negotiated issues had an average size of over $213.9 million.

Although the state's private activity bond volume cap increased to $1,599,376,351 from $1,303,238,751 million in 2002, the program experienced application demand of $4.8 billion, more than 302 percent of the available authority. Initial applications for the 2003 program year indicate a similar level of requests, $4.38 billion, for bond allocation authority to finance "private activities" such as housing, pollution control, and student loans.

The report concludes with five appendices. Appendix A provides a detailed description of each state bond transaction that closed in fiscal 2002. 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. Appendix E contains a glossary of public finance terms and definitions.

Acknowledgments

The Board's 2002 Annual Report is a result of significant contributions and efforts by:

Board Alternates
- Wayne Roberts, Governor's Office of Budget and Planning
- Melissa Guthrie, Lieutenant Governor's Office
- Leslie Lemon, Speaker's Office
- Lita Gonzalez, Comptroller's Office

Office of the Attorney General
- Jim Thomassen, Public Finance Division
- Lynn Stuck, Public Finance Division

Legislative Budget Board Staff

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- Elva Martinez, Annual Report Coordinator
- Judy Good
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- Monica Kasparek
- Marie Moore

Issuers of Texas State Bonds

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Cautionary Statements

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

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

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

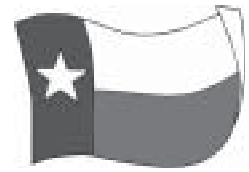
Future debt issuance is based on estimates supplied by each issuing agency. Future debt service on variable-rate, commercial paper, and other short-term and demand debt is estimated on the basis of interest rate and refinancing assumptions described in the report. Actual future data could be affected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

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

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

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

CHAPTER 1
Texas Debt in Perspective



Texas expended $238 in net tax-supported debt per capita, down from $251 in fiscal 2001, and compared to a national median of $573 and an average of $810. The median net tax-supported debt per capita among the ten most populous states is $924, while the average net tax-supported debt per capita is $967.

Texas' Financial Position Remains Positive

Texas ended the fiscal year with a General Revenue Fund cash balance of $2.69 billion. This represents a 45.8 percent decrease from the fiscal 2001 balance of $4.96 billion. Since 1988, Texas has ended each fiscal year in the black *(Figure 1)*.

Year-end net revenues and other cash sources totaled $91.5 billion, while net expenditures increased to $93.8 billion *(Table 1)*. Total tax collections received in the General Revenue Fund decreased by 3.5 percent from fiscal 2001. The state's primary source of revenue is the sales tax, which contributed 55.2 percent of the total taxes received during fiscal 2002. Sales tax collections decreased slightly by 1.01 percent from the prior fiscal year. Natural gas production tax revenue ended the year at $628 million, a decrease of 60.6 percent from fiscal 2001. Two other large contributors to the tax base of the state, the motor vehicle sales and motor fuels taxes, increased by 1.5 and 2.5 percent, respectively, a decrease in the rate of growth compared to the 4.4 and 2.9 percent increases in fiscal 2001.

77th Legislature Passes $113.8 Billion Budget

The 77th Legislature convened in January 2001 and approved the budget for the 2002-03 biennium. This budget,

Table 1

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

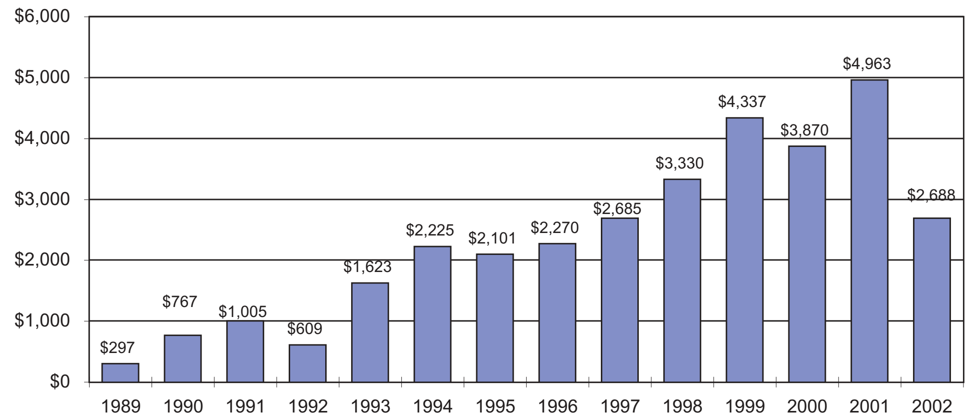
	Fiscal 2001	Fiscal 2002	Percent Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$4,300,106	$4,963,078	15.42%
Tax Collections			
General Revenue Fund			
Sales Tax	14,634,334	14,486,173	-1.01%
Oil Production Tax	442,580	338,661	-23.48%
Natural Gas Production Tax	1,596,886	628,497	-60.64%
Motor Fuels Taxes	2,765,511	2,833,607	2.46%
Cigarette and Tobacco Taxes	584,586	540,038	-7.62%
Motor Vehicle Sale/Rental, Mfg. Housing Sale	2,905,538	2,949,540	1.51%
Franchise Tax	1,960,365	1,935,709	-1.26%
Alcoholic Beverages Taxes	541,306	560,197	3.49%
Insurance Occupation Taxes	820,017	1,045,754	27.53%
Inheritance Tax	322,355	334,191	3.67%
Hotel and Motel Tax	246,813	230,909	-6.44%
Utilities Taxes	339,404	311,051	-8.35%
Other Taxes	41,676	54,650	31.13%
Total Tax Collections	$27,201,371	$26,248,978	-3.50%
Federal Income	$14,174,722	$15,823,683	11.63%
Interest & Investment Income	297,830	111,711	-62.49%
Licenses, Fees, Permits, Fines, & Penalties	3,443,842	3,558,241	3.32%
Contributions to Employee Benefits	127,260	142,020	11.60%
Sales of Goods and Services	192,081	159,295	-17.07%
Land Income	31,587	17,257	-45.37%
Settlements of Claims	392,229	504,159	28.54%
Net Lottery Proceeds	1,393,347	1,391,938	-0.10%
Other Revenue Sources	1,165,478	1,237,043	6.14%
Interfund Transfers / Investment Transactions	32,280,862	42,284,569	30.99%
Total Net Revenue and Other Sources	$80,700,609	$91,478,896	13.36%
Expenditures and Ending Balance			
General Government	$1,964,040	$1,814,086	-7.63%
Health and Human Services	18,018,573	20,124,904	11.69%
Public Safety and Correction	2,887,898	3,039,387	5.25%
Education	18,268,605	18,531,045	1.44%
Employee Benefits	1,762,274	2,115,568	20.05%
Lottery Winnings Paid	366,488	422,937	15.40%
Other Expenditures*	1,213,767	1,246,067	2.66%
Interfund Transfers / Investment Transactions	35,555,996	46,459,680	30.67%
Total Expenditures and Other Uses	$80,037,641	$93,753,673	17.14%
Ending Balance, August 31	$4,963,074	$2,688,300	-45.83%

Source: Texas Comptroller of Public Accounts.

* Includes Transportation, Natural Resources/Recreational Services, Regulatory Agencies.

Figure 1

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 attributed to the consolidation of funds into the General Revenue Fund.

Source: Texas Comptroller of Public Accounts.

Senate Bill 1, calls for total expenditures of $113.8 billion, an increase of 11.6 percent over actual expenditures for the 2000-01 biennium. Included in this all-funds amount was $61.7 billion general revenue spending. This was an increase of $5.1 billion, or 9.1 percent, over the 2000-01 biennium general revenue spending level. As required by the Texas Constitution, the State Comptroller certified that sufficient revenue is available to pay for the state's 2002-03 budget.

Of the total $113.8 billion (all funds) that will be spent during the biennium, 58.2 percent are appropriated general revenue and dedicated general revenue funds. Federal funds comprise 30.6 percent of the state's available revenues, with the remainder, 11.2 percent, coming from other sources.

Major funding changes from the 2000-01 biennium of nondedicated general revenue include: (1) an 84.4 percent increase in funding for regulatory agencies, (2) an increase of 14.6 percent for health and human services, and (3) a 12.0 percent increase in funding for higher education. The Texas Legislature allocated agencies of education and health and human services 57.7 and 20.8 percent, respectively, of 2002-03 general revenue and dedicated general revenue funds. Public safety and criminal justice is the third largest expenditure of dedicated and nondedicated general revenue and will consume 10.8 percent of these funds in 2002-03.

Texas GO Bond Ratings

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

One quantitative factor the rating agencies assess is the likelihood of timely repayment of principal and interest. Those entities with the strongest credit quality in all areas are assigned a rating of AAA. Ratings of AA or A also indicate good quality credit, but not as strong as AAA ratings *(Table 2)*.

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 the state's sources of revenue.

In June 1999, Moody's Investors Service upgraded the state's general obligation debt from Aa2 to Aa1. The core factors that led to the increase in the rating are: (1) the state's economic expansion, (2) reduced dependence on oil and gas, (3) low debt ratios, (4) balanced state finances, (5) increasing cash balances, and (6) tobacco settlement funds targeted for health and higher education. The risks associated with Texas' general obligation credits are: (1) future of internet taxation, (2) modest fiscal reserves, and (3) population growth.

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

More States Receive Rating Downgrades than Upgrades

Nevada was the only state to receive a ratings upgrade by the rating agencies in fiscal 2002 for state general obligation bonds, compared to eight in fiscal 2001 *(Table 3)*.

Moody's Investors Service downgraded the general obligation debt for California, New Jersey, North Carolina, and Tennessee during fiscal 2002. Standard & Poor's issued downgrades for New Jersey, while Fitch IBCA issued downgrades for New Jersey, Washington and Wisconsin.

Trading Trends for Texas G.O. Bonds

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 the 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 (New Jersey).

According to the July 2002 study by Chubb, Texas general obligation bonds are trading an average of 0.118 basis points above the interest rate on the benchmark general obligation bond, as compared to 0.131 that was recorded the previous year. While Texas general obligation bonds were trading at an average 0.36 percentage points above the benchmark in 1987, that average had decreased to 0.055 in 1998.

When compared to the states rated AAA by Moody's or Standard and Poor's, Texas general obligation bonds were trading 0.119 percentage points above that average in fiscal 2002. This is the same percentage point recorded last year and is close to 0.104 percentage point above the average recorded in fiscal 2000.

Table 2

STATE GENERAL OBLIGATION BOND RATINGS
August 2002

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

* Not rated

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

Texas' Debt Ratios Compared to Other States and Those Rated AAA

During fiscal 2002, Texas' rank changed from 43rd among all states to 44th in net tax-supported debt per capita according to Moody's 2002 State Debt Medians *(Table 4)*. According to the Moody's report, Texas expended $238 in net tax-supported debt per capita, down from $251 in fiscal 2001, and compared to a national median of $573

Table 3

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS August 2001 to August 2002

State	Rating Change	Agency
Upgrades		
Nevada	AA to AA+	Fitch IBCA
Downgrades		
California	Aa2 to A1	Moody's
New Jersey	AA+ to AA	Standard & Poor's
	AA+ to AA	Fitch IBCA
	Aa1 to Aa2	Moody's
Washington	AA+ to AA	Fitch IBCA
Wisconsin	AA+ to AA	Fitch IBCA
North Carolina	Aaa to Aa1	Moody's
Tennessee	Aa1 to Aa2	Moody's

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

and an average of $810. The median net tax-supported debt per capita among the ten most populous states is $924, while the average net tax-supported debt per capita is $967.

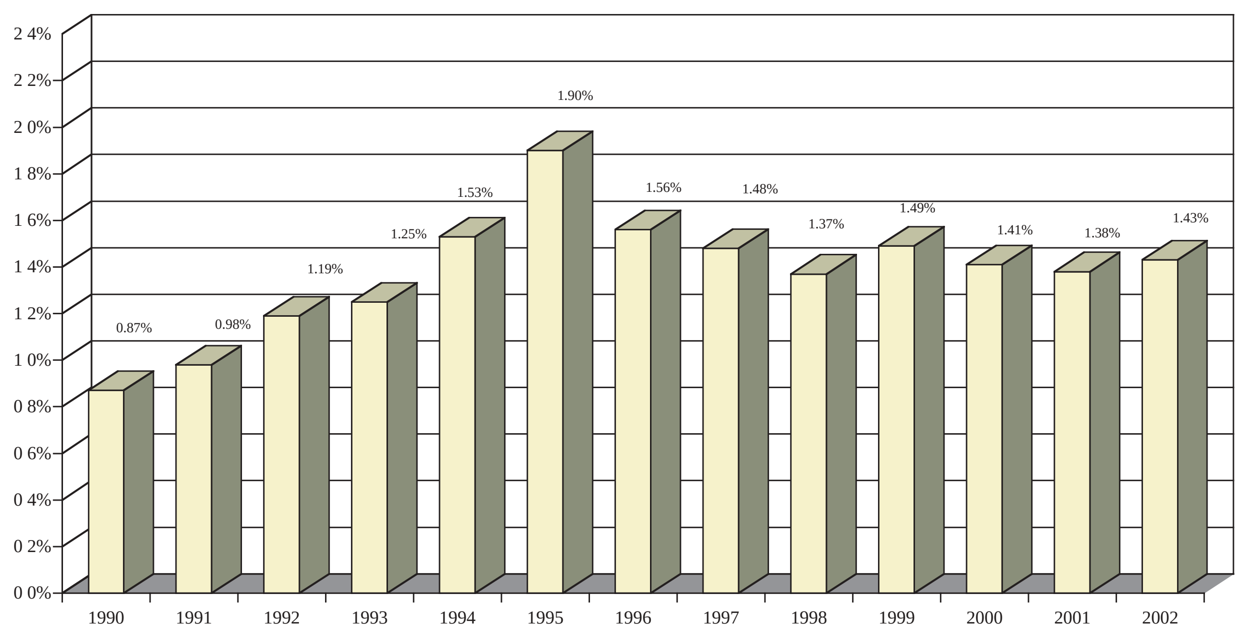
Another method of comparing Texas' current debt position is to compare it against the eight states rated Aaa/AAA/AAA by Moody's, Standard and Poor's, and Fitch IBCA, respectively *(Table 5)*. Ranked against these states, Texas' net tax-supported debt per capita ranks last at $238 per capita. Delaware had the highest net tax-supported debt at $1,650 per capita.

According to U.S. Department of Commerce figures in 2001, Texas' personal income per capita is $28,581. This amount is below the national average of $29,652.

When compared against those states rated AAA by the three major

Figure 2

ANNUAL DEBT SERVICE AS A PERCENTAGE OF UNRESTRICTED GENERAL REVENUE



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

rating agencies, Texas ranks above three of the states: Missouri, South Carolina, and Utah.

Examining net tax-supported debt as a percentage of 2000 personal income shows that Texas ranks 45th among the fifty states. Among the eight states rated AAA, Texas is ranked last at 0.9 percent. Texas is well below the national median of 2.3 percent and the national average of 2.7 percent.

The most recent data (2000) provided by the U.S. Census Bureau, regarding state and local debt outstanding, shows that Texas' debt status among the ten most populous states is manageable *(Table 6)*. While Texas ranks 3rd among the ten most populous states in terms of local debt per capita, it ranks 9th in state debt and 7th in combined state and local debt. Data reveals that Texas' local debt burden fell from 85 percent of the combined state and local total in 1995 to 81 percent in 2000. At the national level, the use of local debt remains relatively unchanged *(Figure 4)*. Local debt includes debt issued by cities, counties, school districts, and special districts.

Many communities throughout Texas are experiencing significant population growth and increased demand for programs and services. This net migration to the state has forced many small and medium-sized communities to increase financing for infrastructure such as roads, school construction, and water and wastewater service, to meet those needs. Based on current demographic trends, the need for infrastructure expansion will only become greater.

Debt Supported by General Revenue Increases

The use of general obligation debt by the state allows for "the full faith and credit of the state" to back the payment of the bonds. This pledge states that in the event 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

Table 4

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 2000 Personal Income	Rank	Net Tax-Supported Debt Per Capita***	Rank
Hawaii	Aa3	10.4%	1	$2,936	3
Massachusetts	Aa2	8.6%	2	3,267	1
Connecticut	Aa2	8.0%	3	3,240	2
New York	A2	5.9%	4	2,045	5
New Jersey	Aa2	5.6%	5	2,066	4
Delaware	Aaa	5.3%	6	1,650	6
Rhode Island	Aa3	5.2%	7	1,552	7
Mississippi	Aa3	4.7%	8	996	10
Washington	Aa1	4.4%	9	1,383	8
Kentucky	Aa2**	4.3%	10	1,046	9
New Mexico	Aa1	4.0%	11	879	14
West Virginia	Aa3	4.0%	12	867	15
Florida	Aa2	3.4%	13	959	11
Vermont	Aa1	3.0%	14	813	18
Kansas	Aa1**	3.0%	15	824	17
Utah	Aaa	3.0%	16	708	22
Wisconsin	Aa3	3.0%	17	834	16
Georgia	Aaa	2.9%	18	804	19
Illinois	Aa2	2.8%	19	908	12
Ohio	Aa1	2.6%	20	749	21
Maryland	Aaa	2.6%	21	879	13
South Carolina	Aaa	2.5%	22	615	24
California	A1	2.5%	23	795	20
Louisiana	A2	2.4%	24	570	26
Pennsylvania	Aa2	2.3%	25	671	23
Alabama	Aa3	2.2%	26	526	28
Arizona	*	1.9%	27	495	31
Maine	Aa2	1.9%	28	485	32
Virginia	Aaa	1.8%	29	566	27
Minnesota	Aaa	1.8%	30	576	25
Nevada	Aa2	1.7%	31	524	29
Montana	Aa3	1.6%	32	358	37
Oregon	Aa2	1.5%	33	437	34
New Hampshire	Aa2	1.5%	34	503	30
Michigan	Aaa	1.5%	35	438	33
Wyoming	*	1.4%	36	388	35
North Carolina	Aa1	1.4%	37	375	36
Missouri	Aaa	1.3%	38	347	38
Oklahoma	Aa3	1.3%	39	297	39
Arkansas	Aa2	1.2%	40	268	41
Indiana	Aa1**	1.1%	41	296	40
South Dakota	*	0.9%	42	244	43
Tennessee	Aa2	0.9%	43	231	45
North Dakota	Aa3**	0.9%	44	216	46
TEXAS	Aa1	0.9%	45	238	44
Colorado	*	0.7%	46	245	42
Iowa	Aa1**	0.6%	47	166	47
Alaska	Aa2	0.4%	48	112	48
Idaho	Aa3**	0.4%	49	86	49
Nebraska	*	0.1%	50	34	50
U.S Mean		2.7%		$810	
U.S Median		2.3%		$573	
Puerto Rico	Baa1	46.6%			

* No general revenue debt
** Issuer Rating
***Based on 2000 population figures.

Sources: Moody's Investors Service, 2002 State Debt Medians, U.S. Bureau of Economic Analysis, and U.S. Census Bureau.

the debt service on these obligations.

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

State debt payable from general revenue continues to grow modestly as more general obligation debt is issued by the state. At the end of fiscal 2002, outstanding state debt payable from general revenue was $3.39 billion, a slight increase from the $3.27 billion outstanding in fiscal 2001.

The Texas Legislature has appropriated $981 million in general revenue funds for general obligation and revenue bond debt service during the 2002-03 biennium. Annual debt service as a percent of unrestricted general revenue during fiscal 2002 was 1.43 percent. This is a slight increase from the 1.38 percent paid during fiscal 2001 *(Figure 2)*.

While debt outstanding has increased, debt service payable from general revenue saw a slight decrease in fiscal 2002 as interest rates continued to drop. In addition, funds accessible to make debt service payments also decreased *(Figure 3)*. Unrestricted general revenue is typically considered the source available to make bond debt-service payments and to fund appropriations for state operations. The slowing of the state's economy that occurred in fiscal 2001 and 2002 is expected to continue for much of fiscal 2003.

Table 5

SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA*

State	Rating	Net Tax-Supported Debt as a % of 2000 Personal Income	Net Tax-Supported Debt Per Capita***	2001 Personal Income Per Capita
Delaware	AAA	5.3	$1,650	$32,472
Georgia	AAA	2.9	804	28,733
Maryland	AAA	2.6	879	35,188
Minnesota	AAA	1.8	576	33,101
Missouri	AAA	1.3	347	28,226
South Carolina	AAA	2.5	615	24,886
TEXAS	AA	0.9	238	28,581
Utah	AAA	3.0	708	24,180
Virginia	AAA	1.8	566	32,431
Median of AAA States		**2.6**	**$662**	**$30,582**
Mean of AAA States		**2.7**	**$768**	**$29,902**

* States listed as AAA are rated Aaa/AAA/AAA by Moody's, Standard & Poor's, and Fitch IBCA, respectively
Median and mean figures do not include Texas
** Based on 2001 population figures

Sources: Moody's Investors Service, *2002 State Debt Medians*; U S Census Bureau; and Bureau of Economic Analysis

Table 6

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	18,976	1	$177,550	$9,357	1	$78,616	44.3%	$4,143	1	$98,934	55.7%	$5,214
New Jersey	8,414	2	50,315	5,980	2	28,938	57.5%	3,439	9	21,376	42.5%	2,541
Pennsylvania	12,281	3	73,325	5,971	7	18,595	25.4%	1,514	2	54,730	74.6%	4,456
Illinois	12,419	4	67,573	5,441	3	28,828	42.7%	2,321	6	38,745	57.3%	3,120
California	33,872	5	177,920	5,253	5	57,170	32.1%	1,688	5	120,750	67.9%	3,565
Florida	15,982	6	78,495	4,911	8	18,181	23.2%	1,138	4	60,314	76.8%	3,774
TEXAS	**20,852**	**7**	**100,175**	**4,804**	**9**	**19,228**	**19.2%**	**922**	**3**	**80,947**	**80.8%**	**3,882**
Michigan	9,938	8	47,195	4,749	4	19,445	41.2%	1,957	8	27,750	58.8%	2,792
Ohio	11,353	9	42,087	3,707	6	18,087	43.0%	1,593	10	24,000	57.0%	2,114
Georgia	8,186	10	29,948	3,658	10	7,086	23.7%	866	7	22,862	76.3%	2,793
MEAN			**$84,458**	**$5,383**		**$29,417**	**35.2%**	**$1,958**		**$55,041**	**64.8%**	**$3,425**

Detail may not add to total due to rounding.

Source: U.S. Census Bureau, State and Local Government Finances by Level of Government and by State: 1999-2000.

Authorized but Unissued Bonds Add 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, 2002, approximately $1.4 billion in bonds payable from non-self-supporting 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 require a legislative appropriation of debt service prior to issuance.

If these additional bonds were issued, the outstanding debt payable from general revenue would be approximately $4.8 billion.

Texas' Constitutional Debt Limit and Proposed Debt Management Policy

The state of Texas is currently limited by its constitution as to the amount of tax-supported debt that may be issued. The 75th Legislature passed House Joint Resolution 59, which limits the amount of debt that may be issued. The resolution called for a constitutional amendment 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 for outstanding debt as of August 31, 2002, is 1.42 percent, a slight decrease from fiscal 2001 when the ratio was 1.47 percent. With the inclusion of authorized but unissued debt, the fiscal 2002 ratio is 2.22 percent, an increase from the fiscal 2001 ratio of 1.91 percent. The increase in the debt ratio is attributed to a slight reduction in unrestricted general revenue at year end 2002, and an increase of authorized but unissued debt payable from the General Revenue Fund.

The 77th Legislature, with the passage of House Bill 2190, directed the Bond Review Board to adopt a formal debt policy and issuer guidelines to ensure that state debt is prudently managed and to provide guidance to issuers of state securities. This report will be available on the agency's website.

