Texas Bond Review Board

2006 Annual Report

Texas Bond Review Board
Annual Report 2006

Fiscal Year Ended August 31, 2006

Rick Perry, Governor
Chairman

David Dewhurst, Lieutenant Governor

Tom Craddick, Speaker of the House of Representatives

Carole Keeton Strayhorn, Comptroller of Public Accounts

Robert C. Kline
Executive Director

December 2006

Overview

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

The Texas economy continued to rebound during fiscal 2006 after the downturn of 2002-2003. The Comptroller's Economic Forecast for the Texas economy projects that the gross state product will grow by 3.5% in each of calendar years 2007, 2008 and 2009. In addition, the Comptroller projects that Texas' average annual growth rate in personal income will be 6.4% each year during the same three-year period.

The state's financial position at fiscal year-end 2006 was substantially better than at the same time in fiscal 2005. The ending consolidated General Revenue Fund balance totaled $9.18 billion in cash, an increase of 91% from fiscal 2005's $4.80 billion. This was the largest closing balance in the past ten years and continues an upward trend that began at fiscal year-end 2004. For fiscal 2006, total net revenues increased by $6.55 billion or 7.9% from fiscal 2005 to $89.78 billion, and total expenditures increased by 6.2% or $4.96 billion to $85.40 billion.

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. U.S. Bureau of the Census figures rank Texas 2nd in population, but 3rd among the ten most populous states in terms of local debt burden, 9th in state debt burden and 6th in total state and local debt burden. Texas remains well below its constitutional debt limit of 5% with a ratio of 1.87% including authorized but unissued debt, a decrease of 15.4% from the fiscal 2005 ratio of 2.21%.

State and Local Financings in FY 2006

Approximately $3.41 billion in new-money and refunding bonds and commercial paper were issued by state agencies and institutions of higher education in fiscal 2006 compared to $4.10 billion in fiscal 2005. Continued lower interest rates resulted in the issuance of nearly $622.4 million in refundings of state debt; however, because of the large volume of refundings that has occurred in recent fiscal years, this amount represented a decline of 52% compared to almost $1.3 billion in refundings completed in fiscal 2005.

Projections for fiscal year 2007 indicate an increase of 104% in overall state debt issuance to nearly $6.70 billion with refundings expected to decrease in dollar amount from $622.4 million in fiscal 2006 to $480.6 million in fiscal 2007. Much of the anticipated increase is attributable to projected financings by the Texas Department of Transportation for the Texas Mobility Fund ($2.25 billion) and the State Highway Fund ($1.0 billion), and The University of Texas System – RFS ($600 million) and PUF ($400 million). For the fiscal year ending August 31, 2006, Texas' total state debt outstanding increased by 9% to $23.34 billion compared to $21.41 billion at fiscal year-end 2005.

Local government debt issuance in Texas for fiscal 2006 significantly decreased by 26.3% when compared to 2005 — $20.01 billion versus $27.16 billion, respectively. New-money bond volume decreased by 14.2% over fiscal 2005 while refunding bond volume plummeted by 40.3%. Data for fiscal 2006 indicate that of the $20.01 billion issued, approximately $12.43 billion was issued for new-money purposes while $7.58 billion was issued for refunding prior outstanding debt. For the fiscal year ending August 31, 2005, Texas' total local government debt outstanding increased by 8.4% to $119.44 billion compared to $110.15 billion at fiscal year-end 2004. Debt outstanding totals are not yet available for local governmental entities for fiscal 2006.

Issuance Costs

Issuance cost data for state debt transactions that closed in fiscal 2006 reveals that the total costs of issuance, including the underwriting spread, offering expenses and fees averaged $912,036 or $8.41 per $1,000 compared to $893,230 in total costs and $9.29 per $1,000, respectively, in fiscal 2005. The increase in average costs and the

decrease in the costs per $1,000 are explained by the fact that fiscal 2006 saw more issuances over $500 million than fiscal 2005. In fiscal 2006, 12% of all issuances were over $500 million which have higher total costs but lower costs per $1,000, compared to only 8% in fiscal 2005.

Private Activity Bond Allocation Program

Texas experienced a slight increase in volume cap for the 2006 Private Activity Bond Allocation Program. The calendar 2006 volume cap was set at $1,828,797,440, an increase of almost $29.7 million (1.6%) from the 2005 cap of $1,799,201,760. Applications received for program year 2006 totaled $4.18 billion, and unlike 2005 when all of the $4.57 billion was offered a reservation, demand in 2006 increased to levels more typical of past years, and a waiting list is now in place.

Initial lottery applications for the 2007 program year indicate a lower level of requests with only $1.2 billion for bond allocation authority to finance "private activities" such as single family mortgages, multifamily housing, pollution control facilities and student loans. The largest decrease in requests has come in the multifamily housing subceiling which has generated the smallest dollar amount of requests since the inception of the lottery in 1990. This decrease is due both to lower interest rates that decrease rent and mortgage cost differentials between taxable and tax-exempt bond financing, and also to the city of Dallas' decision at mid-2005 that no housing tax-credit transactions would be approved within its jurisdiction until a federal investigation into low-income tax credit multifamily projects in the city has been completed. Additionally, the rules for receiving tax credits for location and rehabilitation "hard costs" have become more restrictive.

While the number of lottery applications for 2006 was at a record low, by the end of the program year demand for tax-exempt bond financing had returned to normal levels for most of the subceilings. In addition, toward the end of the program year, Dallas submitted its first tax-credit project since its self-imposed moratorium of 2005, and tax-exempt bond rates began to spur demand for all forms of tax-exempt bond financing.

The report concludes with four appendices. Appendix A provides a detailed description of each state bond transaction closed in fiscal 2006. Appendix B reports on commercial paper and variable-rate debt programs used by state agencies and universities. Appendix C provides a background discussion of Texas Swap Programs and reports on the state's swaps outstanding and their debt-service requirements. While not a debt of the state, the aggregate notional amount of interest rate swaps outstanding at the state level was $2.58 billion at fiscal year-end 2006. Appendix D provides a brief description of each of the state's bond issuing entities.

Contents

Figures

Tables

Cautionary Statements

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

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

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

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

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

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

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

Chapter 1
Texas Debt in Perspective

During fiscal 2006, Texas expended $307 in net tax-supported debt per capita, up from $279 in fiscal 2005, compared to a national median of $746 and an average of $944.

Texas' Financial Position Continues to Rebound
Texas ended the fiscal year with a General Revenue Fund cash balance of $9.17 billion, the largest closing balance in the past ten years *(Figure 1)*. This balance represents a 91% increase from the fiscal 2005 year-end closing balance of $4.80 billion and continues an upward trend that began at fiscal year-end 2004.

Year-end Total Net Revenues and Other Sources increased 7.9% to $89.78 billion while Total Expenditures and Other Uses increased by 6.2% to $85.40 billion *(Table 1)*. Total Tax Collections received in the General Revenue Fund increased by 12.4% to $33.51 billion.

The state's primary source of revenue is the Sales Tax which contributed 54.3% of the Total Tax Collections during fiscal 2006. Sales Tax collections rose to $18.20 billion, an 11.8% increase from the prior fiscal year. Natural Gas Production Tax collections ended the year at $2.34 billion, an increase of 41.2% from fiscal 2005. Motor Fuels Taxes increased by 2.0% and the combined Motor Vehicle and Manufactured Housing Sales and Use Tax collections increased by 7.5% in fiscal 2006.

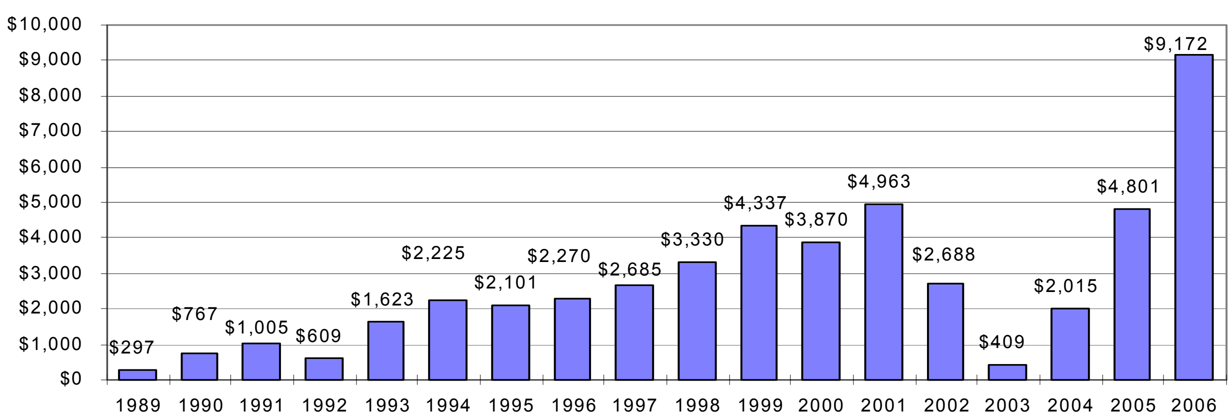
As provided in federal legislation enacted in fiscal year 2001, a four-year phase out of the state inheritance tax was completed in fiscal year 2006. As a result, Inheritance Tax collections decreased 86.9% from $101.7 million in fiscal year 2005 to $13.4 million in fiscal year 2006. Cigarette and Tobacco tax collections decreased 8.9% in fiscal year 2006.

79th Legislature Special Sessions
The 79th Legislature was called into three special sessions to address school finance. During the Third Special Session the Legislature enacted a revised business franchise tax (HB 3); a motor vehicle standard presumptive value for sales tax purposes (HB 4) and an increase in the tax rate for cigarettes and other tobacco products (HB 5). All of the new revenue generated by these new or revised taxes is to be dedicated to reducing school property taxes (HB 2).

Also during the Third Special Session the Legislature passed HB 153 that authorized the issuance of $1.86 billion in Tuition Revenue Bonds; however, the bill did not provide an appropriation for debt service for the bonds.

79th Legislature Passed $139.41 Billion Budget
The 79th Legislature convened in January 2005 and ap-

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 attributable to the consolidation of funds into the General Revenue Fund.
Source: Texas Comptroller of Public Accounts, 2006 Annual Cash Report, Table 2

Table 1

STATEMENT OF CASH CONDITION

CONSOLIDATED GENERAL REVENUE FUND

(amounts in thousands)

	Fiscal 2005	Fiscal 2006	Percent Change
Revenues and Beginning Balance			
Beginning Balance, September 1	$2,015,421	$4,801,158	138.2%
Tax Collections			
General Revenue Fund			
Sales Tax	16,279,807	18,200,845	11.8%
Oil Production Tax	681,891	862,361	26.5%
Natural Gas Production Tax	1,657,086	2,339,147	41.2%
Motor Fuels Taxes	2,934,581	2,993,570	2.0%
Cigarette and Tobacco Taxes	599,368	545,904	-8.9%
Motor Vehicle Sale/Rental, Mfg. Housing Sale	2,847,653	3,060,542	7.5%
Franchise Tax	2,170,081	2,605,447	20.1%
Alcoholic Beverages Taxes	626,278	680,748	8.7%
Insurance Taxes	1,208,866	1,232,409	1.9%
Inheritance Tax	101,674	13,360	-86.9%
Hotel and Motel Tax	262,092	308,019	17.5%
Utilities Taxes	380,006	480,793	26.5%
Other Taxes	55,889	186,465	233.6%
Total Tax Collections	$29,805,273	$33,509,610	12.4%
Federal Income	$19,492,530	$21,562,906	10.6%
Interest & Investment Income	42,634	184,738	333.3%
Licenses, Fees, Permits, Fines, & Penalties	5,104,195	4,861,231	-4.8%
Contributions to Employee Benefits	197,311	220,924	12.0%
Sales of Goods and Services	163,997	159,798	-2.6%
Land Income	20,678	21,190	2.5%
Settlements of Claims	548,816	539,730	-1.7%
Net Lottery Proceeds	1,584,493	1,585,181	0.0%
Other Revenue Sources	1,808,914	2,077,058	14.8%
Interfund Transfers / Investment Transactions	24,463,955	25,059,608	2.4%
Total Net Revenue and Other Sources	$83,232,794	$89,781,974	7.9%
Expenditures and Ending Balance			
General Government	$2,096,316	$2,323,926	10.9%
Health and Human Services	24,197,252	25,212,657	4.2%
Public Safety and Correction	2,911,782	3,771,614	29.5%
Education	19,112,170	20,919,231	9.5%
Employee Benefits	2,401,184	2,361,660	-1.6%
Lottery Winnings Paid	448,504	475,826	6.1%
Other Expenditures*	1,205,386	1,244,766	3.3%
Interfund Transfers / Investment Transactions	28,074,569	29,093,776	3.6%
Total Expenditures and Other Uses	$80,447,163	$85,403,456	6.2%
Net decrease to Petty Cash Accounts	106	57	
Ending Balance, August 31	$4,801,158	$9,179,732	91.2%

Source: Texas Comptroller of Public Accounts, 2006 Cash Report, Tables 1 & 11

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

Totals may not sum due to rounding

proved Senate Bill 1, the budget for the 2006-07 biennium. Senate Bill 1 called for total expenditures of $139.41 billion, an increase of 10.1% over actual expenditures for the 2004-05 biennium. Included in this all-funds amount was $65.58 billion in general revenue spending – an increase of $5.88 billion or 9.8% over the 2004-05 biennium general revenue spending level. As required by the Texas Constitution, the State Comptroller certified that sufficient revenue was avail-able to pay for the state's 2006-07 budget.

Of the all-funds total of $139.41 billion that will be spent during the 2006-07 biennium, 51.3% is appropriated general revenue and dedicated general revenue funds. Federal funds comprise 35.2% of the state's available revenues and the remaining 13.5% comes from all other sources.

Major funding changes of non-dedicated general revenue from the 2004-05 bien-nium include: (1) an increase of 13.1% for general government, (2) a 15.2% increase in funding for the health and human services and (3) a 9.9% decrease in funding for natural resources. The Texas Legislature allocated agencies of education and health and human services 54.8% and 26.7%, respectively of 2006-07 general revenue and dedicated general revenue funds. Public safety and criminal justice is the third largest expenditure of non-dedicated general revenue and will consume 9.8% of these funds in 2006-07.

Texas GO Bond Ratings

Texas' general obligation debt is split-rated at Aa1/AA/AA+ by the three major credit rating agencies, Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch), respectively *(Table 2)*.

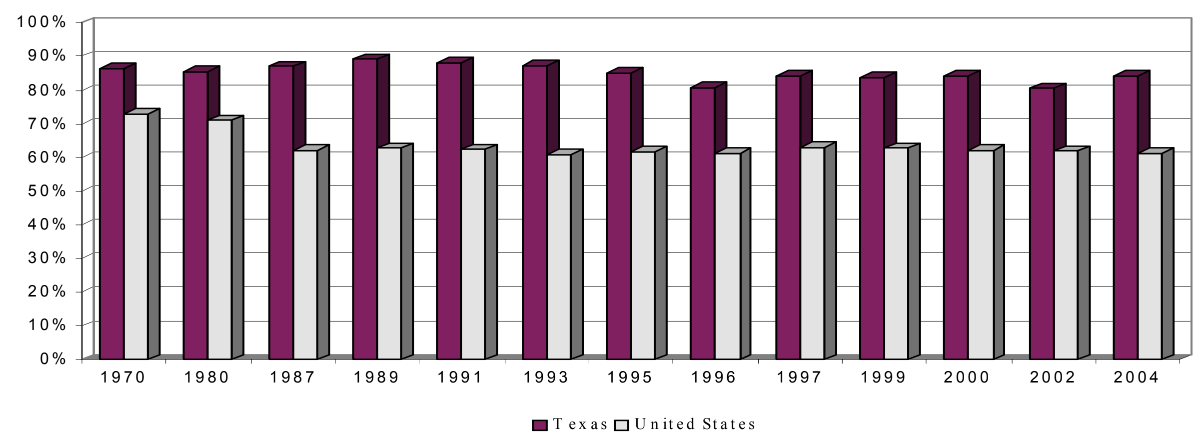
Credit rating agencies consider four primary factors when rating a state's debt: economy, finances, debt and management. Within economic factors, the agencies review the state's income, employment, economic diversity and demographics. Financial factors considered are the state's revenues, cost structure,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

Texas' AAA rating was downgraded in 1987 due to the state's economic recession during the 1980s. Since that time, however, the state's economic base has shown considerable improvement and diversification. A steady transition from an oil and gas economy to one increasingly based on services, manufacturing and technology has broadened the state's sources of revenue.

In June 1999, Moody's upgraded the state's general obligation debt from Aa2 to Aa1. The core factors that led to the higher rating were: (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. Moody's assessed the risks associated with its credit rating of Texas' general obliga-

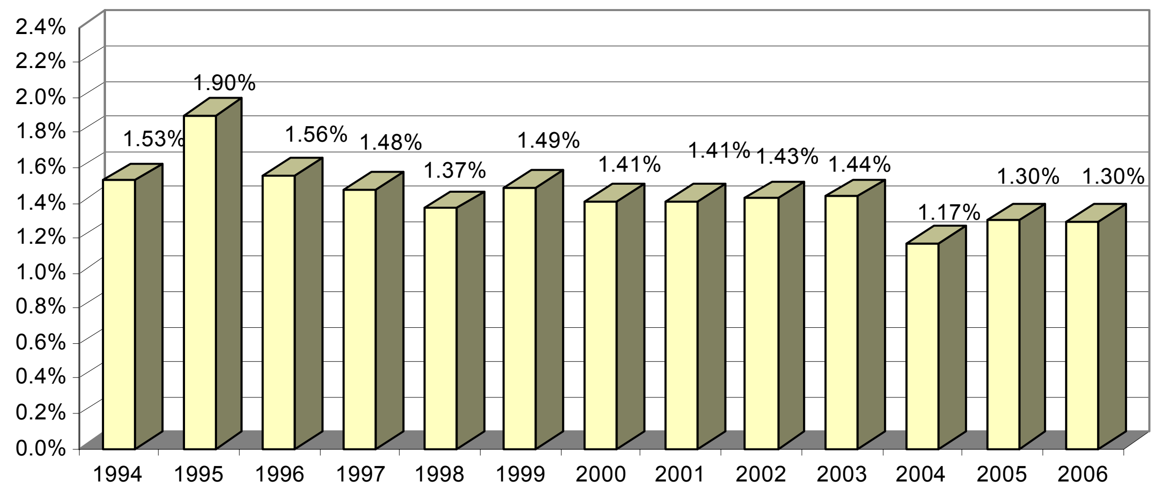
Figure 2

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



Source: U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State 2003-2004,* the most recent data available.

Figure 3
ANNUAL DEBT SERVICE AS A PERCENTAGE OF UNRESTRICTED GENERAL REVENUE



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

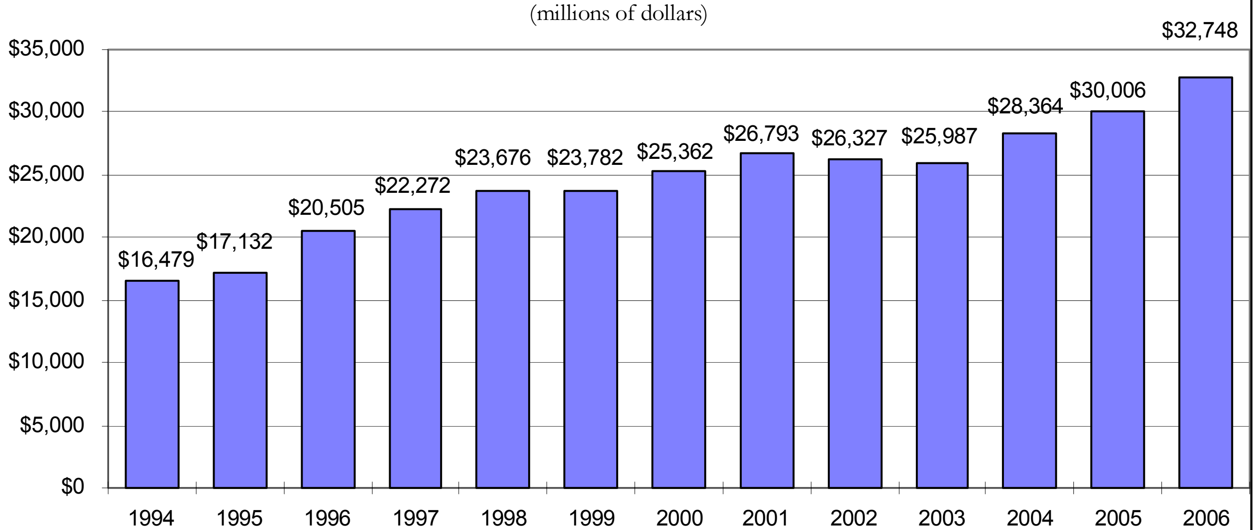
tion debt to include: (1) the future of internet taxation, (2) the state's modest fiscal reserves and (3) population growth.

Although Moody's elected to upgrade the state's debt rating, S&P downgraded the state's rating outlook from "positive" to "stable." S&P cited a modest level of financial reserves ("Rainy Day Fund") as the primary reason for the downgrade and concluded that the state's financial flexibility could become impaired without adequate financial reserves supported by a financially sound budget.

Three States Receive Rating Upgrades

During fiscal 2006, three states received rating upgrades for their general obligation bonds while two states have received downgrades. During fiscal 2006, California received upgrades from Standard & Poor's and Fitch, while

Figure 4
UNRESTRICTED GENERAL REVENUE
(millions of dollars)



Source: Texas Comptroller of Public Accounts.

Table 2
STATE GENERAL OBLIGATION BOND RATINGS
August 2006

Tier Ranking	State	Moody's Investors Service	Standard & Poor's	Fitch Ratings
1	Delaware	Aaa	AAA	AAA
1	Georgia	Aaa	AAA	AAA
1	Maryland	Aaa	AAA	AAA
1	Missouri	Aaa	AAA	AAA
1	Utah	Aaa	AAA	AAA
1	Virginia	Aaa	AAA	AAA
2	Florida	Aa1	AAA	AAA
2	Minnesota	Aa1	AAA	AAA
2	North Carolina	Aa1	AAA	AAA
2	South Carolina	Aaa	AAA	AA+
3	New Mexico	Aa1	AA+	**
3	Ohio	Aa1	AA+	AA+
3	Vermont	Aa1	AA+	AA+
4	Nevada	Aa1	AA	AA+
4	**TEXAS**	**Aa1**	**AA**	**AA+**
5	Washington	Aa1	AA	AA
6	Alaska	Aa2	AA	AA
6	Arkansas	Aa2	AA	AA
6	Massachusetts	Aa2	AA	AA
6	Michigan	Aa2	AA	AA
6	New Hampshire	Aa2	AA	AA
6	Pennsylvania	Aa2	AA	AA
6	Tennessee	Aa2	AA	AA
7	Alabama	Aa3	AA	AA
7	Connecticut	Aa3	AA	AA
7	Illinois	Aa3	AA	AA
7	Mississippi	Aa3	AA	AA
7	New York	Aa3	AA	AA
7	Oklahoma	Aa3	AA	AA
8	Hawaii	Aa2	AA-	AA-
8	New Jersey	Aa3	AA-	AA
8	Rhode Island	Aa3	AA-	AA
9	Maine	Aa3	AA-	AA-
9	Montana	Aa3	AA-	AA-
9	Oregon	Aa3	AA-	AA-
9	West Virginia	Aa3	AA-	AA-
9	Wisconsin	Aa3	AA-	AA-
9	Wyoming	Aa3	*	*
10	California	A2	A+	A+
11	Louisiana	A2	A+	A
*	Arizona	*	*	*
*	Colorado	*	*	*
*	Idaho	*	*	*
*	Indiana	*	*	*
*	Iowa	*	*	*
*	Kansas	*	*	*
*	Kentucky	*	*	*
*	Nebraska	*	*	*
*	North Dakota	*	*	*
*	South Dakota	*	*	*

* State does not carry a G O rating
** Not rated
Sources: Moody's Investors Service, Standard & Poor's, and Fitch Ratings

Nevada and New York received rating upgrades from Moody's for their general obligation bonds *(Table 3)*. Louisiana and New Hampshire were downgraded in fiscal 2005. Louisiana was downgraded by both Moody's and Fitch, while New Hampshire received a ratings downgrade from Fitch.

Texas' Debt Ratios Compared to Triple A-Rated and Other States

According to Moody's 2006 State Debt Medians *(Table 4),* during fiscal year 2006 Texas ranked 44th among all states in net tax-supported debt per capita, down from 42nd in fiscal year 2005. According to the Moody's report, during fiscal 2006 Texas expended $307 in net tax-supported debt per capita, up from $279 in fiscal year 2005. In fiscal year 2006 the national median and mean for such debt were $754 and $1,060, respectively.

Texas ranks 43rd among the 50 states in net tax-supported debt as a percent of 2004 personal income at 1.0%. Texas is well below the national median and mean of 2.5% and 3.2%, respectively *(Table 4)*.

Compared to the seven states rated AAA by all three major rating agencies, Texas ranks lowest at 1% *(Table 5)*. The median and mean of the six states were 2.7% and 2.8%, respectively.

With net tax-supported debt per capita at $307, Texas ranks lower than the seven AAA-rated states. By comparison, Delaware had the highest debt per capita at $1,845. Addition-ally, Texas' 2004 personal income per capita of $30,761 is above that of Georgia, Missouri, South Carolina and Utah, all of which are rated AAA.

