October 1997
SAO No. 98-304
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Bond Issues

Topics for the State of Texas Debt Issuing Community

Texas' bond issuance community has seen significant changes recently, including increased Securities and Exchange Commission (SEC) interest in municipal bonds, newly enacted state legislative mandates, and expanded financing programs. These changes call upon the issuer, oversight entities, and the State to coordinate efforts in order to maximize state debt management.

In an effort to ensure that Texas' debt issuance community is well informed, the Texas Bond Review Board (BRB) and the Texas State Auditor's Office (SAO), with assistance from the Texas Public Finance Authority (TPFA), created this brochure to present useful information about:

- Disclosure requirements and issuer liability
- Texas' debt issuance process and time lines for approval
- The new Capital Improvement Planning process
- Benefits of the Master Lease Purchase Program for Texas agencies

This brochure also is intended to encourage communication between issuers and oversight entities. Please see page 12 for a list of institutions and publications that can provide further information on the subject of debt management.

Awareness of Your Disclosure Responsibilities

What are the disclosure requirements under the federal securities laws?

Government issuers are obligated to produce market offering documents to ensure that investors are clearly aware of all material facts and significant information relevant to the bonds or obligations. Offering documents are required for the underwriting of municipal securities and many include the notice of sale, official statement, bond resolution, and bond lawyer's opinion on the tax-exempt status of the issue. As a result of the Securities and Exchange Commission's Rule 15c2-12, issuers of municipal securities or other obligated persons will be required by underwriters to agree to provide continuing market disclosure.

Specifically, issuers are required to:

(1) Prepare official statements that accurately set forth all material information with respect to the issue

(2) Annually file certain financial information and operating data with:

- Each Nationally Recognized Municipal Securities Information Repository (NRMSIR)
- A State Information Depository (SID), where one exists

(3) Promptly provide notification of failures to meet these annual filing requirements.

(4) Promptly provide notification of certain designated material events as they occur.

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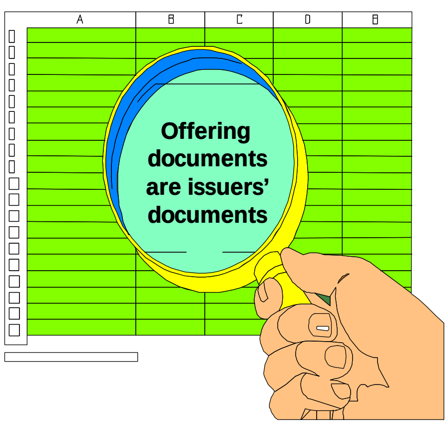
What could happen if issuers do not comply with federal disclosure requirements?

If municipal issuers provide false or misleading disclosures, they could be subject to enforcement and private damage actions under the general anti-fraud provisions of the federal securities laws (SEC Rule 10b-5). In addition, any failure to comply with the contract entered into pursuant to SEC Rule 15c2-12 could result in contractual liability to bondholders. Disclosure of the failure to comply could also be required in the Official Statements of issuances undertaken in the next five years. The issuer's failure to comply could adversely affect the underwriter's ability to recommend the purchase of current and subsequent issues.

Although SEC Rule 15c2-12 applies directly to underwriters, government issuers are responsible for the accuracy and reliability of the information in their offering documents and other statements made to investors. This responsibility applies to agency staff and governing boards as well.



Issuers who rely on hired experts to prepare offering documents are not relieved of their disclosure responsibilities. Issuers that delegate this task to their financial advisor, bond counsel, underwriter, and/or underwriter's counsel must ensure that information is properly worded and official statements are comprehensive and not misleading. The SEC maintains that **offering documents are issuers' documents** and therefore, issuers are ultimately responsible for disclosure:

> *Public entities that issue securities are primarily liable for the content of their disclosure documents and are subject to proscriptions under the federal securities laws against false and misleading information in their disclosure documents.*
>
> -Securities and Exchange Commission

How can issuers ensure compliance with federal disclosure rules?

State entities that issue municipal securities should play an active role in the bond issuance process and in the management of their offerings. State entities should ensure that all significant information related to their offerings is provided to the public and the investment community.