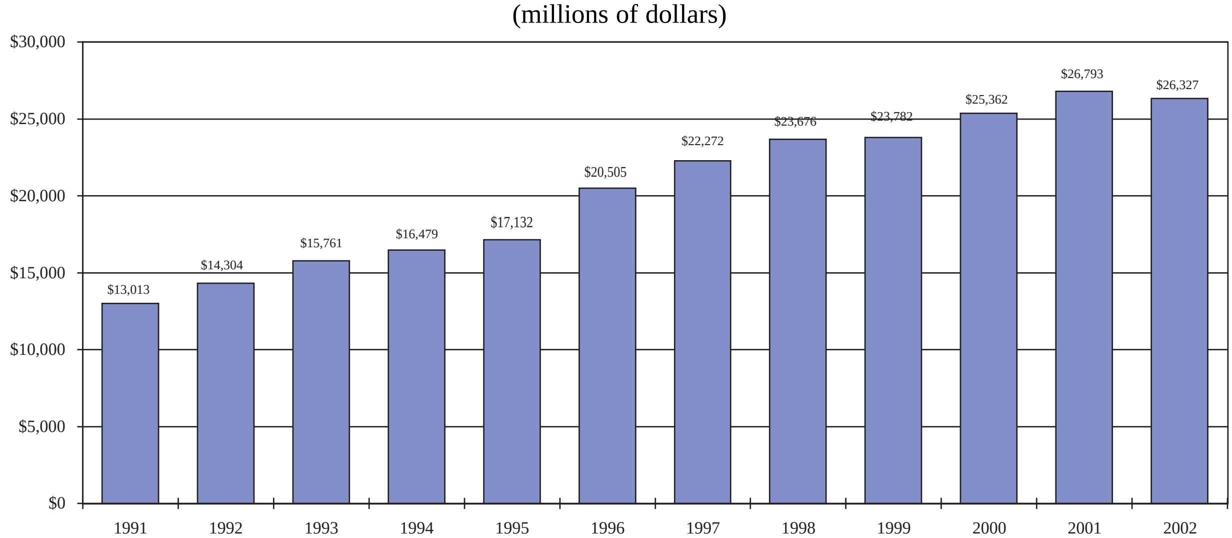
Capital Planning Review and Approval Process

The 76th Legislature, with the passage of House Bill 1, Article 9, Section 9-6.52, directed the Bond Review Board to produce the state's Capital Expenditure Plan (CEP).

The legislation specifies that all state agencies and higher educational institutions appropriated funds by the General Appropriations Act are required to report capital planning information for projects that fall within four specific project areas: (1) acquisition of land and other real property, (2) construction of buildings and facilities, (3) repairs and/or rehabilitation, and (4) acquisition of information resource technologies.

Figure 3

UNRESTRICTED GENERAL REVENUE
(millions of dollars)



Source: Texas Comptroller of Public Accounts.

From a budgetary and capital planning standpoint, a number of state agencies work together to coordinate capital reporting and a budget approval process for state agencies. They include the Governor's Office of Budget and Planning, Legislative Budget Board, Texas Higher Education Coordinating Board, Comptroller of Public Accounts, House Committee on Appropriations, Senate Finance Committee and the Texas Building and Procurement Commission.

Through the legislative process, the legislature defines the types of projects and cost thresholds to be reported in the CEP. The BRB coordinates the submission of capital projects through the CEP, develops the report, and determines the effect of the additional capital requests on the state's budget and debt capacity. The completed plan is then forwarded to the Governor's Office of Budget and Planning and the Legislative Budget Board (LBB) for their use in the development of recommended appropriations to the legislature. The two budget offices, with input from the requesting agencies or universities, also assess short-term and long-term needs. The legislature determines priority needs through consideration of recommendations from the two budget offices. The legislature, with the approval of the Governor, then makes the final decision on which projects will be funded.

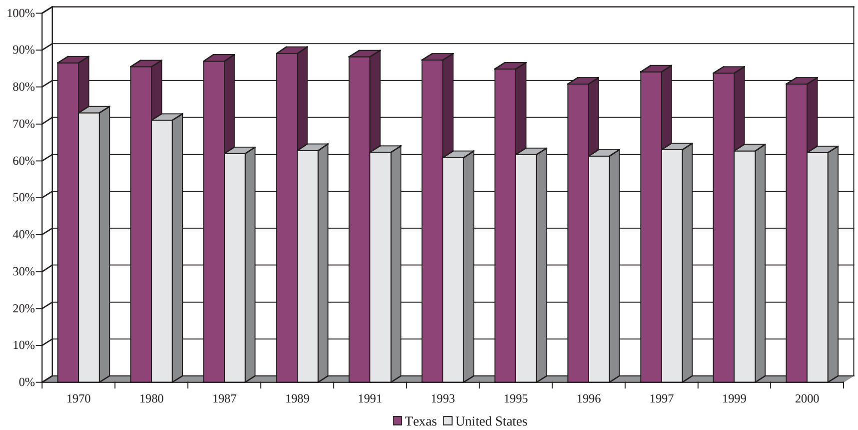
Approved capital and operating budgets are integrated into the General Appropriations Act, which authorizes specific debt issuance for capital projects. Through the capital budgeting process, capital projects are approved for the biennial period. In addition, the CEP reports on the remaining three out-years (2006-2008) to identify long-term needs of the state and to plan for the future.

The 2002 CEP represents the second published capital expenditure plan for the state, per House Bill 1, Article 9, Section 9-6.38, 77th Legislature (2001). The CEP is another management tool for the state of Texas, and an ongoing developmental process that will assist decision makers in assessing future individual capital expenditure requests within the framework of the state's overall financial position. The 2004-05 Capital Expenditure Plan is available on the agency's website.

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 nearly 4,000 debt issuing entities. At the state level, the number of direct issuers has been reduced to seventeen.

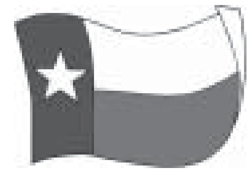
Figure 4

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



Source: U S Census Bureau, State and Local Government Finances by Level of Government: 1999-2000

CHAPTER 2
Texas Bonds Issued in Fiscal 2002



Issuance of debt by Texas state agencies and universities almost tripled from the prior year, with an aggregate total of $4.51 billion, compared to $1.65 billion in fiscal 2001. The fiscal 2002 issues included almost $3.8 billion in new money and $722.6 million in refunding bonds (Table 7). *Other debt issued included $681 million of commercial paper and variable-rate notes. Additional information on bond transactions can be found in Appendix A of this report.*

New-Money Funding Increases in Fiscal 2002

New-money bonds issued by Texas state agencies and institutions of higher education during fiscal 2002 totaled almost $3.8 billion, a dramatic increase compared to $880 million during fiscal 2001 *(Figure 5)*. Issuance of commercial paper is not included. The proceeds provided financing for infrastructure, housing, and loan programs.

For fiscal year 2002, the Texas Department of Transportation (TXDOT) was the top issuer of new-money bonds. TXDOT issued 58.1 percent of the total fiscal 2002 new-money debt, while the Texas State Affordable Housing Corporation (TSAHC) issued 12.1 percent. These two agencies captured 70.2 percent of the total new-money issuance for fiscal 2002.

Sources of New Money for 2002

The Texas Department of Transportation (TXDOT) closed on one transaction totaling $2.2 billion. Issued on behalf of the Texas Turnpike Authority, the proceeds were used to finance the costs of the Central Texas Turnpike Project.

Texas State Affordable Housing Corporation (TSAHC) issued a total of $458.7 million in new-money bonds. The proceeds of the bonds were used to fund permanent mortgage loans for the acquisition, rehabilitation, construction and equipment of 9,589 multifamily residential units located throughout Texas. Seven transactions accounted for $454.1 million of affordable multifamily housing. TSAHC also issued its first transaction under the Teacher Home Loan Program in the amount of $4.6 million. The program is designed to provide funds to finance mortgages and down-payment assistance to eligible home-buying teachers within geographic areas impacted by teacher shortages throughout the state.

The Texas Department of Housing and Community Affairs (TDHCA) issued 7.1 percent of total new-money bonds amounting to $268.7 million.

The TDHCA provided more funds for single family housing than multifamily housing. Three transactions provided over $156 million of new-money bonds for the TDHCA's single family mortgage revenue bond program. The program provides financing for the purchase of low interest rate mortgage loans made by lenders to first-time

Table 7

TEXAS BONDS ISSUED DURING FISCAL 2002
SUMMARIZED BY ISSUER

ISSUER	REFUNDING BONDS	NEW-MONEY BONDS	TOTAL BONDS ISSUED
Texas Department of Transportation		$2,199,993,782	$2,199,993,782
Texas State Affordable Housing Corporation		458,731,172	458,731,172
Texas Public Finance Authority	$377,185,000	76,605,000	453,790,000
Texas Department of Housing & Community Affairs	127,060,000	268,740,000	395,800,000
The University of Texas System	110,573,000	153,627,000	264,200,000
Texas Water Development Board	15,535,000	186,140,000	201,675,000
Texas Veterans Land Board	24,280,000	150,000,000	174,280,000
Texas Tech University System	67,945,000	101,730,000	169,675,000
The University of North Texas System		97,330,000	97,330,000
Texas Higher Education Coordinating Board		75,000,000	75,000,000
Texas Woman's University		17,500,000	17,500,000
Total Texas Bonds Issued	**$722,578,000**	**$3,785,396,954**	**$4,507,974,954**

Note: See Table 18, Appendix B, for commercial paper issuance.

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

homebuyers with very low, low, and moderate income who are acquiring modestly priced residences.

Ten TDHCA transactions accounted for $112.7 million for affordable multifamily housing in Houston, Dallas, Fort Worth, and Boerne, Texas. Federal tax law requires a percentage of the rental units in these properties to be set aside for low-to-moderate income households.

Another significant portion of 2002 new money comprises funding for construction and improvement projects at institutions of higher education in Texas. The Texas Higher Education Coordinating Board also financed $75 million to make funds available for the Hinson-Hazelwood College Student Loan Program. This program provides low interest loans to students seeking an undergraduate and/or graduate or professional education through public and independent institutions of higher education in Texas. The University of Texas System issued $153.6 million and the Texas Tech University System issued $101.7 million to fund property and facility improvements at their campuses. The University of North Texas System issued $97.3 million for construction and upgrades to the University, Health Science Center, and student recreation center. Finally, Texas Woman's University issued $17.5 million for campus renovations. The combination of these institutions of higher education and the Texas Higher Education Coordinating Board accounts for 11.8 percent of total new money issued for fiscal 2002.

The Texas Water Development Board issued $186.1 million (4.9 percent) of new-money bonds. The proceeds will be used for water supply and water quality enhancements, interagency contracts, and water resource conservation and development.

The Veterans Land Board (VLB) issued 4 percent of total fiscal 2002 new-money debt, for a total of $150 million. The proceeds will be used to make housing and home improvement loans to eligible Texas veterans as well as augmenting the Land Fund.

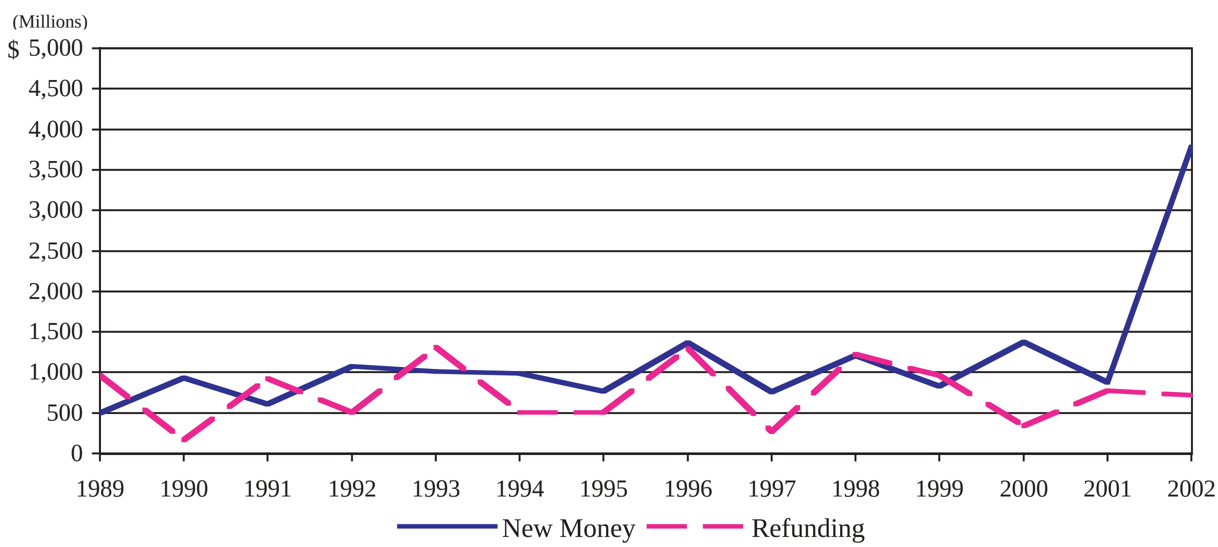
The Texas Public Finance Authority (TPFA) closed on four bond transactions totaling $76.6 million, 2 percent of total new-money. Three of these transactions were issued on behalf of institutions of higher education for a total of $71.1 million. The proceeds from the bonds will finance campus infrastructure improvements and construction of new facilities – $48.1 million for Texas Southern University, $8.9 million for Midwestern State University, and $14.1 million for Stephen F. Austin State University. TPFA also issued $5.5 million for its Military Facilities Commission bonds to finance renovations at a number of existing armories and to purchase land for the Houston Joint Reserve Facility.

Refunding Transactions Decrease in Fiscal 2002

In fiscal 2001, the Federal Reserve lowered the federal fund rates several times. Interest rates declined causing a rise in refunding issues. Because many refunding transactions took place in fiscal 2001, the bonds available to be refunded in fiscal 2002 decreased,

Figure 5

TEXAS NEW-MONEY AND REFUNDING BOND ISSUES 1989 — 2002



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

Table 8

LEASE-PURCHASE AGREEMENTS APPROVED BY THE BOND REVIEW BOARD FISCAL 2002

AGENCY	PROJECT	AMOUNT
Texas Department of Human Services	TIERS software	$34,900,000
Texas Department of Information Resources	Capital Complex Telephone System upgrades	$7,093,126
State Aircraft Pooling Board	Aircraft	$3,000,000
Texas Department of Agriculture	Metrology laboratory	$1,800,000
Texas Department of Human Services	Telephone upgrades	$350,840
State Aircraft Pooling Board	Aircraft fuel trucks	$134,349
Total Approved Lease-Purchase Agreements		**$47,278,315**

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

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

resulting in a decline in refunding issues.

Refunding bonds issued by state agencies and universities totaled almost $723 million, achieving net present value savings of $12 million. The refunding bonds comprise only 16 percent of total debt issued in fiscal 2002, as compared to approximately 49 percent of the total bonds issued in fiscal 2001.

The Texas Public Finance Authority refunded the largest amount of outstanding debt, issuing $377 million to refund its general obligation commercial paper notes and Military Facilities Commission bonds.

The Texas Department of Housing and Community Affairs issued $127 million in single family mortgage revenue refunding bonds.

The University of Texas System issued $110.5 million and Texas Tech University issued $67.9 million in refunding bonds for outstanding commercial paper.

The Texas Veterans Land Board issued $24.2 million in refunding bonds for its housing program.

Finally, the Texas Water Development Board issued $15.5 million in refunding bonds for outstanding water development bonds.

Increased Interim Financing

State agencies and institutions of higher education use commercial paper and variable-rate notes to provide interim financing for equipment, construction, and loans. Total issuance in fiscal 2002 was over $681 million, a significant increase from the $352 million that was issued in fiscal 2001. See Table 18.

The University of Texas System issued approximately $237 million in Revenue Financing System (RFS) commercial paper notes and $234 million in Permanent University Fund (PUF) variable-rate notes during fiscal 2002. As of August 31, 2002, the System had $323 million of RFS commercial paper and $175 million of PUF variable-rate notes outstanding. The System uses commercial paper and variable-rate notes to provide interim financing for construction projects and to purchase equipment.

The Texas Public Finance Authority issued $35 million in revenue commercial paper and $56.9 million in general obligation commercial paper during fiscal 2002. As of August 31, 2002, TPFA had a total of $56.4 million in revenue commercial paper and $41.9 million in general obligation commercial paper outstanding.

The Texas A&M University System issued $43.5 million in RFS commercial paper and $22.5 million in PUF variable-rate notes during fiscal 2002. As of August 31, 2002, the System had $40 million of RFS commercial paper outstanding and $50 million of PUF variable-rate notes outstanding. The System utilizes commercial paper and variable-rate notes to finance construction projects on its campuses.

The Texas Department of Housing and Community Affairs issued $28.5 million in commercial paper during fiscal 2002. The total amount of commercial paper outstanding as of August 31, 2002, was $12.1 million. TDHCA established its commercial paper program in 1994 to enable the agency to recycle certain prepayments of single family mortgage loans, thereby preserving the private activity volume cap allocation under its single family programs. Once 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 allows TDHCA to make additional mortgage loans for modestly priced housing. The program targets first-time homebuyers of very low, low, and moderate income.

Table 9

TEXAS STATE LONG-TERM AND SHORT-TERM ISSUES EXPECTED DURING FISCAL 2003

ISSUER	APPROXIMATE AMOUNT	PURPOSE	APPROXIMATE ISSUE DATE
General Obligation Bonds			
Self-Supporting			
Texas Higher Education Coordinating Board	$103,190,000	General Obligation Refunding Bonds	Nov-02
Texas Higher Education Coordinating Board	75,000,000	College Student Loans	Jul-03
Texas Veterans Land Board	28,000,000	Veterans Land Refunding Bonds	Nov-02
Texas Veterans Land Board	23,000,000	Veterans Housing Refunding Bonds	Nov-02
Texas Veterans Land Board	50,000,000	Veterans Housing Bonds	Dec-02
Texas Veterans Land Board	50,000,000	Veterans Housing Bonds	Apr-03
Texas Veterans Land Board	50,000,000	Veterans Housing Bonds	Jul-03
Texas Veterans Land Board	20,000,000	Veterans Land Bonds	Aug-03
Texas Veterans Land Board	20,000,000	Veterans Land Bonds	Aug-03
Texas Water Development Board	25,000,000	Water Financial Assistance Bonds – Rural	Mar-03
Total Self-Supporting	**$444,190,000**		
Not Self-Supporting			
Texas Public Finance Authority*	$5,800,000	Construction of TX Center for Disease Control/So TX Healthcare System	Nov-02
Texas Public Finance Authority*	7,300,000	Construction of TX Center for Disease Control/So TX Healthcare System	May-03
Texas Public Finance Authority*	20,300,000	Governor's Office, TXDOT – Colonia Roadways	Dec-02
Texas Public Finance Authority*	12,500,000	Governor's Office, TXDOT – Colonia Roadways	Jun-03
Texas Public Finance Authority*	125,000,000	Governor's Office, TXDOT – Colonia Roadways	unknown
Texas Public Finance Authority*	4,500,000	TX Department of Public Safety – video equipment for law enforcement	Oct-02
Texas Public Finance Authority*	6,000,000	TX Department of Public Safety – video equipment for law enforcement	Apr-03
Texas Public Finance Authority*	3,100,000	TX Dept of Mental Health and Mental Retardation – Repair and Renovation	Sep-02
Texas Public Finance Authority*	13,800,000	TX Dept of Mental Health and Mental Retardation – Repair and Renovation	Apr-03
Texas Public Finance Authority*	3,000,000	TX School for the Blind and Visually Impaired – Repair and maintenance	May-03
Texas Public Finance Authority*	3,500,000	Texas Parks and Wildlife Department – Repair and renovation	Sep-02
Texas Public Finance Authority*	7,000,000	Texas Parks and Wildlife Department – Repair and renovation	Apr-03
Texas Public Finance Authority*	80,000,000	Texas Department of Criminal Justice – Repair and renovation	unknown
Texas Public Finance Authority*	3,038,252	Adjutant General – Repair and renovation	unknown
Texas Public Finance Authority*	16,484,500	Texas Building and Procurement Commission – Deferred Maintenance	Nov-02
Texas Public Finance Authority*	45,000	Texas Department of Agriculture – Maintenance and repair	Nov-02
Texas Public Finance Authority*	10,792,138	Texas Youth Commission – Repair and renovation	Nov-02
Texas Public Finance Authority*	3,500,000	Texas School for the Deaf – Construction and Repair	Feb-03
Texas Water Development Board	100,000,000	Water Financial Assistance Bonds – Econ Distressed Areas	Jun-03
Total Not Self-Supporting	**$425,659,890**		
Total General Obligation Bonds	**$869,849,890**		
Non-General Obligation Bonds			
Self-Supporting			
The Texas A&M University System – PUF*	$15,000,000	Facility Construction, Renovation, and Equipment	As Needed
The Texas A&M University System – RFS*	75,000,000	Facility Construction, Renovation, and Equipment	As Needed
The Texas A&M University System – RFS	93,835,000	Facility Construction, Renovation, and Equipment	Oct-02
Texas Department of Housing and Community Affairs	44,230,000	Single-Family Housing – Housing Revenue Bonds	Nov-02
Texas Department of Housing and Community Affairs	71,430,000	Single-Family Housing – Housing Revenue Bonds	Nov-02
Texas Department of Housing and Community Affairs*	12,100,000	Single-Family Housing – Commercial Paper Refunding Bonds	Nov-02
Texas Department of Housing and Community Affairs	50,000,000	Single-Family Housing – Housing Revenue Bonds	Apr-03
Texas Department of Housing and Community Affairs	50,000,000	Single-Family Housing – Housing Revenue Bonds	Aug-03
Texas State Technical College	10,880,000	Facility Construction and Renovation	Nov-02
Texas State Technical College	1,200,000	Student Wellness Center at TSTC West Texas	Jun thru Sept-03
Texas Tech University	100,000,000	Revenue Financing System Refunding and Improvement Bonds	Jul-03
Texas Water Development Board	185,000,000	Clean Water State Revolving Fund	Nov-02
Texas Water Development Board	200,000,000	Clean Water State Revolving Fund	Mar-03
Texas Water Development Board	200,000,000	Clean Water State Revolving Fund	Jul-03
Texas Woman's University	8,295,500	Academic and Administrative Building Renovation	Mar-03
The University of Texas System - PUF*	150,000,000	Facility Construction Refunding Bonds – Flexible Rate Notes	May-03
The University of Texas System - RFS	163,285,000	Refunding Bonds	Sep-02
The University of Texas System - RFS	575,000,000	Facility Construction Refunding Bonds	Jan-03
The University of Texas System - RFS*	250,000,000	Financing Capital Construction Projects	throughout the yr
University of Houston System	130,955,000	Consolidated Revenue Bonds	Oct-02
University of Houston System	52,360,000	Consolidated Revenue Refunding Bonds	Nov-02
The University of North Texas System	9,500,000	Residence Hall Construction	Oct-02
Total Self-Supporting	**$2,448,070,500**		
Not Self-Supporting			
Texas Public Finance Authority	Unknown	Charter School Financings	unknown
Texas Public Finance Authority	9,000,000	Parks and Wildlife Department – Nimitz Museum	unknown
Texas Public Finance Authority	75,000,000	Texas Department of Insurance – Nursing Home Liability Fund	unknown
Texas Public Finance Authority	29,500,000	Texas Southern University	Mar-03
Texas Public Finance Authority*	19,045,482	Master Lease Purchase Program	various
Total Not Self-Supporting	**$132,545,482**		
Total Non-General Obligation Bonds	**$2,580,615,982**		
Total All Bonds	**$3,450,465,872**		

* Commercial Paper or Variable-Rate Note program

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

During fiscal 2002, the Texas Tech University System issued approximately $14.6 million in RFS commercial paper. As of August 31, 2002, the TTU System had $10.6 million of commercial paper outstanding. The System established its commercial paper program in 1998 to finance construction projects.

The Texas Department of Economic Development issued $9 million in commercial paper during fiscal 2002. As of August 31, 2002, the Department had $9 million of commercial paper outstanding.

Additional information about commercial paper and variable-rate note programs is included as Appendix B of this report.

Texas Lease Purchases

Lease purchases with an initial principal greater than $250,000, or with a term of more than five years are required to be approved by the Bond Review Board. The Texas Bond Review Board approved $47.3 million for lease-purchase acquisitions during fiscal 2002 *(Table 8)*, compared to $29.6 million in fiscal 2001.

Six fiscal 2002 acquisitions were financed through the Texas Public Finance Authority's Master Lease Purchase Program (MLPP). The MLPP assists state agencies and universities in obtaining competitive, low-interest, short-term acquisition financing.

The largest lease-purchase transaction – $34.9 million – enabled the Texas Department of Human Services to acquire new software for its Texas Integrated Eligibility Redesign System (TIERS) project, which focuses on the redesign and replacement of the Department's automated legacy systems.

The Texas Department of Information Resources financed $7 million for the Capitol Complex Telephone System Upgrade Project.

The State Aircraft Pooling Board financed $3 million to purchase new aircraft and $134,349 for aircraft fuel trucks.

The Texas Department of Agriculture financed $1.8 million to relocate and update its metrology laboratory facilities.

The Texas Department of Human Services also financed $350,840 to purchase telephone upgrades for its Abilene, Seguin, and Edinburg offices.

Funding Needs Projected to Decrease For 2003

Texas state issuers expect to issue less debt in fiscal 2003 than was issued during fiscal 2002. 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 $3.5 billion in bonds and commercial paper during fiscal 2003 *(Table 9)*. It is estimated that $2.3 billion will finance projects, programs, and facilities and $1.2 billion will refund outstanding debt.