Table 3
UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS
August 2005 to August 2006

State	Rating Change	Agency
	Upgrades	
California	A to A+	Standard & Poor's
California	A to A+	Fitch Ratings
Nevada	Aa2 to Aa1	Moody's
New York	A1 to Aa3	Moody's
	Downgrades	
Louisiana	A1 to A2	Moody's
Louisiana	A+ to A	Fitch Ratings
New Hampshire	AA+ to AA	Fitch Ratings

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

Table 4

SELECTED TAX-SUPPORTED DEBT MEASURES BY STATE

State	Moody's Rating	Net Tax-Supported Debt as a % of 2004 Personal Income	Rank	Net Tax-Supported Debt Per Capita***	Rank
Hawaii	Aa2	12.1%	1	$3,905	2
Massachusetts	Aa2	9.8%	2	4,128	1
Connecticut	Aa3	8.0%	3	3,624	3
New Jersey	Aa3	7.9%	4	3,276	4
New York	Aa3	6.7%	5	2,569	5
Illinois	Aa3	5.9%	6	2,026	6
Delaware	Aaa	5.3%	7	1,845	7
Washington	Aa1	4.9%	8	1,684	8
Mississippi	Aa3	4.8%	9	1,171	15
New Mexico	Aa1	4.7%	10	1,222	14
California	A2	4.6%	11	1,597	9
Kentucky	Aa2*	4.5%	12	1,225	13
Wisconsin	Aa3	4.5%	13	1,437	10
Oregon	Aa3	4.5%	14	1,350	12
West Virginia	Aa3	4.4%	15	1,119	18
Rhode Island	Aa3	4.1%	16	1,402	11
Kansas	Aa1*	3.8%	17	1,169	17
Florida	Aa1	3.2%	18	976	19
Louisiana	A2	3.1%	19	855	22
Maryland	Aaa	3.0%	20	1,169	16
Ohio	Aa1	2.9%	21	915	20
North Carolina	Aa1	2.8%	22	804	23
Utah	Aaa	2.7%	23	707	28
Georgia	Aaa	2.7%	24	784	24
Alaska	Aa2	2.6%	25	880	21
South Carolina	Aaa	2.5%	26	661	31
Pennsylvania	Aa2	2.3%	27	762	25
Vermont	Aa1	2.2%	28	707	29
Arizona	Aa3*	2.2%	29	607	32
Alabama	Aa3	2.2%	30	603	34
Nevada	Aa1	2.2%	31	717	27
Michigan	Aa2	2.1%	32	683	30
Minnesota	Aa1	2.1%	33	746	26
Maine	Aa3	2.0%	34	606	33
Virgina	Aaa	1.7%	35	601	35
Missouri	Aaa	1.6%	36	496	36
Arkansas	Aa2	1.6%	37	409	40
Indiana	Aa1*	1.4%	38	474	37
Oklahoma	Aa3	1.4%	39	395	41
New Hampshire	Aa2	1.4%	40	414	38
Montana	Aa3	1.4%	41	377	42
North Dakota	Aa2*	1.2%	42	342	39
TEXAS	Aa1	1.0%	43	307	44
Colorado	NGO**	0.9%	44	314	43
Tennessee	Aa2	0.8%	45	234	45
South Dakota	NGO**	0.7%	46	225	46
Idaho	Aa2*	0.6%	47	152	47
Iowa	Aa1*	0.4%	48	110	48
Wyoming	Aa3	0.3%	49	103	49
Nebraska	NGO**	0.1%	50	27	50
Mean		3.2%		$1,060	
Median		2.5%		$754	
Puerto Rico***		61.2%		$7,312	

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

Source: Moody's Investors Service, *2006 State Debt Medians.*

The most recent data from the U.S. Census Bureau (2004) on state and local debt outstanding shows that Texas ranks 3rd among the ten most populous states in terms of Local Debt Per Capita, 9th in State Debt Per Capita and 6th in Total State and Local Debt Per Capita *(Table 6)*. In 2004, 84.3% of Texas' total state and local debt burden was at the local level *(Figure 2)*. Local debt includes debt issued by cities, counties, school and hospital districts and special districts.

Many communities throughout Texas are experiencing significant population growth with resulting increased demand for infra-structure, programs and services. 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 waste-water services to meet those needs. Based on projections of current demographic trends, Texas will continue to experience increasing demand for expenditures in these areas.

Debt Supported by General Revenue Decreases

Texas' general obligation debt pledges "the full faith and credit of the state" to back the payment of the debt. In the event that reve-nue to support the debt is insufficient to service the debt, the first monies coming into the Office of the Comptroller – Treasury Operations not otherwise constitutionally appropriated, shall be used to pay the debt service on these obligations.

Some general obligation bonds, such as those issued by the Texas Veterans Land Board are self-supporting, that is, the debt is repaid from revenues generated from projects the debt finances. Other general obligation debt, such as that issued by the Texas Public Finance Authority to finance programs for the Texas Department of Criminal Justice, the Texas Department of Aging and Disability Services and the Texas Youth Commission are not self-supporting and must receive annual legislatively appropriated debt-service payments from the state's general revenue fund.

State debt payable from general revenue has decreased slightly since fiscal 1999 when the total of such not self-supporting debt was $3.38 billion. At the end of fiscal 2006, outstanding state debt payable from general revenue was $2.98 billion, a slight decrease from the $3.14 billion outstanding in fiscal 2005.

Annual debt service as a percent of unrestricted general revenue remained the same in fiscal year 2005 and 2006 at 1.30% *(Figure 3)*.

Debt-service payable from general revenue saw an increase in fiscal 2006. Additionally, funds accessible to make debt-service payments also increased *(Figure 4)*. Unrestricted general revenue is typically considered the most available funding source to make bond debt-service payments and to fund appropriations for state operations.

Table 5

SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA*

State	Rating	Net Tax-Supported Debt as a % of 2004 Personal Income	Rank	Net Tax-Supported Debt Per Capita	Rank	2004 Personal Income Per Capita
Delaware	AAA	5.3%	7	$1,845	7	$35,484
Georgia	AAA	2.7%	24	$784	24	$29,737
Maryland	AAA	3.0%	20	$1,169	16	$39,790
Missouri	AAA	1.6%	36	$496	36	$30,117
South Carolina	AAA	2.5%	26	$661	31	$27,077
Utah	AAA	2.7%	23	$707	28	$26,191
Virginia	AAA	1.7%	35	$601	35	$35,698
TEXAS	Aa1	1.0%	43	$307	44	$30,761
Median of AAA States**		**2.7%**		**$707**		**$30,117**
Mean of AAA States**		**2.8%**		**$895**		**$32,013**

* States listed as AAA are rated Aaa by Moody's and AAA by Standard & Poor's and Fitch Ratings

**Median and mean figures do not include Texas

Sources: Moody's Investors Service, *2005 State Debt Medians;* Bureau of Economic Analysis, State Bear Facts

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	19,281	1	$219,358	$11,377	1	$95,710	43.6%	$4,964	1	$123,648	56.4%	$6,413
Illinois	12,712	2	102,304	8,048	3	48,726	47.6%	3,833	6	53,578	52.4%	4,215
Pennsylvania	12,394	3	96,374	7,776	5	25,996	27.0%	2,097	2	70,378	73.0%	5,678
California	35,842	4	269,935	7,531	4	104,008	38.5%	2,902	5	165,927	61.5%	4,629
New Jersey	8,685	5	64,272	7,400	2	35,770	55.7%	4,119	8	28,502	44.3%	3,282
TEXAS	**22,472**	**6**	146,009	**6,497**	**9**	**22,926**	**15.7%**	**1,020**	**3**	**123,084**	**84.3%**	**5,477**
Florida	17,385	7	108,764	6,256	8	25,740	23.7%	1,481	4	83,024	76.3%	4,776
Michigan	10,104	8	57,609	5,702	6	20,960	36.4%	2,074	7	36,649	63.6%	3,627
Ohio	11,450	9	57,898	5,057	7	22,183	38.3%	1,937	9	35,715	61.7%	3,119
Georgia	8,918	10	34,848	3,908	10	8,664	24.9%	972	10	26,184	75.1%	2,936
MEAN			**$115,737**	**$6,955**		**$41,068**	**35.1%**	**$2,540**		**$74,669**	**64.9%**	**$4,415**

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

Source: U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State 2003-2004,* the most recent data available.

Authorized but Unissued Bonds Add to Texas' Debt Burden

Texas continues to have a moderate amount of authorized but unissued debt on the books. Debt that has been authorized by the legislature may be issued at any time without further legislative action. At the end of fiscal year 2006, Texas had approximately $10.37 billion of authorized but unissued debt. Of this, approximately $4.03 billion is general obligation debt while $6.34 billion is non-general obligation debt. Approximately $763.1 million of the authorized but unissued amount includes general obligation and non-general obligation debt payable from general revenue.

Texas' Constitutional Debt Limit and Debt-Management Policy

The Texas Constitution limits the amount of tax-supported debt that may be issued. In 1997, the 75th Legislature passed and voters approved House Joint Resolution 59, which states that additional tax-supported debt may not be authorized if the maximum annual debt service on debt payable from general revenue, including authorized but unissued debt, exceeds 5% of the average annual unrestricted General Revenue Fund revenues for the previous three fiscal years.

The debt-limit ratio for debt outstanding at fiscal year end decreased from 1.51% in 2005 to 1.33% in 2006. With the inclusion of authorized but unissued debt, the fiscal 2006 ratio is 1.87% compared to the fiscal 2005 ratio of 2.21%.

With the passage of House Bill 2190, the 77th Legislature directed the Bond Review Board to adopt formal debt policies and issuer guidelines to provide guidance to issuers of state securities and to ensure that state debt is prudently managed. These policies and guidelines are available on the agency's website.

Capital Planning Review and Approval Process

The 76th Legislature passed legislation that directs the Bond Review Board to produce the state's Capital Expenditure Plan (CEP). This legislation specifies that all state agencies and institutions of higher education 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.

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

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, Planning & Policy and the Legislative Budget Board (LBB) for their use in the development of appropriations' recommendations 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 then prioritizes needs through consideration of recommendations from the two budget offices, and with the approval of the governor, makes the final decisions 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, in order to plan for the future and identify longer term needs for the state, the CEP also reports on three out-years.

The 2008-2009 CEP represents the fourth published capital expenditure plan for the state, per Senate Bill 1, Article IX, Section 11.02, 79th Legislature (2005). The CEP is another management tool for state decision makers to use in assessing future individual capital expenditure requests within the framework of the state's overall financial position. The 2008-09 Capital Expenditure Plan also covers the out-years 2010-2012 and is available on the agency's website.

The debt issuance process has become more consolidated at the state level while at the local level the process remains highly fragmented. At the state level the number of active, direct debt issuing agencies has been reduced to seventeen. On the local level there are nearly 4,200 debt issuing entities.

Debt Affordability Study

The Bond Review Board, Legislative Budget Board and the Texas Public Finance Authority are currently coordinating the preparation of the state's first Debt Affordability Study (DAS), expected to be released in early 2007. The DAS is designed to provide the state leadership with an integrated approach to manage state debt by assessing historical debt use and analyzing the state's financial and economic resources in conjunction with long-term needs contained in the CEP. The Bond Review Board will be responsible for subsequent annual editions of the DAS.

Local Debt Issuance Process

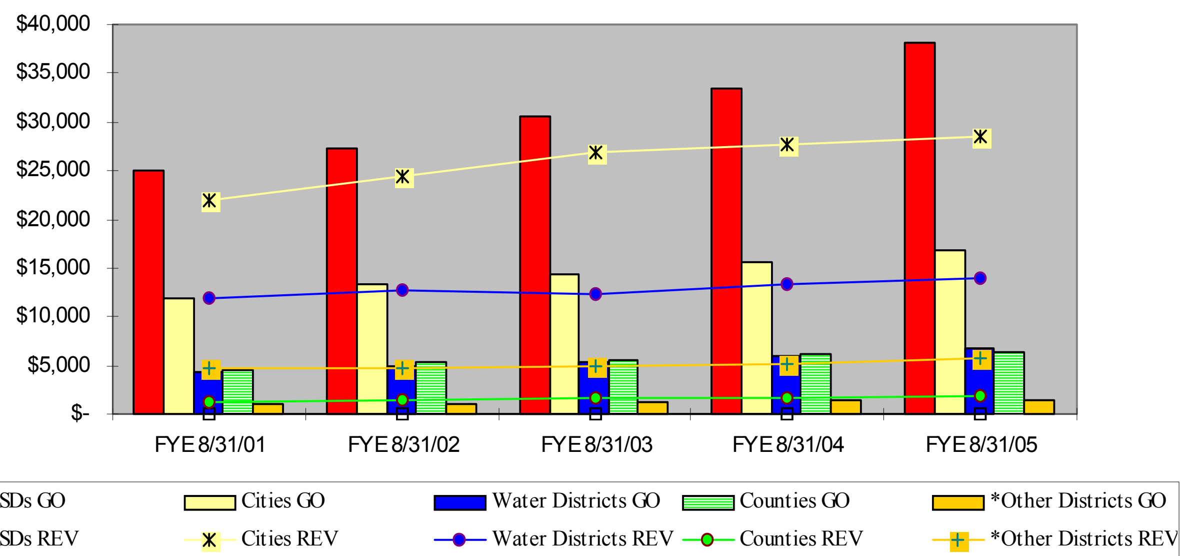
Local governments in Texas issue debt to finance construction and renovation of government facilities (school instructional facilities, public safety buildings, city halls, county courthouses), public infrastructure (roads, water and sewer systems) and various other projects for economic development. Key factors that affect a government's need or ability to borrow funds for infrastructure development include population changes, rev-

Figure 5

GROWTH IN TEXAS LOCAL DEBT OUTSTANDING

[Tax-Supported (GO) and Revenue Debt]

(millions of dollars)



*Other districts include health / hospital districts, community / junior college districts, road, power and housing

Source: Texas Bond Review Board - local government debt databases, which include conduit debt as well as lease-purchase obligations for educational and jail facilities.

Table 7
TEXAS LOCAL GOVERNMENTS
Debt Outstanding Summary
As of August 31, 2005
(most recent data available)

Type of Issuer	Tax-Supported	Revenue	Total Debt
Cities, Towns, Villages			**$ 45,412,947,780**
Tax	16,858,822,616		
Revenue		28,349,788,248	
Sales Tax		173,825,000	
Conduit revenue		17,456,916	
Lease-purchase contracts (jail facilities only)		13,055,000	
Community and Junior Colleges			**1,950,302,048**
Tax	1,202,044,019		
Revenue		722,447,102	
Lease-purchase contracts (ed. facilities)		25,810,928	
Counties			**8,166,759,431**
Tax	6,342,820,103		
Revenue		1,487,032,800	
Conduit revenue		21,980,000	
Lease-purchase contracts (jail facilities only)		314,926,528	
Health / Hospital Districts			**1,407,163,654**
Tax	198,151,810		
Sales Tax	27,059,000		
Revenue		1,167,072,845	
Conduit revenue		14,880,000	
Public School Districts			**38,067,086,908**
Voter-approved tax (ed. facilities)	37,138,171,305		
Maintenance tax (ed. equipment)	512,483,977		
Lease-purchase contracts (ed. facilities)	413,796,627		
Revenue (athletic facilities)		2,635,000	
Water Districts and Authorities			**20,539,875,575**
Tax	6,668,464,012		
Revenue		5,729,423,562	
Conduit revenue		8,141,988,000	
Other Special Districts and Authorities (Road, power, housing)			**3,894,692,273**
Tax	103,654,000		
Sales Tax		826,580,000	
Revenue		2,958,798,273	
Lease-purchase contracts (ed. facilities)		5,660,000	
TOTAL LOCAL DEBT OUTSTANDING	**$ 69,465,467,468**	**$ 49,973,360,202**	**$ 119,438,827,670**

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

Source: Texas Bond Review Board - Bond Finance Office (local government debt databases).

enue sources, tax rates and levies, interest rates and construction costs. Other factors that affect debt issuance may simply be the importance of a project to a particular community.

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

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

Local Debt Issuance Volume Increases 54% in Five Years

Nationwide, municipal bond issuance set record highs each successive year since 2002. Calendar year 2005 outpaced all years with $408.27 billion in total muni-bond sales. Texas local governments followed suit with record breaking debt issuance as well – $22.09 billion in fiscal 2003, $20.92 billion in fiscal 2004 and $27.16 billion in fiscal 2005. This represents a 54% increase in local debt issuance volume since fiscal 2001 when $17.65 billion was issued. For fiscal 2006 Texas local governmental entities are expected to track the national decline and issue approximately $20.01 billion in local debt, down $7.15 billion or 26.3% from fiscal 2005.

The new-money portion issued during the five-year period (fiscal 2001-2005) was $64.68 billion with refunding totals reaching $42.56 billion. Cities, school districts and water districts comprised 87.1% of the new-money volume ($56.35 billion) and 84.9% of the refunding transaction volume ($36.12 billion) since fiscal 2001.

Debt refinancing climbed steadily between 2002 and 2004 and reached an all-time high volume of $12.68 billion in fiscal 2005 when interest rates declined to historical lows. Most governmental entities (81.1%) achieved both a cash and present value savings with these refundings (especially Texas community college districts, counties, school districts and water districts). Some transactions resulted in only a net present value savings with a cash loss, or in both a cash and present value loss. In these cases, the primary objective was to restructure debt-service requirements to more evenly match budget flows and thus avoid raising taxes during times of economic weakness. Extending debt-service schedules to reduce annual payment requirements assisted in meeting this objective. Overall during this 5-year period, Texas local issuers achieved cash savings of approximately $797 million with a present value savings of nearly $1.4 billion.

Majority of Debt Financing Supports Educational Facilities and Water-Related Infrastructure

During the five-year reporting period, the primary use of bond proceeds (37.8%) was for educational facilities and equipment, including school buses. Financing for water-related infrastructure needs continues to be the second major purpose for debt issuance by Texas local governments (19.7%). The general-purpose category again ranks third at 15.9%. Some issuers, especially cities, borrow for multipurpose uses. Nearly half of these multipurpose borrowings involve debt financings for water and transportation purposes; therefore, these two categories are likely understated.

Financing for transportation needs including projects for roads, bridges, parking facilities, airports and rapid transit ranked as the fourth major purpose at 13.5%. For purposes of tracking the use of bond proceeds, the Bond Review Board has selected the following additional categories: economic development, commerce, recreation, solid waste, prisons/detention, power, combined utility systems, health-related facilities, fire protection and pension obligations.

Texas Local Governments: $119.44 Billion In Debt – a 38% Increase in Five Years

As of August 31, 2005, Texas local governments had $119.44 billion in outstanding debt *(Table 7),* or 37.8% ($32.76 billion) greater than the amount outstanding at the end of fiscal 2001. Approximately 58.2% ($69.47 billion) of that debt is general obligation debt and will be repaid from local tax collections while the remaining 41.8% ($49.97 billion) will be repaid from revenues generated by various projects such as water and sewer and electric utility fees. As previously noted, Texas continues to rank 3rd among the ten most populous states in terms of Local Debt Per Capita, 9th in State Debt Per Capita and 6th in Total State and Local Debt Per Capita.

Cities Account for Largest Portion of Total Debt and Revenue Debt Outstanding

Thirty-eight percent of all local government debt is carried by Texas cities. Slightly over 37% or $16.86 billion of the city debt is tax-supported and the remaining $28.55 billion is revenue debt – debt that is repaid from a special revenue source rather than from general tax collections. The majority of city revenue debt has been used to finance utility-related projects, including water, wastewater and in some localities, electric utility systems. Most of this type of debt is to be repaid from user charges.

As shown in *Figure 5,* city revenue debt increased by 29.6% ($6.52 billion) since 2001. This increase coincides with the sustained boom in new housing spurred by relatively low interest rates and an estimated 7.2% (1.5 million) increase in Texas' population since 2001.

Counties and community/junior college districts also had increases in revenue debt outstanding in the five-year period, 42.9% and 20.2%, respectively. As of August 31, 2005, counties had $1.82 billion in revenue debt outstanding while community/junior colleges had $748.3 million.

Special districts, which include road districts, power agencies, government housing authorities, transit authorities and the newly formed regional mobility authorities, showed a 26.4% ($791.4 million) increase in revenue debt since 2001.

School District Tax-Supported Debt Rises 53% in Five Years

Thirty-two percent of all local government debt is carried by Texas school districts. Outstanding tax-supported debt totaled $38.06 billion as of August 31, 2005, a 52.7% ($13.14 billion) increase since 2001 *(Figure 5)*. During that five-year period, Texas public school attendance increased by approximately 6.3% (240,500 students). School district debt is primarily used to finance instructional facilities while only a handful of school districts carry revenue debt for constructing, improving and equipping athletic/stadium facilities.

Community/junior college districts had a significant increase (160.4%) in tax-supported debt during the five-year time period, from $461.7 million outstanding as of August 31, 2001 to $1.20 billion outstanding as of August 31, 2005. Community/junior college student enrollment increased in five years by 24.9% (113,255) to 567,739 for the 50 college districts in Texas.

Tax-supported debt outstanding for health/hospital districts increased 79.9% to $225.2 million outstanding as of August 31, 2005. County tax-supported debt was 42.4% higher with $6.34 billion outstanding. Water districts, which include navigation and port districts, river authorities, municipal utility districts (MUDs) and municipal water authorities, experienced a 51.5% rise in tax-supported debt outstanding with $6.69 billion on the books as of August 31, 2005. Cities increased their tax-supported debt outstanding to $16.86 billion, an increase of 41.3% in five years.

On a cumulative level for all Texas local governments, five-year statistics show a 48.5% or $22.68 billion increase in tax-supported debt outstanding, and a 25.3% or $10.08 billion increase in revenue debt outstanding.

Texas Bond Review Board and Local Government Debt

The Texas Bond Review Board (BRB) has no direct oversight of local government debt issuance in Texas. Legislative mandates charge the Board with collecting, maintaining, analyzing and reporting on the status of local government debt. When the Office of the Attorney General approves each transaction, the required information on bonds issued by political subdivisions of the state is collected and forwarded to the BRB for its report on local debt statistics (Chapter 1202, Texas Government Code). All reporting on local debt is presented on the agency's website. Visitors to the site can either search databases and/or download spreadsheets that contain debt outstanding, debt ratio and population data by government type at each fiscal year end. In fiscal 2006, 2,767 different users of the BRB's website downloaded over 16,000 spreadsheets containing Texas local government debt data. The BRB will continue to provide this information annually and post it to the website within approximately four months after the close of the fiscal year.

Chapter 2
Texas Bonds Issued in Fiscal 2006

Debt issued by Texas state agencies and universities increased from the prior year to an aggregate total of $3.41 billion, compared to $3.38 billion issued in fiscal 2005. The fiscal 2006 issues included $2.79 billion in new money and $622.4 million in refunding bonds (Table 8). *Other debt issued included almost $1.3 billion of commercial paper and variable-rate notes. Additional information on bond transactions can be found in Appendix A of this report. The Bond Review Board also approved $29.5 million for lease purchases by Texas state agencies in FY 2006* (Table 9).

New-Money Funding Increases in FY 2006

New-money bonds issued by Texas state agencies and institutions of higher education during fiscal 2006 totaled just under $2.79 billion, an increase of approximately $702 million compared to $2.09 billion issued during fiscal 2005 *(Figure 6)*. Issuance of commercial paper is not included. The proceeds provided financing for infrastructure, housing and loan programs.

For fiscal year 2006, the Texas Transportation Commission (TTC), the governing body of the Texas Department of Transportation (TxDOT), was the top issuer of new-money bonds with 48.4% of the total while The University of Texas System (UTS) issued 19.4%. These two agencies captured 67.8% of the total new-money issuance for fiscal 2006.

Uses of New Money for FY 2006

The TTC issued $1.35 billion (over 48% of the total) of new-money bonds in fiscal 2006. These bonds were revenue and general obligation bonds that will be used to construct and expand state highways as well as provide funds for the state's participation in certain publicly owned toll roads and other public transportation projects.

The UTS sold 19.4% of the total new-money bonds issued in fiscal 2006, amounting to $540.6 million. This was a $279.2 million increase from the $261.3 million issued in fiscal 2005. The proceeds will be used to finance the costs of campus improvements for certain UTS members.

Over 14%, or $394.8 million, of fiscal 2006 new-money financing was issued for the remaining institutions of higher education in Texas.

The Texas State University System issued $155.0 million; Texas Tech University System issued $93.8 million; The University of North Texas System issued $39.8 million; University of Houston System issued $35.1 million; and Texas State Technical College System issued $15.7 million. These financings will be used to fund property and facility improvements at their prospective campuses.

The Texas Public Finance Authority (TPFA) issued $55.4 million on behalf of Stephen F. Austin State University. The proceeds will be used to construct a University residence hall and associated parking garage and a new student recreational center.

Table 8
TEXAS BONDS ISSUED DURING FISCAL 2006
SUMMARIZED BY ISSUER

ISSUER	REFUNDING BONDS	NEW-MONEY BONDS	TOTAL BONDS ISSUED
Texas Department of Housing & Community Affairs	$34,465,000	$385,110,000	$419,575,000
Texas Public Finance Authority	0	55,365,000	55,365,000
Texas State Affordable Housing Corporation	0	67,449,000	67,449,000
Texas State Technical College System	0	15,695,000	15,695,000
Texas State University System	28,505,000	155,005,000	183,510,000
Texas Tech University System	127,135,000	93,780,000	220,915,000
Texas Transportation Commission	0	1,350,000,000	1,350,000,000
Texas Veterans Land Board	192,025,000	50,000,000	242,025,000
Texas Water Development Board	62,445,000	0	62,445,000
The Higher Education Coordinating Board	72,005,000	0	72,005,000
The University of North Texas System	37,025,000	39,770,000	76,795,000
The University of Texas System	20,315,000	540,570,000	560,885,000
University of Houston System	48,450,000	35,140,000	83,590,000
Total Texas Bonds Issued	**$622,370,000**	**$2,787,884,000**	**$3,410,254,000**

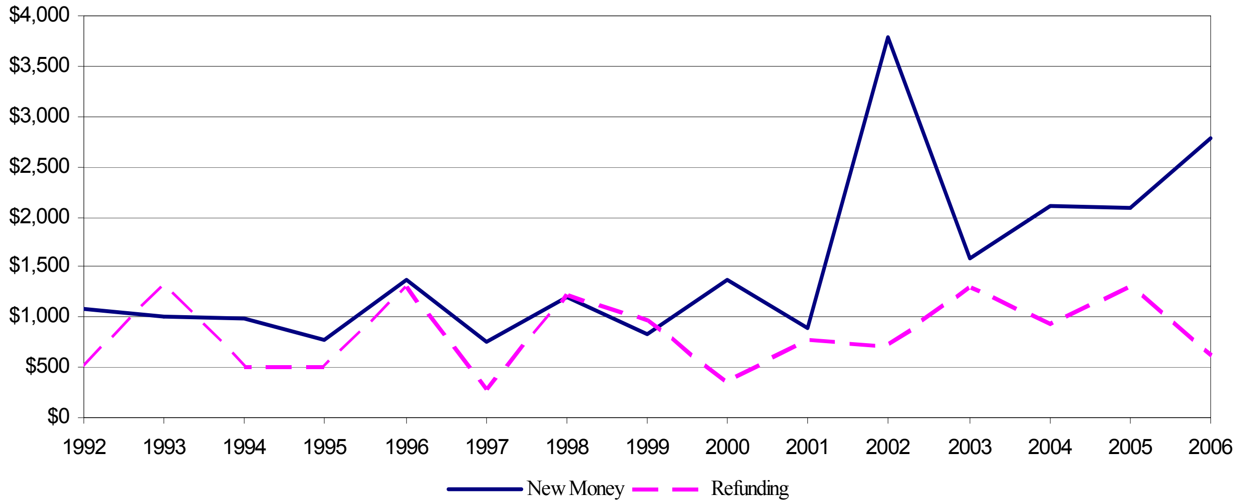
Note: See Table 17, Appendix B, for commercial paper issuance

Source: Texas Bond Review Board - Bond Finance Office

Figure 6

TEXAS NEW MONEY AND REFUNDING BOND ISSUES 1992 - 2006

(millions of dollars)



Source: Texas Bond Review Board - Bond Finance Office.