At a minimum, issuers should take the following steps to improve disclosure:

(1) Become knowledgeable of issuer obligations under federal securities laws.

(2) Establish formal policies and procedures for disclosure compliance. Clearly identify the department and personnel responsible for compliance.

(3) Maintain internal controls to ensure service provided by contracted experts is sufficient and complete. Issuers should ask questions, establish the expectations of services performed, and request disclosure of potential conflicts of interest.

(4) Refer to disclosure guidelines published by industry and regulatory organizations, including the following:

U.S. Securities and Exchange Commission (SEC)
http://www.sec.gov (202) 942-7300

The Bond Market Association
http://www.bondmarkets.com (212) 434-8400

Financial Accounting Standards Board (FASB)
http://www.fasb.org (203) 847-0700

Government Accounting Standards Board (GASB)
http://www.gasb.org (203) 847-0700

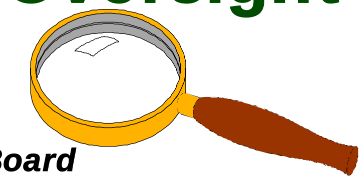
Government Finance Officers Association (GFOA)
http://www.gfoa.org (312) 977-9700

National Association of Bond Lawyers (NABL)
http://www.nabl.org (312) 648-9590

National Federation of Municipal Analysts (NFMA)
http://www.nfma.org (412) 341-4898

National Association of State Auditors, Comptrollers and Treasurers (NASACT)
http://www.nasact.org (859) 276-1147

The Bond Oversight Process



Texas Bond Review Board

The Texas Bond Review Board (BRB) approves and monitors state debt. Within the BRB, the Bond Finance Office coordinates the approval process related to state bond issuance. Unless a state issuer is specifically exempted, the BRB must approve all Texas state bonds and any lease purchase in which the amount financed is greater than $250,000 or the term is longer than five (5) years. The BRB also gathers information and reports on a number of areas regarding state and local government debt, including school districts, cities, counties, and special districts. Additionally, the BRB administers the private activity bond allocation program and is in charge of completing a statewide capital expenditure plan as part of the State's new Capital Improvement Planning process (see details on page 10).

Items to Consider When Applying for BRB Approval

All preliminary approvals must be secured and documented from appropriate sources (for example, the issuer's governing board, the board of regents, or the Higher Education Coordinating Board) before the BRB application is approved. However, applications are accepted prior to receipt of these approvals.

Applicants should be aware of and follow set time lines in the process. (See the sample calendar on page 5. Also, refer to the BRB rules and/or contact the BRB for a detailed description of the process.)

Even after receipt of the Board's *Letter of Approval*, the process is not complete until the Board receives the *Final Report*. Issuers must submit the *Final Report* within 60 days after the delivery of bonds and the receipt of bond proceeds.

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Nationally Recognized Municipal Securities Information Repositories

Bloomberg Municipal Repositories
100 Business Park Drive
Princeton, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
e-mail: munis@bloomberg.com

DPC Data, Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
e-mail: nrmsir@dpcdata.com

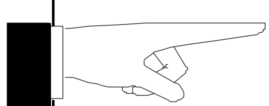
Standard & Poor's Securities Evaluations, Inc.
55 Water Street - 45th Floor
New York, NY 10041
Phone: (212) 468-4595
Fax: (212) 438-3975
e-mail: mrmsir_repository@sandp.com

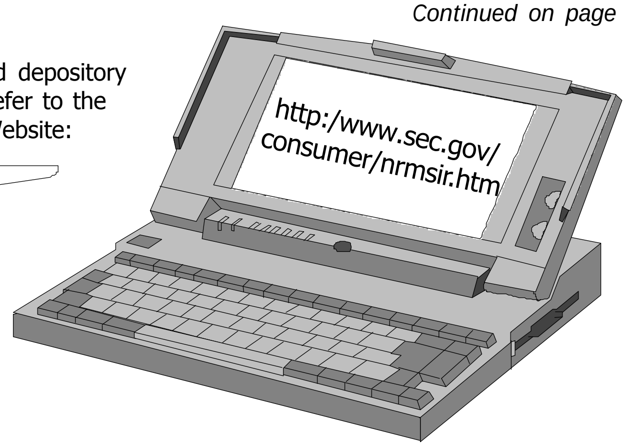
FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 Secondary Market
(212) 771-7391 Primary Market
e-mail: NRMSIR@FTID.com