The largest amount of debt issuance in fiscal 2003 will provide funding for The University of Texas System. The System expects to issue $1.1 billion of debt during the new fiscal year. Of this amount, approximately $738 million will refund previously issued Revenue Financing System (RFS) bonds, $250 million of commercial paper will fund its Financing Capital Construction Projects, and $150 million will refund its Permanent University Fund bonds.

The Texas Water Development Board anticipates that it will issue $710 million in new money. The Clean Water State Revolving Fund will utilize the majority of this new debt – $585 million – to provide funds for financial assistance to local governmental jurisdictions in Texas that seek to improve their wastewater infrastructure. The TWDB also plans to issue $100 million for the agency's Economically Distressed Areas Program (EDAP) and $25 million for Water Financial Assistance bonds.

The Texas Public Finance Authority plans to issue approximately $458.2 million in bonds and commercial paper during fiscal 2003. Approximately $157.4 million will be used for renovation and construction projects by the Department of Criminal Justice, Youth Commission, Department of Mental Health and Mental Retardation, School for the Deaf, Center for Disease Control, School for the Blind and Visually Impaired, Parks and Wildlife Department, Department of Agriculture, Adjutant General, and the Building and Procurement Commission. Other projects to be funded in fiscal 2003 include $157.8 million for colonias roadways, $75 million for the Nursing Home Liability Fund, $10.5 million to the Department of Public Safety for video equipment, and $9 million for the Nimitz Museum project. The remainder of TPFA's new debt for 2003 consists of an estimated $29.5 million in tuition revenue bonds for Texas Southern University, and $19 million in revenue commercial paper to fund the Master Lease Purchase Program. TPFA will also provide funding for charter school financings.

The Texas Veterans Land Board expects to issue $241 million of new debt during fiscal 2003. Of this projected debt, $150 million will augment the Veterans Housing Assistance Program and $40 million will provide loans for eligible veterans to acquire land through the Veterans Land Loan Program. The VLB also anticipates refunding approximately $23 million of housing bonds and $28 million of land bonds.

The Texas Department of Housing and Community Affairs expects to issue approximately $227.8 million during fiscal 2003. The proceeds will finance TDHCA's Single Family Mortgage Revenue Bond Program. TDHCA also plans to issue approximately $12.1 million in refunding bonds via commercial paper to refund a portion of its outstanding residential mortgage revenue bonds.

The Texas A&M University System projects that it will issue $15 million of Permanent University Fund (PUF) bonds and $93.8 million of Revenue Financing System bonds during fiscal 2003 for facilities improvement and construction. In addition, the System will be issuing $75 million of RFS commercial paper to fund the acquisition, construction and equipping of various university facilities.

The University of Houston System expects to issue $130.9 million of new-money debt for Consolidated Revenue Bonds. The System will also issue $52.4 million of Consolidated Revenue Refunding Bonds.

The Texas Higher Education Coordinating Board plans to issue $75 million in new-money bonds to provide financing for its Hinson-Hazelwood student loan program. The program is self-supporting and is repaid from payment revenues received from the student loans. The Coordinating Board will also issue $103.1 million of General Obligation Refunding Bonds.

The Texas Tech University System estimates that it will refund $100 million of Revenue Financing System and Improvement Bonds in fiscal 2003.

Texas State Technical College plans to issue $12 million for facility construction and renovations.

The University of North Texas System anticipates issuing $9.5 million to fund the construction of a residence hall.

Texas Woman's University expects to use $8.3 million for renovations to academic and administrative buildings.

Chapter 3
Texas Bonds and Notes Outstanding

Texas had a total of $17.3 billion in state bonds and notes outstanding on August 31, 2002, compared to $13.7 billion in fiscal 2001, and $13.2 billion in fiscal 2000.

General Obligation Bonds Outstanding Increased in FY 2002

The state's total bonds and notes outstanding increased significantly from $13.7 billion in fiscal 2001 to $17.3 billion in fiscal 2002. Of the total state debt outstanding on August 31, 2002, $5.8 billion is backed by the general obligation (G.O.) pledge of the state, an increase of $145.7 million, or 2.6 percent, from the $5.7 billion G.O. bonds outstanding the previous year *(Table 10)*. The increase in G.O. bonds outstanding is attributed primarily to the issuance of College Student Loan bonds, Veterans Land and Housing bonds, and the issuance of Texas Water Development Board bonds. (See Chapter 2 and Appendix A for a description of bonds issued in fiscal 2002.)

Texas G.O. bonds carry a constitutional pledge of the full faith and credit of the state to pay 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 future legislatures, an appropriation that cannot be guaranteed under state statute.

Investors are willing to assume the added risk associated with the purchase of non-G.O. bonds by charging the state a higher interest rate on such bonds. The rate of interest on non-G.O. bond issues may range from 0.1 to 0.5 percentage points higher than comparable G.O. issues.

General Revenue Supported Debt Increased in FY 2002

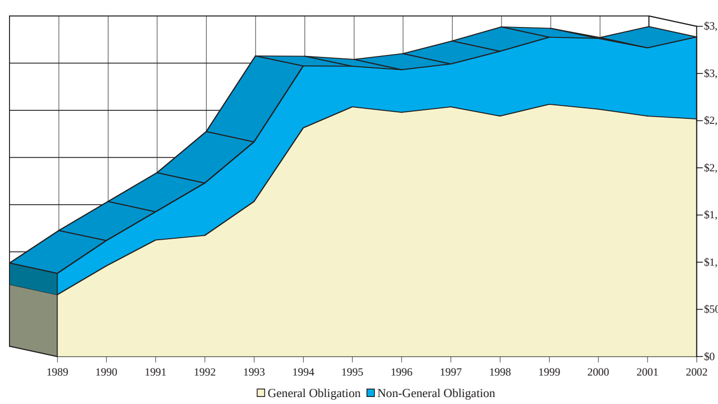
All bonds do not have the same financial impact on the state's general revenue. Self-supporting bonds, both G.O. and non-G.O., rely on sources other than the state's general revenue to pay debt service; thus, self-supporting bonds do not directly impact state finances. However, bonds that are not self-supporting 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.

The combined total of not self-supporting general obligation and revenue bonds outstanding increased by $116.3 million, during fiscal 2002 *(Figure 6)*. Not self-supporting G.O. bonds outstanding decreased by $32.8 million in fiscal 2002, while not self-supporting revenue bonds outstanding increased by $149.1 million. As a result, Texas had $3.4 billion in outstanding bonds that must be paid from the state's general revenue as of August 31, 2002, compared to $3.3 billion at the end of fiscal 2001. Not self-supporting G.O. and revenue bonds totaled $3.4 billion in fiscal years 1999 and 1998.

Significant growth in bonds payable from general revenue occurred during 1988-94, 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 approval of the SSC bonds, Texas had $422 million in bonds outstanding payable from general revenue. The $250 million in SSC

Figure 6

NOT SELF-SUPPORTING
TEXAS STATE BONDS OUTSTANDING
BACKED ONLY BY GENERAL REVENUE
(millions of dollars)



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

Table 10

TEXAS BONDS OUTSTANDING

(amounts in thousands)

	8/31/99	8/31/00	8/31/01	8/31/02
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$1,324,332	$1,701,244	$1,673,221	$1,723,742
Water Development Bonds	624,665	644,545	776,870	879,580
Park Development Bonds	32,563	30,462	28,107	28,862
College Student Loan Bonds	595,606	565,084	604,550	635,418
Farm and Ranch Security Bonds*	1,000	1,000	1,000	1,000
Texas Agricultural Finance Authority*	26,000	29,000	34,000	34,000
Agriculture Water Conservation Bonds	11,230	8,915	6,380	0
Total, Self-Supporting	**$2,615,396**	**$2,980,250**	**$3,124,128**	**$3,302,603**
Not Self-Supporting [1]				
Higher Education Constitutional Bonds [2]	$78,970	$66,775	$53,995	$41,545
Texas Public Finance Authority Bonds	2,368,192	2,363,223	2,233,241	2,158,128 [4,6]
Park Development Bonds	0	16,310	15,675	14,850
Texas National Research Laboratory Commission Bonds	47,739	0	0	0 [7]
Agriculture Water Conservation Bonds	0	0	0	16,160
Water Development Bonds – EDAP [3]	129,710	126,165	146,775	166,195
Water Development Bonds – State Participation Bonds	50,000	50,000	99,840	119,840
Total, Not Self-Supporting	**$2,674,611**	**$2,622,473**	**$2,549,526**	**$2,516,718**
Total General Obligation Bonds	**$5,290,007**	**$5,602,723**	**$5,673,654**	**$5,819,321**
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds				
The Texas A&M University System	$331,117	$312,870	$308,228	$299,395 [4,6]
The University of Texas System	623,625	703,210	669,040	796,790 [6]
College and University Revenue Bonds (individual universities are listed below)	2,255,736	2,424,714	2,627,035	3,177,771 [6]
The Texas A&M University System	618,536	630,993	677,741	678,249
The University of Texas System	929,022	1,086,114	1,150,545	1,462,817
Texas Tech University System	174,570	180,820	215,170	315,525
University of Houston System	143,330	134,680	177,400	167,410
Texas State University System	198,340	186,725	213,130	200,645
The University of North Texas System	75,813	80,237	76,064	168,470
Texas Southern University	52,930	51,910	50,520	96,625
Texas Woman's University	18,240	25,360	22,920	37,945
Midwestern State University	14,890	14,100	13,310	12,770
Stephen F Austin State University	20,380	24,825	22,060	29,960
Texas State Technical College System	9,685	8,950	8,175	7,355
Texas Dept of Housing & Community Affairs Bonds	1,227,762	1,308,348	1,541,849	1,608,150 [6]
Texas State Affordable Housing Corporation	0	0	33,037	486,929
Texas Small Business I D C Bonds	99,335	99,335	99,335	99,335
Economic Development Program *	6,100	7,750	5,655	9,000
Texas Water Resources Finance Authority Bonds	169,100	104,875	86,290	69,790
College Student Loan Bonds	37,311	30,654	23,100	15,051
Texas Department of Transportation Bonds	0	0	0	2,199,994
Texas Workers' Compensation Fund Bonds	146,095	132,848	118,409	102,669
Veterans' Financial Assistance Bonds	9,980	200,000	196,597	197,284
Texas Public Finance Authority Bonds (Special Revenue)	37,505	36,165	34,775	33,320
Texas Water Development Board Bonds (State Revolving Fund)	1,226,045	1,502,140	1,524,367	1,493,025
Total, Self-Supporting	**$6,169,711**	**$6,862,908**	**$7,267,717**	**$10,588,502**
Not Self-Supporting [1]				
Texas Public Finance Authority Bonds	$626,646	$650,273	$615,146	$741,759
TPFA Master Lease Purchase Program*	33,800	33,700	33,600	56,400 [5]
Texas Military Facilities Commission	21,540	18,715	15,725	17,710
Parks and Wildlife Improvement Bonds	28,165	46,080	57,030	54,715
Total, Not Self-Supporting	**$710,151**	**$748,768**	**$721,501**	**$870,584**
Total Non-General Obligation Bonds	**$6,879,862**	**$7,611,676**	**$7,989,218**	**$11,459,087**
Total Bonds	**$12,169,869**	**$13,214,399**	**$13,662,872**	**$17,278,408**

* commercial paper

[1] Bonds that are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue fund for debt service Not self-supporting bonds totaled $3 4 billion outstanding on August 31, 2002, $3 3 billion outstanding on August 31, 2001, $3 4 billion outstanding on August 31, 2000, and $3 4 billion outstanding on August 31, 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, up to 90 percent of bonds issued may be used for grants Amounts do not include premium on capital appreciation bonds

[5] This figure reflects only the commercial paper component of the Master Lease Purchase Program (MLPP)

[6] Includes commercial paper notes outstanding

[7] These bonds were fully defeased on September 29, 1999

Note: The debt outstanding figures include the accretion on capital appreciation bonds as of August 31, 2002

Sources: Texas Bond Review Board, Office of the Executive Director and Texas Comptroller of Public Accounts project revenue bonds were defeased June 1, 1995. In fiscal 1997, through provisions contained in the General Appropriations Act, the Texas Public Finance Authority defeased another $89.6 million of the outstanding general revenue bonds issued for the SSC project. An additional $58.6 million and $16.3 million of the SSC bonds were defeased in fiscal 1998 and 1999, respectively. The 76th Legislature appropriated funds to defease the remaining balance of the SSC bonds in fiscal 2000.

Debt-service payments from general revenue decreased slightly from $378.6 million in fiscal 2001 to $376.1 million in fiscal 2002 *(Figure 7)*. During fiscal 2000, the state paid $357 million from general revenue for debt service compared to $355 million paid in 1999 and $325 million in 1998.

Texas Bonds Authorized but Unissued

Authorized bonds are defined as those bonds that may be issued without further action by the legislature. As of August 31, 2002, Texas had $8.5 billion in authorized but unissued bonds *(Table 12)*. Of the total authorized but unissued bonds, $5.1 billion, or 60 percent, are general obligation bonds; however, the authorized but unissued bonds that would require the payment of debt service from general revenue total $1.4 billion. New bond authority passed by the 77th Legislature and subsequently approved by voters will impact the amount of general obligation bonds issued in fiscal 2003. The remaining outstanding bonds are in programs that are designed to be self-supporting including $889 million of tuition revenue bonds *(Table 13)*.

New Bond Authority – 77th Texas Legislature

In November 2001, Texas voters approved four constitutional amendments authorizing over $3.5 billion in additional general obligation bond issuance by the Texas Public Finance Authority (TPFA), the Texas Veterans Land Board (VLB), and the Texas Water Development Board (TWDB). The new bond authority includes approximately $1 billion of non-self-supporting general obligation bonds to provide financing for roadway projects in border colonias, and for state agency construction and repair projects.

The new authority also includes $2.5 billion of self-supporting general obligation bonds to provide financing for veterans' housing loans, cemeteries, and water projects. Although the self-supporting bonds are backed by the general obligation pledge of the state, the likelihood that the bonds will draw on the general revenue is remote. Historically, program revenues have been sufficient to pay debt service on the obligations.

Additional legislation passed by the 77th Legislature includes Senate Bill 1173, which authorizes TPFA to issue $9 million in revenue bonds to provide financing for repair and renovation projects at the Nimitz Memorial Naval Museum. House Bill 2453 increases the Veterans Land Board's authority to issue revenue bonds from $250 million to $1 billion. House Bill 2190 requires the Bond Review Board to adopt debt issuance policies to guide issuers of state securities and to ensure that state debt is prudently managed.

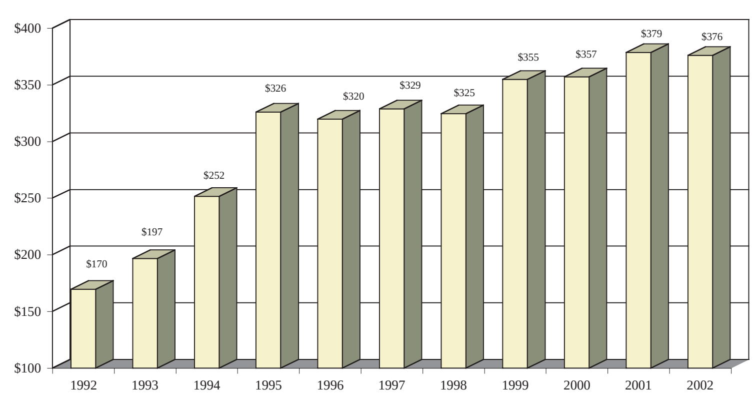
Long-Term Contracts and Lease Purchases

Long-term contracts and lease- or installment-purchase agreements can serve as financing alternatives 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 look at the state debt.

The Texas Building and Procurement Commission, formerly the 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

Figure 7

ANNUAL DEBT SERVICE PAID FROM GENERAL REVENUE
(millions of dollars)



Source: Texas Bond Review Board, Office of Executive Director

Table 11

DEBT-SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR

(amounts in thousands)

	2002	2003	2004	2005	2006	2007 beyond
General Obligation Bonds						
Self-Supporting						
Veterans' Land and Housing Bonds	$182,336	$186,880	$155,374	$136,263	$135,749	$2,856,422
Water Development Bonds	68,666	76,576	77,633	77,892	78,290	1,165,535
Park Development Bonds	4,136	4,133	4,138	4,142	4,139	15,234
College Student Loan Bonds	80,358	82,601	89,668	89,166	84,841	534,672
Farm and Ranch Loan Bonds	24	50	50	50	50	1,550
Texas Agricultural Finance Authority	749	1,700	1,700	1,700	1,700	44,200
Agriculture Water Conservation Bonds	223	0	0	0	0	0
Total Self-Supporting	$336,493	$351,939	$328,564	$309,214	$304,769	$4,617,613
Not Self-Supporting [1]						
Higher Education Constitutional Bonds [2]	$15,181	$15,153	$15,116	$15,074	$450	$0
Texas Public Finance Authority Bonds	248,647	241,040	238,803	238,769	254,496	1,971,030
Park Development Bonds	1,686	1,641	1,595	1,550	1,504	16,230
Agriculture Water Conservation Bonds	0	2,697	2,694	2,696	2,693	8,088
Water Development EDAP Bonds [3]	12,276	13,918	13,890	13,814	13,912	213,266
Water Development State Participation Bonds	5,949	6,494	6,494	6,494	6,494	269,364
Total Not Self-Supporting	$283,739	$280,942	$278,593	$278,398	$279,551	$2,477,978
Total General Obligation Bonds	$620,231	$632,881	$607,157	$587,611	$584,320	$7,095,591
Non-General Obligation Bonds						
Self-Supporting						
Permanent University Fund Bonds						
The Texas A&M University System	$38,299	$37,323	$37,568	$36,865	$34,309	$205,590
The University of Texas System	58,761	65,526	65,518	65,494	65,526	656,976
College and University Revenue Bonds	282,314	295,077	293,332	282,066	272,377	2,968,409
Texas Dept of Housing & Community Affairs Bonds	320,982	115,192	117,864	137,998	119,240	3,357,905
Texas State Affordable Housing Corporation	6,570	35,711	36,737	36,694	36,740	1,027,136
Texas Small Business I D C Bonds	4,967	4,967	4,967	4,967	4,967	217,709
Economic Development Program	450	450	450	450	450	225,000
Texas Water Resources Finance Authority Bonds	24,548	16,602	14,739	13,387	11,829	28,957
College Student Loan Bonds	3,598	2,198	2,223	2,023	1,573	21,639
Texas Workers' Compensation Fund Bonds [4]	25,689	25,624	25,553	25,478	25,395	25,307
Veterans' Financial Assistance Bonds	29,862	11,321	171,413	1,057	1,057	93,290
Texas Public Finance Authority Bonds (Special Revenue)	3,143	3,141	3,141	3,142	3,145	36,011
Texas Department of Transportation Bonds	0	79,571	88,971	88,971	88,971	5,345,947
Texas Water Development Bonds (State Revolving Fund)	109,911	113,341	115,173	117,762	121,058	1,905,208
Total Self Supporting	$909,094	$806,043	$977,650	$816,354	$786,636	$16,115,084
Not Self-Supporting [1]						
Texas Public Finance Authority Bonds	$70,994	$70,183	$71,458	$71,359	$71,236	$524,281
TPFA Master Lease Purchase Program	14,124	12,762	11,520	10,248	9,242	24,362
Military Facilities Commission Bonds	2,118	4,350	2,290	2,166	2,170	11,599
Parks and Wildlife Improvement Bonds	5,130	5,569	5,676	5,578	5,484	56,411
Total Not Self-Supporting	$92,366	$92,864	$90,944	$89,350	$88,132	$616,653
Total Non-General Obligation Bonds	$1,001,461	$898,907	$1,068,593	$905,704	$874,768	$16,731,736
Total All Bonds	$1,621,692	$1,531,788	$1,675,750	$1,493,315	$1,459,088	$23,827,328

[1] Bonds that are not self-supporting depend solely on the state's general revenue for debt service Debt service from general revenue totaled $378 6 million during fiscal 2001, and total $376 1 million in fiscal 2002

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

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

[4] Texas Workers' Compensation Fund Bonds were economically defeased Full legal debt service requirements are reflected in this table

Notes: The debt-service figures do not include the early redemption of bonds under the state's various loan programs

The future debt-service figures for variable-rate bonds and commercial paper programs are estimated amounts

Detail may not add to total due to rounding

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

Table 12

TEXAS BONDS AUTHORIZED BUT UNISSUED
(amounts in thousands)

	08/31/99	08/31/00	08/31/01	08/31/02
General Obligation Bonds				
Self-Supporting				
Veterans Land and Housing Bonds	$805,002	$365,002	$305,002	$655,002
Water Development Bonds	684,330	600,410	481,586	2,344,886
Farm and Ranch Loan Bonds [4]	474,000	474,000	474,000	474,000
Park Development Bonds	16,310	0	0	0
College Student Loan Bonds	74,822	474,822	400,000	325,000
Texas Department of Economic Development Bonds	45,000	45,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	29,000	26,000	21,000	21,000
Agricultural Water Conservation Bonds	181,000	181,000	181,000	0
Total Self-Supporting	**$2,309,464**	**$2,166,234**	**$1,907,588**	**$3,864,888**
Not Self-Supporting [1]				
Higher Education Constitutional Bonds	*	*	*	*
Texas Public Finance Authority Bonds	$127,940	$49,340	49,340	1,016,235
Agricultural Water Conservation Bonds	0	0	0	164,840
Water Development Bonds-EDAP [2]	111,705	111,705	86,571	61,571
Water Development Bonds-State Participation Bonds	0	50,000	35,000	15,000
Total Not Self-Supporting	**$239,645**	**$211,045**	**170,911**	**1,257,646**
Total General Obligation Bonds	**$2,549,109**	**$2,377,279**	**$2,078,499**	**$5,122,534**
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds [3]				
The Texas A&M University System	$269,365	$479,208	$466,149	$436,275
The University of Texas System	577,338	980,946	879,713	655,174
College and University Revenue Bonds	**	**	**	**
Texas Department of Housing & Community Affairs	**	**	**	**
Texas Turnpike Authority Bonds	**	**	**	**
Texas Agricultural Finance Authority Bonds	500,000	500,000	500,000	500,000
Texas Department of Economic Development Bonds	**	**	**	**
Texas State Affordable Housing Corporation			**	**
Texas Water Resources Finance Authority Bonds	**	**	**	**
Texas School Facilities Finance Program	750,000	750,000	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**	**
Alternative Fuels Program	50,000	50,000	50,000	50,000
Veterans' Financial Assistance Bonds[5]	240,020	50,000	1,000,000	795,720
Texas Department of Transportation Bonds	**	**	**	**
Texas Water Development Board (State Revolving Fund)	**	**	**	**
Total Self-Supporting	**$2,386,723**	**$2,810,154**	**$3,645,862**	**$3,187,169**
Not Self Supporting [1]				
Texas Public Finance Authority Bonds	$248,997	$92,404	$29,941	$116,337
TPFA Master Lease Purchase Program	66,200	66,300	66,400	43,600
Texas Military Facilities Commission Bonds	**	**	**	**
Parks and Wildlife Improvement Bonds	31,485	12,685	0	9,000
Total Not Self-Supporting	**$346,682**	**$171,389**	**$96,341**	**$168,937**
Total Non-General Obligation Bonds	**$2,733,405**	**$2,981,544**	**$3,742,203**	**$3,356,106**
Total All Bonds	**$5,282,514**	**$5,358,823**	**$5,820,702**	**$8,478,641**

* 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 that are not self-supporting depend solely on the state's general revenue for debt service

2 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

3 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, 2002

4 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

5 The 77th Legislature authorized the Veterans' Land Board to issue revenue bonds in an aggregate amount not to exceed $1 billion effective June 14, 2001

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

appropriated general revenue funds *(Table 14)*.

In fiscal 2001, TWDB issued bonds to prepay obligations under a federal contract in connection with the construction of Palmetto Bend Dam and Reservoir.

There were no lease purchases of facilities approved by the Bond Review Board during fiscal 2002. All of the equipment lease purchases approved by the Bond Review Board in fiscal 2002 were financed through the Master Lease Purchase Program and are shown as bonds outstanding.