In fiscal 2006, the Texas Department of Housing and Community Affairs (TDHCA) provided $286.2 million of new-money bonds for its single family mortgage revenue bond program and $98.9 million for its multifamily housing bonds. The single family program provides financing for the purchase of low interest rate mortgage loans made by lenders to first-time home buyers with very low, low, or moderate income who are acquiring modestly priced residences.

Eight TDHCA transactions accounted for the $98.9 million in financing for affordable multifamily housing in Austin, Gainesville, Houston, Fort Worth and Mesquite. Federal tax law requires that certain percentages of the rental units in these properties be set aside for low-to-moderate income households.

The Texas State Affordable Housing Corporation (TSAHC) maintains its own single family housing and multifamily housing programs. In fiscal 2006 TSAHC issued a total of $67.5 million in its single family Professional Educators Home Loan Program and its Fire Fighter and Law Enforcement or Security Officer Home Loan Program. TSAHC issued no bonds for multifamily projects during fiscal 2006.

During fiscal 2006 the Veterans Land Board (VLB) issued $50 million of new-money debt. The proceeds will be used to make housing and home improvement loans to eligible Texas veterans.

Refunding Amounts Decrease in FY 2006

State agencies and universities issued 48% less ($622.4 million) in refunding bonds in FY 2006 compared to almost $1.29 billion in issued in fiscal 2005. The refunding bonds comprised 18.3% of total debt issued in fiscal 2006, as compared to 38.4% of the total bonds issued in fiscal 2005.

The Veterans Land Board refunded the largest amount of outstanding debt, issuing $192.0 million in refunding bonds. This amount represented 30.9% of the total amount of refunding money issued in fiscal 2006. Texas Tech University System represented 20.4% issuing $127.1 million in refunding bonds.

Other institutions of higher education that issued refunding bonds in fiscal 2006 were University of Houston System ($48.5 million), The University of North Texas System ($37.0 million), Texas State University System ($28.5 million), and The University of Texas System ($20.3 million). Institutions of higher education accounted for 42% of all refunding bonds issued in fiscal 2006.

The Texas Higher Education Coordinating Board issued $72.0 million in bonds to refund portions of its State of Texas College Student Loan Bonds.

The Texas Water Development Board issued $62.4 million in bonds to refund certain outstanding Economically Distressed Areas Program (EDAP) bonds and water development bonds.

Lastly, the Texas Department of Housing and Community Affairs issued $34.5 million in bonds to refund outstanding portions of certain single family mortgage revenue 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. The total issuance in fiscal 2006 was nearly $1.3 billion, a $585.1 million increase from the $711.9 million issued in fiscal 2005 *(Table 18)*.

The UTS issued $471.8 million in Revenue Financing System (RFS) commercial paper notes and $100 million in Permanent University Fund (PUF) flexible-rate notes during fiscal 2006. As of August 31, 2006, the System had $555.4 million of RFS commercial paper and $100 million 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 TPFA issued $45 million in revenue commercial paper and $45.2 million in general obligation commercial paper during fiscal 2006. As of August 31, 2006, TPFA had a total of $105.3 million in revenue commercial paper and $225.5 million in general obligation commercial paper outstanding.

The Texas A&M University System issued $54 million in RFS commercial paper notes and $20 million in PUF flexible-rate notes during fiscal 2006. As of August 31, 2006, the System had $79 million of RFS commercial paper outstanding and $5 million of PUF flexible-rate notes outstanding. The System utilizes commercial paper and variable-rate notes to finance construction projects on its campuses.

The University of North Texas System issued $166.6 million in RFS commercial paper notes during fiscal 2006. As of August 31, 2006, the System had $26.1 million of RFS commercial paper outstanding.

The TDHCA issued $72.2 million in commercial paper during fiscal 2006 and had $15.2 million of commercial paper outstanding as of August 31, 2006. 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 home buyers of very low, low, or moderate income.

During fiscal 2006, the Texas Tech University System (TTUS) issued $22.5 million in RFS commercial paper. As of August 31, 2006, the TTUS had $13.1 million of commercial paper outstanding. The System established its commercial paper program in 1998 to finance construction projects.

Table 9
LEASE-PURCHASE AGREEMENTS APPROVED BY THE BOND REVIEW BOARD FISCAL 2006

AGENCY	PROJECT	AMOUNT
DADS	Furniture and Equipment	$5,404,000
DADS	Telecom	$2,910,418
DADS	Transportation	$2,800,000
DFPS	Server	$629,378
DFPS	Technology	$4,040,476
DSHS	Furniture	$2,800,000
DSHS	Telecom	$2,158,913
DSHS	Vehicles	$3,749,987
Midwestern State University	Computer Hardware and Software	$1,270,500
Midwestern State University	Utility Equipment & Lighting Retrofit	$3,700,000
Total Approved Lease-Purchase Agreements		**$29,463,672**

Note: Amounts listed above are Texas Bond Review Board *approved* amounts
Source: Texas Bond Review Board - Bond Finance Office

Table 10
TEXAS STATE BOND ISSUES EXPECTED DURING FISCAL 2007

ISSUER	APPROXIMATE AMOUNT	PURPOSE	APPROXIMATE ISSUE DATE
General Obligation Bonds			
Self-Supporting			
Texas Department of Transportation	$1,250,000,000	Texas Mobility Fund	Oct-06 - Nov-06
Texas Department of Transportation	$1,000,000,000	Texas Mobility Fund	Jul-07
Texas Higher Education Coordinating Board	$75,000,000	College Student Loans	May-07
Texas Public Finance Authority	$44,500,000	Military Preparedness Commission	Dec-06
Texas Water Development Board	$145,000,000	Water Development EDAP Fund II Program Bonds-Refunding	Apr-07
Texas Water Development Board	$25,000,000	Water Development EDAP Fund II Program Bonds-New Money	Jul-07
Texas Veterans Land Board	$50,000,000	Veterans Housing Bonds	Sep-06
Texas Veterans Land Board	$41,050,000	Veterans Land Refunding Bonds	Nov-06
Texas Veterans Land Board	$39,560,000	Veterans Land Refunding Bonds	Nov-06
Texas Veterans Land Board	$50,000,000	Veterans Housing Bonds	Feb-07
Total Self-Supporting	**$2,720,110,000**		
Not Self-Supporting			
Texas Public Finance Authority*	$24,400,000	Texas Building and Procurement Commission	Various
Texas Public Finance Authority*	$24,100,000	Texas Department of Aging and Disability Services	Various
Texas Public Finance Authority*	$53,000,000	Texas Department of Criminal Justice	Various
Texas Public Finance Authority*	$18,400,000	Texas Department of Public Safety	Various
Texas Public Finance Authority*	$55,500,000	Texas Department of State Health Services	Various
Texas Public Finance Authority*	$17,000,000	Texas Parks and Wildlife Department	Various
Texas Public Finance Authority*	$34,400,000	Texas School for the Blind and Visually Impaired	Various
Texas Public Finance Authority*	$6,300,000	Texas Youth Commission	Various
Total Not Self-Supporting	**$233,100,000**		
Total General Obligation Bonds	**$2,953,210,000**		
Non-General Obligation Bonds			
Self-Supporting			
Texas Department of Housing and Community Affairs	$120,000,000	Single-Family Mortgage Revenue Bonds	Nov-06
Texas Department of Housing and Community Affairs	$110,000,000	Single-Family Mortgage Revenue Bonds	Jun-07
Texas Department of Housing and Community Affairs*	$15,000,000	Single-Family Commercial Paper Refunding Series "A" Notes	Nov-06
Texas Department of Housing and Community Affairs	$28,000,000	Single-Family Mortgage Revenue Refunding Bonds	Jun-07
Texas Department of Housing and Community Affairs	$12,000,000	Single-Family Mortgage Revenue Refunding Bonds	Jun-07
Texas Department of Housing and Community Affairs	$130,000,000	Private Activity Bonds	Various
Texas Department of Transportation	$1,000,000,000	State Highway Fund	Nov-06
Texas State Affordable Housing Corporation	$25,000,000	Professional Educators Home Loan Program	Feb-07
Texas State Affordable Housing Corporation	$25,000,000	Firefighter and Law Enforcement or Security Officer Home Loan Program	Apr-07
Texas State Affordable Housing Corporation	$5,000,000	Nursing Faculty Home Loan Program	Apr-07
Texas State University System - RFS	$31,500,000	Tuition Revenue for constructing a new satellite campus	Oct-06
Texas State University System - RFS	$15,000,000	Tution Revenue for renovation and repair of the School of Technology	Oct-06
Texas State University System - RFS	$46,000,000	Tuition Revenue for constructing a new main research library	Apr-07
Texas State University System - RFS	$8,756,230	Tuition Revenue for repair and renovation of the YMCA project	Apr-07
Texas State University System - RFS	$32,681,000	Texas State San Marcos - Capital Improvements	Nov-06
Texas State University System - RFS	$28,200,000	Texas State San Marcos - Student Recreation Center	Nov-06
Texas State University System - RFS	$10,772,000	Texas State San Marcos - Parking Garage	Nov-06
Texas State University System - RFS	$30,000,000	Sam Houston State - Academic Building	Nov-06
Texas State University System - RFS	$25,000,000	Lamar University - Student Residence Hall	Nov-06
Texas State University System - RFS	$35,000,000	Sam Houston State - Performing Arts Building	May-07
Texas State University System - RFS	$2,000,000	Angelo State University - One-Stop Center Student Services Facility	May-07
Texas Water Development Board	$200,000,000	Clean Water State Revolving Funds Bonds-Refunding	Jan-07
Texas Water Development Board	$100,000,000	Clean Water State Revolving Funds Bonds-New Money	May-07
The Texas A&M University - PUF*	$75,000,000	Acquire, purchase, construct, improve and equip vrious facilities within the System	As Needed
The Texas A&M University System - RFS*	$125,000,000	Acquire, purchase, construct, improve and equip vrious facilities within the System	As Needed
The University of Texas System - RFS	$600,000,000	Construction and Refund All or a Portion of RFS Commercial Paper Notes Series A	Oct-06 - Aug-07
The University of Texas System - PUF	$400,000,000	Construction and Refund All or a Portion of PUF Commercial Paper Notes Series A	Oct-06 - Aug-07
University of Houston System*	$50,000,000	Provide interim financing for various projects within the UH System	Oct-06
University of Houston System	$38,785,000	Consolidated Revenue Bonds - Purchase real estate in NW Houston for branch campus	Nov-06
University of Houston System	$144,000,000	Consolidated Revenue Bonds - Authorized Tuition Revenue Bonds Projects	Jan-07
University of Houston System	$70,000,000	Consolidated Revenue Bonds - Construct student housing facility on the UH campus	Jan-07
University of North Texas	$18,045,000	Tuition Revenue for Purchasing and renovating property in Dallas	Jan-07
University of North Texas	$25,000,000	Tuition Revenue for building UNT-Dallas/System Center	Jun-07 - Aug-07
University of North Texas	$41,910,000	Tuition Revenue for building Honors and Legends dormitories	Jan-07
University of North Texas	$50,000,000	Tuition Revenue for building the College of Business Administration Building	Jun-07 - Aug-07
University of North Texas	$41,972,400	UNT Health Science Center	Jun-07 - Aug-07
Total Self-Supporting	**$3,714,621,630**		
Not Self-Supporting			
Texas Public Finance Authority	$9,000,000	THC - Admiral Nimitz Museum	Fall 2006
Texas Public Finance Authority*	$4,500,000	Adjutant General's Department	Fall 2006
Texas Public Finance Authority	$15,000,000	Texas Parks and Wildlife Department - East Texas Fish Hatchery	Dec-06
Total Not Self-Supporting	**$28,500,000**		
Total Non-General Obligation Bonds	**$3,743,121,630**		
Total All Bonds	**$6,696,331,630**		

* Commercial Paper or Variable-Rate Note program. **Source:** Texas Bond Review Board - Bond Finance Office.

The Texas Economic Development and Tourism Office issued no commercial paper during fiscal 2005. As of August 31, 2006, the Office had $13 million of commercial paper outstanding.

The Texas Department of Agriculture also issued no commercial paper in fiscal 2006. The department had $25 million of commercial paper outstanding as of August 31, 2006.

TxDOT is authorized to issue $500 million in commercial paper to carry out the functions of the Department. TxDOT issued $300 million in State Highway Fund commercial paper in fiscal 2006 and as of August 31, 2006, $88.9 million commercial paper was outstanding.

Additional information about commercial paper and variable-rate note programs is included in 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 BRB approved $29.5 million for ten lease-purchase transactions during FY 2006 *(Table 9),* compared to approximately $41.1 million in FY 2005.

The largest lease purchase was a $5.4 million Department of Aging and Disability Services (DADS) transaction for furniture and equipment. In addition, DADS also received two approvals totaling $5.7 million for telecom and transportation purchases.

The Department of Family and Protective Services received approval for two lease purchases totaling $4.7 million for server and information technology purchases.

The Department of State Health Services was approved for three lease purchases totaling $8.7 million for furniture, a telecommunication system and vehicles.

Midwestern State University received two lease-purchase approvals for computer hardware/software to replace the current mainframe computer system with an enhanced web-based system, and for utility equipment for the Central Plant and a lighting retrofit project for energy savings in a total amount of $4.9 million.

Funding Needs Projected to Increase for FY 2007

Texas state issuers expect to increase debt issuance in fiscal 2007 compared to fiscal 2006. 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 $6.69 billion in bonds and commercial paper during fiscal 2007 *(Table 10).* This is an increase of 104% ($3.29 billion) over the amount of bonds issued in fiscal 2006.

TxDOT, and its governing board the TTC expect to issue $3.25 billion in fiscal 2007; $2.25 billion is expected to be issued as Texas Mobility Fund Bonds and $1 billion issued as State Highway Fund Bonds.

TPFA plans to issue approximately $306.1 million in bonds and commercial paper during fiscal 2007. TPFA bonding packages include $44.5 million in general obligation bonds for the Military Preparedness Commission. TPFA also plans to issue general obligation bonds in the amount of $233.1 million for various projects by the Texas Department of State Health Services, the Texas Department of Aging and Disability Services, the Texas Parks and Wildlife Department, the Texas Department of Criminal Justice, the Texas Department of Public Safety, the Texas Youth Commission, the Texas School for the Blind and Visually Impaired and the Texas Building and Procurement Commission.

TPFA plans to issue $15 million in revenue bonds for the Texas Parks and Wildlife Department for the East Texas Fish Hatchery. Other TPFA revenue issues planned for fiscal 2007 include $4.5 million for the Adjutant General's Department and $9 million for the Texas Historical Commission's Admiral Nimitz Museum.

The University of Texas System expects to issue $1 billion of Permanent University Fund and Revenue Financing System debt during fiscal 2007. The debt will be used to finance facility construction and renovation, purchase equipment and refund outstanding commercial paper.

The TWDB anticipates that it will issue $125 million in new-money debt. The Clean Water State Revolving Fund will utilize $100 million of this new debt 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 $25 million for the EDAP Fund II Program Bonds. In addition, the TWDB plans to issue $345 million for refundings: $200 million for the Clean Water State Revolving Fund and $145 million for the EDAP Fund II Program.

The VLB expects to issue $100 million in new-money bonds during fiscal 2007 for the Veterans Housing Assistance Program in addition to refunding approximately $80.6 million of outstanding land bonds.

The Texas Department of Housing and Community Affairs plans to issue approximately $415 million in bonds during fiscal 2007, $230 million of which will finance TDHCA's Single Family Mortgage Revenue Bond Program. TDHCA also plans to issue approximately $40 million in Single Family Mortgage Revenue Refunding Bonds and $15 million to refund a portion of its outstanding residential mortgage revenue commercial paper notes. The $130 million remaining balance is expected to be issued as Private Activity Bonds.

The TSAHC expects to issue $55 million in bonds during fiscal 2007. The funds will be used to provide single family home loans to professional educators, fire fighters, law enforcement or security officers and nursing faculty.

The Texas A&M University System plans to issue approximately $200 million in bonds and commercial paper in fiscal 2007. Of that amount, $125 million will be issued as Revenue Financing System commercial paper and $75 million will be issued as Permanent University Fund commercial paper. Texas A&M also plans to issue Permanent University Fund bonds for refunding obligations as well as providing funds for certain projects but specific amounts have not yet been determined.

Texas State University System plans to issue $264.9 million for facility construction and renovations. Tuition revenues will be used for constructing a new satellite campus, renovation and repair of the School of Technology, constructing a new main research library and YMCA repairs and renovations. Additional proceeds will be used to construct an academic building and a performing arts building at Sam Houston State University, a student residence hall at Lamar University, and a one-stop student services facility at Angelo State University. Proceeds will also be used for capital improvements, a student recreation center and a parking garage at Texas State's San Marcos campus.

The University of Houston System (UH) expects to issue $302.8 million of new-money debt in fiscal 2007. Of this amount, $252.8 million will be issued as Consolidated Revenue Bonds to purchase real estate in northwest Houston for a branch campus, the construction of a student housing facility on the UH main campus and additional authorized TRB projects. The remaining $50 million will provide interim financing for various projects within The UH System through the use of commercial paper notes.

The University of North Texas System anticipates issuing $176.9 million in fiscal 2007. The System Administration will use $43.1 million for purchasing and renovating property in Dallas and for constructing the UNT Dallas/System Center; $91.9 million will be used by UNT for constructing the Honors and Legends dormitories and constructing the College of Business Administration Building. The remaining $41.9 million in proceeds will be issued for the UNT Health Science Center.

Lastly, the Texas Higher Education Coordinating Board plans to issue $75 million for College Student Loan Bonds during fiscal 2007.

Chapter 3
Texas Debt Outstanding

In fiscal 2006, the state's total debt outstanding increased 9% to $23.34 billion compared to $21.41 billion in fiscal 2005 and $19.99 billion in fiscal 2004.

General Obligation Bonds Outstanding Increased in FY 2006

Texas G.O. bonds carry a constitutional pledge of the full faith and credit of the state to pay the bonds and require passage of a proposition by a vote of two-thirds of both houses of the Texas Legislature and by a majority of Texas voters.

At the end of fiscal 2006, $7.53 billion of the state's $22.73 billion debt outstanding was backed by the state's general obligation (G.O.) pledge, an increase of $534 million (7.6%) from the $6.99 billion in G.O. bonds outstanding at the end of fiscal 2005 *(Tables 11 and 11A)*. G.O. bond issues contributing to the fiscal 2006 increase include Texas Mobility Fund bonds, Veterans Housing Assistance and Land bonds. (See Chapter 2 and Appendix A for a description of bonds issued in fiscal 2006.)

The repayment of non-G.O. (Revenue) debt is dependent only on the revenue stream of a project or enterprise or an appropriation from the legislature. Any pledge of state funds beyond the current budget period is contingent upon appropriation by future legislatures, and such an appropriation cannot be guaranteed under state statute.

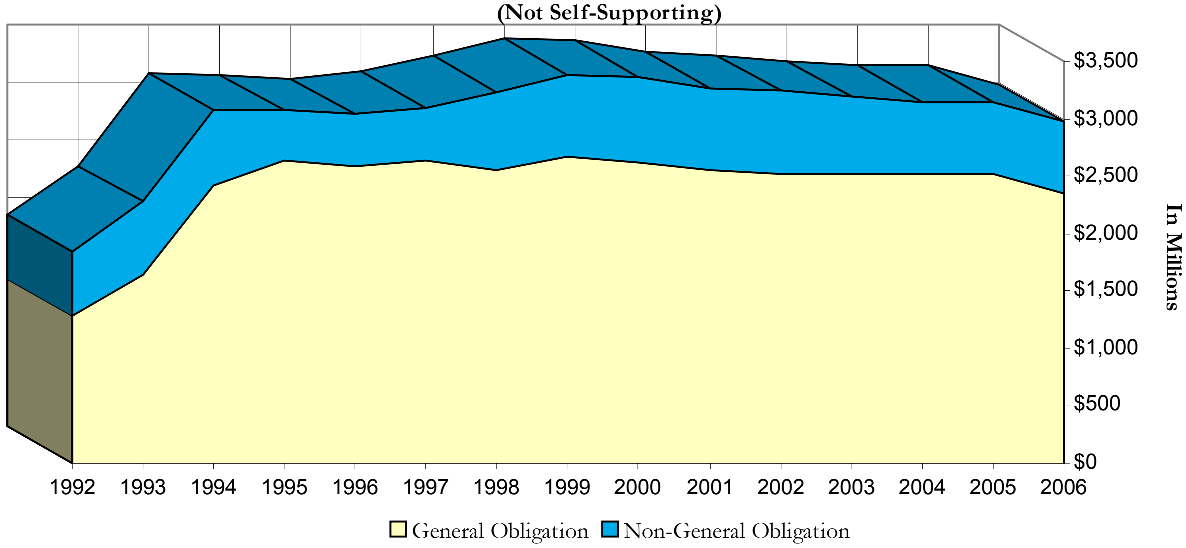
Investors are willing to assume the additional risk associated with the purchase of Revenue bonds by requiring a higher interest rate to compensate for the added risk. The interest rate on Revenue bond issues may range from 5 to 20 basis points (0.05% to 0.20%) higher than that of comparably-rated G.O. issues.

General Revenue Supported Debt Decreased Slightly in FY 2006

All bonds do not have the same financial impact on the state's general revenue. Self-supporting bonds, both G.O. and Revenue, 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, and draw upon the same sources used by the legislature to finance the operation of state government.

The combined total of not self-supporting General Obligation and Revenue bonds outstanding decreased by $168.6 million during fiscal 2006 *(Figure 7)*. Outstand-

Figure 7
TEXAS STATE BONDS OUTSTANDING BACKED ONLY BY GENERAL REVENUE (Not Self-Supporting)



Source: Texas Bond Review Board - Bond Finance Office.

Table 11

TEXAS DEBT OUTSTANDING

(amounts in thousands)

	8/31/2002	8/31/2003	8/31/2004	8/31/2005	8/31/2006
General Obligation Bonds					
Self-Supporting					
Veterans' Land and Housing Bonds	$1,723,742	$1,660,840	$1,682,940	$1,773,251	$1,852,137
Water Development Bonds	879,580	881,345	953,020	959,000	887,340
Economic Development Bank Bonds	0	0	0	45,000	45,000
Park Development Bonds [4]	28,862	22,336	18,555	24,485	20,080
College Student Loan Bonds	635,418	691,698	688,647	652,923	625,601
Farm and Ranch Security Bonds*	1,000	0	0	0	0
Texas Agricultural Finance Authority*	34,000	36,000	30,000	30,000	25,000
Mobility Fund Bonds	0	0	0	1,000,000	1,725,515
Total, Self-Supporting	**$3,302,603**	**$3,292,219**	**$3,373,161**	**$4,484,659**	**$5,180,673**
Not Self-Supporting [1]					
Higher Education Constitutional Bonds [2]	$41,545	$28,490	$25,905	$52,685	$56,702
Texas Public Finance Authority Bonds [4,6]	2,158,128	2,162,316	2,140,167	2,133,778	1,978,685
Park Development Bonds	14,850	14,025	13,200	4,125	3,300
Agriculture Water Conservation Bonds	16,160	14,050	11,900	9,690	7,410
Water Development Bonds - EDAP [3]	166,195	160,735	179,460	173,005	165,725
Water Development Bonds - State Participation Bonds	119,840	141,710	141,710	141,580	141,445
Total, Not Self-Supporting	**$2,516,718**	**$2,521,326**	**$2,512,342**	**$2,514,863**	**$2,353,267**
Total General Obligation Bonds	**$5,819,321**	**$5,813,545**	**$5,885,503**	**$6,999,522**	**$7,533,940**
Non-General Obligation Bonds					
Self-Supporting					
Permanent University Fund Bonds					
The Texas A&M University System [4,6]	$299,395	$306,932	$303,631	$301,571	$429,210
The University of Texas System [6]	796,790	887,475	888,820	973,560	1,032,860
College and University Revenue Bonds** [6]	3,186,916	4,109,514	4,617,953	5,061,421	5,857,034
Texas Dept. of Housing and Community Affairs Bonds [6]	1,608,150	1,794,377	1,931,634	2,169,157	2,305,689
Texas State Affordable Housing Corporation	486,929	501,898	551,770	542,898	515,148
Texas Small Business I.D.C. Bonds	99,335	99,335	99,335	99,335	99,335
Economic Development Program*	9,000	13,258	14,000	15,000	13,000
Texas Water Resources Finance Authority Bonds	69,790	54,430	38,070	27,155	21,315
College Student Loan Bonds	15,051	8,206	3,511	878	0
Texas Department of Transportation Bonds [6]	2,199,994	2,199,994	2,199,994	2,199,994	2,199,994
Texas Workers' Compensation Fund Bonds	102,669	85,513	66,815	46,433	24,217
Veterans' Financial Assistance Bonds	197,284	188,998	26,277	25,689	25,689
Texas Public Finance Authority Bonds (Special Revenue)	33,320	31,805	30,225	27,290	25,565
Texas Workforce Commission Unemp Comp Bonds	0	0	1,371,720	1,018,840	712,935
State Highway Fund	0	0	0	0	688,850
Water Development Board Bonds - State Revolving Fund	1,493,025	1,422,100	1,322,145	1,268,275	1,234,300
Total, Self-Supporting	**$10,597,647**	**$11,703,836**	**$13,465,900**	**$13,777,496**	**$15,185,141**
Not Self-Supporting [1]					
Texas Public Finance Authority Bonds	$596,259	$540,540	$508,230	$484,200	454,085
TPFA Master Lease Purchase Program* [5]	56,400	65,259	58,359	77,259	105,290
Texas Military Facilities Commission Bonds	17,710	14,095	25,985	23,385	21,690
Parks and Wildlife Improvement Bonds	54,715	51,835	48,705	45,125	41,880
Total, Not Self-Supporting	**$725,084**	**$671,729**	**$641,279**	**$629,969**	**$622,945**
Total Non-General Obligation Bonds	**$11,322,731**	**$12,375,565**	**$14,107,179**	**$14,407,465**	**$15,808,086**
Total Debt Outstanding	**$17,142,052**	**$18,189,110**	**$19,992,683**	**$21,406,987**	**$23,342,026**

Note: The debt outstanding figures include the accretion on capital appreciation bonds as of August 31, 2006.

* Commercial Paper

** Outstanding amounts for tuition revenue bonds are included in these totals. Table 11A provides amounts of outstanding revenue bonds for the individual institutions. All college and university revenue bonds are equally secured by and payable from a pledge of all or a portion of certain "revenue funds" as defined in Chapter 55, Texas Education Code, as amended, of the applicable system or institution of higher education. Historically, however, the state has appropriated funds to the schools in an amount equal to all or a portion of the debt service on revenue bonds issued pursuant to certain specific authorizations to individual institutions in Chapter 55, Texas Education Code ("Tuition Revenue Bonds").

[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.

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

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

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

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

[6] Includes commercial paper and bond anticipation notes outstanding.

Source: Texas Bond Review Board - Bond Finance Office.

ing not self-supporting G.O. bonds decreased by $161.6 million in fiscal 2006 while not self-supporting Revenue bonds outstanding decreased by $7 million. As a result, Texas had $2.98 billion in outstanding bonds that must be paid from the state's general revenue as of August 31, 2006. Not self-supporting G.O. and Revenue bonds totaled $3.14 billion in fiscal year 2005 and $3.15 billion in fiscal 2004.

Debt-Service Payments from General Revenue Increased in FY 2006

Debt-service payments from general revenue increased 8.9% from $390.3 million in fiscal 2005 to $424.9 million in fiscal 2006 *(Figure 8)*. During fiscal 2004, the state paid $331.8 million from general revenue for debt service compared to $375.5 million paid in 2003. The decrease in debt-service payments from fiscal 2003 to fiscal 2004 was the result of debt restructuring that occurred in fiscal 2003. Please note that debt-service requirements for tuition revenue bonds are not included in this analysis since all college and university revenue bonds are equally secured by and payable from a pledge of all or a portion of certain "revenue funds" of the applicable system or institution of higher education. Historically, however, the state has appropriated funds to the schools in an amount equal to all or a portion of the debt service on revenue bonds issued pursuant to certain specific authorizations to individual institutions in Chapter 55, Texas Education Code. *Table 12A* provides debt-service detail for each institution.

Texas Bonds Authorized but Unissued Decreased in FY 2006

Authorized but unissued bonds are defined as those bonds that may be issued without further action by the legislature. As of August 31, 2006, Texas had $10.37 billion in authorized but unissued bonds compared to $11.13 billion in fiscal 2005 *(Table 13)*. This decrease results from the repeal of the Public School Facilities Funding Act as well as the issuance of Texas Department of Transportation debt for the State Highway Fund.

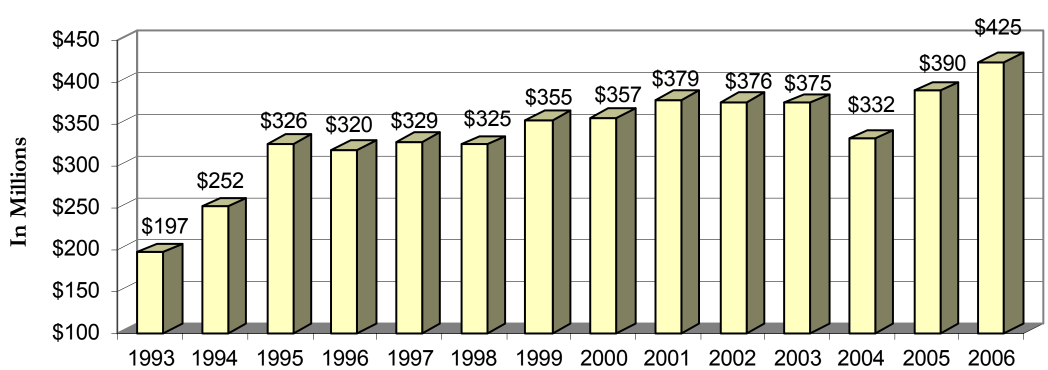
Of the total authorized but unissued bonds, $4.03 billion or 38.8% are G.O. bonds. Additionally, the total G.O. authorized but unissued bonds that are not self-supporting and require the payment of debt service from general revenue is $763.1 million at the end of fiscal 2006 compared to $1.07 billion at fiscal year-end 2005. The remaining authorized but unissued bonds are in programs that are designed to be self-supporting.

New Bond Authority - 79th Texas Legislature, Third Special Session

In the Third Special Session of the 79th Legislature, HB 153 authorized $1.86 billion in Tuition Revenue Bonds (TRB) for institutions of higher education. TRBs are used to finance construction and improvements of infrastructure and related facilities. The authorization and issuance of the bonds is not contingent on an appropriation for related debt service, but the Legislature historically has appropriated general revenue to

Figure 8

ANNUAL DEBT SERVICE PAID FROM GENERAL REVENUE



Source: Texas Bond Review Board - Bond Finance Office.

Table 11A

TEXAS COLLEGE AND UNIVERSITY REVENUE DEBT OUTSTANDING
(amounts in thousands)

	FY 2003			FY 2004			FY 2005			FY 2006		
College and University Revenue Bonds	**Non-Tuition Revenue Bonds**	**Tuition Revenue Bonds**	**Total**	**Non-Tuition Revenue Bonds**	**Tuition Revenue Bonds**	**Total**	**Non-Tuition Revenue Bonds**	**Tuition Revenue Bonds**	**Total**	**Non-Tuition Revenue Bonds**	**Tuition Revenue Bonds**	**Total**
Midwestern State University	17,580	16,505	34,085	17,000	15,875	32,875	12,560	15,215	27,775	11,950	14,525	26,475
Stephen F. Austin State University	10,120	18,770	28,890	34,430	18,100	52,530	37,540	17,395	54,935	107,855	16,655	124,510
Texas Southern University	30,775	89,625	120,400	32,870	87,385	120,255	31,415	85,050	116,465	27,915	88,550	116,465
Texas State Technical College System	6,485	3,910	10,395	5,560	9,990	15,550	4,381	9,575	13,956	0	9,155	9,155
Texas Tech University System	244,853	69,101	313,954	244,255	153,227	397,482	241,892	150,496	392,388	256,058	185,837	441,895
Texas Woman's University	14,755	24,525	39,280	24,245	23,640	47,885	22,725	30,540	53,265	20,825	29,275	50,100
The Texas A&M University System	$545,406	$308,993	$854,399	$516,907	$377,078	$893,985	$561,446	$348,209	$909,655	$561,469	$335,810	897,279
The Texas State University System	142,305	180,625	322,930	147,385	199,160	346,545	179,305	190,390	369,695	351,702	180,832	532,534
The University of North Texas System	92,285	108,435	200,720	93,355	106,540	199,895	69,063	129,030	198,093	103,290	119,515	222,805
The University of Texas System	1,444,776	456,740	1,901,516	1,649,474	566,952	2,216,426	1,985,409	633,985	2,619,394	2,495,151	615,340	3,110,491
University of Houston System	132,885	150,060	282,945	124,980	169,545	294,525	142,475	163,325	305,800	134,255	191,070	325,325
Total Revenue Debt Outstanding	**$2,682,225**	**$1,427,289**	**$4,109,514**	**$2,890,462**	**$1,727,491**	**$4,617,953**	**$3,288,211**	**$1,773,210**	**$5,061,421**	**$4,070,470**	**$1,786,564**	**$5,857,034**

Notes:
The debt outstanding figures include the accretion on capital appreciation bonds as of August 31, 2006.
All college and university revenue bonds are equally secured by and payable from a pledge of all or a portion of certain "revenue funds" as defined in Chapter 55, Texas Education Code, as amended, of the applicable system or institution of higher education. Historically, however, the state has appropriated funds to the schools in an amount equal to all or a portion of the debt service on revenue bonds issued pursuant to certain specific authorizations to individual institutions in Chapter 55, Texas Education Code ("Tuition Revenue Bonds").
Amounts do not include premium on capital appreciation bonds.
Includes commercial paper notes outstanding.
Source: Texas Bond Review Board - Bond Finance Office.

reimburse institutions for the tuition used to pay for the debt service. HB 153 did not make an appropriation for debt service for the authorized debt. The Legislative Budget Board estimates the debt service for the TRB projects authorized by HB 153 to be approximately $160 million in fiscal 2008.

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. Like bonds, these agreements are a method of financing capital purchases over time. Payments on these contracts and agreements are generally subject to biennial appropriations by the legislature. These contracts and agreements are not classified as state bonds but must be added to debt outstanding to obtain an accurate total of all state debt.

The equipment lease purchases approved by the Bond Review Board are typically financed through the Texas Public Finance Authority Master Lease Purchase Program and are included in the state's total debt outstanding. No lease purchases of facilities were approved by the Bond Review Board during fiscal 2006.

Texas Swaps Outstanding

At the end of fiscal 2006, three state issuers had swap agreements in place: the Veterans Land Board (VLB), The University of Texas System (The UT System) and the Texas Department of Housing and Community Affairs (TDHCA). Each entered the swap market in 1994, 1999 and 2004, respectively. As of August 31, 2006, the aggregate notional amount of swaps outstanding at the state level was $2.58 billion. Interest rate swaps do not represent additional debt of the state but are used as a financial management tool primarily to reduce interest expense and hedge against interest rate, tax, basis and other risks. (See Appendix C for a background discussion of swaps.)

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

At the end of fiscal 2006, the VLB was a party to 39 pay-fixed, receive-variable (synthetic fixed-rate) swaps associated with 39 of its variable-rate demand bond issues. The total notional amount for these swaps was $1.37 billion at fiscal year-end 2006. TDHCA had three such swaps totaling $188 million in notional amount and The UT System had two totaling $27.9 million in notional amount at fiscal year-end 2006.

Additionally, at the end of fiscal 2006 the VLB had five outstanding basis (pay-variable, receive-variable) swaps with $971.3 million in notional amount that were associated with variable rate demand bonds issues. The VLB had one pay-variable, receive-fixed swap associated with one issue for a nominal amount of $24 million.

Table 12

DEBT-SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR

(amounts in thousands)

	2006	2007	2008	2009	2010	2011 & beyond
General Obligation Bonds						
Self-Supporting						
Veterans' Land and Housing Bonds	$126,793	$143,758	$141,670	$141,826	$167,758	$2,428,842
Water Development Bonds	84,927	86,373	87,416	89,521	90,504	1,120,052
Park Development Bonds	4,535	4,533	4,528	1,161	1,168	15,374
College Student Loan Bonds	52,500	100,892	71,453	122,549	86,447	518,009
Mobility Fund Bonds	62,227	111,106	110,397	110,396	110,400	2,792,956
Economic Development Bank Bonds	2,047	2,047	2,047	2,047	2,047	116,663
Texas Agriculture Finance Authority	1,200	1,350	1,500	1,500	1,500	39,000
Total Self-Supporting	**$334,229**	**$450,059**	**$419,011**	**$469,000**	**$459,824**	**$7,030,896**
Not Self-Supporting[1]						
Higher Education Constitutional Bonds [2]	$5,552	$7,024	$8,854	$8,849	$8,849	$41,443
Texas Public Finance Authority Bonds	293,995	277,000	276,355	274,389	242,043	1,246,096
Park Development Bonds	1,029	984	938	893	848	0
Agriculture Water Conservation Bonds	2,693	2,698	2,694	2,696	0	0
Water Development Bonds - EDAP [3]	15,620	15,420	15,052	15,080	15,257	189,001
Water Development Bonds - State Participation	6,404	7,777	7,775	7,773	7,775	275,464
Total Not Self-Supporting	**$325,294**	**$310,903**	**$311,668**	**$309,680**	**$274,772**	**$1,752,004**
Total General Obligation Bonds	**$659,522**	**$760,962**	**$730,679**	**$778,680**	**$734,596**	**$8,782,900**
Non-General Obligation Bonds						
Self-Supporting						
Permanent University Fund Bonds						
The Texas A&M University System	$18,623	$43,012	$42,982	$33,858	$33,654	566,818
The University of Texas System	86,681	94,809	94,807	94,668	94,697	1,433,045
* College and University Revenue Bonds	491,534	489,289	486,329	485,933	462,833	6,003,681
Texas Dept. of Housing & Community Affairs Bonds	217,035	142,461	146,130	147,250	146,379	4,257,187
Texas State Affordable Housing Corporation	55,352	41,625	42,368	42,534	42,571	169,098
Texas Small Business I.D.C. Bonds	3,973	3,209	3,209	3,209	3,209	152,276
Economic Development Program	600	600	675	750	750	8,250
Texas Water Resources Finance Authority Bonds	7,610	6,880	6,130	6,253	5,539	0
College Student Loan Bonds	714	0	0	0	0	0
Texas Workers' Compensation Fund Bonds [4]	22,216	24,217	0	0	0	0
Texas Workforce Commission Unemp Comp Bonds	208,995	20,197	173,255	86,628	153,056	327,528
Veterans' Financial Assistance Bonds	1,942	1,885	1,885	1,885	1,888	47,905
Texas Public Finance Authority Bonds - Special Revenue	2,895	2,875	2,876	2,871	2,878	21,315
Texas Department of Transportation Bonds	84,981	211,156	855,386	41,917	41,917	4,098,521
State Highway Fund	10,576	71,939	71,933	71,936	71,936	298,319
Water Development Bonds - State Revolving Fund	94,743	100,978	104,118	107,511	110,096	1,384,338
Total Self Supporting	**$1,308,470**	**$1,255,132**	**$2,032,083**	**$1,127,203**	**$1,171,403**	**$18,768,281**
Not Self-Supporting [2]						
Texas Public Finance Authority Bonds	$73,733	$66,577	$64,839	$64,315	$65,786	$293,718
TPFA Master Lease Purchase Program	17,890	17,890	13,507	8,525	6,242	33,132
Texas Military Facilities Commission Bonds	2,618	2,413	2,417	1,981	1,979	20,955
Parks and Wildlife Improvement Bonds	5,394	5,299	5,179	5,078	4,968	34,449
Total Not Self-Supporting	**$99,635**	**$92,179**	**$85,942**	**$79,899**	**$78,975**	**$382,254**
Total Non-General Obligation Bonds	**$1,408,106**	**$1,347,311**	**$2,118,025**	**$1,207,102**	**$1,250,378**	**$19,150,535**
Total All Bonds	**$2,067,628**	**$2,108,273**	**$2,848,704**	**$1,985,782**	**$1,984,974**	**$27,933,435**

* Debt-service requirements for tuition revenue bonds are included in these totals. Table 12A provides debt-service detail for each institution.
All college and university revenue bonds are equally secured by and payable from a pledge of all or a portion of certain "revenue funds" as defined in Chapter 55, Texas Education Code, as amended, of the applicable system or institution of higher education. Historically, however, the state has appropriated funds to the schools in an amount equal to all or a portion of the debt service on revenue bonds issued pursuant to certain specific authorizations to individual institutions in Chapter 55, Texas Education Code ("Tuition Revenue Bonds").

[1] Bonds that are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue for debt service.
Debt service paid from general revenue for not self-supporting bonds totaled $390.3 million in fiscal 2005 and approximately $424.9 million in fiscal 2006.

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

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

[4] Texas Workers' Compensation Fund Bonds were economically defeased. Legally required debt-service payments 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.
Future debt-service payments for variable-rate bonds and commercial paper programs are estimated.
Detail may not add to total due to rounding.

Source: Texas Bond Review Board - Bond Finance Office.

Table 12A

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

(amounts in thousands)

College and University Revenue Bonds	2006	2007	2008	2009	2010	2011 & Beyond
The University of Texas System - Non-TRB	$175,756	$157,658	$161,382	$163,166	$163,172	$2,517,114
The University of Texas System - TRB	59,279	57,574	57,354	57,358	57,351	629,542
The University of Texas System - TOTAL	235,035	215,232	218,736	220,524	220,523	3,146,656
The Texas A&M University System - Non-TRB	62,980	57,415	57,622	57,365	48,490	487,458
The Texas A&M University System - TRB	41,479	41,530	38,235	36,012	30,410	304,659
The Texas A&M University System - TOTAL	104,459	98,945	95,857	93,377	78,900	792,117
The Texas Tech University System - Non-TRB	25,822	25,076	22,528	22,525	22,121	292,244
The Texas Tech University System - TRB	13,165	16,759	16,217	16,232	16,227	213,741
The Texas Tech University System - TOTAL	38,987	41,835	38,745	38,757	38,348	505,985
Texas State University System - Non-TRB	18,629	29,659	29,928	30,174	30,367	408,192
Texas State University System - TRB	18,599	18,589	18,594	18,445	18,468	181,043
Texas State University System - TOTAL	37,228	48,248	48,522	48,619	48,835	589,235
University of Houston System - Non-TRB	16,303	16,172	16,176	16,193	9,255	138,608
University of Houston System - TRB	13,820	16,706	17,136	17,117	17,091	201,506
University of Houston System - TOTAL	30,124	32,878	33,312	33,310	26,346	340,114
The University of North Texas System - Non-TRB	9,144	15,269	14,140	14,142	14,148	150,372
The University of North Texas System - TRB	10,347	5,461	5,612	5,675	5,791	106,174
The University of North Texas System - TOTAL	19,491	20,730	19,752	19,817	19,939	256,546
Texas Woman's University - Non-TRB	2,216	2,922	2,921	2,925	1,580	23,090
Texas Woman's University - TRB	2,074	2,702	2,692	2,678	2,676	31,639
Texas Woman's University - TOTAL	4,289	5,624	5,613	5,603	4,256	54,729
Texas State Technical College System - Non-TRB	1,273	1,925	1,921	1,921	1,923	9,618
Texas State Technical College System - TRB	844	838	831	834	820	10,520
Texas State Technical College System - TOTAL	2,117	2,763	2,752	2,755	2,743	20,138
Stephen F. Austin State University - Non-TRB	5,021	8,238	8,230	8,374	8,373	137,626
Stephen F. Austin State University - TRB	1,517	1,526	1,533	1,534	1,542	17,179
Stephen F. Austin State University - TOTAL	6,538	9,764	9,763	9,908	9,915	154,805
Midwestern State University - Non-TRB	1,120	1,117	1,116	1,117	1,121	12,572
Midwestern State University - TRB	1,376	1,382	1,386	1,383	1,384	14,614
Midwestern State University - TOTAL	2,495	2,499	2,502	2,500	2,505	27,186
Texas Southern University - Non-TRB	2,742	2,746	2,746	2,739	2,494	25,427
Texas Southern University - TRB	8,028	8,025	8,029	8,024	8,029	90,743
Texas Southern University - TOTAL	10,770	10,771	10,775	10,763	10,523	116,170
Total College and University Revenue Bonds	**$491,534**	**$489,289**	**$486,329**	**$485,933**	**$462,833**	**$6,003,681**

Legend: TRB = Tuition Revenue Bonds

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

Source: Texas Bond Review Board - Bond Finance Office

At the end of fiscal 2006, the Net Fair Value for the VLB's swaps totaled -$64 million; The UT System, -$1.1 million; and TDHCA, -$1.98 million. (See *Table 19* in Appendix C for details regarding Texas' interest rate swaps outstanding at August 31, 2006.)

At fiscal year-end 2006, debt-service requirements and net swap payments for the VLB's pay-fixed, receive-variable and pay-variable, receive-variable swaps totaled $2.07 billion, TDHCA's totaled $321.9 million and The UT System's totaled $971.8 million. (See *Table 20 in Appendix C* for debt-service requirements of variable-rate debt outstanding and net interest rate swap payments.)

Table 13

TEXAS BONDS AUTHORIZED BUT UNISSUED

(amounts in thousands)

	8/31/2003	8/31/2004	8/31/2005	8/31/2006
General Obligation Bonds				
Self-Supporting				
Veterans' Land and Housing Bonds	$605,002	$505,002	$355,002	$318,372
Water Development Bonds	2,286,264	2,170,906	2,127,961	2,077,961
Farm and Ranch Loan Bonds [4]	475,000	475,000	475,000	475,000
College Student Loan Bonds	250,000	250,000	250,000	250,000
Texas Economic Development Bank Bonds	45,000	45,000	0	0
Texas Agricultural Finance Authority Bonds	19,000	19,000	20,000	30,000
Texas Public Finance Authority [5]	250,000	250,000	250,000	250,000
Texas Mobility Fund Bonds		***	***	***
Texas Rail Relocation and Improvement Fund		***	***	***
Agricultural Water Conservation Bonds	164,840	164,840	164,840	164,840
Total Self-Supporting	**$4,095,106**	**$3,879,748**	**$3,642,803**	**$3,566,173**
Not Self-Supporting [1]				
Higher Education Constitutional Bonds	*	*	*	*
Texas Public Finance Authority [5, 6]	$824,483	$774,077	$689,566	$406,897
Water Development Bonds - EDAP [2]	61,571	37,011	37,011	37,011
Water Development Bonds - State Participation Bonds	15,000	15,000	15,000	15,000
Total Not Self-Supporting	**901,054**	**826,088**	**741,577**	**458,908**
Total General Obligation Bonds	**$4,996,159**	**$4,705,836**	**$4,384,380**	**$4,025,081**
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds [3]				
The Texas A&M University System	$406,824	$473,391	$538,129	$573,421
The University of Texas System	927,420	677,892	759,228	972,402
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 Economic Development Bank Bonds	**	**	**	**
Texas State Affordable Housing Corporation	**	**	**	**
Texas Water Resources Finance Authority Bonds	**	**	**	**
Texas School Facilities Finance Program [7]	750,000	750,000	0	0
Texas Water Development Bonds (Water Resources Fund)	**	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**	**
Texas Workforce Commission Unemp Comp Bonds	2,000,000	623,280	623,280	623,280
Nursing Home Liability Insurance	75,000	75,000	75,000	75,000
FAIR Plan	75,000	75,000	75,000	75,000
Alternative Fuels Program	50,000	50,000	50,000	50,000
Veterans' Financial Assistance Bonds	795,720	795,720	795,720	795,720
Texas Mobility Fund Bonds		***	***	***
State Highway Fund Revenue Bonds	0	3,000,000	3,000,000	2,372,669
Water Development Board - State Revolving Fund	**	**	**	**
Total Self-Supporting	**$5,579,963**	**$7,020,283**	**$6,416,357**	**$6,037,492**
Not Self Supporting [1]				
Texas Public Finance Authority Bonds [5]	$321,120	$259,863	$259,499	$259,499
TPFA Master Lease Purchase Program	84,741	94,641	72,741	44,710
Texas Military Facilities Commission Bonds	20,271	**	**	**
Parks and Wildlife Improvement Bonds	13,500	9,000	0	0
Total Not Self-Supporting	**$439,632**	**$363,504**	**$332,240**	**$304,209**
Total Non-General Obligation Bonds	**$6,019,595**	**$7,383,787**	**$6,748,597**	**$6,341,701**
Total All Bonds	**$11,015,755**	**$12,089,623**	**$11,132,976**	**$10,366,782**

* No bond issuance limit, but debt service may not exceed $87.5 million per year through FY 2007 and $131.25 million per year beginning FY 2008.

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

*** No bond issuance limit, but debt service on all bonds issued and proposed to be issued pursuant to the Article III, Section 49-k of the Texas Constitution can not be greater than the Comptroller's certified projection that the amount of money dedicated to the fund is

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, 2006.

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 See Appendix D - Texas State Bond Programs for a description of the Texas Public Finance Authority bonds.

6 Includes $850 million that was authorized by state voters in November 2001; however, the Legislature has appropriated $601,027,715 as of August 31, 2006.

7 The 79th Legislature passed HB 1106 that repealed the Public School Facilities Funding Act, Chapter 1402, Government Code effective 06/18/05.

Source: Texas Bond Review Board - Bond Finance Office.

Chapter 4
Texas Bond Issuance Costs

Texas' state bond issuers spent an average of $912,036 per issue or $8.41 per $1,000 on bond issues sold during fiscal 2006.[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 professional fees and expenses paid to service providers and underwriters to market bonds to investors. Professional services commonly used in the marketing of all types of municipal securities are listed below:[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 provide legal advice and a legal opinion that: 1) the issuer is authorized to issue the proposed securities; 2) has met all legal requirements necessary for issuance; 3) the interest on the proposed securities is exempt from federal income taxation and, where applicable, from state and local taxation. Typically, bond counsel prepares and/or reviews documentation and advises the issuer regarding: 1) authorizing resolutions or ordinances; 2) trust indentures; 3) official statements; 4) validation proceedings; 5) disclosure requirements; and 6) litigation.

•Financial Advisor — The financial advisor advises the issuer on matters pertinent to a proposed issue, such as structure, timing, marketing, pricing, terms and bond ratings. A financial advisor may also be employed to provide advice on subjects unrelated to a new issue of securities such as advising on cash flow and investment matters and the issuer's overall debt-management policies.

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

•Paying Agent/Registrar — The paying agent is responsible for transmitting payments of principal and interest from the issuer to the security holders. 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.

Table 14
AVERAGE ISSUANCE COSTS FOR TEXAS BOND ISSUES

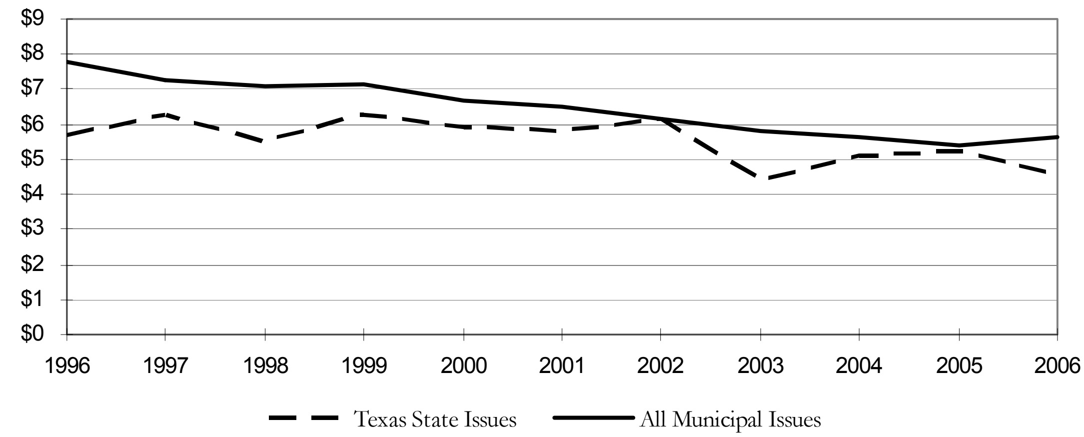
	Fiscal 2005		Fiscal 2006	
	Average Cost Per Bond Issue	Average Cost Per $1,000 of Bonds Issued	Average Cost Per Bond Issue	Average Cost Per $1,000 of Bonds Issued
Average Issue Size (In Millions)	$133 0		$132 5	
Underwriter's Spread	$543,393	$5 25	$577,074	$4 61
Other Issuance Costs:				
Bond Counsel	88,613	1 38	94,023	1 26
Financial Advisor	71,184	1 21	46,412	0 83
Rating Agencies	50,687	0 79	54,317	0 65
Printing	3,317	0 09	2,642	0 05
Other	136,036	0 57	137,568	1 01
Subtotal	$349,837	$4 04	$334,962	$3 80
Total	$893,230	$9 29	$912,036	$8 41

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 - Bond Finance Office

Figure 9

GROSS UNDERWRITING SPREADS: 1996 - 2006
TEXAS STATE BOND ISSUES vs. ALL MUNICIPAL BOND ISSUES



Note: 2006 Municipal figures are through June 30, 2006. 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* (8/07/06); Thomson Financial Securities; and Texas Bond Review Board - Bond Finance Office.