Table 13

TUITION REVENUE BONDS
AUTHORIZED BUT UNISSUED AS OF 8/31/02
(amounts in thousands)

		Authority Remaining
The Texas A&M University System		
Prairie View A&M University	$68,000	
Tarleton State University	18,700	
West Texas State University	22,780	
Texas A&M International University	21,620	
Texas A&M University – Kingsville	20,060	
Texas A&M University – Corpus Christi	45,500	
Texas A&M University – Commerce	14,960	
Texas A&M University – Texarkana	17,000	
TAMUS Health Science Center	14,300	
Texas A&M University – Galveston	10,030	
Texas A&M University	2,700	
Total – The Texas A&M University System		$255,650
The University of Texas System		
The University of Texas at Arlington	$16,636	
The University of Texas at Brownsville	21,510	
The University of Texas at Dallas	21,994	
The University of Texas at El Paso	12,750	
The University of Texas – Pan American	26,650	
The University of Texas of the Permian Basin	5,610	
The University of Texas at San Antonio	27,950	
The University of Texas at Tyler	20,910	
The University of Texas Southwestern Medical Center	0	
The University of Texas Health Science Center at Houston	19,550	
The University of Texas Medical Branch at Galveston	20,000	
The University Health Center at Tyler	11,513	
The UT Health Science Center at San Antonio (Harlingen)	25,500	
The University of Texas M D. Anderson Cancer Center	2,800	
The University of Texas Health Science Center at San Antonio	25,600	
Total – The University of Texas System		$258,973
Texas Tech University and Health Science Center		$90,530
Texas Southern University		30,935
University of Houston		102,956
The University of North Texas System		25,434
Texas Woman's University		8,298
Texas State University System		105,398
Texas State Technical College System		10,880
Total Authority Remaining as of 8/31/02		**$889,053**

* On 8/28/02, received Bond Review Board approval to issue their entire tuition revenue bond authority. Expected sale date for both the University of Houston and Texas State University System is September 2002.

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

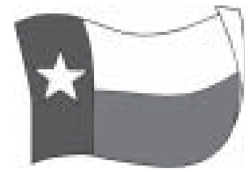
Table 14

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

	2002	**2003**	**2004**	**2005**	**2006**	**2007 and Beyond**
Texas Building and Procurement Commission	$3,387	$3,389	$3,383	$3,383	$3,383	$38,824
TOTAL	$3,387	$3,389	$3,383	$3,383	$3,383	$38,824

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

CHAPTER 4
Texas Bond Issuance Costs



Texas' state bond issuers spent an average of $1,284,410 per issue or $9.19 per $1,000 on bond issues sold during the 2002 fiscal year.[1] Appendix A of this report details the issuance costs associated with each of these issues.

The Costs of Issuing Bonds

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

- Underwriter – The underwriter or underwriting syndicate acts as a dealer that purchases a new issue of municipal securities from the issuer for resale to investors. The underwriter may acquire the securities either by negotiation with the issuer or by award on the basis of competitive bidding. In a negotiated sale, the underwriter may also have a significant role in the structuring of the issue.
- Bond Counsel – Bond counsel is retained by the issuer to give a legal opinion that the issuer is authorized to issue the 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 documentation, 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 15

AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES

	Fiscal 2001		**Fiscal 2002**	
	Average Cost Per Bond Issue	Average Cost Per $1,000 of Bonds Issued	Average Cost Per Bond Issue	Average Cost Per $1,000 of Bonds Issued
Average Issue Size (In Millions)	$94.1		$178.7	
Underwriter's Spread	$453,355	$5.44	$984.480	$6.14
Other Issuance Costs:				
Bond Counsel	53,450	0.80	117,172	1.07
Financial Advisor	41,767	0.67	67,804	0.91
Rating Agencies	36,353	0.61	64,491	0.60
Printing	6,155	0.15	15,397	0.11
Other	21,833	0.25	35,066	0.36
Subtotal	$159,558	2.48	299,930	3.05
Total	$612,913	$7.92	$1,284,410	$9.19

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

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 fiscal 2002, the underwriter's spread accounted for over 76 percent of all issuance costs *(Table 15)*. This percentage is slightly higher than in the previous year. The cost of the average underwriter's spread per issue more than doubled over the previous year from $453,355 to $984,480. This increase was primarily due to two very large issues, the Central Texas Turnpike System Revenue Bonds, Series 2002A and Series 2002B. Excluding the Turnpike System's bonds, the cost of the average underwriter's spread per issue was below $395,000.

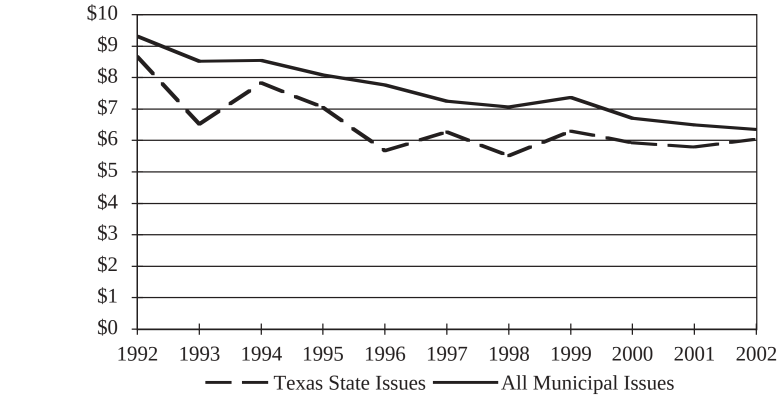
When measured on a per $1,000 basis, the $5.44 average underwriter spread paid in fiscal 2001 is lower than the $6.14 reported in fiscal 2002. The increase in the average cost of issuance per $1,000 is primarily attributable to Texas Woman's University (TWU) revenue bonds and the Texas State Affordable Housing Commission (TSAHC) single family mortgage revenue bonds. For example, the TWU closed on an issue with relatively high issuance costs. In addition in 2001, a number of transactions were structured and sized to allow issuers to sell these bonds at a lower than average cost.

Other costs of issuance primarily consist of bond counsel fees, financial advisor fees, rating agency fees, and printing costs. These costs averaged $299,930 per issue or $3.05 per $1,000 compared to $159,558 or $2.48 per $1,000 in fiscal 2001. Therefore, not only did the cost per $1,000 increase in the underwriter's spread, but also in the other costs. Please note this analysis excludes conduit issues.

A comparison of gross spreads paid to underwriters on a national basis to those paid by Texas issuers reveals that the state's bond issuers paid lower underwriting fees than the national average *(Figure 8)*. Data published by Thomson Financial Securities shows that spreads paid by issuers nationally have averaged $6.34 per $1,000 compared to Texas' simple average of $5.80 per $1,000.

Figure 8

GROSS UNDERWRITING SPREADS: 1992-2002
TEXAS STATE BOND ISSUES VS. ALL MUNICIPAL BOND ISSUES



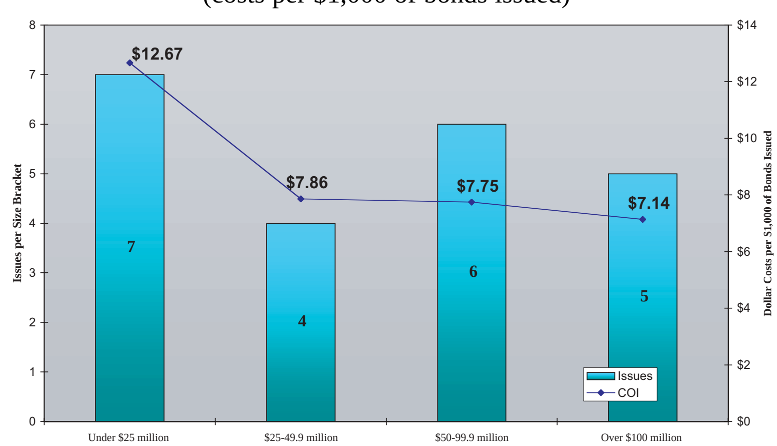
Note: 2002 Municipal figures are for the first six months only Amounts represent dollars per $1,000 face value of bond issues Gross spreads include managers' fees, underwriting fees, average takedowns, and expenses Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded
Sources: The *Bond Buyer* (8/12/02), Thomson Financial Securities, and Texas Bond Review Board, Office of the Executive Director

Comparison of Issuance Costs by Size

In general, a larger bond issue has a greater issuance cost, but a lower issuance cost when calculated as a percentage of the size of the bond issue. This occurs because there are costs of issuance that do not vary proportionately with the size of a bond issue. For example, professional fees for legal services, financial advisory services, and

Figure 9

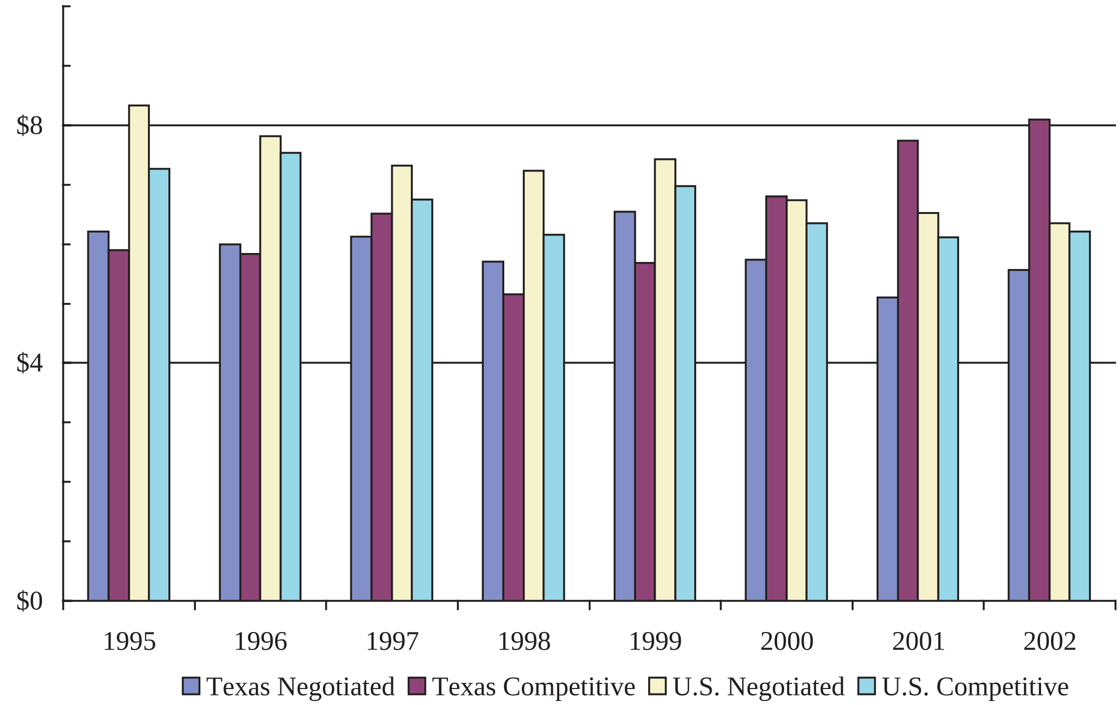
AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES BY SIZE OF ISSUE
(costs per $1,000 of bonds issued)



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

Figure 10

GROSS UNDERWRITING SPREADS: 1995-2002
NEGOTIATED VS. COMPETITIVE MUNICIPAL ISSUES



Note: 2002 US figures are for the first six months only Amounts represent dollars per $1,000 face value of bond issues Gross spreads include manager's fees, underwriting fees, average takedowns, and expenses Private placements, short-term notes maturing in 12 months or less, and remarketings of variable-rate securities are excluded

Sources: The *Bond Buyer* (8/12/02), Thomson Financial Securities, and Texas Bond Review Board, Office of the Executive Director

document drafting must be paid regardless of the size of the bond issue.

Texas bond issues followed this general pattern; the smaller issues were proportionally more costly than the larger issues *(Figure 9)*. In fiscal 2002, total issuance costs for bond issues of less than $25 million averaged $174,724 per issue or $12.67 per $1,000. Costs for the larger issues of over $100 million averaged $4,536,870 per issue or $7.14 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 or electronic 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 pre-sale 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 that have a conventional structure, such as serial and term coupon bonds, and securities that have a strong source of repayment. These conditions will generally lead to aggressive bidding since bidders will be able to ascertain market demand without extensive premarketing activities.

In a negotiated sale, an underwriter is chosen by the issuer in advance and agrees to buy the bonds at some future date for resale. Thereafter, the underwriter will try to ensure a successful sale by marketing the bonds. In more complicated financings, pre-sale 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 that include innovative structuring or derivative products, or securities that 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 fiscal 2001 reveal that bond issues sold in the competitive market had higher underwriting costs than the negotiated transactions *(Figure 10)*. During fiscal 2002, Texas bond issuers paid an average of $5.56 per $1,000 through negotiated sales, and $8.09 per $1,000 through competitive bids. Compared to the national averages compiled by Thomson Financial Securities Data, which recorded averages of $6.35 per $1,000 for negotiated transactions and $6.21 per $1,000 for competitive transactions, Texas shows to be above the average range in competitive sales, but substantially lower than the national average in negotiated sales. For fiscal year 2002, most of Texas' competitive issues were smaller issues with an average size of just under $28.9 million, while the negotiated issues had an average size of over $213.9 million.

Although issue size differences explain the majority of the differences between the types of Texas transactions, the nationwide closing gap between negotiated and competitive issues is again notable. From 1997 to 2002 the gap has decreased from $1.07 to preliminarily $0.14, between negotiated and competitive issues nationwide.

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.

Conduit Issues

Conduit transactions are typically issued through the Texas Department of Housing and Community Affairs (TDHCA) or Texas State Affordable Housing Commission (TSAHC). These issues do not constitute a general obligation, debt or liability of the state of Texas, nor a pledge, loan of faith, credit or taxing power of the state of Texas. It is common for conduit issues to have a higher cost of issuance per $1,000 when compared to other state issues. The issue with the highest cost was a TSAHC multifamily revenue bond issue; the cost per $1,000 was $35.54. Figure 11 plots the costs of issuance for 2002 conduit issues and contains a trendline reflecting the cost of issuance relative to size.

Recent Trends in Issuance Costs

In order to determine any trends in issuance costs, it is important to review the makeup of the 22 bond transactions (exclusive of conduit issues) occurring in fiscal 2002. Four of those issues were sold via competitive bids, one was a private placement, and 17 were negotiated transactions. All four of the issues sold competitively were issued for amounts under $76 million. Of the 17 negotiated transactions, only three were $25 million or less. Among those bond issues, total issuance costs for bonds issued via negotiated sale averaged $8.11 per $1,000, whereas bonds issued via competitive bid had an average cost of $12.93 per $1,000.

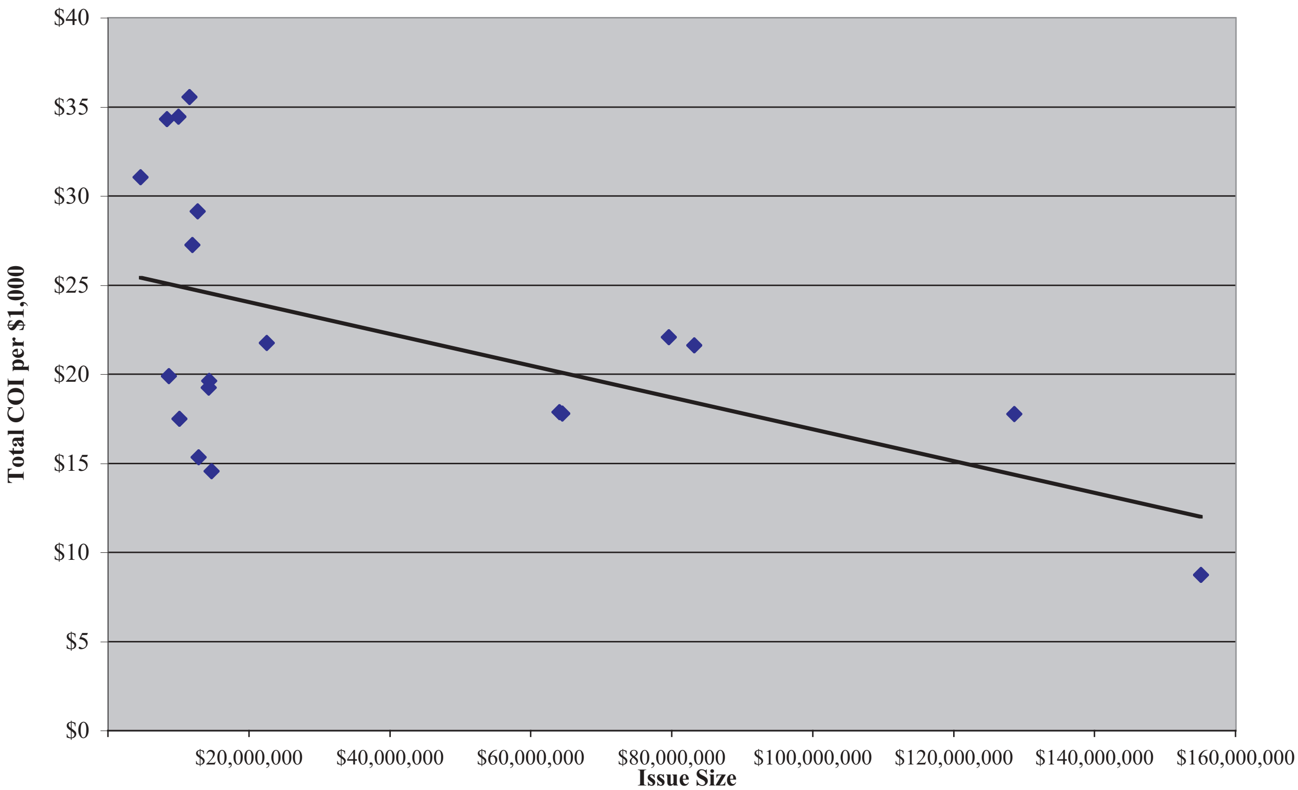
An accurate comparison of the average issuance costs per $1,000 on negotiated and competitively bid bond issues for fiscal 2002 is difficult because there were only four competitively bid transactions. This is important because smaller bond issues tend to be more costly due to the costs that occur despite the size of the issue. This can be shown more effectively by separating the average underwriter's spread and the average issuance costs. For the transactions bid competitively, the average spread was $8.09 per $1,000 and average issuance cost per $1,000 was $4.84 for a total of $12.93. Negotiated issues, however, had a total average of $8.11, an average spread of $5.56 per $1,000 and average issuance cost of $2.55 per $1,000.

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

Figure 11

FISCAL 2002 CONDUIT ISSUES: COSTS OF ISSUANCE

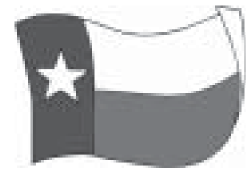


Source: Texas Bond Review Board, Office of the Executive Director

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.

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

Chapter 5
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 that meet any or all of the following tests: 1) Private Business Use Test – more than ten 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 ten percent of the proceeds is to be directly or indirectly secured by, or payments are to be derived from, a private business use; and 3) Private Loan Financing Test – proceeds are to be used to make or finance loans to persons other than governmental units.

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

In addition, 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. As a result, the ceiling was initially set at the greater of $50 per capita or $150 million. Section 146(e) of the Internal Revenue Code also provides for each state to devise an allocation formula or a process for allocating the state's ceiling. This provision gave 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 varied allocation systems in place.

The Texas Revised Civil Statutes, Article 5190.9a, as amended, and Chapter 1372, Texas Government Code (collectively the "Act"), mandate the allocation process for the state of Texas. The Private Activity Bond Allocation Program regulates the volume ceiling and monitors the amount of demand and the use of private activity bonds each year. The Texas Bond Review Board administers this program and has since January 1, 1992.

In an effort to address the high demand for most types of private activity bond financing, the state of Texas devised a nonpolitical system that ensures an allocation opportunity for each eligible project type. As the state's ceiling is limited by the federal government, it is impossible to meet all the demands. Therefore, a lottery system is in place that ensures an equitable method of allocation.

The 76th Texas Legislature passed Senate Bill 1155 (SB 1155), which made significant amendments to the Act. Beginning with the 2000 program year, the Act specified that, for the first seven and a half months of the year, the state's ceiling must be set aside as follows:

- 25 percent for single family housing to issuers of qualified mortgage revenue bonds (MRBs). Of that amount, one-third will continue to be set aside for the Texas Department of Housing and Community Affairs (TDHCA) with the other two-thirds dedicated to the local issuers. Local issuers may apply for an amount determined by a formula, based on their population, but in no event for more than the maximum amount of $25 million.
- 11 percent for issues authorized by a state constitutional amendment. The Texas Higher Education Coordinating Board may apply for a maximum of $75 million while other issuers eligible in this category are limited to a maximum of $50 million.
- 7.5 percent for issuers of qualified small-issue industrial development bonds (IDBs) and empowerment zone bonds (EZ bonds) for use in federally designated empowerment zones and enterprise communities. The maximum allocation amount in this subceiling is $10 million.
- 16.5 percent for issuers of qualified residential rental project issue bonds (multifamily housing). Issuers within this category may apply for a maximum amount of the lesser of $15 million or 15 percent of the amount set aside for this subceiling.
- 10.5 percent for issuers of qualified student loan bonds authorized by §53.47, Texas Education Code. Each issuer is limited to a maximum amount of $35 million.
- 29.5 percent 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 the other subceilings. Applications in this subceiling may not exceed $25 million.

In addition to amending the set-aside amounts, the new statute requires a priority system for residential rental (multifamily housing) applications. The multifamily category now has three priorities to encourage developers to reach residents at a lower income level. Priority one requires that 100 percent of the units be set aside for residents at or below 50 percent of the area median family income (AMFI) and that the rents on those units be capped at the 30 percent level. Priority two requires that 100 percent of the units be set aside for residents at or below 60 percent AMFI and that the rents on those units be capped at the 30 percent level. Priority three does not require any rent caps or set-asides other than the federal requirements of either 40 percent of the units being set aside for residents earning at or below 60 percent AMFI or 20 percent of the units being set aside for residents earning at or below 50 percent AMFI. For the first two priorities, the developer is required to use the four percent low-income housing tax credits, including applying for such credits with TDHCA before a bond reservation can be issued. Tax credits are optional in the third priority.

SB 1155 additionally mandates the collapse of all six subceilings on August 15th rather than September 1st. Therefore, on August 15th any unreserved or unallocated amounts are combined and made available exclusively to the multifamily applications, in priority order, until August 31st. Any amounts available on or after September 1st are then offered to remaining applications by lot order, regardless of project type or priority.

With the exception of single family housing and student loan bonds, reservations of state ceiling are 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-serve 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 through August 14th of each year. As previously noted, on August 15th of each year, unreserved allocation from all the subceilings is now combined and redistributed to qualified residential rental projects. Furthermore, on September 1st, unreserved allocation from all subceilings is combined 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 the next applicant in line. Oftentimes, this results in a volume cap distribution that might vary slightly from the predetermined set-asides at the beginning of the program year *(Table 16)*.

The state of Texas is second only to California in population and volume cap. Texas once again experienced an increase in volume cap for the 2002 Private Activity Bond Allocation Program. Based on the Texas population figures of 21,325,032, the 2002 volume cap was set at $1,599,376,350, an increase of $296,137,599 (22.7 percent) from the 2001 cap of $1,303,238,751.

The dramatic increase in the amount of cap allocation can be attributed to the growth of the state's population and new federal legislation that increased the per-capita formula. On December 20, 2000, new legislation was passed that accelerated the increase in private-activity volume cap, the first such increase since the Tax Reform Act of 1986. The cap phase-in began January 1, 2001, when the limit was increased from $50 per capita to $62.50 per capita. The second part of the plan occurred in January of 2002 when the cap multiplier increased to $75 per capita or $225 million, whichever is greater. Beginning in 2003, the state ceiling will be indexed to inflation. The increase still fell short of the demand for the program. The allocation program in Texas has been oversubscribed each year since 1988 *(Figure 12)*. Applications received for program year 2002 totaled $4.84 billion or 302.6 percent of the available allocation amount *(Table 17)*. The 2002 program year left $3.24 billion in requests for allocation unsatisfied.