Issuance Costs for Texas Bond Issuers

The largest portion of the costs associated with the issuance of bonds is the fee paid to the underwriter, known as the "underwriting spread." This spread is paid to the underwriter as compensation for purchasing the bonds from the issuer and reselling them in the bond market. The spread consists of four components: takedown, management fee, underwriting fee (a risk premium to compensate the underwriter for market risk of the underwriting) and an amount to cover the expenses associated with the marketing of the bonds.

In fiscal 2006, the underwriting spread accounted for 63.3% of all issuance costs *(Table 14)*. The cost of the average underwriting spread per issue increased 6.2% from $543,393 in fiscal 2005 to $577,074 in fiscal 2006. However, when measured on a per $1,000 basis, the $4.61 average underwriting spread paid in fiscal 2006 was 12.2% less than the $5.25 reported in fiscal 2005.

Gross spreads paid to underwriters on a national basis during fiscal 2006 compared to those paid by Texas issuers reveals that the state's bond issuers paid lower underwriting fees than the national average *(Figure 9)*. Data published by Thomson Financial Securities Data show that spreads paid by issuers nationally averaged $5.62 per $1,000 compared to Texas' average of $4.61 per $1,000. The spread paid by Texas issuers per $1,000 in fiscal 2006 was the lowest since fiscal 2003 when the spread was $4.42 per $1,000.

Other costs of issuance consist primarily of bond counsel fees, financial advisor fees, rating agency fees and printing costs. These costs declined 5.9% in fiscal 2006 and averaged $334,962 per issue or $3.80 per $1,000 compared to $349,837 or $4.04 per $1,000 in fiscal 2005.

Average issuance size decreased slightly from $133 million in fiscal 2005 to $132.5 million in fiscal 2006. Six (24%) of the 25 bond transactions completed in fiscal 2006 (excluding conduit issues) were $100 million in size or above. Seven (29%) of the 24 such issues completed in fiscal 2005 were in that size category.

Comparison of Issuance Costs by Size

In general, larger bond issues have a higher cost of issuance than smaller ones; however, larger issues have a lower cost of issuance as a percentage of the size of the bond issue. This occurs because certain fixed costs of issuance do not vary proportionately with the size of a bond issue. For example, professional fees for legal services, financial advisory services and document drafting fees are not dependent on issue size.

Texas bond issues followed this general pattern with smaller issues proportionally more costly than the larger issues *(Figure 10)*. In fiscal 2006, total issuance costs for bond issues of less than $25 million averaged $295,547 per issue or $11.59 per $1,000. Costs for the larger issues of over $150 million averaged $2,614,344 per issue or $5.73 per $1,000. On the basis of cost per $1,000, the costs for the larger issues were 50.6% less than the costs of smaller issues. The increase in average costs and the decrease in the costs per $1,000 are explained by the fact that fiscal 2006 saw more issuances over $500 million than fiscal 2005. In fiscal 2006, 12% of all issuances were over $500 million compared to 8% in fiscal 2005.

Negotiated Versus Competitive Sales

One of the most important decisions an issuer of securities must make is selecting a method of sale. Competitive sales and negotiated sales each have their own advantages and disadvantages, described below. The challenge facing an issuer is evaluating factors related to the proposed financing and selecting the most 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 and time. The bonds are then awarded to the underwriter submitting the lowest bid that meets the terms and conditions of the sale. Generally, underwriters that bid competitively perform less pre-sale marketing because they cannot know if they have been awarded the underwriting contract until the day the bids are opened.

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

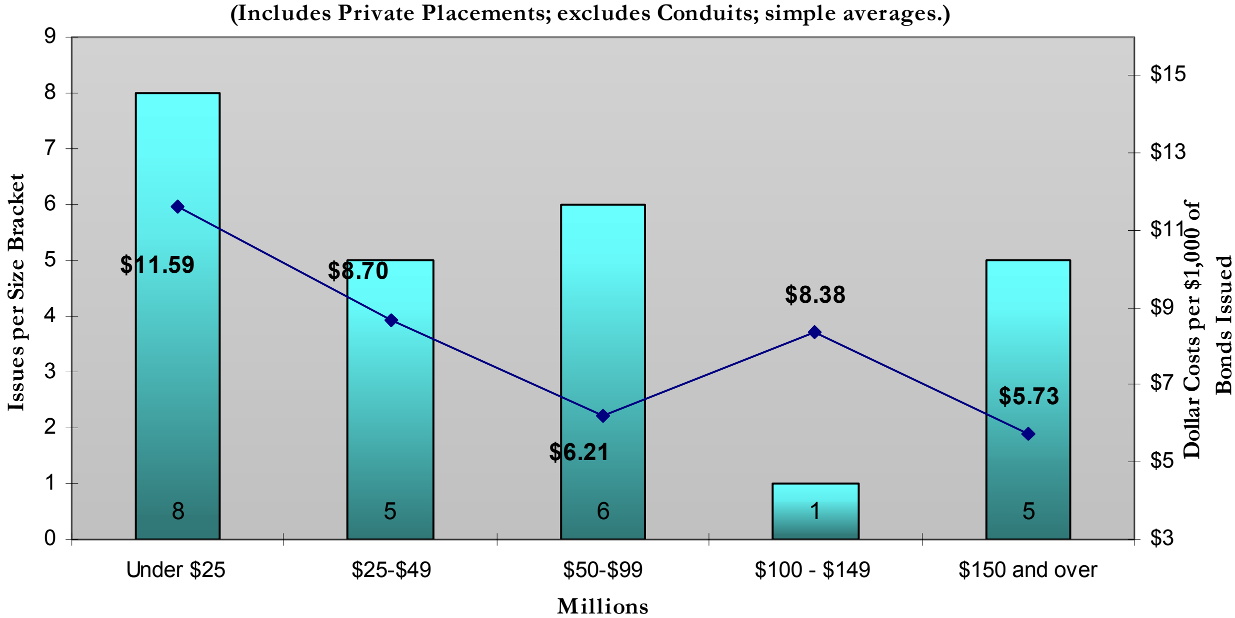
Conditions that suggest a competitive sale are a stable, predictable market in which market demand for the securities can be relatively easily determined. Stable market conditions lessen the underwriters' risk of holding unsold balances. Market demand is generally easier to assess for securities: 1) that are issued by well-known, highly-rated issuers that regularly access the public market; 2) that are conventionally structured, such as serial and term coupon bonds; and 3) that have a strong source of repayment and thus a high credit rating. These conditions will generally lead to aggressive bidding resulting in lower costs of issuance since the underwriters will be able to more easily assess market demand without extensive premarketing activities.

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

Figure 10

AVERAGE ISSUANCE COSTS FOR TEXAS BONDS BY SIZE OF ISSUE

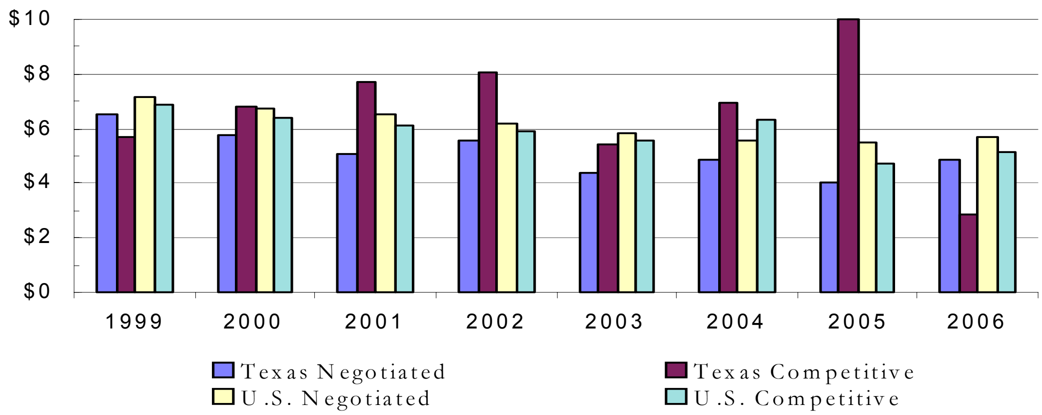
(Includes Private Placements; excludes Conduits; simple averages.)



Source: Texas Bond Review Board - Bond Finance Office.

Figure 11

GROSS UNDERWRITING SPREADS: 1999 - 2006
NEGOTIATED vs. COMPETITIVE MUNICIPAL ISSUES
(Excludes Private Placements and Conduits; simple averages)



Note: 2006 U.S. figures are through June 30, 2006. 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* (8/07/06); Thomson Financial Securities; and Texas Bond Review Board - Bond Finance Office

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

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

Conditions that suggest a negotiated sale are market volatility and securities for which market demand is difficult to ascertain. This includes securities issued by an infrequent issuer or an issuer with credit rating problems or securities that contain innovative structuring, derivatives or other complexities.

During fiscal 2006 comparisons of the average spreads paid on Texas negotiated and competitive transactions reveal that bond issues sold in negotiated transactions had higher average underwriting costs than those sold competitively *(Figure 11)*. Results for 2006 reverse a trend that began in fiscal 2000 in which average competitive underwriting costs were higher than those for negotiated transactions. It is important to note that the average competitive spread calculated for Texas issuers during fiscal 2006 was abnormally low as a result of one of the competitive issues having a winning bid with no underwriter's spread.

During fiscal 2006 Texas bond issuers paid an average of $4.86 per $1,000 for negotiated sales and $2.84 per $1,000 for competitively bid sales. Thomson Financial Securities Data recorded national averages of $5.68 per $1,000 for negotiated transactions and $5.13 per $1,000 for competitive transactions, indicating that Texas' negotiated average was 14.4% below the national average and its competitive average was 44.6% below the national average. This large difference is attributable to the unusual competitive transaction discussed above.

During fiscal 2006, Texas' competitive issues averaged $80.0 million while the negotiated issues had an average size of $140.2 million.

Theoretically, the competitive gross spread provides the underwriter with compensation for the risk of purchasing and distributing bonds, but it does not include significant components that are specific to a negotiated spread such as management fees or fees for underwriters' counsel. When negotiated gross spreads are below competitive gross spreads as has occurred in the six fiscal years prior to fiscal 2006, it appears that bonds sold through negotiation were priced with a reduced risk premium compared to that usually found in competitive transactions because underwriters in negotiated transactions had sufficient time to accurately assess the market before the underwriting occurs.

Issuers should focus primarily on how their bonds are being priced in the market and focus secondarily on the underwriting spread. Issuers also need to be cognizant of the possibility that reducing the take-down (selling) component of the underwriters' spread may reduce the sales effort needed to successfully sell their issue which could result in a lower price (higher yield) for the issue in aftermarket trading.

Trends in State Bond Issuance Costs in 2006

In order to determine trends in issuance costs, it is important to review the characteristics of the 25 non-conduit bond transactions that occurred in fiscal 2006. Three of those issues were sold competitively for amounts ranging from $15.7 million to $140.3 million. Of the 22 negotiated transactions, only seven were less than $25 million. The total issuance costs for the competitive and negotiated issues averaged $6.53 per $1,000 and $8.68 per $1,000, respectively.

With only three competitive transactions completed in fiscal 2006, an accurate comparison of the average issuance costs per $1,000 on negotiated and competitive bond issues is not possible. In addition, the one particular competitive issue for which no underwriting spread was paid skewed the overall average.

In addition to the problem of small sample size, smaller bond issues tend to have higher costs of issuance because certain fixed costs are incurred irrespective of issue size.

Recent trends in issuance costs can be determined by comparing the data from competitive and negotiated transactions; however, a definitive conclusion regarding the most cost efficient method of sale for Texas bonds cannot be drawn from such a limited number of bond issues with such large disparities in issue size.

The responsibility of choosing the method of sale lies with the issuer. In determining the method of sale, factors such as size, complexity, market conditions and time frame most influence the issuer's decision. Texas bond issuers have demonstrated the ability to issue bonds in a cost-efficient manner. The Bond Review Board provides issuers with the data necessary 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

Texas experienced an increase in volume cap for the 2006 Private Activity Bond Allocation Program. The 2006 volume cap was set at $1,828,797,440, an increase of almost $29.7 million (1.6%) over the 2005 cap of $1,799,201,760. Applications received for program year 2006 totaled $4.18 billion. Unlike 2005 when all of the $4.57 billion was offered a reservation, demand in 2006 increased to levels more typical of past years, and a waiting list is now in place.

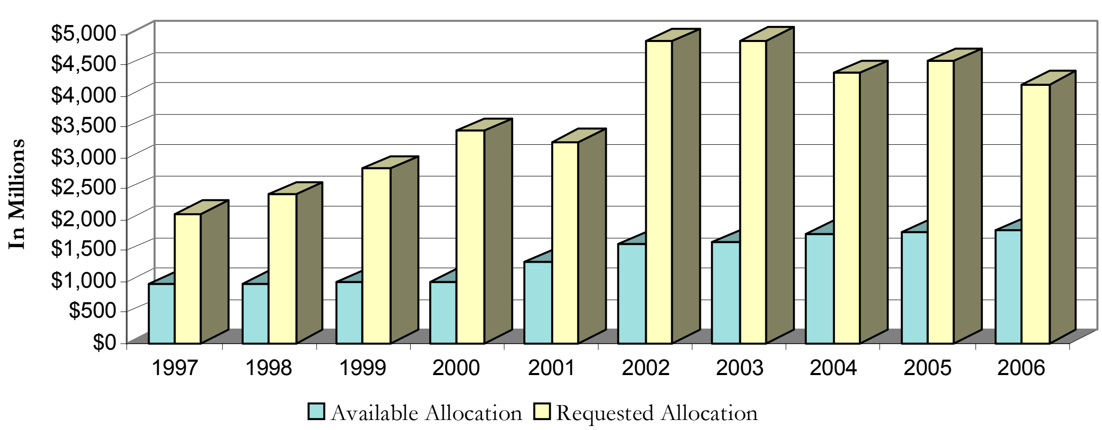
The Allocation Program

Since the passage of the Tax Reform Act of 1986 (the "Tax Act"), federal law has limited the use of tax-exempt financing for private activities. Tax-exempt private activity bonds may be used to finance certain privately-owned projects that serve a public purpose and meet the following tests: 1) Private Business Use Test - more than 10% of the proceeds are to be used for any private business use; 2) Private Security or Payment Test - payment on principal or interest of more than 10% of the proceeds is to be directly or indirectly secured by, or payments are to be derived from a private business use; and 3) Private Loan Financing Test - proceeds are to be used to make or finance loans to persons other than governmental units.

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

In addition, the Tax Act imposes a volume ceiling (or cap) on the aggregate principal amount of tax-exempt private activity bonds that may be issued within each state during any calendar year. As described below, the current volume cap is the greater of $80 per capita or $225 million. Section 146(e) of the Internal Revenue Code also provides for each state to devise an allocation formula or a process for allocating the state's volume cap. This provision gives each state the ability to allocate this limited resource in a manner consistent with its own specific needs.

Figure 12
STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
Available vs. Requested Allocation



Source: Texas Bond Review Board - Private Activity Bond Program.
Includes Carryforward requests.

Table 15
STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
2006 SET-ASIDE vs. ISSUED ALLOCATION AMOUNTS
(as of November 15, 2005)

SUBCEILINGS	SET-ASIDE ALLOCATION	PERCENT OF TOTAL	ISSUED ALLOCATION	PERCENT OF TOTAL
Single Family Housing	$512,063,283	28 00%	$419,670,000	22 95%
State-Voted Issues	146,303,795	8 00%	0	0 00%
Small Issue IDBs	36,575,949	2 00%	0	0 00%
Multifamily Housing	402,335,437	22 00%	110,240,000	6 03%
Student Loan Bonds	192,023,731	10 50%	191,945,000	10 50%
All Other Issues	539,495,245	29 50%	331,700,000	18 14%
TOTALS	**$1,828,797,440**	**100.00%**	**$1,053,555,000**	**57.61%**

Source: Texas Bond Review Board - Private Activity Bond Program

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

The federal government determines the state's private activity ceiling, and the demand for financing for qualified private activities typically far outstrips the supply of available federal funding. In an effort to address the excess demand over supply for most types of private activity bond financing, the Bond Review Board devised a lottery system that ensures an equal allocation opportunity for each eligible project type.

Past Major Legislative Changes

The 76th Texas Legislature passed significant changes to the allocation process for the state's volume ceiling. Beginning with the 2000 program year, the Legislature specified that for the first seven and one-half months of the year, issuers are limited to certain amounts and the state's ceiling must be set aside as follows:

- 25% for single family housing to issuers of qualified mortgage revenue bonds (MRBs);
- 11% for issuers authorized by a state constitutional amendment;
- 7.5% for issuers of qualified, small-issue industrial development bonds (IDBs) and empowerment zone bonds (EZ bonds);
- 16.5% for issuers of qualified residential rental project issue bonds (multifamily housing);
- 10.5% for issuers of qualified student loan bonds authorized by §53.47, Texas Education Code;
- 29.5% for issuers of "all other" bonds requiring an allocation.

On August 15th all six subceilings collapse, after which any unreserved or unallocated amounts are combined and made available by lot, regardless of project type or priority.

State legislation passed during the 77th and 78th Legislative Sessions shifted the distribution of the state's ceiling once again for the Private Activity Bond Allocation Program. Those set-aside percentages currently remain in effect:

- Subceiling #1 Single Family MRBs: Increased from 25 to 29.6% after the 77th and then lowered to 28% with the 78th. Of that amount, one-third will continue to be set aside for the Texas Department of Housing and Community Affairs (TDHCA), $50 million will be set aside for the Texas State Affordable Housing Corporation (TSAHC) and the remaining set aside is dedicated to local issuers. Local issuers may apply for an amount determined by a formula based on populat ion, but in no event for more than a maximum of $25 million per year.
- Subceiling #2 State-Voted Issues: Decreased from 11 to 8%. The Texas Higher Education Coordinating

Board may apply for a maximum of $75 million per year while other issuers eligible in this category are lim ited to a maximum of $50 million per year.

- Subceiling #3 Qualified Small-Issue IDBs and EZs: Decreased from 7.5 to 4.6 and then to 3% with the 78th. The maximum allocation amount in this subceiling is $10 million per year.

- Subceiling #4 Multifamily Revenue Bonds: Increased from 16.5 to 23 and then back to 22% with the 78th. Issuers within this category may apply for a maximum amount of the lesser of $15 million or 15% of the amount set aside for this subceiling per project.

- Subceiling #5 Student Loan Bonds: Decreased from 10.5 to 8.8, but raised back to 10.5% with the 78th.

- Subceiling #6 All Other Issues: Decreased from 29.5 to 26%, but also raised back to the earlier percentage with the 78th Session.

During the 77th Legislative Session, Texas dedicated $25 million per year out of subceiling #1 to TSAHC to initiate a Teacher Home Loan Program. Proceeds from the sale of bonds are to be used to provide low-interest loans and down-payment assistance to first-time, home-buying teachers residing in the state. The 78th Legislature further defined the eligibility for this program to include classroom teachers, teacher aides, school librarians, school nurses and school counselors employed by a Texas public school district. The program was more appropriately renamed the Professional Educators Home Loan Program.

The 78th Legislative Session dedicated $25 million per year out of subceiling #1 for TSAHC to create the Firefighter and Police Officer Home Loan Program. The 79th Legislature further defined the eligibility for this program to include not just firefighters and police officers, but also peace officers, Texas Department of Criminal Justice (TDCJ) employees receiving hazardous duty pay, county jailers, and public security officers. Proceeds from the sale of bonds are to be used to provide low-interest loans and down-payment assistance to first-time, home-buyers employed in one of the professions outlined above who reside in the state.

The 79th Legislature also dedicated $5 million per year out of subceiling #1 for TSAHC to create the Nursing Faculty Home Loan Program. Proceeds from the sale of bonds are to be used to provide low-interest loans and down-payment assistance to first-time, home-buying faculty members of either a Texas undergraduate or graduate professional nursing program who reside in the state.

House Bill 3329 dedicated 2% of subceiling #6 until August 15th specifically to projects that would promote the development of new drinking water sources. Additionally, House Bill 3329 further dedicated one-third of the volume cap available to subceiling #3 to the Texas Agricultural Finance Authority until June 1st of each year. The Texas Agricultural Finance Authority has yet to use its dedicated volume cap.

The 79th Legislative Session raised the ceiling on subceiling #6 from $25 million to $50 million.

Table 16
STATE OF TEXAS
PRIVATE ACTIVITY BOND ALLOCATION PROGRAM
2006 APPLICATIONS FOR ALLOCATION

SUBCEILINGS	AVAILABLE ALLOCATION *	REQUESTED ALLOCATION	REQUESTS AS A % OF AVAILABILITY
Mortgage Revenue Bonds	$512,063,283	$779,046,565	152.14%
State-Voted Issue Bonds	146,303,795	150,000,000	102.53%
Industrial Development Bonds	36,575,949	0	0.00%
Multifamily Rental Project Bonds	402,335,437	841,525,000	209.16%
Student Loan Bonds	192,023,731	1,189,600,000	619.51%
All Other Bonds Requiring Allocation	539,495,245	1,222,152,498	226.54%
TOTALS	$1,828,797,440	$4,182,324,063	228.69%

***Does not include Carryforward.**

Source: Texas Bond Review Board - Private Activity Bond Program.

With the exception of single family housing and student loan bonds, reservations of state ceilings are allocated by lottery for applications received from October 5 – 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 is used exclusively within these two subceilings and 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 then combined and redistributed to qualified residential rental projects, and on September 1st, unreserved allocation from all subceilings is combined and redistributed by lot, regardless of project type or priority.

Except for MRB and qualified residential rental project issuers, all 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 while residential rental projects must close within 150 days. 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. This practice oftentimes results in a volume cap distribution that varies from the predetermined set-asides at the beginning of the program year *(Table 15)*.

Volume Cap

The state of Texas is second only to California in population and resulting volume cap. Texas experienced an increase in volume cap for the 2006 Private Activity Bond Allocation Program. Based on the Texas population, the 2006 volume cap was set at $1,828,797,440, an increase of almost $29.7 million (1.6%) from the 2005 cap of $1,799,201,760.

The increase in the amount of cap allocation can be attributed not only to the growth of the state's population, but also to new federal legislation that increased the per-capita formula. On December 20, 2000, federal legislation was passed that accelerated the increase in private-activity volume cap, the first such increase since the Tax Reform Act of 1986. The cap phase-in began January 1, 2001, when the limit was increased from $50 per capita to $62.50 per capita. The second part of the plan occurred in January 2002 when the cap multiplier increased to $75 per capita or $225 million, whichever is greater. While the cap was indexed to inflation beginning in 2003, inflation levels have remained lower than the minimum federal requirement to boost the multiplier, and thus the formula remained at $80 per capita since 2003. The multiplier is expected to increase from $80 to $85 for 2007.

Despite Texas' increased volume cap in 2006, demand exceeded the funds available for the allocation program. The program in Texas has been technically oversubscribed each year since 1988 *(Figure 12)*. Applications received for program year 2006 totaled $4.18 billion or 228.7% of the available allocation amount *(Table 16)*. Unlike 2005 when all of the $4.57 billion was offered a reservation, demand in 2006 increased to levels more typical of past years, and a waiting list is now in place.

Appendix A
Summary of Bonds Issued

Table 17
BONDS ISSUED BY ISSUER
FOR FISCAL YEAR 2006

Texas Department of Housing and Community Affairs (TDHCA)	
TDHCA Variable Rate Demand Multifamily Housting Revenue Bonds (Canal Place Apartments) Series 2005A and Taxable Variable Rate Demand Multifamily Housing Revenue Bonds (Canal Place Apartments) Series 2005B	$ 16,100,000
TDHCA Single Family Mortgage Revenue Refunding Bonds Series 2005B (AMT), Taxable Single Family Variable Rate Mortgage Revenue Bonds, Series 2005C; Single Family Mortgage Revenue Bonds , Series 2005D (AMT)	$ 38,195,000
TDHCA Multifamily Housing Revenue Bonds (Coral Hills Apartments) Series 2005	$ 5,320,000
TDHCA Variable Rate Demand Multifamily Housing Revenue Bonds (Harris Branch Apartments) Series 2006	$ 15,000,000
TDHCA Multifamily Housing Revenue Bonds (Bella Vista Apartments) Series 2006	$ 6,800,000
TDHCA Muiltifamily Housing Revenue Bonds (Village Park Apartments) Series 2006	$ 13,660,000
TDHCA Multifamily Housing Revenue Bonds (The Oakmoor Apartments) Series 2006	$ 14,635,000
TDHCA Single Family Mortgage Revenue Bonds, 2006 Series A, B, C, D, E	$ 282,430,000
TDHCA Variable Rate Demand Multifamily Housing Revenue Bonds (Residences at Sunset Pointe) Series 2006	$ 15,000,000
TDHCA Variable Rate Demand Multifamily Housing Revenue Bonds (Hillcrest Apartments) Series 2006	$ 12,435,000
Texas Higher Education Coordinating Board	
State of Texas Variable Rate College Student Loan Refunding Bonds, Series 2006	$ 72,005,000
Texas Public Finance Authority (TPFA)	
TPFA Stephen F Austin State Univesrity Revenue Financing System Revenue Bonds, Series 2005A	$ 55,365,000
Texas State Affordable Housing Corporation (TSAHC)	
TSAHC Single Family Mortgage Revenue Bonds (Fire Fighter and Law Enforcement or Security Officer Home Loan Program) Series 2005B	$ 20,000,000
TSAHC Single Family Mortgage Revenue Bonds (Professional Educators Home Loan Program), Series 2006A	$ 23,809,000
TSAHC Single Family Mortgage Revenue Bonds (Fire Fighter and Law Enforcement or Security Officer Home Loan Program) Series 2006B	$ 23,640,000
Texas State Technical College System	
Board of Regents, Texas State Technical College System, Constitutional Appropriation Bonds, Series 2005	$ 15,695,000
Texas State University System	
Board of Regents, Texas State University System, Revenue Financing System Revenue and Refunding Bonds, Series 2005	$ 43,250,000
Board of Regents, Texas State University System, Revenue Financing System Revenue Bonds, Series 2006	$ 140,260,000
Texas Tech University System	
Board of Regents, Texas Tech University System, Revenue Financing System Refunding and Improvement Bonds, Tenth Series (2006)	$ 220,915,000
Texas Transportation Commission	
State Highway Fund First Tier Revenue Bonds, Series 2006	$ 600,000,000
State of Texas General Obligation Mobility Fund, Series 2006	$ 750,000,000
Texas Veterans' Land Board	
State of Texas Veterans' Housing Assistance Program Fund I Series 2005C and Fund II Series 2005D, Taxable Refunding Bonds	$ 53,270,000
State of Texas Veterans' Land Refunding Bonds, Taxable Series 2005	$ 22,795,000
State of Texas Veterans' Housing Assistance Program Fund II Bonds Series 2006B Taxable Refunding Bonds	$ 38,570,000
State of Texas Veterans' Housing Assistance Program, Fund II Bonds Series 2006C Taxable Refunding Bonds	$ 22,325,000
State of Texas Veterans' Land Refunding Bonds, Taxable Series 2006A	$ 31,030,000
State of Texas Veterans' Land Refunding Bonds, Taxable Series 2006B	$ 24,035,000
State of Texas Veterans' Housing Assistance Program Fund II Series 2006A Bonds	$ 50,000,000
Texas Water Development Board	
State of Texas Water Financial Assistance Refunding Bonds, Series 2005C (Economically Distressed Areas Program)	$ 49,270,000
State of Texas General Obligation Bonds, Water Financial Assistance Refunding Bonds, Series 2006A	$ 13,175,000
The University of North Texas System	
Board of Regents of The University of North Texas System, Revenue Financing System Refunding and Improvement Bonds, Series 2005	$ 76,795,000
The University of Texas System	
Board of Regents of The University of Texas System, Revenue Financing System Bonds, Series 206A and 2006B	$ 560,885,000
University of Houston System	
Board of Regents of the University of Houston System, Consolidated Revenue and Refunding Bonds, Series 2006	$ 83,590,000

Source: Texas Bond Review Board - Bond Finance Office

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Variable Rate Demand Multifamily Housing Revenue Bonds (Canal Place Apartments), Series 2005A and Taxable Variable Rate Demand Multifamily Housing Revenue Bonds (Canal Place Apartments), Series 2005B - $16,100,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Wayside Luxury Housing Partners, L P , a Texas limited partnership, to finance the acquisition, construction, equipping and long-term financing of a new, 200-unit multifamily residential rental development located in Houston, Texas

Dates:

Board Review -	September 23, 2005
Negotiated Sale -	September 28, 2005
Closing Date -	September 29, 2005

Structure: The Series 2005A bonds were sold on a negotiated basis to Newman & Associates as variable-rate, tax-exempt securities maturing on May 1, 2039 The Series 2005B bonds were sold on a negotiated basis to Newman & Associates as variable-rate, taxable securities maturing on September 1, 2019

Bond Ratings:

Standard and Poor's -	AA/A-1+

Interest Cost:

True Interest Cost (TIC) -	Floating
Net Interest Cost (NIC) -	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	Newman & Associates

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$93,000	$5 78
Financial Advisor	25,000	1 55
Rating Agency	13,000	0 81
Trustee	8,555	0 53
Trustee Counsel	6,500	0 40
Disclosure Counsel	5,000	0 31
Attorney General	10,600	0 66
Private Activity Fee	8,750	0 54
Printing	2,000	0 12
TDHCA Fees	128,700	7 99
	$301,105	**$18.70**
Underwriters' Spread	**$161,000**	**$10.00**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Refunding Bonds, Series 2005B (AMT), Taxable Single Family Variable Rate Mortgage Revenue Bonds, Series 2005C; Single Family Mortgage Revenue Bonds, Series 2005D (AMT) - $38,195,000

Purpose: The proceeds of the Series 2005B bonds were used to refund and redeem all of the Departments outstanding Single Family Mortgage Revenue Bonds Series 1995A-1 The proceeds of the Series 2005C bonds were used to refund and redeem all of the Departments outstanding Single Family Mortgage Revenue Bonds Series 1995C-1 and for paying the costs of issuance of the Series 2005C bonds The proceeds of the Series 2005D bonds were used to purchase mortgage-backed, pass-through certificates backed by qualifying FHA, VA, RHS mortgage loans, or conventional mortgage loans made in the state of Texas, providing funds for the refunding of the 1995A-1 bonds, and for paying a portion of the costs of issuance of the Series 2005B and 2005D bonds

Dates:

Board Approval -	November 8, 2005
Negotiated Sale -	November 17, 2005
Closing Date -	December 15, 2005

Structure: The Series 2005B and 2005D bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on September 1, 2026 and September 1, 2035, respectively The Series 2005C bonds were sold on a negotiated basis as variable-rate, tax-exempt securities maturing on September 1, 2017 The bonds are insured by Financial Security Assurance, Inc

Bond Ratings:	**2005B/D:**	**2005C:**
Moody's -	Aaa	Aaa/VMIG 1
Standard & Poor's -	AAA	AAA/A-1+

Interest Cost:	**2005B/D:**	**2005C:**
True Interest Cost (TIC) -	4 67%	Floating
Net Interest Cost (NIC) -	4 63%	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Senior Underwriters -	Citigroup Global Markets Inc
	Goldman, Sachs & Co

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$102,321	$2 68
Financial Advisor	41,660	1 09
Trustee	10,000	0 26
Trustee's Counsel	14,000	0 37
Escrow Verification	6,000	0 16
Attorney General	22,200	0 58
Printing	4,196	0 11
Disclosure Counsel	26,128	0 68
Private Activity Fee	622	0 02
Rating Agencies	30,000	0 79
Miscellaneous	20,000	0 52
	$277,127	**$7.26**
Underwriter's Spread	**$291,916**	**$7.64**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Coral Hills Apartments), Series 2005 - $5,320,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Coral Hills Apartments, Ltd , an Alabama limited partnership, to finance the acquisition, construction, equipping and long-term financing of a new, 173-unit multifamily residential rental development located in Houston, Texas

Dates:

Board Review -	November 18, 2005
Negotiated Sale -	December 14, 2005
Closing Date -	December 15, 2005

Structure: The Series 2005 bonds were sold on a negotiated basis to Merchant Capital, L L C as fixed-rate, tax-exempt securities maturing on August 1, 2038 These bonds are secured by a standby purchase agreement with FannieMae

Bond Ratings:

Standard and Poor's -	AAA

Interest Cost:

True Interest Cost (TIC) -	5 06%
Net Interest Cost (NIC) -	5 05%

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	Merchant Capital, L L C

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$75,000	$14 10
Financial Advisor	25,000	4 70
Rating Agency	13,500	2 54
Trustee	6,630	1 25
Trustee Counsel	2,500	0 47
Disclosure Counsel	5,000	0 94
Attorney General	9,500	1 79
Private Activity Fee	6,330	1 19
TDHCA Fees	55,200	10 38
	$198,660	**$37.34**
Underwriters' Spread	**$69,500**	**$13.06**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Variable Rate Demand Multifamily Housing Revenue Bonds (Harris Branch Apartments), Series 2006 - $15,000,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Loyola Properties, L P , a Texas limited partnership, to finance the acquisition, construction, equipping and long-term financing of a new, 248-unit multifamily residential rental development located in Austin, Texas

Dates:

Board Review -	January 27, 2006
Negotiated Sale -	February 22, 2006
Closing Date -	March 2, 2006

Structure: The Series 2006 bonds were sold on a negotiated basis to Banc of America Securities LLC as variable-rate, tax-exempt securities maturing on March 15, 2039

Bond Ratings:

Moody's -	Aa2/VMIG 1

Interest Cost:

True Interest Cost (TIC) -	Floating
Net Interest Cost (NIC) -	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	Banc of America Securities LLC

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$75,000	$5 00
Financial Advisor	25,000	1 67
Rating Agency	15,000	1 00
Trustee	8,500	0 57
Trustee Counsel	5,500	0 37
Disclosure Counsel	5,000	0 33
Attorney General	9,500	0 63
Private Activity Fee	8,750	0 58
TDHCA Fees	125,920	8 39
Printing	5,000	0 33
TEFRA Hearing	1,500	0 10
	$284,670	**$18.98**
Underwriters' Spread	**$120,000**	**$8.00**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Bella Vista Apartments), Series 2006 - $6,800,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to UHF Gainesville Housing, L P , a Texas limited partnership, to finance the acquisition, construction, equipping and long-term financing of a new, 144-unit multifamily residential rental development located in Gainesville, Texas

Dates:

Board Review -	March 24, 2006
Private Placement -	April 7, 2006
Closing Date -	April 7, 2006

Structure: The bonds were sold on a negotiated basis to National Alliance Securities, Corp as fixed-rate, tax-exempt securities maturing on April 1, 2046

Bond Ratings: The bonds were not rated

Interest Cost:

True Interest Cost (TIC) -	6 15%
Net Interest Cost (NIC) -	6 15%

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	National Alliance Securities, Corp

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$75,000	$11 03
Financial Advisor	25,000	3 68
Trustee	7,000	1 03
Trustee Counsel	5,500	0 81
Disclosure Counsel	2,500	0 37
Attorney General	9,500	1 40
Private Activity Fee	6,700	0 99
TDHCA Fees	64,360	9 46
	$195,560	**$28.76**
Underwriters' Spread	**$242,000**	**$35.59**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (Village Park Apartments), Series 2006 - $13,660,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Village Park Apartments, Ltd , a Texas limited partnership, to finance the rehabilitation, equipping and long-term financing of a 418-unit multifamily residential rental development located in Houston, Texas

Dates:

Board Review -	February 21, 2006
Negotiated Sale -	April 12, 2006
Closing Date -	April 13, 2006

Structure: The bonds were sold on a negotiated basis to Merchant Capital, L L C as fixed-rate, tax-exempt securities maturing on December 1, 2038 These bonds are secured by a standby purchase agreement with FannieMae

Bond Ratings:

Standard & Poor's -	AAA

Interest Cost:

True Interest Cost (TIC) -	4 93%
Net Interest Cost (NIC) -	5 06%

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	Merchant Capital, L L C

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$85,000	$6 22
Financial Advisor	25,000	1 83
Rating Agency	8,500	0 62
Printing	5,000	0 37
Trustee	7,690	0 56
Trustee Counsel	5,000	0 37
Disclosure Counsel	5,000	0 37
Attorney General	9,500	0 70
Private Activity Fee	8,415	0 62
TDHCA Fees	123,340	9 03
	$282,445	**$20.68**
Underwriters' Spread	**$109,280**	**$8.00**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Multifamily Housing Revenue Bonds (The Oakmoor Apartments), Series 2006 - $14,635,000

Purpose: The proceeds of the bonds were used to fund a mortgage loan to Airport Boulevard Apartments, Ltd , a Texas limited partnership, to finance the acquisition, construction, equipping and long-term financing of a 248-unit multifamily residential rental development located in Houston, Texas

Dates:

Board Review -	February 21, 2006
Private Placement -	April 25, 2006
Closing Date -	April 26, 2006

Structure: The bonds were privately placed with MuniMae TEI Holdings, L L C as fixed-rate, tax-exempt securities maturing on March 1, 2046

Bond Ratings: The bonds were not rated

Interest Cost:

True Interest Cost (TIC) -	5 95%
Net Interest Cost (NIC) -	5 98%

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	MuniMae TEI Holdings, L L C

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$75,000	$5 12
Financial Advisor	25,000	1 71
Trustee	4,240	0 29
Trustee Counsel	8,500	0 58
Disclosure Counsel	2,500	0 17
Attorney General	9,500	0 65
Private Activity Fee	8,659	0 59
TDHCA Fees	123,365	8 43
	$256,764	**$17.54**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Single Family Mortgage Revenue Bonds, 2006 Series A, B, C, D, E - $282,430,000

Purpose: To refund portions of outstanding commercial paper notes thereby providing funds to finance the purchase of low-interest rate mortgage loans made by lenders to homebuyers of low, very low and moderate income, who are acquiring moderately priced residences

Dates:

Board Review -	May 18, 2006
Negotiated Sale -	May 24, 2006
Closing Date -	June 28, 2006

Structure: The bonds were sold on a negotiated basis as fixed rate, tax-exempt securities Series A and C mature on September 1, 2037; Series B on September 1, 2034; Series D on March 1, 2028; and Series E on September 1, 2017 The 2006 Series A/B/C Mortgage Loans will be securitized by mortgage-backed pass-through certificates guaranteed as to payment of principal and interest by GinnieMae, FannieMae or FreddieMac

Bond Ratings:

Moody's -	Aa1
Standard & Poor's -	AAA

Interest Cost:

True Interest Cost (TIC) -	4 65%
Net Interest Cost (NIC) -	4 76%

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	Citigroup Global Markets Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$91,769	$0 32
Financial Advisor	90,000	0 32
Rating Agencies	143,020	0 51
Printing	3,311	0 01
Escrow Agent/Trustee	12,500	0 04
Escrow Verification	12,000	0 04
Attorney General	47,500	0 17
Miscellaneous	142,844	0 51
	$542,944	**$1.92**
Underwriters' Spread	**$1,154,188**	**$4.09**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Variable Rate Demand Multifamily Housing Revenue Bonds (Residences at Sunset Pointe), Series 2006 - $15,000,000

Purpose: The proceeds of the bonds were used to provide funds to finance a mortgage loan to Sunset Pointe Housing Partnership, Ltd , a Texas limited partnership to finance the acquisition, construction, equipping and long-term financing of a 224-unit multifamily residential rental development to be located between the 5000 and 6000 blocks of Sycamore School Road, Fort Worth, Tarrant County, Texas

Dates:

Board Review -	July 11, 2006
Private Placement -	July 12, 2006
Closing Date -	July 12, 2006

Structure: The bonds were sold on a negotiated basis as variable rate, tax-exempt securities The bonds are rated AAA/A-1+ with credit enhancement from FannieMae The FannieMae pledge requires an interest rate cap based on the 15-year BMA The initial strike rate will not exceed 5 00% the first five years and increase 0 50% every five years The bonds amortize over a 33-year period, maturing November 1, 2038

Bond Ratings:

Standard & Poor's -	AAA/A-1+

Interest Cost:

True Interest Cost (TIC) -	5 95%
Net Interest Cost (NIC) -	5 95%

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	Merchant Capital, L L C

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$85,000	$5 67
Financial Advisor	25,000	1 67
Rating Agencies	10,000	0 67
Disclosure Counsel	5,000	0 33
Liquidity Provider's Counsel	47,750	3 18
Escrow Agent/Trustee	7,160	0 48
Attorney General	9,500	0 63
Trustee Counsel	4,000	0 27
Private Activity Fee	8,750	0 58
TDHCA Fees	124,960	8 33
	$327,120	**$21.81**
Underwriters' Spread	**$141,000**	**$9.40**

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Issue: Texas Department of Housing and Community Affairs, Variable Rate Demand Multifamily Housing Revenue Bonds (Hillcrest Apartments), Series 2006 - $12,435,000

Purpose: The proceeds of the bonds were used to provide funds to finance a mortgage loan to Summit Hillcrest Apartments, Ltd , an Alabama limited partnership to finance the acquisition, rehabilitation and equipping of a 352-unit multifamily rental housing project located in Mesquite, Texas

Dates:

Board Review -	July 18, 2006
Negotiated Sale -	August 2, 2006
Closing Date -	August 3, 2006

Structure: The bonds were sold on a negotiated basis as variable rate, tax-exempt securities The bonds are rated AAA/A-1+ with credit enhancement from FannieMae The FannieMae pledge requires an interest rate cap based on the 15 year BMA The initial strike rate will not exceed 5 00% the first five years and increase 0 50% every five years The bonds have a maturity date of April 1, 2039

Bond Ratings:

Standard & Poor's -	AAA/A-1+

Interest Cost:

True Interest Cost (TIC) -	5 25%
Net Interest Cost (NIC) -	5 25%

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Financial Advisor -	RBC Capital Markets
Underwriter -	Merchant Capital, L L C

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$85,000	$6 84
Financial Advisor	25,000	2 01
Rating Agencies	11,000	88
Disclosure Counsel	5,000	40
Printing	2,500	20
Escrow Agent/Trustee	7,160	58
Attorney General	9,500	76
Trustee Counsel	5,000	40
Private Activity Fee	8,175	66
TDHCA Fees	112,125	9 02
	$270,460	**$21.75**
Underwriters' Spread	**$118,925**	**$9.56**

TEXAS HIGHER EDUCATION COORDINATING BOARD

Issue: State of Texas Variable Rate College Student Loan Refunding Bonds, Series 2006 - $72,005,000

Purpose: The proceeds of the bonds were used to refund portions of the State of Texas College Student Loan Bonds Series 1995, Series 1996, Series 1997, Series 1999, and Series 2000

Dates:

Board Review -	May 11, 2006
Competitive Sale -	June 21, 2006
Closing Date -	June 29, 2006

Structure: The bonds were sold on a competitive basis as variable-rate, tax-exempt securities maturing on August 1, 2017

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 -	Vinson & Elkins L L P
Financial Advisor -	First Southwest Company
Underwriter -	Lehman Brothers Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$117,500	$1 63
Financial Advisor	38,174	0 53
Rating Agencies	37,400	0 52
Printing	760	0 01
Paying Agent	1,850	0 03
Escrow Agent	500	0 01
Escrow Verification	3,500	0 05
Attorney General	9,500	0 13
Cash Flow Preparation	75,000	1 04
Other	31,776	0 44
	$315,960	**$4.39**
Underwriters' Spread	**$0**	**$0.00**

TEXAS PUBLIC FINANCE AUTHORITY

Issue: Texas Public Finance Authority, Stephen F Austin State University Revenue Financing System Revenue Bonds, Series 2005A - $55,365,000

Purpose: The bond proceeds were used to construct a university residence hall and associated parking garage, and a new student recreational center

Dates:

Board Approval -	September 22, 2005
Negotiated Sale -	October 19, 2005
Closing Date -	November 2, 2005

Structure: The bonds were sold on a negotiated basis as fixed-rate tax-exempt revenue bonds with a final maturity of October 15, 2025 The bonds are insured by the MBIA Insurance Corporation

Bond Ratings:

Moody's -	Aaa
Fitch -	AAA

Interest Cost:

True Interest Cost (TIC) -	4 44%
Net Interest Cost (NIC) -	4 47%

Consultants:

Bond Counsel -	Delgado, Acosta, Braden & Jones, P C
Financial Advisor -	First Southwest Company
Senior Underwriter -	JPMorgan Securities Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$30,502	$0 55
Financial Advisor	28,822	0 52
Paying Agent/Registrar	2,000	0 04
Rating Agencies	21,150	0 38
Printing	1,515	0 03
Attorney General	9,500	0 17
Other	3,613	0 06
	$97,102	**$1.75**
Underwriters' Spread	**$274,904**	**$4.97**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation, Single Family Mortgage Revenue Bonds (Fire Fighter and Law Enforcement or Security Officer Home Loan Program), Series 2005B - $20,000,000

Purpose: The proceeds of the bonds will be initially invested in an investment agreement and will be withdrawn to purchase certificates following the origination and pooling of mortgage loans for single family residences located in the state of Texas

Dates:

Board Approval -	August 5, 2005
Negotiated Sale -	October 5, 2005
Closing Date -	October 25, 2005

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on September 1, 2039 The bonds are limited obligations of the issuer and do not constitute a general obligation of the state The bonds are not insured

Bond Ratings:

Moody's	Aaa

Interest Cost:

True Interest Cost (TIC) -	4 97%
Net Interest Cost (NIC) -	5 15%

Consultants:

Bond Counsel -	Fulbright & Jaworski L L P
Financial Advisor -	First Southwest Company
Senior Underwriters -	RBC Dain Rauscher, Inc
	Morgan Keegan & Company, Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$37,750	$1 89
Financial Advisor	25,000	1 25
Trustee	3,500	0 18
Trustee Counsel	5,000	0 25
Rating Agency	13,600	0 68
Attorney General	9,500	0 48
Private Activity Fee	6,750	0 34
Cash Flow Preparation	7,500	0 38
Printing	2,000	0 10
Other	56,740	2 84
	$167,340	**$8.37**
Underwriters' Spread	**$175,160**	**$8.76**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation, Single Family Mortgage Revenue Bonds (Professional Educators Home Loan Program), Series 2006A - $23,809,000

Purpose: The proceeds of the bonds were used to finance mortgage loans for residences located within the state of Texas, through the purchase of pass-through certificates backed by mortgage loans

Dates:

Board Approval -	February 13, 2006
Negotiated Sale -	February 16, 2006
Closing Date -	February 28, 2006

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on September 1, 2039 The bonds are limited obligations of the issuer and do not constitute a general obligation of the state The bonds are not insured

Bond Ratings:

Moody's -	Aaa

Interest Cost:

True Interest Cost (TIC) -	4 72%
Net Interest Cost (NIC) -	4 88%

Consultants:

Bond Counsel -	Fulbright & Jaworski L L P
Financial Advisor -	First Southwest Company
Senior Underwriters -	RBC Capital Markets
	Morgan Keegan & Company, Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$52,500	$2 21
Financial Advisor	73,250	3 08
Trustee	5,000	0 21
Trustee Counsel	5,000	0 21
Rating Agency	10,200	0 43
Attorney General	9,500	0 40
Private Activity Fee	6,750	0 28
Cash Flow Preparation	9,676	0 41
Printing	1,913	0 08
Other	13,509	0 57
	$187,298	**$7.87**
Underwriters' Spread	**$237,700**	**$9.98**

TEXAS STATE AFFORDABLE HOUSING CORPORATION

Issue: Texas State Affordable Housing Corporation, Single Family Mortgage Revenue Bonds (Fire Fighter and Law Enforcement or Security Officer Home Loan Program), Series 2006B - $23,640,000

Purpose: The proceeds of the bonds were used to finance mortgage loans for residences located within the state of Texas, through the purchase of fully-modified mortgage-backed securities

Dates:

Board Approval -	May 15, 2006
Negotiated Sale -	May 19, 2006
Closing Date -	June 15, 2006

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on August 1, 2039 The bonds are limited obligations of the issuer and do not constitute a general obligation of the state The bonds are not insured

Bond Ratings:

Moody's -	Aaa

Interest Cost:

True Interest Cost (TIC) -	5 61%
Net Interest Cost (NIC) -	5 38%

Consultants:

Bond Counsel -	Fulbright & Jaworski L L P
Financial Advisor -	First Southwest Company
Senior Underwriters -	RBC Capital Markets
	Morgan Keegan & Company, Inc

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$52,500	$2 22
Financial Advisor	73,250	3 10
Trustee	6,000	0 25
Trustee Counsel	5,000	0 21
Disclosure Counsel	37,500	1 59
Rating Agency	10,200	0 43
Attorney General	9,500	0 40
Private Activity Fee	6,750	0 29
Cash Flow Preparation	7,500	0 32
Printing	1,314	0 06
Other	23,566	1 00
	$233,080	**$9.86**
Underwriters' Spread	**$200,200**	**$8.47**

TEXAS STATE TECHNICAL COLLEGE SYSTEM

Issue: Board of Regents, Texas State Technical College System, Constitutional Appropriation Bonds, Series 2005 - $15,695,000

Purpose: The proceeds of the bond issue were used for the purpose of 1) providing funds to construct buildings or other permanent improvements, and for major repair and rehabilitation of buildings or other permanent improvements, all at the System's campuses located in the Cities of Harlingen, Marshall, Sweetwater and Waco, Texas; and 3) paying costs of issuance

Dates:

Board Approval -	November 8, 2005
Competitive Sale -	November 11, 2005
Closing Date -	December 20, 2005

Structure: The bonds were sold on a competitive basis as fixed-rate, tax-exempt securities maturing on August 1, 2015

Bond Ratings:

Moody's -	Aa1

Interest Cost:

True Interest Cost (TIC) -	3 91%
Net Interest Cost (NIC) -	3 95%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L L P
Financial Advisor -	First Southwest Company
Underwriter -	Merrill Lynch & Co , Inc

Issuance Costs:	Amount	Per $1,000
Bond Counsel	$15,747	$1 00
Financial Advisor	15,366	0 98
O S Preparation	760	0 05
Printing	2,981	0 19
Paying Agent	300	0 02
Attorney General	9,500	0 61
Rating Agency	5,940	0 38
	$50,594	**$3.22**
Underwriters' Spread	**$56,294**	**$3.59**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Revenue Financing System Revenue and Refunding Bonds, Series 2005 - $43,250,000

Purpose: The proceeds of the bond issue were used for the purpose of 1) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping the property, buildings, structures, facilities, roads, or related infrastructure for the University System; 2) refund certain portions of Series 1998A, 1998B, 2000 and 2001 RFS Revenue Bonds; and 3) paying costs of issuance

Dates:

Board Approval -	July 21, 2005
Negotiated Sale -	August 3, 2005
Closing Date -	September 1, 2005

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on March 15, 2026 The bonds are insured by Financial Security Assurance Inc

Bond Ratings:

Moody's -	Aaa/Aa3
Standard & Poor's -	AAA/A+

Interest Cost:

True Interest Cost (TIC) -	4 35%
Net Interest Cost (NIC) -	4 37%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L L P
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	First Albany Capital, Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$36,150	$0 84
Financial Advisor	55,000	1 27
Paying Agent	750	0 02
Escrow Agent	4,500	0 10
Escrow Verification	3,500	0 08
Printing	4,330	0 10
Attorney General	1,250	0 03
Rating Agencies	37,550	0 87
Miscellaneous	6,970	0 16
	$150,000	**$3.47**
Underwriters' Spread	**$267,285**	**$6.18**

TEXAS STATE UNIVERSITY SYSTEM

Issue: Board of Regents, Texas State University System, Revenue Financing System Revenue Bonds, Series 2006 - $140,260,000

Purpose: The proceeds of the bond issue were used for the purpose of 1) purchasing certain student housing and educational facilities located at Texas State University - San Marcos, Lamar University – Beaumont, and Angelo State University; and 2) paying certain costs of issuance

Dates:

Board Approval -	March 23, 2006
Competitive Sale -	May 5, 2006
Closing Date -	June 8, 2006

Structure: The bonds were sold on a competitive basis as fixed-rate, tax-exempt securities maturing on March 15, 2034 The bonds are insured by Financial Security Assurance Inc

Bond Ratings:

Moody's -	Aaa/Aa3
Standard & Poor's -	AAA/A+

Interest Cost:

True Interest Cost (TIC) -	4 73%
Net Interest Cost (NIC) -	4 71%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L L P
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	First Albany Capital, Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$115,000	$0 82
Financial Advisor	182,910	1 30
Paying Agent	750	0 01
Escrow Agent	18,000	0 13
Escrow Verification	10,000	0 07
Printing	5,000	0 04
Attorney General	9,500	0 07
Rating Agencies	110,950	0 79
Miscellaneous	32,000	0 23
	$484,110	**$3.45**
Underwriters' Spread	**$690,840**	**$4.93**

TEXAS TECH UNIVERSITY SYSTEM

Issue: Board of Regents, Texas Tech University System, Revenue Financing System Refunding and Improvement Bonds, Tenth Series (2006) - $220,915,000

Purpose: The proceeds of the bond issue were used for the purpose of 1) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads, or related infrastructure for Texas Tech University and Texas Tech University Health Sciences Center; 2) refund $33 5 million of the Series A outstanding commercial paper notes; 3) refund the Sixth Series (1999) and Seventh Series (2001) of the System's outstanding RFS parity obligations; and 4) paying costs of issuance