State legislation passed during the 77th Legislative Session shifted the distribution of volume cap once again. Senate Bill 322 established new set-aside percentages for the state's six subceilings that took effect for the 2002 Private Activity Bond Allocation Program and will remain intact during 2003:

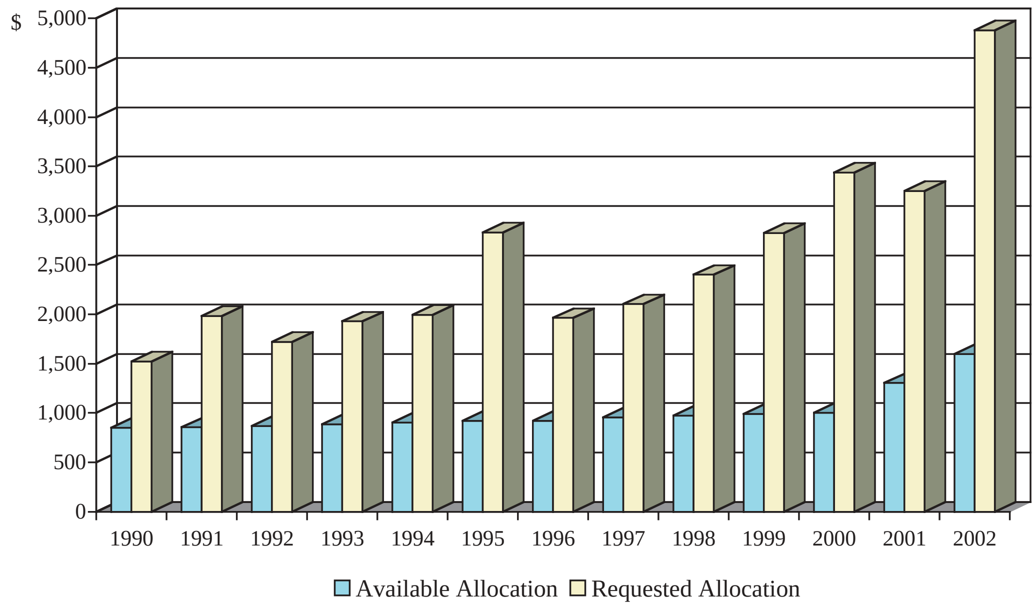
- Subceiling #1 Mortgage Revenue Bonds – Increased from 25 to 29.6 percent
- Subceiling #2 State-Voted Issues – Decreased from 11 to 8 percent
- Subceiling #3 Qualified Small-Issue IDBs – Decreased from 7.5 to 4.6 percent
- Subceiling #4 Multifamily Revenue Bonds – Increased from 16.5 to 23 percent
- Subceiling #5 Student Loan Bonds – Decreased from 10.5 to 8.8 percent
- Subceiling #6 All Other Issues – Decreased from 29.5 to 26 percent.

Table 16
STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
2002 SET-ASIDE vs. ISSUED ALLOCATION AMOUNTS
(as of November 18, 2002)

SUBCEILINGS	SET-ASIDE ALLOCATION	PERCENT OF TOTAL	ISSUED ALLOCATION	PERCENT OF TOTAL
Single Family Housing	$469,538,478	29.36%	$318,184,631	19.89%
State-Voted Issues	140,000,000	8.75%	120,000,000	7.50%
Small-Issue IDBs	72,968,818	4.56%	–	0.00%
Multifamily Housing	364,844,088	22.81%	185,555,169	11.60%
Student Loan Bonds	139,592,520	8.73%	139,500,000	8.72%
All Other Issues	412,432,447	25.79%	371,625,000	23.24%
TOTALS	**$1,599,376,351**	**100.00%**	**$1,134,864,800**	**70.96%**

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

Figure 12
STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
AVAILABLE vs. REQUESTED ALLOCATION
(millions of dollars)



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

The actual set-asides for 2002 *(Table 16)* were adjusted slightly from those set out in SB 322 due to a provision in Section 1372.024, Texas Government Code, that allows the state-voted subceiling (#2) to expand to accommodate requests in that category if the dollar amount requested prior to January 1 of the program year is greater than the amount originally set aside. Requests made prior to January 1 in subceiling #2 totaled $140,000,000 (8.75%) compared to an initial set-aside of $127,950,108 (8.0%) resulting in a weighted-average contraction by the other sub-ceilings. Although the amount of bonds the state-voted subceiling ultimately closed totaled only $120,000,000, initial requests were greater than the set-aside culminating in the expansion and corresponding contraction.

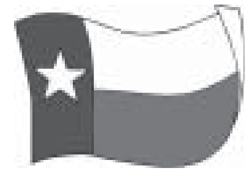
Additional legislation (House Bill 3451) passed during the 77th Legislative Session dedicated $25 million out of subceiling #1 to the Texas State Affordable Housing Corporation (TSAHC) to initiate a Teacher Home Loan Program. Proceeds from the sale of bonds issued at a premium, are to be used to provide low-interest loans and down-payment assistance to first-time, home-buying teachers residing in the state. House Bill 3329 dedicated two percent of sub-ceiling #6 until August 15th specifically to projects that would promote the development of new drinking water sources. House Bill 3329 further dedicated one-third of the volume cap available to sub-ceiling #3 to the Texas Agricultural Finance Authority until June 1st.

Table 17
STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
2002 APPLICATIONS FOR ALLOCATION
(as of November 18, 2002)

	Available Allocation	**Requested Allocation**	**Requests as a % of Availability**
Mortgage Revenue Bonds	$469,538,478	$986,171,650	210.03%
State-Voted Issue Bonds	140,000,000	140,000,000	100.00%
Industrial Development Bonds	72,968,818	3,000,000	4.11%
Multifamily Rental Project Bonds	364,844,088	2,838,333,302	777.96%
Student Loan Bonds	139,592,520	175,000,000	125.36%
All Other Bonds Requiring Allocation	412,432,447	696,506,580	168.88%
Total	**$1,599,376,351**	**$4,839,011,532**	**302.56%**

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

Appendix A
Summary of Bonds Issued



TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Greens Road Apartments), Series 2001 – $8,375,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Greens 14 Partners, L.P., a Texas limited liability company, to provide for the acquisition, construction, equipment and long-term financing of a new 224-unit multifamily residential rental project located in Houston, Texas.

Dates:	Board Approval –	August 29, 2001
	Negotiated Sale –	September 4, 2001
	Closing Date –	September 7, 2001

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on December 1, 2035. The bonds were insured by Fannie Mae.

Bond Ratings: Moody's – Aaa

Interest Cost:
True Interest Cost (TIC) – 5.37%
Net Interest Cost (NIC) – 5.37%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	RBC Dain Rauscher
Underwriter –	William R. Hough & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$71,500	$8.54
Financial Advisor	30,000	3.58
Rating Agencies	8,720	1.04
O.S. Preparation	8,141	0.97
Trustee	6,750	0.81
Trustee Counsel	4,500	0.54
Disclosure Counsel	5,500	0.66
Attorney General	1,250	0.15
TDHCA Fees	58,457	6.98
Private Activity Fee	2,650	0.32
Other	6,288	0.75
	$203,756	**$24.33**
Underwriter's Spread	**$83,750**	**$10.00**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Senior Bonds (Meridian Apartments), Series 2001A-1, Taxable Series 2001A-2, and Subordinate Series 2001B – $ 14,310,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Brisben Meridian, L.P., an Ohio limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 280-unit multifamily residential rental project in Fort Worth, Texas.

Dates:	Board Approval –	August 29, 2001
	Negotiated Sale –	September 6, 2001
	Closing Date –	September 13, 2001

Structure: The bonds were sold on a negotiated basis and issued as fixed-rate, taxable (Series A-2) and tax-exempt (Series A-1 and Series B) securities maturing in 2034. The bonds were insured by Ambac Assurance Corporation.

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

Interest Cost:
True Interest Cost (TIC) – 7.71%
Net Interest Cost (NIC) – 7.64%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	RBC Dain Rauscher
Underwriter –	Legg Mason Wood Walker, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$55,000	$3.84
Financial Advisor	40,000	2.80
Rating Agencies	24,000	1.68
Trustee	5,008	0.35
Trustee Counsel	4,000	0.28
Disclosure Counsel	5,000	0.35
Attorney General	2,500	0.17
Private Activity Fee	3,500	0.24
TDHCA Fees	89,550	6.26
TEFRA Notice Publication	500	0.03
	$229,058	**$16.01**
Underwriter's Spread	**$46,419**	**$3.24**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Senior Bonds (Wildwood Branch Apartments), Series 2001A-1, Taxable Series 2001A-2, and Subordinate Series 2001B – $14,365,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Wildwood Branch Townhomes, L.P., an Ohio limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 280-unit multifamily residential rental project in Fort Worth, Texas.

Dates:	Board Approval –	August 29, 2001
	Negotiated Sale –	September 6, 2001
	Closing Date –	September 13, 2001

Structure: The bonds were sold on a negotiated basis and issued as fixed-rate, taxable (Series A-2) and tax-exempt (Series A-1 and Series B) securities maturing in 2034. The bonds were insured by Ambac Assurance Corporation.

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

Interest Cost:

True Interest Cost (TIC) –	5.70%
Net Interest Cost (NIC) –	5.64%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	RBC Dain Rauscher
Underwriter –	Legg Mason Wood Walker, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$55,000	$3.83
Financial Advisor	38,000	2.65
Rating Agencies	24,000	1.67
Trustee	5,008	0.35
Trustee Counsel	4,000	0.28
Disclosure Counsel	5,000	0.35
Attorney General	2,500	0.17
O.S. Preparation	8,141	0.57
Private Activity Fee	3,500	0.24
TDHCA Fees	89,825	6.25
Other	500	0.03
	$235,474	**$16.39**
Underwriter's Spread	**$46,588**	**$3.24**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Residential Mortgage Revenue Bonds, Series 2001 A-E – $155,125,000 (Private Activity)

Purpose: The proceeds of the bonds were used to refund a portion of the Single-Family Mortgage Revenue Refunding Commercial Paper Notes, Series A, Residential Mortgage Revenue Bonds, Series 1988A, and Residential Mortgage Revenue Bonds Series 1989A, and to acquire mortgage certificates.

Dates:	Board Approval –	August 29, 2001
	Negotiated Sale –	October 5, 2001
	Closing Date –	October 30, 2001

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt bonds. The bonds have the following maturity dates:

Series 2001A - 7/1/2034
Series 2001B - 7/1/2033
Series 2001C - 7/1/2021
Series 2001D - 7/1/2034
Series 2001E - 7/1/2034

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

Interest Cost:	Series A,B,C	Series D,E
True Interest Cost (TIC) –	5.04%	2.56%
Net Interest Cost (NIC) –	5.17%	2.78%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	RBC Dain Rauscher
Senior Underwriter –	Salomon Smith Barney

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$137,161	$0.88
Financial Advisor	95,000	0.61
Rating Agencies	67,351	0.43
O.S. Preparation	8,450	0.05
Trustee	25,000	0.16
Trustee Counsel	10,000	0.06
Escrow Verification	27,000	0.17
Attorney General	2,500	0.02
Disclosure Counsel	74,730	0.48
Private Activity Fee	27,651	0.18
	$474,843	**$3.04**
Underwriters' Spread	**$884,951**	**$5.70**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Hillside Apartments), Series 2001A and Taxable Series 2001B – $12,900,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to TX Hillside Apartments, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 236-unit multifamily residential rental project located in Dallas, Texas.

Dates:		
	Board Approval –	November 27, 2001
	Private Placement –	December 18, 2001
	Closing Date –	December 18, 2001

Structure: The bonds were privately placed with Charter Mac Equity Issue Trust and will mature over 40 years for the tax-exempt bonds (Series 2001A) and 10.33 years for the taxable bonds (Series 2001B). The bonds will bear interest at a fixed rate.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.29%
Net Interest Cost (NIC) – 7.24%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$60,000	$4.65
Financial Advisor	30,000	2.33
Trustee	7,500	0.58
Trustee Counsel	5,000	0.39
Disclosure Counsel	2,500	0.19
Attorney General	2,500	0.19
Private Activity Fee	3,225	0.25
TDHCA Fees	84,940	6.58
TEFRA Notice Publication	2,500	0.19
	$198,165	**$15.36**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Oak Hollow Apartments), Series 2001 – $8,625,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Oak Hollow Housing, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new 153-unit multifamily residential rental project located in Dallas, Texas.

Dates:		
	Board Approval –	November 27, 2001
	Private Placement –	December 18, 2001
	Closing Date –	December 18, 2001

Structure: The bonds were privately placed through Charter Mac. The bonds were issued as fixed-rate, tax-exempt securities maturing in December 2041.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.08%
Net Interest Cost (NIC) – 7.03%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$60,000	$6.96
Financial Advisor	30,000	3.48
Trustee	7,500	0.87
Trustee Counsel	5,500	0.64
Disclosure Counsel	2,500	0.29
Attorney General	1,250	0.14
Private Activity Fee	2,156	0.25
TDHCA Fees	60,245	6.98
Other	2,500	0.29
	$171,651	**$19.90**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Fallbrook Apartments), Series 2001 A B & C – $14,700,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Fallbrook Apartments, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new 280-unit multifamily residential rental project located in Houston, Texas.

Dates:		
	Board Approval –	December 20, 2001
	Private Placement –	December 21, 2001
	Closing Date –	December 21, 2001

Structure: The bonds were privately placed through Bank of America. The bonds were issued as fixed-rate, taxable (Series C) and tax-exempt (Series A and B) securities maturing in December 2034.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 6.10%
Net Interest Cost (NIC) – 6.08%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$65,000	$4.42
Financial Advisor	30,000	2.04
Trustee	6,500	0.44
Trustee Counsel	5,000	0.34
Disclosure Counsel	2,500	0.17
Attorney General	2,500	0.17
Private Activity Fee	4,175	0.28
TDHCA Fees	91,500	6.23
Other	7,125	0.49
	$214,300	**$14.58**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Senior Bonds (Millstone Apartments), Series 2002A-1, Taxable Series 2002A-2, and Subordinate Series 2002B – $12,700,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Millstone Apartments, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new 248-unit multifamily residential rental project located in Houston, Texas.

Dates:		
	Board Approval –	January 17, 2002
	Negotiated Sale/Private Placement –	January 24, 2002
	Closing Date –	January 30, 2002

Structure: The Series A-1 and Series A-2 bonds were sold through a negotiated sale. The Series B bonds were privately placed with U.S. Bancorp Piper Jaffray. The bonds were issued as fixed-rate, taxable (Series A-2) and tax-exempt (Series A-1 and B) securities maturing in January 2035. The Series A-1 and A-2 bonds were insured by Ambac Assurance Corporation.

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

Interest Cost:
True Interest Cost (TIC) – 5.51%
Net Interest Cost (NIC) – 5.51%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher
Underwriter – Newman & Associates, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$70,000	$5.51
Financial Advisor	25,000	1.97
Rating Agencies	25,000	1.97
Paying Agent	86,360	6.80
Trustee	7,500	0.59
Trustee Counsel	2,500	0.20
Disclosure Counsel	5,000	0.39
Attorney General	2,500	0.20
Private Activity Fee	3,125	0.25
TDHCA Fees	80,700	6.35
TEFRA Notice Publication	1,197	0.09
	$308,882	**$24.32**
Underwriter's Spread	**$61,120**	**$4.81**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Sugar Creek Apartments) Series 2002 – $11,950,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Sugar Creek Apartments, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new 240-unit multifamily residential rental project located in Houston, Texas.

Dates:	Board Approval –	January 17, 2002
	Negotiated Sale –	January 24, 2002
	Closing Date –	February 1, 2002

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing in January 2042. The bonds were insured by QBE Insurance Corporation.

Bond Ratings: Standard & Poor's – A+

Interest Cost:
True Interest Cost (TIC) – 6.24%
Net Interest Cost (NIC) – 6.10%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$65,000	$5.44
Financial Advisor	30,000	2.51
Rating Agencies	25,000	2.09
Trustee	6,500	0.54
Trustee Counsel	10,220	0.86
Disclosure Counsel	5,000	0.42
Attorney General	1,250	0.10
O.S. Preparation	6,500	0.54
Private Activity Fee	3,488	0.29
TDHCA Fees	76,750	6.42
Other	4,525	0.38
	$234,233	**$19.59**
Underwriter's Spread	**$91,512**	**$7.66**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (West Oaks Apartments) Series 2002 – $10,150,000 (Private Activity)

Purpose: The proceeds of the bonds were used to fund a mortgage loan to West Oaks/Finlay Partners III, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new 168-unit multifamily residential rental project located in Houston, Texas.

Dates:	Board Approval –	January 17, 2002
	Private Placement –	February 1, 2002
	Closing Date –	February 1, 2002

Structure: The bonds were privately placed as fixed-rate, tax-exempt securities maturing in January 2042.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 7.18%
Net Interest Cost (NIC) – 7.16%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$60,000	$5.91
Financial Advisor	30,000	2.95
Trustee	7,500	0.74
Trustee Counsel	5,000	0.49
Disclosure Counsel	2,500	0.25
Attorney General	1,250	0.12
Private Activity Fee	3,300	0.33
TDHCA Fees	64,950	6.40
TEFRA Notice Publication	3,217	0.32
	$177,717	**$17.51**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A – $10,000,000

Purpose: The proceeds were used to fund single family residential mortgage loans and/or down payment assistance for eligible very low income first-time homebuyers and to pay the costs of issuance.

Dates: Board Approval – February 21, 2002
Negotiated Sale – March 6, 2002
Closing Date – March 27, 2002

Structure: The bonds were sold on a negotiated basis as fixed-rate, taxable securities maturing September 1, 2026.

Bond Ratings: Moody's – Aa2
Standard & Poor's – A+

Interest Cost:
True Interest Cost (TIC) – 7.01%
Net Interest Cost (NIC) – 7.01%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher
Senior Underwriter – M.R. Beal & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$68,015	$6.80
Financial Advisor	50,000	5.00
Rating Agencies	23,800	2.38
Escrow Verification	25,000	2.50
Trustee	3,500	0.35
Trustee Counsel	8,500	0.85
O.S. Preparation	5,701	0.57
Attorney General	1,250	0.13
O.S. Preparation	45,326	4.53
	$231,092	**$23.11**
Underwriters' Spread	**$113,464**	**$11.35**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Park Meadows Apartments), Series 2002 – $4,600,000 (Private Activity)

Purpose: The proceeds were used to fund a mortgage loan to Boerne Park Meadows Apartments, L.P., a Texas limited partnership, to finance the acquisition, construction, equipment and long-term financing of a new, 100-unit multifamily residential rental project located in Boerne, Texas.

Dates: Board Approval – April 18, 2002
Private Placement – April 18, 2002
Closing Date – April 25, 2002

Structure: The bonds were privately placed through Kirkpatrick Pettis as fixed-rate, tax-exempt securities maturing June 1, 2034. The bonds were insured by Sun America.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 6.53%
Net Interest Cost (NIC) – 6.53%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$65,000	$14.13
Financial Advisor	25,000	5.44
Placement Agent	500	0.11
Trustee	3,300	0.72
Trustee Counsel	5,000	1.09
Disclosure Counsel	2,500	0.54
Attorney General	1,250	0.27
Private Activity Fee	1,808	0.39
TDHCA Fees	36,500	7.94
TEFRA Notice Publication	2,000	0.43
	$142,858	**$31.06**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Bonds, Series 2002A-D – $118,000,000 (Private Activity)

Purpose: The 2002 Series A bonds were used to provide funds to finance the purchase of low-interest mortgage loans to first time homebuyers of low, very low and moderate income individuals or families, and to pay a portion of the cost of issuance. The 2002 Series B bonds were used to refund TDHCA's Residential Mortgage Revenue Bonds, Series 2001E. The 2002 Series C bonds were used to provide funds to refinance an equal amount of TDHCA's Single-Family Mortgage Revenue Refunding Commercial Paper Notes, Series A. The proceeds of the Series 2002D bonds were used to refund a portion of the TDHCA's outstanding Single Family Mortgage Revenue Bonds, Series 1991A.

Dates: Board Approval – May 23, 2002
Negotiated Sale – May 31, 2002
Closing Date – June 26, 2002

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities with the following maturities:

Series A 9/1/2035
Series B 9/1/2033
Series C 9/1/2033
Series D 9/1/2028

The bonds were insured by MBIA Insurance Corporation.

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

Interest Cost:
True Interest Cost (TIC) – 5.23%
Net Interest Cost (NIC) – 5.30%

Consultants:
Bond Counsel – Vinson & Elkins L.L.P.
Financial Advisor – RBC Dain Rauscher
Senior Underwriter – Salomon Smith Barney

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$113,216	$0.96
Financial Advisor	85,000	0.72
Rating Agencies	63,320	0.54
Trustee	15,000	0.13
Trustee Counsel	10,000	0.08
Escrow Verification	25,000	0.21
Attorney General	2,500	0.02
O.S. Preparation	56,920	0.48
Private Activity Fee	10,188	0.09
O.S. Preparation	3,716	0.03
	$384,860	**$3.26**
Underwriters' Spread	**$932,825**	**$7.91**

TEXAS DEPARTMENT OF TRANSPORTATION

Issue: Texas Turnpike Authority, Central Texas Turnpike System Revenue Bonds, First Tier Revenue Bonds Series 2002-A, First Tier Revenue Bonds Series 2002-B, and Second Tier Bond Anticipation Notes Series 2002 – $2,199,993,782

Purpose: The proceeds of the bonds were used to finance a portion of the costs of planning, designing, engineering, developing, and constructing the initial phase of the Central Texas Turnpike Project. This phase includes SH 130 from north of Georgetown to south of Austin Bergstrom International Airport, Loop 1 and SH 45. The current financial plan maximizes a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan of 33% of eligible project costs.

Dates:		
Board Approval –	June 18, 2002	
Negotiated Sale –	Series 2002A	Series 2002B
	August 7, 2002	August 28, 2002
Closing Date –	August 29, 2002	

Structure: The Series 2002A bonds ($1,149,993,781.80) were issued as Current Interest Bonds (CIBs) and as Capital Appreciation Bonds (CABs). Interest on the CIBs will be payable semiannually on each February 15 and August 15 beginning August 15, 2002. Interest on the CABs will accrete from the date of initial delivery and will be compounded on each February 15 and August 15 commencing February 15, 2003, and will be payable at maturity or prior redemption. The bonds were sold through a negotiated sale as fixed-rate, tax-exempt securities and will mature no later than August 15, 2042. The bonds were insured by Ambac Assurance Corporation.

The Series 2002B bonds ($150,000,000) were sold through a negotiated sale as variable-rate, tax-exempt securities. Interest will initially accrue from their date of delivery at a weekly rate, but the bonds may be subsequently converted to a fixed rate. Interest is payable each calendar month commencing on October 1, 2002. The Series 2002B bonds will mature no later than June 1, 2042. The bonds were insured by Ambac Assurance Corporation.

The Second Tier Bond Anticipation Notes, Series 2002 ($900,000,000) were sold through a negotiated sale as tax-exempt securities. Interest will be payable on December 1 and June 1 commencing December 1, 2002. The bonds have a final maturity of June 1, 2008.

The First Tier Note, Series 2002, will be sold to the developer pursuant to the Exclusive Development Agreement in denominations of $5,000 or any integral multiple thereof. Currently, the interest rate is estimated at 6.09%.

The Subordinate Loan TIFIA Promissory Note will be sold to the U.S. Department of Transportation. The TIFIA loan will mature on August 1, 2042.

Bond Ratings:	Series 2002A	Series 2002B
Moody's –	Baa1/Aaa	N/A
Standard & Poor's –	BBB+/AAA	BBB+/AAA/A+
Fitch –	BBB+/AAA	BBB+/AAA/F1+

Interest Cost:
True Interest Cost (TIC) – 5.40%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	RBC Dain Rauscher
Co-Financial Advisor –	CKW Financial Group, Inc.
Senior Underwriters –	Salomon Smith Barney
	Goldman, Sachs & Co.
	Lehman Brothers

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$1,550,000	$0.70
Financial Advisor	800,000	0.36
Rating Agencies	726,325	0.33
Paying Agent	4,250	0.00
Trustee	4,250	0.00
O.S. Preparation	256,661	0.12
Other	429,773	0.20
	$3,771,259	**$1.71**
Underwriters' Spread	**$13,360,453**	**$6.07**

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: State of Texas College Student Loan Bonds, Series 2002 – $75,000,000 (Private Activity)

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

Dates:

Dates:	Board Approval –	October 4, 2001
	Competitive Sale –	November 27, 2001
	Closing Date –	January 3, 2002

Structure: The bonds were sold through a competitive sale and were issued as fixed-rate, tax-exempt securities maturing on August 1, 2026. The bonds are general obligations of the state and are not insured.

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

Interest Cost:

True Interest Cost (TIC) –	4.92%
Net Interest Cost (NIC) –	4.93%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Co-Bond Counsel –	Wickliff & Hall P.C.
Financial Advisor –	First Southwest Company
Co-Financial Advisor –	Walton Johnson & Company
Underwriter –	Merrill Lynch & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$31,500	$0.42
Co-Bond Counsel	8,000	0.11
Financial Advisor	31,500	0.42
Co-Financial Advisor	8,000	0.11
Rating Agencies	27,080	0.36
Paying Agent	300	0.00
O.S. Preparation	4,200	0.06
Attorney General	1,250	0.02
Private Activity Fee	19,250	0.26
Other	6,500	0.09
	$137,580	**$1.84**
Underwriter's Spread	**$608,654**	**$8.12**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Military Facilities Commission Refunding and Armory Improvement Revenue Bonds, Series 2002 – $12,975,000

Purpose: The bond proceeds were used to refund and defease a portion of the Authority's outstanding parity bonds, pay for major renovations at several existing armories, roof repairs at three armories, and the land purchase for the Houston Joint Reserve Facility, as well as to pay costs of issuance.

Dates:		
	Board Approval –	November 27, 2001
	Negotiated Sale –	January 10, 2002
	Closing Date –	February 7, 2002

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities with final maturity in April 2021. Principal and interest on the bonds will be payable on April 1 and October 1 of each year commencing April 1, 2002. The bonds were insured by Ambac Assurance Corporation.

Bond Ratings: Moody's – Aaa

Interest Cost:
True Interest Cost (TIC) – 4.53%
Net Interest Cost (NIC) – 4.55%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	First Southwest Company
Co-Financial Advisor –	Walton Johnson & Company
Senior Underwriter –	Coastal Securities

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$26,531	$2.04
Financial Advisor	26,038	2.01
Rating Agencies	5,460	0.42
Trustee	4,000	0.31
Escrow Agent	4,000	0.31
Escrow Verification	3,450	0.27
Attorney General	1,000	0.08
O.S. Preparation	1,822	0.14
Other	2,699	0.21
	$75,000	**$5.79**
Underwriters' Spread	**$79,010**	**$6.09**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority State of Texas General Obligation Refunding Bonds, Series 2002 – $369,715,000

Purpose: The bond proceeds were used to refund outstanding commercial paper notes issued under TPFA's General Obligation Commercial Paper Notes, Series 1993A.

Dates:		
	Board Approval –	November 27, 2001
	Negotiated Sale –	January 24, 2002
	Closing Date –	February 13, 2002

Structure: The bonds were sold on a negotiated basis as tax-exempt, fixed-rate securities with final maturity in 2021. Interest on the bonds is payable on April 1 and October 1 of each year commencing April 1, 2002. Principal of the bonds will be payable October 1 of each year commencing October 1, 2002. The bonds are general obligations of the state and are not insured.

Bond Ratings:		
	Moody's –	Aa1
	Standard & Poor's –	AA
	Fitch –	Aa+

Interest Cost:
True Interest Cost (TIC) – 4.45%
Net Interest Cost (NIC) – 4.60%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Co-Bond Counsel –	Delgado Acosta Braden & Jones P.C.
Financial Advisor –	First Southwest Company
Co-Financial Advisor –	Walton Johnson & Company
Senior Underwriter –	Bear, Stearns & Co. Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$42,063	$0.11
Co-Bond Counsel	10,897	0.03
Financial Advisor	46,182	0.12
Co-Financial Advisor	1,984	0.01
Rating Agencies	64,000	0.17
Escrow Agent	750	0.00
Escrow Verification	2,000	0.01
Attorney General	1,250	0.00
O.S. Preparation	2,648	0.01
Other	1,744	0.00
	$173,518	**$0.46**
Underwriters' Spread	**$1,721,982**	**$4.66**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Texas Southern University Revenue Financing System Bonds, Series 2002 – $48,065,000

Purpose: The proceeds of the bond issue were used for the purpose of constructing, improving, renovating, enlarging or equipping the property, buildings, structures, facilities, roads, or related infrastructures of the University, and to pay costs of issuance of the Series 2002 Bonds.

Dates:	Board Approval –	March 21, 2002
	Negotiated Sale –	April 10, 2002
	Closing Date –	April 25, 2002

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt obligations with final maturity in 2021. Interest on the bonds will be payable on May 1 and November 1 of each year commencing November 1, 2002. The bonds were insured by MBIA Insurance Corporation.

Bond Ratings:	Moody's –	Baa1/Aaa
	Fitch –	AAA

Interest Cost:
True Interest Cost (TIC) – 5.05%
Net Interest Cost (NIC) – 5.01%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Financial Advisor –	First Southwest Company
Co-Financial Advisor –	CKW Financial Group, Inc.
Senior Underwriters –	Salomon Smith Barney SBK-Brooks Investment Corp.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$48,057	$1.00
Financial Advisor	30,385	0.63
Co-Financial Advisor	15,569	0.32
Rating Agencies	22,750	0.47
Paying Agent	6,500	0.14
Attorney General	1,250	0.03
O.S. Preparation	5,794	0.12
Other	7,750	0.16
	$138,055	**$2.87**
Underwriters' Spread	**$290,623**	**$6.05**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Midwestern State University Revenue Financing System Revenue Bonds, Series 2002 – $8,965,000

Purpose: The bond proceeds were used by Midwestern State to finance campus infrastructure improvements in HVAC systems; chilled water distribution systems; street drainage and paving; ADA improvements; and elevator, safety, security and lighting improvements. A portion of the bond proceeds was also used to pay issuance costs associated with the bonds.

Dates:	Board Approval –	May 23, 2002
	Competitive Sale –	June 18, 2002
	Closing Date –	July 9, 2002

Structure: The bonds were competitively bid and issued as fixed-rate, tax-exempt serial securities with a 20 year maturity. Interest on the bonds will be payable on June 1 and December 1 of each year commencing December 1, 2002. The bonds were insured by Financial Security Assurance, Incorporated.

Bond Ratings:	Moody's –	Aaa
	Fitch –	AAA

Interest Cost:
True Interest Cost (TIC) – 4.58%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	First Southwest Company
Co-Financial Advisor –	CKW Financial Group, Inc.
Underwriter –	Bank One Capital Markets, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$13,634	$1.52
Financial Advisor	26,000	2.90
Co-Financial Advisor	7,818	0.87
Rating Agencies	11,050	1.23
Paying Agent	2,500	0.28
Attorney General	1,000	0.11
O.S. Preparation	5,000	0.56
Travel	6,500	0.73
	$73,502	**$8.20**
Underwriter's Spread	**$60,980**	**$6.80**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Stephen F. Austin State University Revenue Financing System Revenue Bonds, Series 2002 – $14,070,000

Purpose: The bond proceeds were used by the university to finance campus infrastructure improvements, construction of a telecommunications building, renovation of power plant facilities, and replacement or renovation of the Birdwell Building. A portion of the bond proceeds was also used to pay issuance costs associated with the bonds.

Dates:		
	Board Approval –	May 23, 2002
	Competitive Sale –	June 18, 2002
	Closing Date –	July 9, 2002

Structure: The bonds were sold competitively as fixed-rate, tax-exempt serial securities with a final maturity in 2022. Principal and interest on the bonds will be payable on April 15 and October 15 of each year commencing April 15, 2003. The bonds were insured by Financial Security Assurance, Incorporated.

Bond Ratings:		
	Moody's –	Aaa
	Fitch –	AAA

Interest Cost:
True Interest Cost (TIC) – 4.57%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	First Southwest Company
Co-Financial Advisor –	CKW Financial Group, Inc.
Senior Underwriter –	Banc One Capital Markets, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$18,722	$1.33
Financial Advisor	26,500	1.88
Co-Financial Advisor	8,136	0.58
Rating Agencies	11,760	0.84
Paying Agent	2,500	0.18
Attorney General	1,000	0.07
O.S. Preparation	5,000	0.36
Travel	5,700	0.41
	$79,318	**$5.65**
Underwriters' Spread	**$81,478**	**$5.79**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation, Multifamily Housing Revenue Bonds (NHT/GTEX Project Portfolio), Series 2001A, Taxable Series 2001A-T, Junior Series 2001B, First Subordinate Series 2001C, and Second Subordinate Series 2001D – $83,205,000

Purpose: The proceeds were used to fund a permanent mortgage loan to the National Housing Trust Enterprise (NHTE) GTEX, L.L.C., a Texas limited liability company, for the acquisition and rehabilitation of seven multifamily residential apartment developments located in the Dallas and Houston areas.

Dates:		
	Board Approval –	April 19, 2001
	Negotiated Sale –	October 19, 2001
	Closing Date –	October 24, 2001

Structure: The bonds were issued in five series. Series A, B, C, and D were issued as fixed-rate, tax-exempt securities. The Series A-T bonds were issued as fixed-rate, taxable securities. The bonds mature in October 2031. The Series A and A-T bonds were insured by MBIA Insurance Corporation.

Bond Ratings:		
	Standard & Poor's –	Series A – AAA
		Series A-T – AAA
		Series B – BBB
		Series C – BB
		Series D – Not Rated

Interest Cost:	A	A-T	B	C	D
True Interest Cost (TIC) –	5.88%	5.17%	7.17%	9.99%	11.99%
Net Interest Cost (NIC) –	5.98%	7.20%	7.36%	10.17%	12.06%

Consultants:

Bond Counsel –	Andrews and Kurth L.L.P.
Financial Advisor –	First Southwest Company
Underwriter –	Newman & Associates, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$300,000	$3.61
Financial Advisor	176,410	2.12
Rating Agencies	103,000	1.24
Trustee	26,641	0.32
Trustee Counsel	7,500	0.09
Attorney General	2,500	0.03
O.S. Preparation	7,500	0.09
TSAHC Fees	87,164	1.05
Issuer Counsel Fees	38,000	0.46
	$748,715	**$9.00**
Underwriter's Spread	**$1,051,136**	**$12.63**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (HIC/Arborstone/Baybrook/Crescent Oaks), Series 2001 A, B, and C – $79,595,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Housing Initiatives Corporation (HIC) Arborstone Baybrook L.L.C., a Texas limited liability company, to finance the acquisition and rehabilitation of three multifamily residential apartment developments.

Dates: Board Approval – October 18, 2001
Negotiated Sale – November 13, 2001
Closing Date – November 21, 2001

Structure: The bonds were sold on a negotiated basis with a final maturity on November 1, 2031. Series A and C were sold as fixed-rate, taxable securities. Series B bonds were sold as fixed-rate, tax-exempt securities. Interest on the bonds is payable on May 1 and November 1 of each year beginning May 1, 2002. The bonds were not insured.

Bond Ratings: Moody's – Series A - A3
Series B – A3
Series C – Baa3

Interest Cost:
True Interest Cost (TIC) – 5.85%
Net Interest Cost (NIC) – 5.90%

Consultants:
Bond Counsel – Andrews & Kurth L.L.P.
Financial Advisor – First Southwest Company
Underwriter – Morgan Keegan & Company, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$239,696	$3.01
Financial Advisor	169,190	2.13
Trustee	20,500	0.26
Trustee Counsel	7,500	0.09
Attorney General	2,500	0.03
TSAHC Fees	179,691	2.26
O.S. Preparation	10,000	0.13
Rating Agencies	68,000	0.85
Other	32,500	0.41
	$729,577	**$9.17**
Underwriter's Spread	**$1,027,462**	**$12.91**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation, Multifamily Housing Revenue Bonds (White Rock Apartments), Series 2001A, Taxable Series 2001 A-T, and Series 2001B – $22,546,172

Purpose: The proceeds were used to fund a mortgage loan to Agape Ashton/Woodstock, Inc., for the purpose of financing the acquisition, rehabilitation, and equipment of two multifamily residential apartment developments located in Galveston and Arlington, Texas.

Dates: Board Approval – November 27, 2001
Private Placement – December 20, 2001
Closing Date – December 21, 2001

Structure: The bonds were privately placed with a final maturity in December 2041. The Series A and Series B bonds were issued as fixed-rate, tax-exempt securities. The Series A-T bonds were issued as fixed-rate, taxable securities. The bonds were not insured.

Bond Ratings: The bonds were not rated.

Interest Cost:
True Interest Cost (TIC) – 6.63%
Net Interest Cost (NIC) – 6.68%

Consultants:
Bond Counsel – Andrews and Kurth L.L.P.
Financial Advisor – First Southwest Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$152,546	$6.77
Financial Advisor	55,092	2.44
Trustee	9,000	0.40
Trustee Counsel	7,000	0.31
Issuers Counsel	22,159	0.98
Attorney General	2,500	0.11
TSAHC Fees	34,255	1.52
	$282,552	**$12.54**
Placement Agent Fee	**$207,750**	**$9.21**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (American Housing Foundation Portfolio) Series 2002A, Taxable Series 2002A-T, Junior Series 2002B – $128,605,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to American Housing Foundation, a 501(c)3 CHDO designated nonprofit corporation to finance the acquisition, construction, equipment and long-term financing of multifamily residential rental projects located throughout the state.

Dates:	Board Approval –	February 21, 2002
	Negotiated Sale –	March 22, 2002
	Closing Date –	March 26, 2002

Structure: The bonds were sold on a negotiated basis with a final maturity of March 1, 2032. The bonds were sold as fixed-rate taxable (Series A-T) and tax-exempt (Series A and B) securities. The bonds were insured by MBIA Insurance Corporation.

Bond Ratings:	Standard & Poor's	– Series A –	AAA
		Series A-T –	AAA
		Series C –	BBB-

Interest Cost:	Series A	Series A-T	Series B
True Interest Cost (TIC) –	5.96%	3.52%	8.45%

Consultants:

Bond Counsel –	Andrews & Kurth L.L.P.
Financial Advisor –	First Southwest Company
Underwriter –	Newman & Associates, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$311,454	$2.42
Financial Advisor	267,210	2.08
Rating Agencies	100,000	0.78
Trustee	25,451	0.20
Trustee Counsel	7,500	0.06
Attorney General	2,500	0.02
O.S. Preparation	7,500	0.06
TSAHC Fees	277,453	2.16
	$999,068	**$7.77**
Underwriter's Spread	**$1,286,050**	**$10.00**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (American Opportunity for Housing Corporation Portfolio), Series 2002A, Taxable Series 2002A-T, Junior Series 2002B, First Subordinate Series 2002C, and Second Subordinate Series 2002D – $64,095,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to American Opportunity for Housing, a 501(c)3 CHDO designated nonprofit corporation, to finance the acquisition, construction, equipment and long-term financing of multifamily residential rental projects located throughout the state.

Dates:	Board Approval –	February 21, 2002
	Negotiated Sale/ Private Placement –	March 22, 2002
	Closing Date –	March 26, 2002

Structure: The Series A, Series A-T, and Series B bonds were sold on a negotiated basis. The Series C and Series D bonds were privately placed. The bonds have a final maturity of March 1, 2032. The bonds were sold as fixed-rate, taxable (Series A-T) and tax-exempt (Series A, B, C, and D) securities. The bonds were insured by MBIA Insurance Corporation.

Bond Ratings:	Standard & Poor's	– Series A –	AAA
		Series A-T –	AAA
		Series B –	BBB-
		Series C –	BB
		Series D –	N/A

Interest Cost:	Series A	Series A-T	Series B	Series C	Series D
True Interest Cost (TIC) –	5.96%	3.52%	8.45%	10.32%	10.00%

Consultants:

Bond Counsel –	Andrews & Kurth L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Newman & Associates, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$230,571	$3.60
Financial Advisor	138,190	2.15
Rating Agencies	60,000	0.94
Trustee	19,429	0.30
Trustee Counsel	7,500	0.12
Attorney General	2,500	0.04
O.S. Preparation	14,459	0.22
TSAHC Fees	145,897	2.28
	$618,546	**$9.65**
Underwriters' Spread	**$527,350**	**$8.23**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (South Texas Affordable Properties Corporation Portfolio), Series 2002A, Taxable Series 2002A-T, Junior Series 2002B, First Subordinate Series 2002C, and Second Subordinate Series 2002D – $64,505,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to South Texas Affordable Properties, a 501(c)3 CHDO designated nonprofit corporation, to finance the acquisition, construction, equipment and long-term financing of multifamily residential rental projects located throughout the state.

Dates:	Board Approval –	February 21, 2002
	Negotiated Sale/Private Placement –	March 22, 2002
	Closing Date –	March 26, 2002

Structure: The Series A, Series A-T, and Series B bonds were sold on a negotiated basis. The Series C and Series D bonds were privately placed. The bonds have a final maturity of March 1, 2032. The bonds were sold as fixed-rate, taxable (Series A-T) and tax-exempt (Series A, B, C, and D) securities. The bonds were insured by MBIA Insurance Corporation.

Bond Ratings:	Standard & Poor's –	Series A –	AAA
		Series A-T –	AAA
		Series B –	BBB-
		Series C –	BB
		Series D –	N/A

Interest Cost:	Series A	Series A-T	Series B	Series C	Series D
True Interest Cost (TIC) -	5.96%	3.53%	8.02%	10.32%	10.00%

Consultants:

Bond Counsel –	Andrews & Kurth L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Newman & Associates, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$230,879	$3.58
Financial Advisor	139,010	2.16
Rating Agencies	60,000	0.93
Trustee	19,505	0.30
Trustee Counsel	7,500	0.12
Attorney General	2,500	0.04
O.S. Preparation	16,691	0.26
TDHCA Fees	148,281	2.30
	$624,366	**$9.69**
Underwriters' Spread	**$522,838**	**$8.11**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation Single Family Mortgage Revenue Bonds (Teachers Home Loan Program), Series 2002 – $25,000,000

Purpose: Proceeds from the sale of the bonds were used to finance mortgage loans and down-payment assistance to eligible home-buying teachers within geographic areas impacted by teacher shortages throughout the state.

Dates:	Board Approval –	March 12, 2002
	Negotiated Sale –	March 21, 2002
	Closing Date –	March 28, 2002

Structure: The bonds were sold on a negotiated basis as variable-rate, tax-exempt securities with a final maturity of March 1, 2034. The variable rate bonds were issued as short-term bonds and are expected to be converted to five separate series of bonds. Interest is payable semiannually on each March 1 and September 1 commencing on September 1, 2002. The bonds are limited obligations of the issuer and do not constitute a general obligation of the state. The bonds were not insured.

Bond Ratings: Standard & Poor's – AAA/A-1+

Interest Cost:

True Interest Cost (TIC) –	N/A
Net Interest Cost (NIC) –	N/A

Consultants:

Bond Counsel –	Fulbright and Jaworski, L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	George K. Baum & Company

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$52,500	$2.10
Financial Advisor	32,583	1.30
Rating Agencies	14,800	0.59
Trustee	3,000	0.12
Trustee Counsel	6,000	0.24
Attorney General	2,500	0.10
O.S. Preparation	5,000	0.20
TSAHC Fees	22,000	0.88
Other	4,166	0.17
	$142,549	**$5.70**
Underwriters' Spread	**$12,500**	**$0.50**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation Multifamily Housing Revenue Bonds (Worthing Oaks Apartments), Series 2002A, Taxable Series 2002B, Subordinate Series 2002C – $11,555,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to San Antonio Low-Income Housing, L.L.C., a Texas limited liability company, to finance the acquisition, rehabilitation and long-term financing of a 346-unit multifamily residential rental project located in San Antonio, Texas.

Dates:	Board Approval –	April 18, 2002
	Negotiated Sale –	June 27, 2002
	Closing Date –	June 28, 2002

Structure: The bonds were sold on a negotiated basis. Both the Series A and the Series C bonds have a term of 35 years. The Series B bonds have a term of 3.5 years. The bonds were sold as fixed-rate, taxable (Series B) and tax-exempt (Series A and C) securities. The bonds were not insured.

Bond Ratings:	Standard & Poor's –	Series A – AAA
		Series B – AAA
		Series C – N/A

Interest Cost:	Series A	Series B	Series C
True Interest Cost (TIC) –	5.82%	4.99%	8.24%
Net Interest Cost (NIC) –	6.21%	5.00%	8.25%

Consultants:

Bond Counsel –	Andrews & Kurth L.L.P.
Financial Advisor –	First Southwest Company
Underwriter –	Morgan Keegan & Company, Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$90,000	$7.79
Financial Advisor	33,110	2.87
Rating Agencies	13,500	1.17
Trustee	9,050	0.78
Trustee Counsel	5,000	0.43
Attorney General	2,500	0.22
O.S. Preparation	8,350	0.72
TSAHC Fees	32,638	2.82
Other	9,000	0.78
	$203,148	**$17.58**
Underwriter's Spread	**$207,575**	**$17.96**

TEXAS TECH UNIVERSITY SYSTEM

Issue: Board of Regents of Texas Tech University System, Revenue Financing System Bonds, Seventh and Eighth Series 2001 – $169,675,000

Purpose: The proceeds of the bonds were used to fund thirteen projects including Student Recreation Center addition/renovation, Women's Softball Stadium, Jones Stadium turf replacement, Tennis Complex Center, Arena Surface Parking Lot, West Commuter Parking, Jones Stadium renovations, Student Union renovations, a Flint parking structure, and improvements to United Spirit Arena. Additional projects funded include HSC Academic Classroom building, Strangel/Murdough fire suppression system, and Amarillo Academic Building/Clinic.

Dates:	Board Approval –	November 27, 2001
	Negotiated Sale –	January 10, 2002
	Closing Date –	January 23, 2002

Structure: The bonds were sold on a negotiated basis maturing in February 2032. The bonds were issued as fixed-rate, taxable (Eighth Series) and tax-exempt (Seventh Series) securities. The bonds were insured by MBIA Insurance Corporation.

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

Interest Cost:	Seventh Series	Eighth Series
True Interest Cost (TIC) –	5.04%	6.63%
Net Interest Cost (NIC) –	5.09%	6.61%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	First Southwest Company
Senior Underwriter –	UBS PaineWebber Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$101,945	$0.60
Financial Advisor	87,838	0.52
Rating Agencies	121,640	0.72
Paying Agent	1,100	0.01
O.S. Preparation	7,578	0.04
Attorney General	2,500	0.01
Computer Structuring Fee	20,000	0.12
	$342,601	**$2.02**
Underwriters' Spread	**$929,836**	**$5.48**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program, Fund II, Series 2001C-1 & 2001C-2 – $60,000,000

Purpose: The bond proceeds were used to make housing and home improvement loans to eligible Texas veterans.

Dates:	Board Approval –	November 27, 2001
	Negotiated Sale –	November 28, 2001
	Closing Date –	December 18, 2001

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities with a final maturity no later than December 1, 2035. The bonds are general obligations of the state and are not insured.

Bond Ratings:	Moody's –	Aa1/VMIG-1
	Standard & Poor's –	AA/A-1+

Interest Cost:
True Interest Cost (TIC) – 4.77%
Net Interest Cost (NIC) – 4.74%

Consultants:

Bond Counsel –	Vinson & Elkins L.L.P.
Co-Bond Counsel –	Lannen & Oliver P.C.
Financial Advisor –	RBC Dain Rauscher
Senior Underwriter –	William R. Hough & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$77,892	$1.30
Co-Bond Counsel	17,393	0.29
Financial Advisor	23,000	0.38
Rating Agencies	38,250	0.64
O.S. Preparation	3,848	0.06
Attorney General	2,500	0.04
Other	8,000	0.13
	$170,883	**$2.84**
Underwriters' Spread	**$288,250**	**$4.80**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Land Bonds, Series 2002 and Taxable Series 2002A – $40,000,000

Purpose: The proceeds of the bonds were used to augment the Veterans' Land Fund. The Land Fund is used to make loans to eligible Texas veterans and certain surviving spouses to purchase land.

Dates:	Board Approval –	November 27, 2001
	Negotiated Sale –	January 29, 2002
	Closing Date –	February 21, 2002

Structure: The bonds were sold on a negotiated basis as variable-rate, taxable (Series 2002A) and tax-exempt (Series 2002) securities with a final maturity in June 2032. Interest on the Series 2002 bonds is payable each June and December beginning June 2002. The bonds are general obligations of the state and are not insured.

Bond Ratings:	Moody's –	Aa1/VMIG-1
	Standard & Poor's –	AA/A-1+

Interest Cost:
True Interest Cost (TIC) – Floating
Net Interest Cost (NIC) – Floating

Consultants:

Bond Counsel –	Akin, Gump, Strauss, Hauer & Feld L.L.P.
Co-Bond Counsel –	Wickliff & Hall P.C.
Financial Advisor –	RBC Dain Rauscher
Senior Underwriter –	Morgan Stanley & Co. Incorporated

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$36,524	$0.91
Co-Bond Counsel	8,667	0.22
Financial Advisor	16,000	0.40
Rating Agencies	32,850	0.82
Attorney General	2,000	0.05
O.S. Preparation	3,920	0.10
Private Activity Fee	5,000	0.13
Other	23,703	0.59
	$128,664	**$3.22**
Underwriters' Spread	**$94,542**	**$2.36**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Homes Revenue Refunding Bonds, Series 2002 – $24,280,000

Purpose: The bond proceeds were used to refund the outstanding $20,000,000 Veterans Home Revenue Bonds, Series 2000 and to pay the costs of issuance.

Dates:		
	Board Approval –	April 18, 2002
	Private Placement –	May 9, 2002
	Closing Date –	May 9, 2002

Structure: The bonds were privately placed as fixed-rate, tax-exempt securities with a final maturity of August 1, 2035. The bonds were not insured.