Dates:

Board Approval -	January 24, 2006
Negotiated Sale -	February 2, 2006
Closing Date -	March 8, 2006

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on February 15, 2031 The bonds are insured by Ambac Assurance Corporation

Bond Ratings:

Moody's -	Aaa/Aa3
Standard & Poor's -	AAA/AA
Fitch -	AAA/AA

Interest Cost:

True Interest Cost (TIC) -	4 43%
Net Interest Cost (NIC) -	4 53%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L L P
Financial Advisor -	First Southwest Company
Senior Underwriter -	UBS Investment Bank

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$157,602	$0 71
Financial Advisor	112,323	0 51
Paying Agent	7,300	0 03
Escrow Agent	4,000	0 02
Escrow Verification	4,500	0 02
Printing	4,435	0 02
Attorney General	9,500	0 04
Rating Agencies	210,866	0 95
Miscellaneous	3,460	0 02
	$513,986	**$2.33**
Underwriters' Spread	**$1,274,897**	**$5.77**

TEXAS TRANSPORTATION COMMISSION

Issue: State Highway Fund First Tier Revenue Bonds, Series 2006 - $600,000,000

Purpose: The bonds were issued: 1) to fund State highway improvement projects and 2) to pay the costs of issuance

Dates:

Board Review -	March 23, 2006
Negotiated Sale -	April 6, 2006
Closing Date -	May 3, 2006

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on April 1, 2036 The bonds are not insured

Bond Ratings:

Moody's -	Aa1
Standard & Poor's -	AAA

Interest Cost:

True Interest Cost (TIC) -	4 45%
Net Interest Cost (NIC) -	4 59%

Consultants:

Bond Counsel -	Andrews Kurth LLP
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	JP Morgan

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$467,100	$0 78
Financial Advisor	76,218	0 13
Paying Agent	300	0 00
Disclosure Counsel	108,369	0 18
Printing	3,382	0 01
Attorney General	9,000	0 02
Rating Agencies	155,000	0 26
	$819,369	**$1.38**
Underwriters' Spread	**$2,526,279**	**$4.21**

TEXAS TRANSPORTATION COMMISSION

Issue: State of Texas General Obligation Mobility Fund, Series 2006 - $750,000,000

Purpose: The bonds were issued: 1) to fund State highway improvement projects and 2) to pay the costs of issuance

Dates:

Board Review -	May 5, 2006
Negotiated Sale -	June 1, 2006
Closing Date -	June 8, 2006

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on April 1, 2036 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 71%
Net Interest Cost (NIC) -	4 81%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L L P
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	Bear, Stearns & Co Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$327,000	$0 44
Financial Advisor	67,572	0 09
Paying Agent	300	0 00
Disclosure Counsel	132,915	0 18
Printing	5,988	0 01
Attorney General	9,500	0 01
Rating Agencies	152,000	0 20
	$695,275	**$0.93**
Underwriters' Spread	**$2,941,769**	**$3.92**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program Fund I Series 2005C and Fund II Series 2005D, Taxable Refunding Bonds - $53,270,000

Purpose: The proceeds of the bonds were used to refund the State of Texas Veterans' Housing Assistance Program Bonds, Series 1994B-1, Series 1994B-2 (Auction Aces) and 1994B-3 (Inverse Floaters), Fund I Refunding Series 1994C, Fund I Refunding Series 1995A, Fund I Refunding Series 1995B, and Fund II Refunding Series 1995C

Dates:

Board Review -	October 12, 2005
Negotiated Sale -	November 15, 2005
Closing Date -	November 16, 2005

Structure: The bonds were sold on a negotiated basis as variable-rate, taxable securities with final maturity dates of December 1, 2025 for Series 2005C and June 1, 2026 for Series 2005D 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 -	Vinson & Elkins L L P
Co-Bond Counsel -	Lannen & Oliver, P C
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	JPMorgan Securities Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$65,000	$1 22
Co-Bond Counsel	19,049	0 36
Financial Advisor	20,145	0 38
Rating Agencies	27,651	0 52
Attorney General	19,000	0 36
Printing	1,081	0 02
Liquidity Provider's Counsel	15,000	0 28
	$166,926	**$3.13**
Underwriters' Spread	**$100,295**	**$1.88**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Land Refunding Bonds, Taxable Series 2005 - $22,795,000

Purpose: The proceeds of the bonds were used to refund the State of Texas Veterans' Land Taxable Bonds, Series 1995

Dates:

Board Review -	October 12, 2005
Negotiated Sale -	November 15, 2005
Closing Date -	November 16, 2005

Structure: The bonds were sold on a negotiated basis as variable-rate, taxable securities with a final maturity date of December 1, 2026 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 -	Vinson & Elkins L L P
Co-Bond Counsel -	Lannen & Oliver, P C
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	Bear, Stearns & Co Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$20,563	$0 90
Co-Bond Counsel	7,782	0 34
Financial Advisor	11,500	0 50
Rating Agencies	17,859	0 78
Attorney General	9,500	0 42
Printing	1,172	0 05
Liquidity Provider's Counsel	8,500	0 37
Liq Provider's Foreign Counsel	3,100	0 14
	$79,976	**$3.51**
Underwriters' Spread	**$59,080**	**$2.59**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program, Fund II Bonds Series 2006B Taxable Refunding Bonds - $38,570,000

Purpose: The proceeds of the bonds were used to refund the State of Texas Veterans' Housing Assistance Program, Fund II Bonds, Series 1995D Refunding Bonds

Dates:

Board Review -	April 13, 2006
Negotiated Sale -	May 9, 2006
Closing Date -	May 10, 2006

Structure: The bonds were sold on a negotiated basis as variable-rate, taxable securities with a final maturity date of December 1, 2026 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+
Fitch -	AA+/F1+

Interest Cost:

True Interest Cost (TIC) -	Floating
Net Interest Cost (NIC) -	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Co-Bond Counsel -	Lannen & Oliver, P C
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	JPMorgan Securities Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$41,250	$1 07
Co-Bond Counsel	10,564	0 27
Financial Advisor	14,500	0 38
Rating Agencies	25,556	0 66
Attorney General	9,500	0 25
Printing	1,480	0 04
Liquidity Provider's Counsel	10,000	0 26
	$112,850	**$2.93**
Underwriters' Spread	**$74,486**	**$1.93**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program, Fund II Bonds Series 2006C Taxable Refunding Bonds - $22,325,000

Purpose: The proceeds of the bonds were used to refund the State of Texas Veterans' Housing Assistance Program, Fund II Bonds, Series 1995 Taxable Bonds

Dates:

Board Review -	April 13, 2006
Negotiated Sale -	May 9, 2006
Closing Date -	May 10, 2006

Structure: The bonds were sold on a negotiated basis as variable-rate, taxable securities with a final maturity date of December 1, 2027 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+
Fitch -	AA+/F1+

Interest Cost:

True Interest Cost (TIC) -	Floating
Net Interest Cost (NIC) -	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Co-Bond Counsel -	Lannen & Oliver, P C
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	Bear, Stearns & Co Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$41,250	$1 85
Co-Bond Counsel	7,650	0 34
Financial Advisor	11,000	0 49
Rating Agencies	20,794	0 93
Attorney General	9,500	0 43
Printing	1,512	0 07
Liquidity Provider's Counsel	10,000	0 45
	$101,706	**$4.56**
Underwriters' Spread	**$54,115**	**$2.42**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Land Refunding Bonds, Taxable Series 2006A - $31,030,000

Purpose: The proceeds of the bonds were used to refund the State of Texas Veterans' Land Bonds, Taxable Series 1996

Dates:

Board Review -	April 13, 2006
Negotiated Sale -	May 9, 2006
Closing Date -	May 10, 2006

Structure: The bonds were sold on a negotiated basis as variable-rate, taxable securities with a final maturity date of December 1, 2027 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+
Fitch -	AA+/F1+

Interest Cost:

True Interest Cost (TIC) -	Floating
Net Interest Cost (NIC) -	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Co-Bond Counsel -	Lannen & Oliver, P C
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	Bear, Stearns & Co Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$19,901	$0 64
Co-Bond Counsel	8,528	0 27
Financial Advisor	11,861	0 38
Rating Agencies	23,954	0 77
Attorney General	9,500	0 31
Printing	991	0 03
Liquidity Provider's Counsel	10,000	0 32
	$84,735	**$2.73**
Underwriters' Spread	**$65,238**	**$2.10**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Land Refunding Bonds, Taxable Series 2006B - $24,035,000

Purpose: The proceeds of the bonds were used to refund the State of Texas Veterans' Land Bonds, Series 1996

Dates:

Board Review -	April 13, 2006
Negotiated Sale -	May 9, 2006
Closing Date -	May 10, 2006

Structure: The bonds were sold on a negotiated basis as variable-rate, taxable securities with a final maturity date of December 1, 2026 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+
Fitch -	AA+/F1+

Interest Cost:

True Interest Cost (TIC) -	Floating
Net Interest Cost (NIC) -	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Co-Bond Counsel -	Lannen & Oliver, P C
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	Bear, Stearns & Co Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$19,534	$0 81
Co-Bond Counsel	7,650	0 32
Financial Advisor	11,000	0 46
Rating Agencies	21,766	0 91
Attorney General	9,500	0 40
Printing	844	0 04
Liquidity Provider's Counsel	10,000	0 42
	$80,294	**$3.34**
Underwriters' Spread	**$56,607**	**$2.36**

TEXAS VETERANS LAND BOARD

Issue: State of Texas Veterans' Housing Assistance Program, Fund II Series 2006A Bonds - $50,000,000

Purpose: The proceeds of the bonds were deposited into the Veterans' Housing Assistance Fund II, a fund administered by the Veterans' Land Board of the state of Texas, and made available to make home loans to eligible Texas veterans

Dates:

Board Review -	February 13, 2006
Negotiated Sale -	May 31, 2006
Closing Date -	June 1, 2006

Structure: The bonds were sold on a negotiated basis as variable-rate, tax-exempt securities with a final maturity date of December 1, 2036 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+
Fitch -	AA+/F1+

Interest Cost:

True Interest Cost (TIC) -	Floating
Net Interest Cost (NIC) -	Floating

Consultants:

Bond Counsel -	Vinson & Elkins L L P
Co-Bond Counsel -	Lannen & Oliver, P C
Financial Advisor -	RBC Capital Markets
Senior Underwriter -	Merrill Lynch & Co , Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$65,000	$1 30
Co-Bond Counsel	13,538	0 27
Financial Advisor	18,500	0 37
Rating Agencies	41,220	0 82
Attorney General	9,500	0 19
Printing	1,594	0 03
Liquidity Provider's Counsel	8,500	0 17
Liq Provider's Foreign Counsel	3,100	0 06
	$160,952	**$3.22**
Underwriters' Spread	**$91,491**	**$1.83**

TEXAS WATER DEVELOPMENT BOARD

Issue: State of Texas Water Financial Assistance Refunding Bonds, Series 2005C (Economically Distressed Areas Program) - $49,270,000

Purpose: The proceeds of the 2005C bonds were used to refund certain outstanding EDAP Bonds (Series 1997E, 1997F, 1999B and 2001A) originally issued to augment the Economically Distressed Areas Program Account within the Texas Water Development Fund II

Dates:

Board Approval -	November 17, 2005
Negotiated Sale -	December 16, 2005
Closing Date -	January 18, 2006

Structure: The 2005C bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on August 1, 2025 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 50%
Net Interest Cost (NIC) -	4 62%

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 -	First Albany Capital Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$25,739	$0 52
Co-Bond Counsel	7,631	0 15
Financial Advisor	51,346	1 04
Rating Agencies	34,100	0 69
Attorney General	9,500	0 19
Printing	1,535	0 03
Paying Agent	500	0 01
Escrow Agent	3,600	0 07
Escrow Verification	1,750	0 04
Other	10,015	0 20
	$145,717	**$2.96**
Underwriters' Spread	**$309,555**	**$6.28**

TEXAS WATER DEVELOPMENT BOARD

Issue: State of Texas General Obligation Bonds, Water Financial Assistance Refunding Bonds, Series 2006A - $13,175,000

Purpose: The proceeds of the Tax-Exempt Bonds (Series 2006A) will be used to refund certain outstanding General Obligation Water Development Bonds (Series 1996A and 1996B) and pay costs of issuance

Dates:

Board Approval -	May 8, 2006
Negotiated Sale -	May 23, 2006
Closing Date -	June 27, 2006

Structure: The 2006A bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on August 1, 2021 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 34%
Net Interest Cost (NIC) -	4 32%

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 -	Estrada Hinojosa & Co , Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$27,002	$2 05
Co-Bond Counsel	7,798	0 59
Financial Advisor	25,314	1 92
Rating Agencies	19,260	1 46
Attorney General	9,500	0 72
Printing	1,188	0 09
Paying Agent	292	0 02
Escrow Agent	67	0 01
Escrow Verification	1,250	0 09
Other	5,565	0 43
	$97,236	**$7.38**
Underwriters' Spread	**$85,394**	**$6.48**

THE UNIVERSITY OF NORTH TEXAS SYSTEM

Issue: Board of Regents of The University of North Texas System, Revenue Financing System Refunding and Improvement Bonds, Series 2005 - $76,795,000

Purpose: The proceeds of the bond issue were used for the purpose of 1) advance refund portions of the Board's outstanding bonds (Series 1994, 1996, 1997, 1999 and 1999A); 2) refund $2 4 million of the Board's outstanding commercial paper notes; 3) acquiring, purchasing, constructing, improving, renovating, enlarging, or equipping property, buildings, structures, facilities, roads, or related infrastructure for the University, to wit, the construction and equipping of a building for the UNT-Dallas campus and a student wellness and career center for the University of North Texas; 4) paying a portion of the interest accruing on the bonds; and 5) paying certain costs of issuance

Dates:

Board Review -	September 9, 2005
Negotiated Sale -	October 12, 2005
Closing Date -	November 8, 2005

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on April 15, 2025 The bonds are insured by Financial Guaranty Insurance Company

Bond Ratings:

Moody's -	Aaa/A1
Fitch -	AAA/AA-

Interest Cost:

True Interest Cost (TIC) -	4 23%
Net Interest Cost (NIC) -	4 38%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L L P
Financial Advisor -	First Albany Capital Inc
Senior Underwriters -	Morgan Keegan & Company, Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$58,556	$0 76
Financial Advisor	38,475	0 50
Paying Agent	300	0 00
Paying Agent Settlement	2,600	0 03
Escrow Agent	2,600	0 03
Escrow Verification	8,000	0 10
Printing	3,733	0 05
Attorney General	9,500	0 12
Rating Agencies	52,750	0 69
	$176,514	**$2.30**
Underwriters' Spread	**$426,317**	**$5.55**

THE UNIVERSITY OF TEXAS SYSTEM

Issue: Board of Regents of The University of Texas System, Revenue Financing System Bonds, Series 2006A and 2006B - $560,885,000

Purpose: The proceeds of the sale of the bonds, together with other available moneys of the Board were used to 1) refinance $413 2 million of the Board's Revenue Financing System Commercial Paper Notes, Series A; 2) refund certain parity debt obligations (RFS Bonds Series 1996A); 3) finance the costs of campus improvements of certain members of the System; and 4) pay certain costs of issuance

Dates:

Board Review -	March 30, 2006	
Negotiated Sale -	April 20, 2006	
	2006A:	**2006B:**
Closing Date -	May 17, 2006	May 10, 2006

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on August 15, 2037 The bonds are not insured

Bond Ratings:

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

Interest Cost:

True Interest Cost (TIC) -	4 60%
Net Interest Cost (NIC) -	4 73%

Consultants:

Bond Counsel -	McCall, Parkhurst & Horton L L P
Co-Senior Underwriters -	UBS Investment Bank Morgan Stanley

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$183,410	$0 34
Swap Counsel	51,910	0 09
Disclosure Counsel	30,000	0 05
Paying Agent	1,499	0 00
Escrow Agent	749	0 00
Escrow Verification	2,250	0 00
Printing	5,333	0 01
Attorney General	9,500	0 02
Rating Agencies	73,900	0 13
Miscellaneous	2,186	0 00
	$360,737	**$0.64**
Underwriters' Spread	**$1,936,107**	**$3.45**

UNIVERSITY OF HOUSTON SYSTEM

Issue: Board of Regents of the University of Houston System, Consolidated Revenue and Refunding Bonds, Series 2006 - $83,590,000

Purpose: The proceeds of the bond issue were used to 1) refund and defease certain outstanding bonds (Series 1997 and 2000); 2) acquire, purchase, construct, improve, renovate, enlarge or equip the property, buildings, structures, activities, services, operation and other facilities, roads, or infrastructure for or on behalf of the System, including individual campuses of the System; and 3) paying costs of issuance

Dates:

Board Review -	January 3, 2006
Negotiated Sale -	January 18, 2006
Closing Date -	February 15, 2006

Structure: The bonds were sold on a negotiated basis as fixed-rate, tax-exempt securities maturing on February 15, 2030 The bonds are insured by Ambac Assurance Corporation

Bond Ratings:

Moody's -	Aaa/Aa3
Standard & Poor's -	AAA/A+

Interest Cost:

True Interest Cost (TIC) -	4 44%
Net Interest Cost (NIC) -	4 46%

Consultants:

Bond Counsel -	Andrews Kurth LLP
Co-Bond Counsel -	Burney & Foreman
Financial Advisor -	First Southwest Company
Senior Underwriter -	First Albany Capital Inc

Issuance Costs:	**Amount**	**Per $1,000**
Bond Counsel	$76,028	$0 91
Co-Bond Counsel	13,701	0 16
Financial Advisor	15,202	0 18
Paying Agent	500	0 01
Escrow Agent	3,000	0 04
Escrow Verification	5,000	0 06
Printing	4,470	0 05
Attorney General	9,500	0 11
Rating Agencies	61,250	0 73
	$188,651	**$2.26**
Underwriters' Spread	**$499,678**	**$5.98**

Appendix B
Texas Commercial Paper and Variable-Rate Note Program

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

As of August 31, 2006, a total of $3.68 billion was authorized for state commercial paper or variable-rate note programs. Of this amount, $1.29 billion was outstanding as of the end of fiscal 2006 *(Table 18),* an increase of approximately $167 million over fiscal 2005. 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 replaced 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 $400 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 commercial paper is secured by a pledge of all legally available revenues of the System, including pledged tuition fees, general fees, and other revenue sources. The System's outstanding RFS commercial paper notes may not exceed $800 million in principal amount at any time.

Table 18
TEXAS COMMERCIAL PAPER AND VARIABLE-RATE NOTE PROGRAMS
as of August 31, 2006

ISSUER	TYPE OF PROGRAM	AMOUNT AUTHORIZED	AMOUNT ISSUED FISCAL 2006	AMOUNT OUTSTANDING
The University of Texas System				
Permanent University Fund	Flexible-Rate Notes	$400,000,000	$100,000,000	$100,000,000
Revenue Financing System	Commercial Paper	$800,000,000	471,754,000	555,386,000
The Texas A&M University System				
Permanent University Fund*	Flexible-Rate Notes	$125,000,000	20,000,000	5,000,000
Revenue Financing System	Commercial Paper	$200,000,000	54,000,000	79,000,000
Texas Tech University System				
Revenue Financing System	Commercial Paper	$100,000,000	22,500,000	13,135,000
The University of North Texas System				
Revenue Financing System	Commercial Paper	$50,000,000	166,640,000	26,104,000
Texas Department of Agriculture**	Commercial Paper	$50,000,000	0	25,000,000
	Commercial Paper	$25,000,000	0	0
Texas Department of Transportation	Commercial Paper	$500,000,000	300,000,000	88,850,000
Texas Dept of Housing & Community Affairs	Commercial Paper	$200,000,000	72,191,000	15,198,000
Texas Economic Dev & Tourism Office***	Commercial Paper	$25,000,000	0	13,000,000
Texas Public Finance Authority				
Revenue	Commercial Paper	$150,000,000	45,000,000	105,259,000
General Obligation	Commercial Paper	$1,056,000,000	$45,200,000	$225,540,000
Total		**$3,681,000,000**	**$1,297,285,000**	**$1,251,472,000**

Source: Texas Bond Review Board - Bond Finance Office

* Represents an increase in the program authority during Fiscal Year 2005 from $80 million to $125 million

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

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

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 the 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 A&M System's outstanding PUF flexible rate notes may not exceed $125 million in principal amount at any time.

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. The A&M System's outstanding RFS commercial paper notes may not exceed $200 million in principal amount at any time.

Texas Tech University System 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 the current level.

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 of North Texas System

In May 2004, the Board of Regents of The University of North Texas System (the "System") authorized a Revenue Financing System commercial paper program in an amount not to exceed $50 million. The program was established to provide interim financing for capital projects, including construction, acquisition, renovation, and equipment for facilities of the System. The commercial paper is secured by a pledge of all legally available revenues of the System, including pledged tuition fees, general fees and other revenue sources.

Texas Department of Agriculture

In 1991, the Texas Agricultural Finance Authority (TAFA), a public authority within the Texas Department of Agriculture, was authorized to establish a taxable commercial paper note program. 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 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 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 Department of Transportation

In July 2005, the Texas Transportation Commission (the "Commission"), the governing body of the Texas Department of Transportation (the "Department"), authorized a commercial paper program. TxDOT is authorized to issue up to $500 million in notes to carry out the functions of the Department.

Texas Economic Development and Tourism Office

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

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. In 2002, TPFA established a commercial paper program that is also secured by the state's general obligation pledge to provide financial assistance to border counties for roadways in colonias.

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 Comptroller of Public Accounts - Treasury Operations to enter into agreements to provide liquidity for obligations issued for governmental purposes by an agency of the state as long as the agreements did not conflict with the liquidity needs of the Treasury. Eligible obligations include commercial paper, variable-rate demand obligations, and bonds.

Appendix C
Texas Issuers' Use of Swaps

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

Swaps

An interest rate swap is created when a debt issuer and a financial institution, each referred to as a counterparty, enter into a contract to exchange interest payments. The two types of swaps most often utilized by Texas issuers are pay-fixed, receive-variable and pay-variable, receive-fixed interest rate swaps. As of August 31, 2006, pay-fixed, receive-variable swaps comprised approximately 61% of the state's $2.58 billion in total notional amount of swaps outstanding.

<u>Pay-fixed, receive-variable swap (synthetic fixed-rate swap)</u>

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

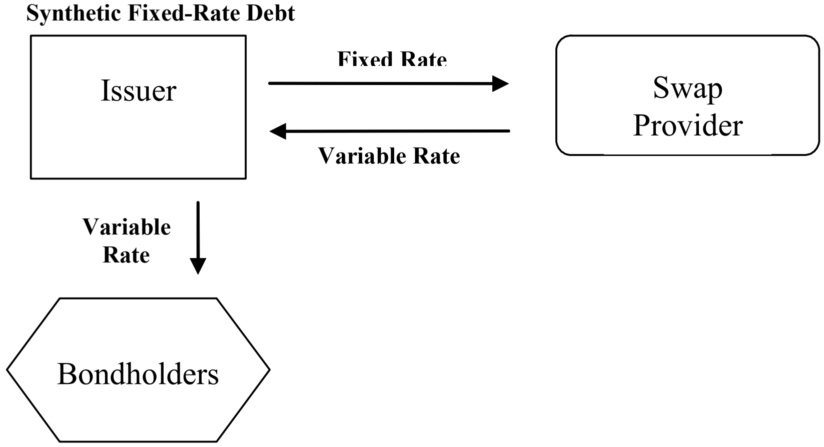
To structure such a transaction, issuers must analyze the impact of issuing either natural or synthetic fixed-rate debt. If the spread between the two is sufficient to compensate the issuer for accepting certain risks associated with synthetic fixed-rate debt, the issuer will execute the swap and issue the associated variable-rate debt. The issuer remains obligated to make debt-service payments to the variable-rate bond holders, even if the variable-rate payment received from the swap counterparty does not cover the variable-rate payment due on the associated bonds (see Basis Risk below).

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

<u>Pay-variable, receive-fixed swap (synthetic floating-rate swap)</u>

Conversely, *synthetic floating-rate debt* is created when the issuer sells fixed-rate debt and enters into a fixed-to-floating rate swap. The issuer agrees to pay variable-rate payments to the counterparty and in exchange receives a fixed-rate payment from the swap counterparty. As with synthetic fixed-rate debt, the rate to be paid is tied to an underlying reference index such as the *taxable* LIBOR or the *tax-exempt* BMA Index. As of August 31, 2006, syn-

Synthetic Fixed-Rate Debt



thetic floating-rate debt swaps comprised less than 1% of the state's total notional amount of swaps outstanding. This swap program is illustrated below.

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

Four of the five Veterans' Land Board (VLB) pay-variable, receive-variable swaps (called *basis* swaps) are LIBOR-to-BMA basis swaps that effectively convert the variable rate on the associated taxable variable-rate bond issues from a *taxable* LIBOR based rate to a *tax-exempt* BMA based rate. The remaining swap is a LIBOR Constant Maturity Swap (CMS) that is expected to increase the cash flow on the associated taxable fixed-rate and synthetic fixed-rate bonds due to projected changes in the relationship between short- and long-term interest rates. As of August 31, 2006, basis swaps comprised approximately 38% of the state's total notional amount of swaps outstanding.