Bond Ratings: Standard & Poor's – AAA

Interest Cost:
True Interest Cost (TIC) - 6.43%
Net Interest Cost (NIC) - 7.87%

Consultants:

Bond Counsel –	Fulbright & Jaworski L.L.P.
Financial Advisor –	RBC Dain Rauscher
Underwriter –	William R. Hough & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$53,750	$2.21
Financial Advisor	32,000	1.32
Rating Agencies	16,000	0.66
Trustee Counsel	4,000	0.16
Attorney General	1,250	0.05
	$107,000	**$4.40**
Underwriters' Spread	**$200,067**	**$8.24**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program, Fund II, Series 2002A-1 & 2002A-2 – $50,000,000

Purpose: The proceeds were used primarily for the purpose of making housing and home improvement loans to eligible Texas veterans.

Dates:		
	Board Approval –	June 18, 2002
	Negotiated Sale –	June 25, 2002
	Closing Date –	July 10, 2002

Structure: The Series 2002A-1 bonds were issued as tax-exempt, fixed-rate securities with a final maturity of December 1, 2022. Interest on the Series 2002A-1 bonds is payable semiannually each June 1 and December 1 commencing December 1, 2002. The Series 2002A-2 bonds were issued as tax-exempt, variable rate securities with a final maturity on June 1, 2033. Interest on the Series 2002A-2 bonds is payable semiannually in June and December commencing December 2, 2002. The Series 2002A-2 bonds will continue to bear interest for a Weekly Interest Rate Period unless converted to a fixed interest rate. The bonds are general obligations of the state and are not insured.

Bond Ratings:		
	Moody's –	Aa1/VMIG-1
	Standard & Poor's –	AA/A-1+

Interest Cost:
True Interest Cost (TIC) – 4.17%
Net Interest Cost (NIC) – 4.13%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$82,325	$1.65
Co-Bond Counsel	18,326	0.37
Financial Advisor	19,500	0.39
Rating Agencies	32,500	0.65
O.S. Preparation	2,716	0.05
Attorney General	2,500	0.05
TEFRA Notice Publication	6,699	0.13
Other	11,500	0.23
	$176,066	**$3.52**
Underwriters' Spread	**$153,934**	**$3.08**

TEXAS WATER DEVELOPMENT BOARD

Issue: State of Texas General Obligation Bonds, Water Financial Assistance Bonds, Series 2002A (AMT) – $25,000,000

Purpose: The proceeds of the Series 2002A Bonds were used to provide financial assistance to political subdivisions for water supply and water quality enhancement purposes, specifically to provide financial assistance to rural political subdivisions for water and water-related projects, including transfers to the Rural Water Assistance Fund, and to pay costs of issuance.

Dates:	Board Approval –	February 21, 2002
	Negotiated Sale –	March 6, 2002
	Closing Date –	April 9, 2002

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities with a final maturity of August 1, 2041. The bonds are general obligations of the state and are not insured.

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

Interest Cost:
True Interest Cost (TIC) – 5.47%
Net Interest Cost (NIC) – 5.45%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Co-Bond Counsel –	Delgado Acosta Braden & Jones P.C.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Salomon Smith Barney

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$20,534	$0.82
Co-Bond Counsel	3,077	0.12
Financial Advisor	13,816	0.55
Rating Agencies	10,830	0.43
Paying Agent	208	0.01
Attorney General	1,250	0.05
O.S. Preparation	4,861	0.19
Private Activity Fee	6,750	0.27
Travel	470	0.02
	$61,796	**$2.47**
Underwriters' Spread	**$150,483**	**$6.02**

TEXAS WATER DEVELOPMENT BOARD

Issue: State of Texas General Obligation Bonds, Water Financial Assistance and Refunding Bonds, Series 2002B – $98,500,000

Purpose: The proceeds of the Series 2002B bonds were used to refund $15,535,000 of the Board's outstanding State of Texas Water Development Bonds, Series 1992A and 1992C; to provide financial assistance to political subdivisions for water supply, water quality enhancement and flood control purposes; for transfers to any state revolving fund administered by the Board; and to pay costs of issuance.

Dates:	Board Approval –	February 21, 2002
	Negotiated Sale –	March 26, 2002
	Closing Date –	May 7, 2002

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities with a final maturity of August 1, 2024. The bonds are general obligations of the state and are not insured.

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

Interest Cost:
True Interest Cost (TIC) – 5.11%
Net Interest Cost (NIC) – 5.17%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Co-Bond Counsel –	Delgado Acosta Braden & Jones P.C.
Financial Advisor –	First Southwest Company
Senior Underwriter –	Salomon Smith Barney

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$48,343	$0.49
Financial Advisor	67,685	0.69
Rating Agencies	42,670	0.43
O.S. Preparation	5,135	0.05
Paying Agent	188	0.00
Escrow Agent/Trustee	450	0.00
Escrow Verification	1,350	0.01
Attorney General	1,250	0.01
Travel	2,321	0.02
	$169,392	**$1.70**
Underwriters' Spread	**$560,628**	**$5.69**

TEXAS WATER DEVELOPMENT BOARD

Issue: State of Texas General Obligation Bonds, Water Financial Assistance Bonds, Series 2002C, Series 2002D, and Series 2002E – $62,015,000

Purpose: The proceeds of the Series 2002C bonds ($23,980,000) were used for the purpose of providing funds for Economically Distressed Areas Program (EDAP) projects. The proceeds of the Series 2002D bonds ($20,000,000) were used for funding State Participation projects. The proceeds of the Series 2002E bonds ($18,035,000) were used for Water Financial Assistance projects. Proceeds were also used to pay the cost of issuing the bonds.

Dates:	Board Approval –	June 18, 2002
	Negotiated Sale –	July 24, 2002
	Closing Date –	August 22, 2002

Structure: The bonds were sold on a negotiated basis as tax-exempt, fixed-rate securities with Series 2002C maturing in 2024, Series 2002D maturing in 2036, and Series E maturing in 2024. Interest on the bonds is payable semi-annually on February 1 and August 1, beginning August 1, 2003. The bonds are general obligations of the state and are not insured.

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

Interest Cost:
True Interest Cost (TIC) – 4.88%
Net Interest Cost (NIC) – 4.94%

Consultants:

Bond Counsel –	McCall, Parkhurst, & Horton L.L.P.
Co-Bond Counsel –	Delgado Acosta Braden & Jones P.C.
Financial Advisor –	First Southwest Company
Senior Underwriter –	RBC Dain Rauscher Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$37,724	$0.61
Co-Bond Counsel	11,417	0.18
Financial Advisor	34,554	0.56
Rating Agencies	31,701	0.51
Paying Agent	375	0.01
Attorney General	2,500	0.04
O.S. Preparation	3,339	0.05
Travel	570	0.01
	$122,179	**$1.97**
Underwriters' Spread	**$351,926**	**$5.67**

TEXAS WATER DEVELOPMENT BOARD

Issue: State of Texas General Obligation Bonds, Agricultural Water Conservation Bonds, Taxable Series 2002 – $16,160,000

Purpose: The proceeds of the bonds were disbursed through two interagency contracts with the Texas Department of Agriculture (TDA) and the Texas State Soil and Water Conservation Board (TSSWCB). The TDA used $1,000,000 for grants for the Pecos River Ecosystem Project for saltcedar control. The TSSWCB used $15,000,000 for grants for brush control projects. Proceeds were also used to pay the cost of issuing the bonds.

Dates:	Board Approval –	June 18, 2002
	Negotiated Sale –	July 24, 2002
	Closing Date –	August 22, 2002

Structure: The bonds were sold on a negotiated basis as taxable, fixed-rate securities with a final maturity of 2009. Interest on the bonds shall be payable semi-annually on February 1 and August 1, beginning February 1, 2003. The bonds are general obligations of the state and are not insured.

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

Interest Cost:
True Interest Cost (TIC) – 4.19%
Net Interest Cost (NIC) – 4.19%

Consultants:

Bond Counsel –	Delgado Acosta Braden & Jones P.C.
Financial Advisor –	First Southwest Company
Senior Underwriter –	RBC Dain Rauscher Inc.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$26,758	$1.66
Financial Advisor	9,004	0.56
Rating Agencies	8,049	0.50
Paying Agent	125	0.01
Attorney General	1,000	0.06
O.S. Preparation	2,583	0.16
Travel	299	0.02
	$47,819	**$2.97**
Underwriters' Spread	**$86,308**	**$5.34**

TEXAS WOMAN'S UNIVERSITY

Issue: Board of Regents of Texas Woman's University, Combined Fee Revenue Bonds, Series 2002 – $17,500,000

Purpose: Proceeds from the sale of the proposed bond issue were used to provide funds to renovate and upgrade buildings on the Denton and Dallas campuses. These upgrades address the needs of fire sprinkler systems, ADA improvements, HVAC replacements, and mechanical and electrical upgrades.

Dates:	Board Approval –	April 18, 2002
	Competitive Sale –	May 8, 2002
	Closing Date –	June 5, 2002

Structure: The bonds were sold through a competitive sale as fixed-rate, tax-exempt securities with a final maturity of July 1, 2022. The bonds were insured by Financial Guaranty Insurance Company.

Bond Ratings:	Moody's –	A2
	Standard & Poor's –	A

Interest Cost:
True Interest Cost (TIC) – 4.71%
Net Interest Cost (NIC) – 4.75%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Financial Advisor –	RBC Dain Rauscher
Senior Underwriter –	Morgan Stanley Dean Witter

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$13,332	$0.76
Financial Advisor	18,536	1.06
Rating Agencies	27,575	1.58
Paying Agent	550	0.03
Attorney General	1,000	0.06
O.S. Preparation	2,367	0.14
	$63,360	**$3.63**
Underwriters' Spread	**$203,860**	**$11.65**

THE UNIVERSITY OF NORTH TEXAS SYSTEM

Issue: Board of Regents of The University of North Texas System, Revenue Financing System Bonds, Series 2001 – $33,860,000

Purpose: The proceeds of the bonds were used for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping the property, buildings, structures, activities, services, operations, or other facilities of the System, and paying costs of issuance.

Dates:	Board Approval –	November 27, 2001
	Negotiated Sale –	December 5, 2001
	Closing Date –	December 19, 2001

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing in February 2035. The bonds were insured by Financial Security Assurance, Incorporated.

Bond Ratings:	Moody's –	A1
	Standard & Poor's –	A+

Interest Cost:
True Interest Cost (TIC) – 5.11%
Net Interest Cost (NIC) – 5.13%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$16,363	$0.48
Financial Advisor	17,302	0.51
Rating Agencies	36,000	1.06
Paying Agent	400	0.01
Attorney General	1,250	0.04
O.S. Preparation	3,301	0.10
	$74,616	**$2.20**
Underwriters' Spread	**$210,203**	**$6.21**

THE UNIVERSITY OF NORTH TEXAS SYSTEM

Issue: Board of Regents of The University of North Texas System, Revenue Financing System Bonds, Series 2002 – $63,470,000

Purpose: The proceeds of the bond issue are for the purpose of acquiring, purchasing, constructing, improving, renovating, enlarging or equipping the property, buildings, structures, facilities, roads, or related infrastructure for the University and the Health Science Center, and for paying costs of issuance.

Dates:		
	Board Approval –	June 18, 2002
	Negotiated Sale –	July 25, 2002
	Closing Date –	August 6, 2002

Structure: The bonds were issued as fixed rate obligations and were sold on a negotiated basis with final maturity in 2022. Interest on the bonds will be payable semiannually. The bonds were insured by Financial Guaranty Insurance Company.

Bond Ratings:		
	Moody's –	Aaa/A1
	Standard & Poor's –	AAA/A+

Interest Cost:

True Interest Cost (TIC) –	4.50%
Net Interest Cost (NIC) –	4.57%

Consultants:

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

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$23,839	$0.38
Financial Advisor	32,235	0.51
Rating Agencies	37,050	0.58
Paying Agent	400	0.01
Attorney General	1,250	0.02
O.S. Preparation	5,548	0.09
	$100,322	**$1.59**
Underwriters' Spread	**$360,819**	**$5.68**

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Revenue Financing System Bonds, Series 2001B & 2001C – $264,200,000

Purpose: Proceeds of the bonds were used to refund outstanding commercial paper, fund the construction of buildings and facilities, and to pay costs of issuance.

Dates:		
	Board Approval –	August 29, 2001
	Negotiated Sale –	September 7, 2001
	Closing Date –	October 2, 2001

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities with a final maturity in August 2022. The bonds were not insured.

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

Interest Cost:	Series 2001B	Series 2001C
True Interest Cost (TIC) –	4.73%	4.74%
Net Interest Cost (NIC) –	4.86%	4.87%

Consultants:

Bond Counsel –	McCall, Parkhurst & Horton L.L.P.
Senior Underwriters –	Series B – Morgan Stanley
	Series C – Goldman, Sachs & Co.

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$108,451	$0.41
Rating Agencies	51,940	0.20
Paying Agent	5,500	0.02
O.S. Preparation	8,696	0.03
Attorney General	2,500	0.01
Escrow Agent	500	0.00
Escrow Verification	1,490	0.01
Other	2,486	0.01
	$181,563	**$0.69**
Underwriters' Spread	**$885,451**	**$3.35**

APPENDIX B
Texas Commercial Paper and Variable-Rate Note Programs

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

As of August 31, 2002, a total of $2.08 billion was authorized for state commercial paper or variable-rate note programs. Of this amount, $753 million was outstanding as of the end of fiscal 2002 *(Table 18)*. [The amounts in Table 18 are included in the bonds outstanding amounts reported in Chapter 3.]

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

The University of Texas System

The University of Texas System (the "System") has authorized two variable-rate financing programs: a flexible-rate note program secured by distributions from the total return on all investment assets of the Permanent University Fund (PUF), and a commercial paper program secured by the revenues of the System.

The System's PUF Flexible Rate Note program provides interim financing for permanent improvements at various eligible component institutions of the System. The PUF Flexible Rate Note Program replaces a similar program established in 1985. The prior program became obsolete when an amendment to the Texas Constitution was adopted on November 2, 1999, altering the source and method for determining distributions from the PUF. The System's outstanding PUF Flexible Rate Notes may not exceed $250 million in principal amount at any time.

The System's Revenue Financing System (RFS) commercial paper note program was established in 1990 to provide interim financing for capital projects, including construction, acquisition, and renovation or equipping of facilities. The com-

Table 18

TEXAS COMMERCIAL PAPER AND VARIABLE-RATE NOTE PROGRAMS as of August 31, 2002

ISSUER	TYPE OF PROGRAM	AMOUNT AUTHORIZED	AMOUNT ISSUED FISCAL 2002	AMOUNT OUTSTANDING
The University of Texas System				
Permanent University Fund	Flexible-Rate Notes	$250,000,000	$234,000,000	$175,000,000
Revenue Financing System	Commercial Paper	750,000,000	237,345,000	323,007,000
The Texas A&M University System				
Permanent University Fund	Flexible-Rate Notes	80,000,000	22,500,000	50,000,000
Revenue Financing System	Commercial Paper	125,000,000	43,520,000	40,000,000
Texas Tech University System				
Revenue Financing System	Commercial Paper	100,000,000	14,595,000	10,575,000
Texas Dept. of Agriculture	Commercial Paper	50,000,000	0	34,000,000
	Commercial Paper*	25,000,000	0	1,000,000
Texas Dept. of Economic Development	Commercial Paper	25,000,000	9,000,000	9,000,000
Texas Dept. of Housing & Community Affairs	Commercial Paper	75,000,000	28,535,000	12,100,000
Texas Public Finance Authority				
Revenue	Commercial Paper	100,000,000	35,000,000	56,400,000
General Obligation	Commercial Paper	500,000,000	56,865,000	41,865,000
Total		**$2,080,000,000**	**$681,360,000**	**$752,947,000**

* Represents maximum amount outstanding approved by the Bond Review Board for the Texas Agricultural Fund. The TAFA Board has approved a $100 million program amount.

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

mercial 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's outstanding RFS commercial paper notes may not exceed $750 million in principal amount at any time.

The Texas A&M University System

The Texas A&M University System (the "A&M System") has also authorized two variable-rate financing programs: a flexible-rate note program secured by the Permanent University Fund (PUF) and a commercial paper program secured by A&M System revenues. The Texas A&M PUF note program was established in 1988 to provide interim financing and equipping of facilities for eligible construction projects.

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

Texas Tech University and Texas Tech University Health Sciences Center

In November 1997, the Board of Regents of Texas Tech University (TTU) authorized a Revenue Financing System commercial paper program in an amount not to exceed $100 million. Under the terms of the prior authorization, commercial paper notes could not be issued in an aggregate principal amount exceeding $50 million at any one time without approval of the Board of Regents. Subsequent authorizations from the Board have raised the limit to $100 million.

The program was established to provide interim financing for capital projects, including construction, acquisition, renovation, and equipment for facilities of TTU. The commercial paper is secured by a pledge of all legally available revenues of TTU, including pledged tuition fees, general fees, and other revenue sources. The University has entered into a liquidity agreement in an aggregate amount not to exceed $77,770,000 to pay principal and interest due under the commercial paper program.

Texas Department of Agriculture

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

During fiscal 1995, TAFA established a second Series B general obligation taxable commercial paper note program with authority to issue up to $100 million in obligations. Proceeds from this program are used to make funds available for the Farm and Ranch Finance Program. The program was established to provide loans and other financial assistance through local lending institutions to eligible borrowers for the purchase of farm or ranch land.

Texas Department of 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 TDED approves loans to local industrial development corporations. Revenues from an optional local half-cent sales tax for economic development secure these loans. The second program provides for the purchase of small business loans, which are fully guaranteed by the Small Business Administration. A third program may make loans directly to businesses from program reserves. The commercial paper issued by TDED is taxable. The program is designed to be self-supporting.

Texas Department of Housing and Community Affairs

The Texas Department of Housing and Community Affairs (TDHCA) established a single family mortgage revenue commercial paper program in 1994. The program enables the TDHCA to capture mortgage prepayments and recycle them into mortgage loans. By issuing commercial paper notes to satisfy the mandatory redemption provisions of outstanding single family mortgage revenue bonds instead of using the prepayments to redeem bonds, the TDHCA is able to preserve private activity volume cap and generate new mortgage loans with the prepayments. The commercial paper refunding bonds pay off the commercial paper notes, and the prepayments are used to make new mortgage loans. These new loan revenues repay the principal and interest on commercial paper 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 primarily been used to finance the purchase of equipment, such as computers and telecommunications equipment. The TPFA also has the authority to use the commercial paper to provide interim financing for capital projects undertaken on behalf of state agencies. The MLPP commercial paper is a special revenue obligation of the state, payable only from legislative appropriations to the participating agencies for lease payments.

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

Other State Issuers of Variable-Rate Debt

Several other state issuers have the authority to issue debt in variable-rate form. State issuers may utilize variable-rate debt in order to diversify their debt portfolio and to take advantage of lower short-term interest rates that may be available.

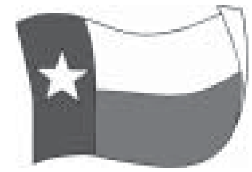
The Veterans Land Board is one example of a state issuer that has issued variable-rate housing assistance bonds to diversify its debt portfolio. Similarly, the Texas Water Development Board is authorized to issue subordinate-lien variable-rate-demand revenue bonds (VRDBs) as part of the State Revolving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

Comptroller of Public Accounts Liquidity Facility Provider Duties

The 73rd Legislature passed legislation that authorized 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.

As of September 1, 1996, the voters abolished the office of the State Treasurer. The duties of this office were transferred to the Comptroller of Public Accounts - Treasury Operations.

Appendix C
Texas State Bond Programs



TEXAS AGRICULTURAL FINANCE AUTHORITY BONDS

Statutory Authority: The Texas Agricultural Finance Authority (the "Authority") was created in 1987 (Texas Agriculture Code, Chapter 58) and given the authority 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; however, the Authority is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and is required to register its bonds with the Comptroller of Public Accounts.

Purpose: Proceeds from the sale of bonds are 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, and to provide financial assistance to other rural economic development projects.

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; therefore, no draw on general revenue is anticipated.

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COLLEGE STUDENT LOAN BONDS

Statutory/Constitutional Authority: Article III, Sections 50b and 50b-1, 50b-2, 50b-3, 50b-4, and 50b-5, of the Texas Constitution, adopted in 1965, 1969, 1989, 1991, 1995, and 1999, 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 30 percent of the loans made are guaranteed by the Texas Guaranteed Student Loan Corporation, the U.S. Department of Education, and the U.S. Department of Health and Human Services.

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.

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COLLEGE AND UNIVERSITY REVENUE BONDS

Statutory Authority: Section 55.13 of the Texas Education

Code authorizes the governing boards of institutions of higher education to issue revenue bonds to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities.

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

Legislative approval is not required for specific projects or for each bond issue, but certain capital projects must be approved by the Texas Higher Education Coordinating Board in accordance with Chapter 61, Texas Education Code. The governing boards are required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and are required to register their bonds with the Comptroller of Public Accounts.

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

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

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

Contact:
Individual colleges and universities.

TEXAS DEPARTMENT OF ECONOMIC DEVELOPMENT BONDS

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

Purpose: Proceeds from the sale of bonds are used to provide 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 received by the Department. 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.

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

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TEXAS DEPARTMENT OF HOUSING & COMMUNITY AFFAIRS BONDS

Statutory Authority: The Texas Department of Housing and Community Affairs (the "Department") was created pursuant to Chapter 762, 1991 Tex.Sess.Law Serv. 2672, the Act, codified as Chapter 2306, Texas Government Code. The Department is the successor agency to the Texas Housing Agency and the Texas Department of Community Affairs, both of which were abolished by the Act with their functions and obligations transferred to the Department.

Pursuant to the Act, the Department may issue bonds, notes, or other obligations to finance or refinance residential housing and to refund bonds previously issued by the THA, the Department, or certain other quasi-governmental issuers. The Act specifically provides that the revenue bonds of the THA become revenue bonds of the Department. Legislative approval of bond issues is not required; however, the Department is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and to register its bonds with the Comptroller of Public Accounts.

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

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

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

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FARM AND RANCH LOAN BONDS

Statutory/Constitutional Authority: Article III, Section 49-f, of the Texas Constitution, adopted in 1985, authorizes the issuance of general obligation bonds by the Veterans Land Board. The program was transferred from the Veterans Land Board to the Texas Agricultural Finance Authority with the passage of House Bill 1684 by the 73rd Legislature. In 1993, a constitutional amendment was approved that transferred 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, the 75th Legislature increased the maximum loan amount available through the program to $250,000. In 2001, Senate Bill 716, authorized the Authority to provide a guarantee to a local lender for an eligible applicant.

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

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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 (PUF). Legislative approval of bond issues is not required; however, approval of the Bond Review Board and the Attorney General is required, and the bonds must be registered with the Comptroller of Public Accounts.

Purpose: Proceeds from the sale of bonds are used by qualified institutions for 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 (50) percent of this amount may be pledged to pay debt service on any bonds or notes issued. While not explicitly a general obligation or full faith and credit bond, the stated pledge has the same effect.

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

Contact:
Individual colleges and universities.

TEXAS NATURAL RESOURCE CONSERVATION COMMISSION BONDS

Statutory Authority: The Texas Low-Level Radioactive Waste Disposal Authority (the "Authority") was created in 1981 (Texas Health and Safety Code, Chapter 402), and authorized to issue revenue bonds in 1987 (Texas Health and

Safety Code, Sec. 402.291) to finance certain costs related to the creation of a radioactive waste disposal site. The Authority was required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance, and to register its bonds with the Comptroller of Public Accounts. House Bill 1077, 75th Legislature, in 1997, authorized the Texas Public Finance Authority to issue the bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority.

The 76th Legislature abolished the Authority effective September 1, 1999, and transferred all of its duties, responsibilities, and resources to the Texas Natural Resource Conservation Commission (TNRCC). Effective September 1, 2002, the TNRCC changed its name and began doing business as the Texas Commission on Environmental Quality (TCEQ).

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

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

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

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TEXAS MILITARY FACILITIES COMMISSION BONDS

Statutory Authority: The Texas Military Facilities Commission (the "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 (Texas Government Code, Chapter 435), and authorized to issue long-term debt. Legislative approval of bond issues is not required; however, the Commission is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and to register its bonds with the Comptroller of Public Accounts.

Senate Bill 3, 72nd Legislature, 1991, authorized the Texas Public Finance Authority to issue bonds on behalf of the Texas Military Facilities Commission (Texas Government Code, Sec. 435.041).

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

Security: Any bonds issued are obligations of the 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, is also used to pay a small portion of debt service.

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TEXAS PARKS AND WILDLIFE DEPARTMENT BONDS

Statutory/Constitutional Authority: Article III, Section 49-e, of the Texas Constitution, adopted in 1967, authorized the Texas Parks and Wildlife Department (the "Department") to issue general obligation bonds to acquire and develop state parks. Senate Bill 3, 72nd Legislature, 1991, authorized the Texas Public Finance Authority ("the Authority") to issue bonds on behalf of the Department. House Bill 3189, 75th Legislature, 1997, authorized the Authority to issue revenue bonds or other revenue obligations not to exceed $60 million in the aggregate on behalf of the Department, for construction and renovation projects for parks and wildlife facilities.

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

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

Revenue obligations issued on behalf of the Department are to be repaid from rent payments made by the Department to the Authority. The Department may receive legislative appropriations of general revenue for its required rent payments.

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 may also be used to pay debt service on general obligation park development bonds.

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

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PERMANENT UNIVERSITY FUND BONDS

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

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

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

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

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

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TEXAS PUBLIC FINANCE AUTHORITY BONDS

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

The Authority was initially created by the legislature in 1983, by Tex.Rev.Civ.Stat.Ann., Article 601d, was codified as Chapter 1232, Texas Government Code, and was 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 Authority to issue general obligation bonds for correctional and mental health facilities; additional authorization was passed in 1989, 1991 and 1993. At the end of the state's 2002 fiscal year, this constitutional authorization for correction and mental health facilities was exhausted.

In 1989, the Authority was authorized to establish a Master Lease Purchase Program. This program was created to finance the purchase of equipment on behalf of various state agencies at tax-exempt interest rates.

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

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

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

The Authority underwent Sunset Commission review during the 75th Legislative session in 1997. The legislature continued the Authority for twelve years and authorized the Authority to issue bonds on behalf of the Texas Low-Level Radioactive Waste Disposal Authority (See: Texas Natural Resources Conservation Commission), Midwestern State University, Texas Southern University, and Stephen F. Austin State University. Other legislation passed by 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. The legislature also authorized the Authority to issue bonds to finance the Texas State History Museum on behalf of the State Preservation Board.

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

In 2001, constitutional amendments were adopted authorizing the issuance of (i) up to $850 million of general obligation bonds to finance construction, renovation, and equipment acquisitions for 13 state agencies (Texas Constitution, Article III, Section 50-f); and (ii) up to $175 million of general obligation bonds to finance assistance to border counties for roadways in colonias (Texas Constitution, Article III, Section 49-l). Additionally, the 77th Legislature authorized the Authority to issue bonds to finance nursing home liability insurance and to establish a corporation to issue bonds for charter schools.

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

Purpose: Proceeds from the sale of general obligation bonds issued under Article III, Section 49-h are used to finance the cost of constructing, acquiring, and/or renovating prison facilities, youth correction facilities, and mental health/mental retardation facilities. Proceeds of obligations issued under Article III, Section 50-f are to be used for state agency renovation, construction, and equipment acquisition projects. Proceeds of obligations issued under Article III, Section 49-l are to be used to provide assistance to border counties for colonia roadway projects. Proceeds from the sale of building revenue bonds are used to purchase, construct, renovate, and maintain state buildings. Proceeds from the sale of bonds for the Workers' Compensation Fund are used to 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 Parks and Wildlife Department, and the Texas state colleges and universities that are clients of the Authority, see the applicable sections in this appendix. Proceeds of bonds issued on behalf of the Texas National Research Laboratory Commission were to be used to finance costs of the Superconducting Super Collider; however, the project was canceled in 1995. The revenue bonds issued for the project were defeased in 1995, and the general obligation bonds were economically defeased in November 1999.

Security: 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 pledge the first monies not otherwise appropriated by the Constitution that come into the state treasury each fiscal year to pay debt service on the bonds. Bonds issued on behalf of the Workers' Compensation Insurance Fund are secured solely by pledged revenues of the Fund. Revenue bonds issued for the Master Lease Purchase Program are secured by lease payments from state agencies, which come from state appropriations.

Dedicated/Project Revenue: Debt service on all general obligation bonds, except the park development bonds, are payable solely from the state's General Revenue Fund. Debt service on the general obligation bonds for park development is paid first from department revenues, as described in the applicable section of this appendix. Debt service on the revenue bonds is payable from lease payments, which are primarily general revenue funds appropriated to the respective agencies and institutions by the legislature. The legislature, however, has the option to appropriate lease payments to be used for debt service on the bonds from any other source of funds that is lawfully available. For example, debt service on the bonds issued on behalf of the Department of Health is appropriated from lab fees collected by the Department. Bonds issued on behalf of the Workers' Compensation Fund are payable solely from maintenance tax surcharges authorized in Article 5.76 of the Texas Insurance Code. With monies contributed by the Fund in 1995, in June 1998 and in June 1999, securities have been deposited into an escrow fund with the Texas Safekeeping Trust Company in an amount sufficient to fully pay principal and interest on the bonds until they mature. Consequently, no additional maintenance tax surcharges will need to be collected to service the debt on these bonds. University revenue bonds issued are repaid from pledged revenue such as tuition and fees. The university bonds are self-supporting, and the state's credit is not pledged.

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PUBLIC SCHOOL FINANCE PROGRAM

Statutory/Constitutional Authority: The 1989 Texas Legislature adopted the Public School Facilities Funding Act in Senate Bill 951, 71st Legislature, and amended the Act in Senate Bill 3, 71st Legislature, Sixth Called Session, and House Bill 1608, 73rd Legislature. The Act, codified as Chapter 1402, Texas Government Code, 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.

Although the statutory authority remains, no bonds have been issued under this program.

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, Texas 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.

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TEXAS SMALL BUSINESS INDUSTRIAL DEVELOPMENT CORPORATION BONDS

Statutory Authority: The Texas Small Business Industrial Development Corporation (TSBIDC) was created as a private non-profit corporation in 1983 (Title 83, 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 are 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.

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TEXAS STATE AFFORDABLE HOUSING CORPORATION

Statutory Authority: Chapter 2306, Subchapter Y, of the Texas Government Code, authorizes the Texas State Affordable Housing Corporation (the "Corporation") to issue revenue bonds.

In accordance with the Texas Government Code, as amended, the Corporation is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Section 2306.555, and qualified mortgage revenue bonds under the Teachers Home Loan Program as established under Section 2306.562. Currently, there are no limits on the issuance of 501(c)(3) bonds for multifamily properties owned by nonprofit organizations. The Teachers Home Loan Program is authorized to issue $25 million in revenue bonds.

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

Purpose: The Corporation's primary public purpose is to facilitate the provisions of housing and the making of affordable loans to individuals and families of low, very low, and extremely low income, and for teachers under the Teachers Home Loan Program as provided by Section 2306.562 of the Texas Government Code. The Corporation is required to perform such activities and services that will promote and facilitate the public health, safety, and welfare through the provision of adequate, safe and sanitary housing for individuals and families of low, very low, and extremely low income.

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

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

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TEXAS DEPARTMENT OF TRANSPORTATION BONDS

Statutory Authority: The Texas Turnpike Authority ("the Authority") was created as a division of the Department of Transportation ("the Department") by the 75th Legislature by Senate Bill 370 (Texas Transportation Code, Chapter 361). [Senate Bill 370 also established the North Texas Tollway Authority, consisting of Collin, Dallas, Denton, and Tarrant counties, as a successor agency to the previous Texas Turnpike Authority. The North Texas Tollway Authority does not require Bond Review Board approval to issue bonds.]

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

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

Senate Bill 4, 77th Legislature, and the constitutional amendment that voters approved in November 2001, created the Texas Mobility Fund and authorized the Department to issue bonds backed by the Fund.

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

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 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 Texas Department of Transportation bonds. Likewise, bonds issued by the Authority are payable from project revenues and other identified revenue sources. Additionally, bonds issued by the Authority are not obligations of the state or a pledge of the full faith and credit of the state.

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

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VETERANS LAND AND HOUSING ASSISTANCE BONDS

Statutory/Constitutional Authority: Article III, Section 49-b, of the Texas Constitution, initially adopted in 1946, authorized the issuance of general obligation bonds to finance the Veterans Land Program. Article III, Section 49-b-1, of the Texas Constitution, adopted in 1983, authorized additional land bonds and created the Veterans' Housing Assistance Program, 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. Article III, Section 49-b, Subsection s, amended in 2001, authorized the VLB to use assets from the Veterans' Land Fund, the Veterans' Housing Assistance Fund, or the Veterans Housing Assistance Fund II to plan, design, operate, maintain, enlarge, or improve cemeteries for veterans. Chapter 164 of the Texas Natural Resources Code authorized the Veterans Land Board to issue revenue bonds for its programs, including the financing of veterans' homes.

Purpose: Proceeds from the sale of the general obligation bonds are loaned to eligible Texas veterans for the purchase of land, housing, and home improvements. Proceeds from the sale of revenue bonds are used to make land loans to veterans, to make home mortgage loans to veterans, or to provide for veterans skilled nursing-care homes. Additionally, funds are used to provide cemeteries for veterans.

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

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

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TEXAS WATER DEVELOPMENT BONDS

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

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

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

The 71st Legislature (1989) passed comprehensive legislation that established the Economically Distressed Areas Program (EDAP). Article III, Section 49-d-7(b), 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; however, the Board is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and to register its bonds with the Comptroller of Public Accounts.

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

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

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

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TEXAS WATER RESOURCES FINANCE AUTHORITY BONDS

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

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

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

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

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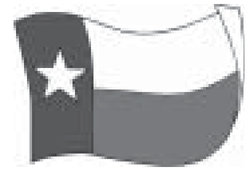
APPENDIX D
Bond Review Board Rules



TITLE 34. PUBLIC FINANCE
Part IX. Texas Bond Review Board
Chapter 181. Bond Review Board
Subchapter A. Bond Review 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:

(1) Board – The Bond Review Board, created under Chapter 1078, Acts of the 70th Legislature, Regular Session, 1987 codified as Chapter 1231, Government Code.

(2) State security –

(A) an obligation, including a bond, issued by:

(i) a state agency;

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

(iii) any other entity issuing a bond or other obligation on behalf of the state or on behalf of any entity listed in clause (i) or (ii) of this subparagraph; or

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

(C) References in these rules to a board member include the person designated to act on their behalf, except as noted in Sec. 181.4(b).

Sec. 181.2. Notice Of Intention To Issue.

(a) An issuer intending to issue state securities shall submit a written or electronic 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 issue of state securities scheduled for consideration by the board during a specified monthly meeting; and

(4) an agreement to submit the required application described in Sec. 181.3 of this title (relating to application for board approval of state security 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 securities 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 securities, 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 securities 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 securities unless the issuance has been approved or exempted from review by the 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 Executive Director of the bond finance office. The Executive 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 Chair or two 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 securities other than lease-purchase agreements must include:

(1) evidence that all necessary approvals of the issuance of the state securities or the project to be financed with the proceeds of the state securities have been obtained from the appropriate state boards or state agencies except (i) the approval of the state securities by the Attorney General; (ii) the approval of or review of the projects by the Texas Higher Education Coordinating Board to be financed with the proceeds of the state securities issued by the board of regents of an institution of higher education pursuant to a system wide revenue financing system; and (iii) environmental approvals and permits;

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

(3) where applicable, evidence of review of proposed issuance by local entities;

(4) a brief description of the program under which the state securities 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;

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

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

(7) a description of the applicant's investment provisions for state security 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;

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

(9) 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 securities;

(10) 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;

(11) an estimate, if state security sale is negotiated, of underwriter's spread, specified in 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;

(12) a list of the firms providing the services reported in subsections (10) and (11) of this section and a statement of prior representation of the issuer by each firm;

(13) 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;

(14) copy of preliminary official statement, if available;

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

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

(17) 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.

(18) the notification procedures used by or on behalf of the issuer to select the participants referenced in subsection (17) above.

(19) applications for the approval of proceedings authorizing the issuance of state securities in the form of commercial paper notes shall contain the information required by subsections 1 through 18 of this Section 181.2(d) to the extent it is available or capable of being determined.

(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, with the exception of the months of January, July and September. No meetings will be held in those months unless called by the Chair.

(b) The Chair may call additional meetings of the board and is responsible for filing notice of meetings as required by Chapter 551, Government Code, and giving timely notice of meetings to members of the board. On the petition of two 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, with the exception of the months of January, July, and September. 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. 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, the board 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 securities 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 Executive 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 Office of the Attorney General.

(g) If applicable law requires the approval by the Attorney General of an issuance of state securities 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 securities and receipt of the state security proceeds, the issuer or purchaser, as applicable, shall submit one original 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 bid form or a listing of orders and allotments 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 make available 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 compare 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 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 securities 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 may be submitted to and reviewed by the Executive Director of the bond finance office prior to mailing. Review of the preliminary official statement by the Executive 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 Executive 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 security 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 security 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 state security issue (e.g. exercise of redemption provision, conversion from short-term to long-term securities, etc.);

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

(4) a list of all state security issues outstanding and corresponding debt service schedules for all bonds outstanding in a digital and hard copy format.

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 state security issuance process. Any state security issuer whose securities 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 securities. The bond finance office, upon request, will make the request for proposals available to consultants, other state security 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 exercise discretion in waiving charges.

(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.

Appendix E
Glossary

Additional Bonds Test

The conditions under which an issuer is permitted, pursuant to the terms of the resolution or indenture, to issue additional bonds on parity with an outstanding obligation. For example, an issuer may be permitted to issue additional bonds when pledged revenues are sufficient to cover existing and projected debt service by some specific multiple (e.g. 1.25x).

Arbitrage

In the municipal market, arbitrage refers to the difference between the tax-exempt interest rate paid by the borrower and the interest rate at which the proceeds of the issue are invested. The Internal Revenue Code contains specific regulations concerning the amount that can be earned from the investment of tax-exempt proceeds.

Bank-Qualified Obligation

Obligations issued by governments that do not expect to sell in excess of $10 million of “qualified tax-exempt obligations” in a calendar year. The issuer must designate its securities as “qualified tax-exempt obligations” at the time of issuance, and the securities may not be private-activity bonds. The designation of bonds as qualified tax-exempt obligations is an exception to the general rule of Section 265(b)(1) for bank purchasers.

Basis Point

An expression of interest rate equal to one-hundredth of a percent (0.01%).

Bearer Bonds

Bonds that do not identify the owner. Possession is considered to be ownership. Current federal law requires that all debt obligations with a maturity greater than one year be issued in registered form; these are known as registered bonds.

Bond Bank

A financing structure used to pool a number of distinct borrowings to take advantage of reduced issuance costs and a common reserve. In many cases, bond banks are administered by large jurisdictions (often states) and the issuer covenants to create and/or make up a deficiency in a reserve fund available to program participants.

Bond Indenture

A legal document that spells out the specific terms and conditions under which bonds may be issued. The indenture is used when a trustee is involved in a financing and forms the basis of the trustee’s responsibilities to bondholders (also called the “trust indenture”).

Bond Purchase Agreement

The agreement signed by the issuer and the underwriter(s) setting forth the price to be paid for the bonds and the interest rates that the bonds are to bear. The bond purchase agreement also details any options or certifications to be delivered on the date of closing (delivery).

Bond Resolution or Bond Ordinance

The act of the governing body that authorizes the issuance of bonds (sometimes called an “Authorizing Resolution or Ordinance”). State statutes generally govern the procedures that need to be followed by the governing body to permit issuance of debt. Of the two terms, the bond ordinance is the more formal legislative action.

Bond-Year Dollars

Bond-year dollars are calculated by adding the results of the amount of bonds outstanding times the number of years they are outstanding. (See “Net Interest Cost.”)

Call or Call Provision

The conditions under which a debt obligation may be redeemed prior to its stated maturity. Such provisions specify the date on which an obligation may be redeemed and the price investors will receive if their bonds are redeemed. Such provisions typically take one of the following forms: mandatory redemption provisions, optional redemption provisions, or extraordinary redemption provisions.

Call Premium

The price an issuer will pay to investors to redeem its obligations prior to their stated maturity date. The call premium is expressed as a percent of the par value.

Capital Budget

A spending plan for capital outlays for the current or upcoming budget year(s). The capital budget is usually the first year of a multiyear capital improvement plan or capital expenditures plan.

Certificate of Participation

A security that represents a share of an issuer’s lease payment. When a municipality finances a public facility through a lease-purchase transaction, the interest in that government’s lease payment often is assigned to a third party that issues certificates of participation. The certificate represents a share of the lease payment to be received by the investor.

Closing Date

The date on which the issuer legally issues its debt or other obligation. On that date, the purchaser provides the funds to the issuer and the issuer delivers the securities to the purchaser. At closing, bond counsel will provide the approving legal opinion.

Commercial Paper

A form of financing consisting of short-term unsecured promissory notes usually backed by a line of credit with a bank.

Conduit Financing

The sale of bonds or notes for the benefit of a third party, usually a corporation.

Coupon Interest Rate

The rate of interest paid on a specific bond. The coupon interest rate appears on the face of the bond or, in the case of book-entry-only bonds, on the bond record maintained by the securities depository.

Coverage Covenant

A pledge by the issuer, in the trust indenture or bond resolution, to maintain a specified level of coverage of debt-service requirements from pledged revenues.

Credit Enhancement

A guarantee by a third party in a debt financing that strengthens the credit quality behind the obligation.

Dated Date

The date on which a debt obligation begins to accrue interest. For example, if a bond issue was dated July 1 and was delivered to the purchaser (closed) on July 14, the purchaser would need to pay the issuer accrued interest from the dated date (July 1) up to but not including the delivery date (July 14). (See "Delivery Date.")

Defeasance

The provision for payment of an outstanding obligation with cash or securities that are placed in escrow until the due date.

Delivery Date

The date on which debt obligations are delivered to the purchaser. This is also known as the closing date.

Denomination

The face value, or par amount, of a bond that is due at maturity. Most municipal bonds are issued in denominations of $5,000 or integral multiples thereof.

Derivative Products

A term used to describe a wide range of financial products derived from more conventional securities or debt-service cash flows. Often contractual arrangements, derivative products include interest rate swaps, inverse floaters, and other hybrid securities.

Double-Barrel Bonds

A bond that has two pledged sources of security. Most often, a double-barrel bond is a general obligation that is initially secured by some specified revenue stream.

501(c) (3) Bond

Section 501c (3) of the Internal Revenue Code refers to organizations that are traditional charitable organizations, including but not limited to those organized for religious, scientific, literary, or educational purposes.

General Obligation Bonds

Bonds that are secured by the issuer's full-faith and credit pledge. Most GO bonds are backed by the issuer's ability to level an ad valorem tax in an amount sufficient to meet debt-service requirements. Some GO bonds, known as limited-tax GO bonds, are backed by the pledge of a defined portion of the issuer's general taxing power.

Issuer Structure

The repayment schedule for a bond or other obligation that is set out in the legal documents at the time of issue.

Lease-Purchase Agreement

An agreement entered into by two parties in which one provides a facility or equipment in exchange for a pledge from the other to make regular lease payments. Upon completion of the lease term, the lessee assumes ownership of the item. Most lease-purchase agreements provide that the lessee will continue to make lease payments only as long as its governing body appropriates funds for that purpose.

Legal Opinion

An opinion concerning the legality of a municipal bond issue. Such opinions usually address the legal authority of the issuer to sell bonds, the issuer's compliance with all procedural requirements prior to issuance, and the tax status of the bonds as an investment. To ensure the marketability of their offerings, governments usually retain the services of firms which specialize in municipal bond issues. (See "Nationally Recognized Bond Counsel.")

Level Debt Service Maturity Schedule

A debt repayment structure that is characterized by lower principal maturity amounts in the early years that gradually increase. When these principal repayment requirements are combined with interest payments, the result is a level debt-service payment (similar to a home mortgage).

Level Principal Maturity Schedule

A debt repayment structure that provides for equal principal payments in each year. When combined with interest requirements, this structure results in a debt-service schedule that is higher in the early years.

Master Lease Purchase Program

Administered by the Texas Public Finance Authority (TPFA), this commercial paper program enables state agencies to finance equipment acquisitions and other revenue bond projects that may be authorized by the Legislature through the TPFA. The program is available to finance purchases in excess of $10,000 and projects with a useful life of at least three years.

Maturity Amount

The amount of an issue's principal, or par value, that is scheduled to be redeemed on a given date.

Maturity Date

The date on which a given security is scheduled for redemption.

Municipal Securities Rulemaking Board (MSRB)

Created in 1975 as a product of amendments to the Securities Exchange Act of 1934, the MSRB is an independent, self-regulatory organization. The 15-member MSRB is charged with providing regulatory oversight of dealers, dealer banks, and brokers in the municipal securities industry.

Nationally Recognized Bond Counsel

Firms that have experience providing legal opinions related to the issuance of municipal bonds. The market generally considers firms listed in The Bond Buyer's Municipal Marketplace to be nationally recognized.

Net Interest Cost (NIC)

A method to calculate the overall interest cost of borrowing. The NIC is calculated by dividing total interest payments over the life of the issue by the total bond year dollars. Total bond year dollars is the sum of the products of the amount of bonds outstanding and the number of years they are outstanding. If the issue is sold at a discount, the amount of the discount is added to the total interest payments. If the issue is sold at a premium, the amount of the premium is subtracted from the total interest payments.

Official Statement

A disclosure document prepared in connection with a specific offering that provides detailed information concerning security provisions, maturity dates and amounts, optional redemption provisions, ratings, coupon rates and reoffering yields, and other relevant credit data. The official statement is prepared and circulated after the sale has been completed. (See "Preliminary Official Statement.")

Par Value

The face or maturity value of a security.

Parity Bonds

Separate bond issues that have the same lien against pledged revenues.

Pay-as-you-go-basis

The financial policy of a municipality that finances all capital outlays from current revenues rather than borrowing.

Preliminary Official Statement

A disclosure document prepared in connection with a specific offering that provides detailed information concerning security provisions, maturity dates and amounts, optional redemption provisions, and other relevant credit data. The preliminary official statement is prepared and circulated as a marketing tool prior to the sale of the securities. (See "Official Statement.")

Present Value

The sum of future payments due, discounted back to the present date at an assumed rate of interest.

Primary Market

A term used to describe the underwriting, sale, or placement of securities at the time of original pricing.

Revenue Bonds

Bonds payable from an identified source of revenue that is typically derived from operation of the financed project, but may be derived from grants, excise or other specified non-ad valorem taxes. Revenue bonds do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service, and generally, do not require voter approval prior to issuance.

Revolving Loan Fund

A centrally administered (usually by a state) fund that makes loans to subordinate units of government to address specific funding objectives. Loan repayments are recycled into additional loans. Original capitalization often comes from a combination of federal grants and state monies. Examples are the wastewater treatment revolving loan funds created pursuant to the Water Quality Act of 1987.

Rule 15c2-12

A rule promulgated by the Securities and Exchange Commission that requires underwriters of municipal obligations to obtain and review certain disclosure materials prior to making a commitment to purchase securities.

Secondary Market

A term used to describe the sale or trading of securities at market prices – not at the time of original offer.

Source of Funds

Identifies what money will be used to finance the project. Examples of sources of funds include the state's general revenue fund, federal funds, and bond proceeds.

Takedown

A component of the underwriting spread, takedown is a fee expressed either as dollars per thousand dollars of par value or as the sales commission component of the underwriting spread.

Taxable Equivalent Yield

The yield an investor in a certain tax bracket would need to obtain on a taxable investment to equal the yield on a tax-exempt security. The equation is: (tax-exempt yield/1-investor's tax bracket)=taxable equivalent yield.

True Interest Cost (TIC)

A method of calculating the overall cost of a financing that takes into account the time value of money. The TIC is the rate of interest that will discount all future payments so that the sum of their present value equals the issue proceeds.

Type of Financing

Identifies how a capital project will be financed. Examples of types of financing include legislative appropriations, general obligation bonds, revenue bonds, and lease-purchase agreements.

Underwriter

In the municipal market, the term is used broadly to refer to the firm that purchases a securities offering from a governmental issuer. In some cases, the underwriter might be a syndicate of firms that have joined together to submit a bid for the issue.

Underwriting Spread

The compensation paid to the underwriter for the purchase of the governmental obligation. The underwriting spread is expressed as either dollars per thousand dollars of par value (e.g., $6.50) or as a percent of par value (0.65%). Underwriting spread consists of four components: takedown, management fee, underwriting fee (or "risk"), and expenses.

Variable Rate

An interest rate on a security that is periodically reset, usually according to an index or preset measure. Also typically known as a "floater."

Yield to Maturity

Total return on a bond, taking into consideration its coupon, length of maturity, and dollar price.