Risk Analysis

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

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

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

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

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

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

Synthetic Floating-Rate Debt

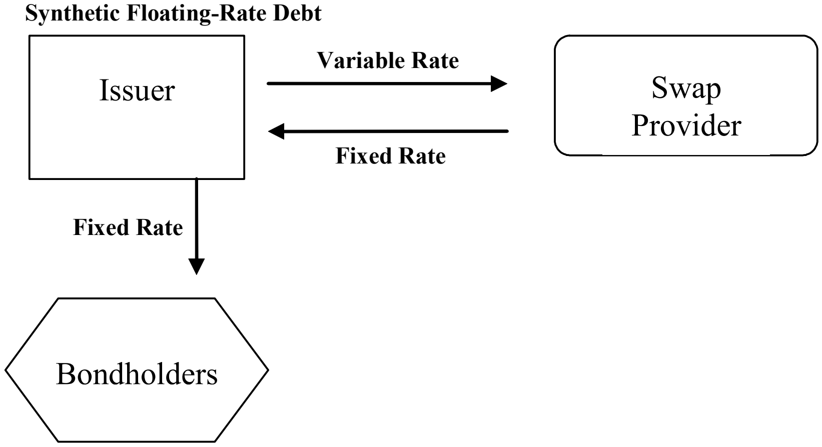


Table 19 - UNAUDITED
TEXAS INTEREST RATE SWAPS
As of August 31, 2006
(amounts in thousands)

PAY-FIXED, RECEIVE VARIABLE (Synthetic Fixed Rate) Bond Issue	Original Notional Amount	8/31/2006 Notional Amount	Effective Date	Swap Termination Date	Fixed-Rate Paid	Variable-Rate Received	Counterparty Credit Ratings	Fair Value
TDHCA SF Variable Rate MRB Ser 2004A	53,000	53,000	09/01/2004	09/01/2034	3.84%	63% of LIBOR + .30%	Aa2/AA+/AA+	-342
TDHCA SF Variable Rate MRB Ser 2004D	35,000	35,000	01/01/2005	03/01/2035	3.61%	*	Aa3/A+/AA-	-58
TDHCA SF Variable Rate MRB Ser 2005A	100,000	100,000	08/01/2005	09/01/2036	3.99%	*	AAA/AAA	-1,581
UT RFS Refunding Bonds, Sereis 2001A	48,318	16,758	05/17/2001	08/15/2013	4.63%	67% of 1M LIBOR	Aa2/AA-	-682
UT RFS Refunding Bonds, Series 2001A	32,212	11,172	05/17/2001	08/15/2037	4.63%	67% of 1M LIBOR	Aaa/AAA	-453
Vet Hsg Ref Bds Ser 1995	88,490	64,935	11/29/1995	12/01/2016	5.52%	Actual Bond Rate	AAA/Aaa	-6,728
Vet Land Ref Bds Ser 1999A	40,025	31,990	06/01/1999	12/01/2018	5.11%	68% of 6M LIBOR	AAA/Aaa	-2,931
Vet Land Tax Ref Bds Ser 1999B	36,720	26,120	12/01/1999	12/01/2009	5.13%	100% of 6M LIBOR	AA+/Aaa	-177
Vet Land Tax Ref Bds Ser 2000	39,960	39,960	12/01/2000	12/01/2020	6.11%	100% of 6M LIBOR	AA+/Aaa	-3,597
Vet Hsg Fund II Bds Ser 2001A-2	20,000	20,000	12/03/2001	12/01/2029	4.30%	68% of 1M LIBOR	AA-/Aa1	-1,519
Vet Hsg Fund II Bds Ser 2001C-2	25,000	25,000	12/18/2001	12/01/2033	4.37%	68% of 1M LIBOR	AA+/Aaa	-3,522
Vet Land Bds Ser 2002	20,000	18,980	02/21/2002	12/01/2032	4.14%	68% of 1M LIBOR	AA-/Aa3	-1,112
Vet Hsg Fund II Bds Ser 2002A-2	38,300	36,565	07/10/2002	06/01/2033	3.87%	68% of 1M LIBOR	AAA/Aaa	-923
Vet Land Tax Ref Bds Ser 2002	27,685	27,685	12/01/2002	12/01/2021	4.94%	100% of 6M LIBOR	AA-/Aa3	-453
Vet Hsg Fund I Tax Ref Bds Ser 2002B	22,605	19,780	12/01/2002	06/01/2023	4.91%	100% of 6M LIBOR	AA+/Aaa	-295
Vet Hsg Fund II Bds Ser 2003A	50,000	45,330	03/04/2003	06/01/2034	3.30%	68% of 1M LIBOR	AA-/Aa3	898
Vet Hsg Fund II Bds Ser 2003B	50,000	46,500	10/22/2003	06/01/2034	3.40%	64.5% of 1M LIBOR	AAA/Aaa	85
Vet Land Tax Ref Bds Ser 2003	29,285	27,335	12/01/2003	12/01/2023	5.12%	100% of 1M LIBOR	AA-/Aa3	-805
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	47,865	12/01/2003	06/01/2021	5.19%	100% of 6M LIBOR	AA+/Aaa	-1,503
Vet Hsg Fund II Bds Ser 2004A	50,000	47,145	04/07/2004	12/01/2034	3.31%	68% of 1M LIBOR	AAA/Aaa	927
Vet Hsg Fund II Tax Ref Bds Ser 2004	19,550	17,600	06/01/2004	12/01/2024	5.45%	100% of 6M LIBOR	AAA/Aaa	-1,083
Vet Hsg Fund II Bds Ser 2004B	50,000	49,060	09/15/2004	12/01/2034	3.68%	68% of 1M LIBOR	AAA/Aaa	-530
Vet Land Tax Ref Bds Ser 2004	24,755	24,145	12/01/2004	12/01/2024	5.46%	100% of 6M LIBOR	AA-/Aa3	-1,356
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	43,870	41,215	12/01/2004	06/01/2020	5.35%	100% of 1M LIBOR	AA-/Aa3	-1,721
Vet Hsg Fund II Bds Ser 2005A	50,000	48,840	02/24/2005	06/01/2035	3.28%	68% of 1M LIBOR	AAA/Aaa	1,166
Vet Hsg Fund II Bds Ser 2005B	50,000	49,395	08/09/2005	06/01/2036	3.09%	68% of 1M LIBOR	AAA/Aaa	1,969
Vet Land Tax Ref Bds Ser 2005	22,795	22,610	12/01/2005	12/01/2026	6.52%	100% of 6M LIBOR	AAA/Aaa	-3,257
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C, D	24,885	24,725	12/01/2005	06/01/2026	5.15%	100% of 1M LIBOR	AA-/Aa3	-1,699
Vet Hsg Fund I Tax Ref Bds Ser 2005D	19,860	19,860	12/01/2005	12/01/2023	4.93%	100% of 1M LIBOR	AA-/Aa3	-650
Vet Hsg Fund I Tax Ref Bds Ser 2005E	8,525	7,370	12/01/2005	12/01/2009	4.33%	100% of 1M LIBOR	AA-/Aa3	115
Vet Hsg Fund II Bds Ser 2006A	50,000	50,000	06/01/2006	12/01/2036	3.52%	68% of 1M LIBOR	AAA/Aaa	409
Vet Land Tax Ref Bds Ser 2006A	31,030	31,030	06/01/2006	12/01/2027	6.54%	100% of 6M LIBOR	AAA/Aaa	-4,496
Vet Hsg Fund II Tax Ref Bds Ser 2006C	22,325	22,325	06/01/2006	12/01/2027	5.79%	100% of 6M LIBOR	AAA/Aaa	-1,908
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	38,570	06/01/2006	12/01/2026	5.83%	100% of 1M LIBOR	AA-/Aa3	-4,179
Vet Land Tax Ref Bds Ser 2006B	24,035	24,035	06/01/2006	12/01/2026	4.61%	100% of 6M LIBOR	AAA/Aaa	135
Vet Hsg Fund II Bds Ser 2006D	50,000	50,000	09/20/2006	12/01/2036	3.69%	68% of 1M LIBOR	AA+/Aa2	-406
Vet Land Tax Ref Bds Ser 2006C	41,050	41,050	12/01/2006	12/01/2027	6.51%	100% of 1M LIBOR	AA-/Aa3	-5,816
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	39,560	12/01/2006	12/01/2026	5.46%	100% of 1M LIBOR	AA-/Aa3	-4,203
Vet Hsg Fund II Tax Ref Bds Ser 2007	54,160	54,160	12/01/2007	06/01/2029	4.66%	100% of 1M LIBOR	AA-/Aa3	-531
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	16,950	12/01/2009	12/01/2021	6.22%	100% of 6M LIBOR	AAA/Aaa	-1,170
Vet Hsg Fund II Tax Ref Bds Ser 2009A	65,845	65,845	12/01/2009	06/01/2031	5.45%	100% of 6M LIBOR	AAA/Aaa	-4,199
Vet Hsg Fund II Tax Ref Bds Ser 2010A	66,720	66,720	06/01/2010	12/01/2031	5.40%	100% of 1M LIBOR	AA-/Aa3	-6,622
Vet Land Tax Ref Bds Ser 2010	16,480	16,480	12/01/2010	12/01/2030	5.21%	100% of 1M LIBOR	AA-/Aa3	-1,300
Vet Homes Rev Ref Bds, Ser 2012	21,795	21,795	08/01/2012	08/01/2035	3.76%	68% of 1M LIBOR	AAA/Aaa	-1,039
Pay-Fixed, Receive-Variable Total	**$1,707,225**	**$1,584,460**						**-$67,142**

PAY-VARIABLE, RECEIVE FIXED (Synthetic Floating Rate) Bond Issue	Original Notional Amount	8/31/2006 Notional Amount	Effective Date	Swap Termination Date	Fixed-Rate Received	Variable-Rate Received	Counterparty Credit Ratings	Fair Value
Vet Land Tax Ref Bds Ser 2006B	24,035	24,035	6/1/2006	12/1/2026	4.61%	6M LIBOR >= 8.00%	AAA/Aaa	-538
Pay-Variable, Receive-Fixed Total	**$24,035**	**$24,035**						**-$538**

PAY-VARIABLE, RECEIVE-VARIABLE (Basis Swap) Bond Issue	Original Notional Amount	8/31/2005 Notional Amount	Effective Date	Swap Termination Date	Variable-Rate Paid	Variable-Rate Received	Counterparty Credit Ratings	Fair Value
UT RFS Bonds Ser 2006B	324,342	324,342	05/10/2006	08/15/2037	BMA	67% of 5Y LIBOR = 22.1 bps	Aa2/AA-	38
UT RFS Bonds Ser 2006B	216,228	216,228	05/10/2006	08/15/2037	BMA	67% of 5Y LIBOR = 22.1 bps	Aa1/AA+	-11
Vet Hsg Fund II Tax Bds Ser 1997B-2	25,000	25,000	09/27/2002	12/01/2010	132.60% of BMA	100% of 3M LIBOR	AA-/Aa3	408
Vet Hsg Fund II Tax Bds Ser 1999A-2	90,000	90,000	08/05/2002	09/01/2011	134.40% of BMA	100% of 1M LIBOR	AAA/Aaa	1,246
Vet Hsg Fund II Tax Bds Ser 1999A-2	60,000	60,000	08/05/2002	09/01/2011	134.40% of BMA	100% of 1M LIBOR	AA+/Aaa	824
Vet Land Tax Bds Ser 2000A/2002A	40,000	37,860	08/05/2002	12/01/2032	131.25% of BMA	100% of 1M LIBOR	AA-/Aa3	234
Various Vet Land & Hsg Fd I & Fd II Tax Bds		217,860	05/10/2006	06/01/2014	3M LIBOR	10Y ISDA - 42.5 bp	AAA/Aaa	-1,343
Pay-Variable, Receive-Variable Total	**$755,570**	**$971,290**						**$1,396**
TOTAL INTEREST RATE SWAPS	**$2,486,830**	**$2,579,785**						**-$66,284**

*Lessor of a) the greater of 65% of LIBOR or 56% of LIBOR + .45% and b) 1M LIBOR

Sources: Texas Veterans' Land Board, The University of Texas System and the Texas Department of Housing and Community Affairs (TDHCA).

Table 20
DEBT-SERVICE REQUIREMENTS OF VARIABLE-RATE DEBT OUTSTANDING AND NET INTEREST RATE SWAP PAYMENTS
As of August 31, 2006

(amounts in thousands)

UNAUDITED

Texas Department of Housing and Community Affairs

Fiscal Year	Variable-Rate Bonds		Interest Rate	
Ending 8/31/06	Principal	Interest	Swaps, Net	Total
2007	885	4,579	2,512	7,976
2008	1,820	4,545	2,492	8,857
2009	1,895	4,498	2,463	8,856
2010	1,970	4,450	2,433	8,853
2011	2,050	4,399	2,402	8,851
2012 & beyond	179,380	64,232	34,967	278,579
Total Debt Service and Net Interest Rate Swap Payments	**$188,000**	**$86,703**	**$47,269**	**$321,972**

Source: Texas Department of Housing and Community Affairs

University of Texas System

Fiscal Year	Fixed and Variable-Rate Bonds		Interest Rate	
Ending 8/31/06	Principal	Interest	Swaps, Net	Total
2007	11,065	27,747	-1,378	37,435
2008	14,835	27,266	-1,405	40,696
2009	17,735	26,695	-1,411	43,019
2010	18,690	25,900	-1,410	43,179
2011	19,695	25,033	-1,410	43,317
2012 & beyond	486,915	295,459	-18,200	764,174
Total Debt Service and Net Interest Rate Swap Payments	**$568,935**	**$428,100**	**-$25,214**	**$971,820**

Source: The University of Texas System

Veterans' Land Board

Fiscal Year	Fixed and Variable-Rate Bonds		Interest Rate	
Ending 8/31/06	Principal	Interest	Swaps, Net	Total
2007	36,985	57,379	177	94,541
2008	35,910	55,853	1,282	93,045
2009	38,420	54,323	1,216	93,959
2010	67,265	52,687	1,147	121,099
2011	57,830	51,095	1,160	110,085
2012-2016	216,595	224,990	6,883	448,468
2017-2021	279465	$154,912	$741	$435,118
2022-2026	**$209,230**	**$96,720**	**$353**	**$306,303**
2027-2031	267,460	48,376	-276	315,560
2032-2036	51,880	3,385	-11	55,254
2037-2041	30	1	0	31
Total Debt Service and Net Interest Rate Swap Payments	1,261,070	799,721	12,672	2,073,463

Source: Veterans' Land Board

Note: Future debt-service payments for variable-rate bonds and interest rate swaps are estimated assuming interest rates at August 31, 2006 remain constant for the terms of the bonds and the swaps.

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

Due to the general reduction in interest rates over the last several years, the net fair value of the state's outstanding swaps was negative at August 31, 2006, indicating that the issuers would be liable for the fair values of the swaps in the unlikely event of termination. However, it is important to note that issuers have achieved significant savings in interest costs over the last several years by use of interest rate swaps. (See *Table 19* for the terms, counterparty credit ratings and fair values for the state's swaps outstanding at August 31, 2006.)

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

Additional Derivative Products

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

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

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

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

Management Policy

State issuers with swap transactions outstanding or those issuers contemplating entering into swap agreements, have adopted derivative or swap management policies outlining the objectives, management, oversight, monitoring, selection and restrictions for their derivative or swap agreements. Most recently, the Texas Transportation Commission adopted a derivatives management policy in August 2006.

Appendix D
Texas State Bond Programs

Texas Agricultural Finance Authority Bonds
Statutory/Constitutional Authority: The Texas Agricultural Fi-nance 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 Constitu-tion 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 agricul-tural 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.

Contact:
Robert Wood
Assistant Commissioner
Rural Economic Development
Texas Department of Agriculture
(512) 463-7577
robert.wood@agr.state.tx.us

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% 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.

Contact:
Ken Vickers
Assistant Commissioner for
Administrative Services
Texas Higher Education Coordinating Board
(512) 427-6160
vickerskh@thecb.state.tx.us

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

In 1997, the 75th Legislature passed 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 Economic Development and Tourism Bonds
Statutory/Constitutional Authority: As the successor Office to the Texas Department of Economic Development, the Economic Development and Tourism Office within the Office of the Governor (the "Office") was created by Senate Bill 275 of the 78th Legislature. Senate Bill 275 authorizes the Office to issue bonds. In 1989, a constitutional amendment authorizing the issu-ance of general obligation bonds was approved. Although legislative approval of bond issues is not required, the Office is required to obtain the approval of the Bond Review Board and the Attorney General's Office prior to issuance, and to register its bonds with the Comptroller of Public Accounts.

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

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

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

Contact:
Michael Chrobak
Director
Office of the Governor
Texas Economic Development and
Tourism Office
(512) 936-0100
mchrobak@governor.state.tx.us

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

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

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

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

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

Contacts:
Matt Pogor
Director of Bond Finance
Texas Department of Housing and
Community Affairs
(512) 475-3987
matt.pogor@tdhca.state.tx.us

Robbye Meyer
Director of Multifamily Finance Production
Texas Department of Housing and
Community Affairs
(512) 475-2213
robbye.meyer@tdhca.state.tx.us

Farm and Ranch Loan Bonds
Statutory/Constitutional Authority: Article III, Section 49-f, of the Texas Constitution, adopted in 1985, authorizes the issuance of general obligation bonds by the Veterans Land Board. The program was transferred in 1993 from the Veterans Land Board to the Texas Agricultural Finance Authority with the passage of House Bill 1684 by the 73rd Legislature. In 1995, a constitutional amendment was approved that expended the use of existing bond authority and allows no more than $200 million of the authority to be used for the purposes defined in Article III, Section 49-i, of the Texas Constitution and for other rural economic development programs. In 1997, in 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 each eligible Texan for the purchase of farms and ranches.

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

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

Contact:
Robert Wood
Assistant Commissioner
Rural Economic Development
Texas Department of Agriculture
(512) 463-7577
robert.wood@agr.state.tx.us

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

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

Security: The first $175 million coming into the Comptroller of Public Accounts - Treasury Operations, not otherwise dedicated by the Constitution, goes to qualified institutions of higher education to fund certain land acquisition, construction, and repair projects. In 2005, the Legislature increased the total allocation to qualified institutions to $262.5 million beginning in fiscal year 2008. 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 Commission on Environmental Quality
Statutory Authority: The Texas Low-Level Radioactive Waste Disposal Authority (the "Authority") was created in 1981 (Texas Health and Safety Code, Chapter 402), and authorized to issue revenue bonds in 1987 to finance certain costs related to the creation of a radioactive waste disposal site. The Authority was required to obtain the approval of the Attorney General's Office and the Bond Review Board prior to issuance, and to register its bonds with the Comptroller of Public Accounts. 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 ("the Commission") that was renamed the Texas Commission on Environmental Quality.

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

Contact:
Kimberly K. Edwards
Executive Director
Texas Public Finance Authority
(512) 463-5544
kim.edwards@tpfa.state.tx.us

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 Commis-sion 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 appro-priated 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.

Contacts:
Michael Blalock
Deputy Executive Director
Texas Military Facilities Commission
(512) 782-5253
michael.blalock@agd.state.tx.us

Kimberly K. Edwards
Executive Director
Texas Public Finance Authority
(512) 463-5544
kim.edwards@tpfa.state.tx.us

Texas Parks and Wildlife Department Bonds

Statutory/Constitutional Authority: Article III, Section 49-e, of the Texas Constitution, adopted in 1967, authorized the Texas Parks and Wildlife Department (the "Department") to issue general obligation bonds to acquire and develop state parks. 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 Comptroller of Public Accounts – Treasury Operations, not otherwise dedicated by the Constitution, are pledged to pay debt service on the bonds.

Revenue obligations issued on behalf of the Department are to be repaid from rent payments made by the Department to the Authority. The Department may receive legislative appropria-tions 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.

Contacts:

Steve Whiston
Director of Infrastructure
Texas Parks and Wildlife Department
(512) 389-4741
stephen.whiston@tpwd.state.tx.us

Kimberly K. Edwards
Executive Director
Texas Public Finance Authority
(512) 463-5544
kim.edwards@tpfa.state.tx.us

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.

Contacts:
Terry Hull
Director of Finance
The University of Texas System
(512) 499-4494
thull@utsystem.edu

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

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

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

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

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

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

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

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

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

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

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

In 2003, the 78th Legislature authorized the Authority to issue revenue bonds on behalf of the Texas Workforce Commission to fund the unemployment compensation program. (See H.B. 3324 and S.B. 280.) The 78th Legislature also authorized: (1) the Authority's issuance of general obligation bonds to finance assistance to local governments for economic development projects to enhance the military value of military facilities, contingent on voter approval of SJR55, which was approved by Texas voters on September 13, 2003 (S.B. 652); and (2) the Authority's issuance of up to $75 million of revenue bonds to fund the FAIR Plan, which is residential property insurance of last resort (S.B. 14).

The 79th Legislature authorized the Authority to issue revenue bonds to finance building improvements for the Texas Department of Transportation and to refinance certain of the Texas Building and Procurement Commission's lease-purchase agreements.

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 were used to fund the Workers' Compensation Insurance Fund. Proceeds from the issuance of commercial paper for the Master Lease Purchase Program are used to finance equipment for state agencies. For a description of the use of funds for bonds issued on behalf of the Texas Military Facilities Commission, the Texas Parks and Wildlife Department, and the Texas state colleges and universities that are clients of the Authority, see the applicable sections in this appendix. Proceeds of bonds issued on behalf of the Texas National Research Laboratory Commission were used to finance costs of the Superconducting Super Collider; however, the project was canceled in 1995. The revenue bonds issued for the project were defeased in 1995, and the general obligation bonds were economically defeased in November 1999.

Security: 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 appropri-ated by the Constitution that come into the Comptroller of Public Accounts – Treasury Operations each fiscal year to pay debt service on the bonds. Revenue debt issued from the Unemployment Compensation Insurance Fund is secured by a special obligation assessment imposed on Texas employers by the Texas Workforce Commission. Revenue bonds issued for the Master Lease Purchase Program are secured by lease payments from state agencies, which come from state appropriations.

Dedicated/Project Revenue: Debt service on all general obligation bonds, except the park development bonds, is payable solely from the state's General Revenue Fund. Debt service on the general obligation bonds for park development is paid first from department revenues, as described in the applicable section of this appendix. Debt service on the revenue bonds is payable from lease payments, which are primarily general revenue funds appropriated to the respective agencies and institutions by the legislature. The legislature, however, has the option to appropriate lease payments to be used for debt service on the bonds from any other source of funds that is lawfully available. For example, debt service on the bonds issued on behalf of the Texas Department of State Health Services is appropriated from lab fees collected by the Department. Bonds issued on behalf of the Workers' Compensation Fund, which are fully economically defeased and will be paid in full December 2006, were payable solely from maintenance tax surcharges authorized in Article 5.76 of the Texas Insurance Code. 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.

Contact:
Kimberly K. Edwards
Executive Director
Texas Public Finance Authority
(512) 463-5544
kim.edwards@tpfa.state.tx.us

Texas Small Business Industrial Development Corporation Bonds

Statutory Authority: The Texas Small Business Industrial Development Corporation (TSBIDC) was created as a private non-profit corporation in 1983 (Title 83, Article 5190.6, Sections 4-37, Tex.Rev.Civ.Stat.Ann.) pursuant to the Development Corporation Act of 1979 and was authorized to issue revenue bonds. The authority of TSBIDC to issue bonds was repealed by the legislature, effective September 1, 1987.

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

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

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

Contact:
Michael Chrobak
Director
Office of the Governor
Texas Economic Development and
Tourism Office
(512) 936-0100
mchrobak@governor.state.tx.us

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. The 78th Legislature authorized the Fire Fighter and Police Officer Home Loan Program and the 79th Legislature expanded the program to include law enforcement and security officers. 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 and the Fire Fighter and Security Officer Home Loan Program are each 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.

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

Texas Department of Transportation Bonds

Statutory Authority: The Texas Turnpike Authority ("the Authority") was created as a division of the Texas 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.

The Texas Mobility Fund was created under Senate Bill 4, 77th Legislature, and the constitutional amendment voters approved in November 2001 identified as Proposition 15. In particular, Article II, Section 49-k of the Texas Constitution created the Texas Mobility Fund within the state treasury. This allows the Department to issue bonds secured by future revenue. The Bond Review Board has authorized the issuance of up to $4 billion in Texas Mobility Fund debt. As of August 2006, the program has issued $1.75 billion with a remaining $2.25 billion of authority remaining.

The State Highway Fund was created under Transportation Code, Chapter 222, Subchapter A. The maximum principal amount of bonds and other public securities to be issued may not exceed $3 billion with no more than $1 billion issued per year. Remaining program authority as of August 2006 is approximately $2.3 billion.

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 par-ticipation in financing projects. SIB assistance may include direct loans, credit enhancements, development of a capital reserve for bond fi-nancing, 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, and the participation by the state in the costs of constructing publicly owned toll roads.

Security: Bonds issued are obligations of the Department and are payable from income from the SIB and other project revenues. Bonds issued by the Authority are payable from project revenues and other identified revenue sources. Bonds issued by the Authority are not obligations of the state or a pledge of the full faith and credit of the state. Only the bonds secured by the Texas Mobility Fund carry the state's full faith and credit and its taxing power is pledged toward payment of the bonds. The Transportation Commission may guarantee on behalf of the state the payment of any obligations by pledging the full faith and credit of the state if the dedicated revenues are insufficient.

Dedicated/Project Revenue: Debt for bonds is paid from income from the State Infrastructure Bank and other project revenues with the exception of debt paid for bonds secured by the Texas Mobility Fund. Likewise, bonds issued by the Authority are payable from project revenues and other identified revenue sources. The Texas Mobility Fund obligations are secured by and payable from a pledge of and lien on all or part of the money in the Fund.

Contacts:
James Bass
Director — Finance Division
Texas Department of Transportation
(512) 463-8684
jbass@dot.state.tx.us

For turnpike-related matters:
Phillip E. Russell, P.E.
Director — Turnpike Authority Division
Texas Department of Transportation
(512) 936-0903
prussel@dot.state.tx.us

Veterans' Land and Housing Assistance Bonds
Statutory/Constitutional Authority: Article III, Section 49-b, of the Texas Constitution, initially adopted in 1946, authorized the issuance of general obligation bonds to finance the Veterans Land Program. Article III, Section 49-b-1, of the Texas Constitution, adopted in 1983, authorized additional land bonds and created the Veterans' Housing Assistance Program, 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, amended in 2001 and 2003, also authorizes the VLB to use assets from the Veterans' Land Fund, the Veterans' Housing Assistance Fund, or the Veterans' Housing As-sistance Fund II in connection with veterans cemeteries and veterans long-term care facilities. Chapter 164 of the Texas Natural Resources Code authorized the Veterans Land Board to issue revenue bonds for its programs, including the financing of veterans' long-term care facilities.

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

Security: The general obligation bonds pledge the first monies coming into the Comptroller of Public Accounts - Treasury Operations not otherwise dedicated by the Constitution in addition to program revenues. The revenue bonds issued under Chapter 164 are special obligations of the board and are payable only from and secured by the revenue and assets pledged to secure payment of the bonds under the Texas Constitution and Chapter 164. The revenue bonds do not 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.

Contact:
Rusty Martin
Deputy Commissioner of Funds Management
General Land Office
(512) 463-5120
rusty.martin@glo.state.tx.us

Texas Water Development Bonds
Statutory/Constitutional 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, 49-d-9, 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 comprehen-sive 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 are secured by program revenues and 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.

Contact:
Nancy Banks Marstiller
Development Fund Manager
Texas Water Development Board
(512) 475-2091
nancy.marstiller@twdb.state.tx.us

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

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

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

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

Contact:
Nancy Banks Marstiller
Development Fund Manager
Texas Water Development Board
(512) 475-2091
nancy.marstiller@twdb.state.tx.us

The Texas Bond Review Board is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age or disability in employment, or in the provision of services, programs or activities.

In compliance with the Americans with Disabilities Act, this document may be requested in alternative formats by contacting or visiting the agency.

TEXAS BOND REVIEW BOARD
300 West 15th Street – Suite 409
P.O. Box 13292
Austin, TX 78711-3292

512-463-1741 or 800-732-6637
http://www.brb.state.tx.us