Texas State Information Depository

Municipal Advisory Council of Texas
P.O. Box 2177
Austin, TX 78768-2177
Phone: (512) 476-6947
Fax: (512) 476-6403

For updated depository listings, refer to the SEC Website:





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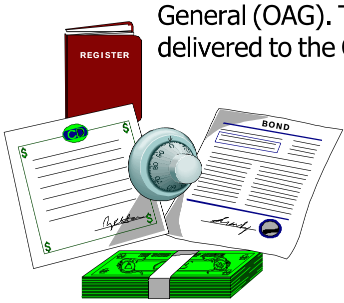
Office of the Attorney General

After the sale of bonds, an issuing entity, including state and local government issuers, must obtain approval from the Texas Office of the Attorney General (OAG). Transaction transcripts delivered to the OAG must contain:



- The entity's authority to issue bonds
- The purpose, amount, interest rate, and maturity date of the issue

The OAG then reviews the bonds, certifies their validity, and issues an opinion. This opinion makes the bonds legally binding. This legal opinion, which includes the OAG's approval and a record of the sale's proceedings, is delivered to the Comptroller of Public Accounts for registration and record of sale.

Comptroller of Public Accounts

Once the Office of the Attorney General approves a bond issue, the Comptroller registers the bonds and records the sale. The bond information recorded by the Comptroller includes the bond name, issue number, issue date, authority, and rate of interest.

The Bond Financing Process

Sixteen agencies and institutions of higher education in the State of Texas have the authority to issue bonds ("issuing agencies"). An issuing agency is responsible for obtaining necessary approvals, hiring a financial advisor and bond counsel to provide assistance in issuing bonds, obtaining credit ratings and/or bond insurance, and selling bonds through either a competitive or negotiated sale. After approvals have been obtained, bond financing takes from 60 to 120 days.

In addition, issuing agencies are responsible for the ongoing administration of the bonds through their final maturity, including paying debt service, monitoring the expenditure of bond proceeds, and ensuring compliance with bond covenants and the arbitrage provisions of federal tax law.

Included in these issuing agencies is the Texas Public Finance Authority (TPFA), which issues bonds on behalf of client agencies as well as for specific projects or purposes as authorized by the Legislature.

The Texas Public Finance Authority Financing Process

TPFA works with a client agency to evaluate financing needs, determine the most cost effective financing alternative, and develop a financing schedule. The client agency then submits a request for financing to the TPFA Board.

The request, which should be submitted 8 to 10 business days prior to the TPFA Board meeting (held the third Wednesday of each month), should be in the form of a letter with the following enclosures:

- A resolution by the client agency's governing body authorizing the project, the financing of the project, and the financing request to the TPFA Board
- A project budget
- An expected schedule for spending the bond proceeds

TPFA can assist the client agency in preparing these materials.

Next, the TPFA Board considers requests for financing at its monthly meeting. If a request is approved, the TPFA Board determines the appropriate method of sale (competitive or negotiated). TPFA staff members then prepare an application to the Bond Review Board and conduct other tasks necessary to issue the bonds.

After the sale of the bonds, TPFA staff members work with the client agency's staff to execute ongoing debt administration tasks. (Refer to the sample timetables on pages 8 and 9 for summaries of these tasks.)

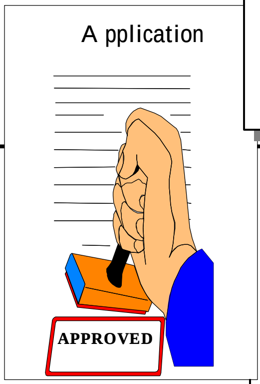
TPFA also provides financing through its short-term variable rate financing programs: the General Obligation commercial paper program and the Master Lease Purchase Program (MLPP). MLPP is used primarily to finance equipment acquisition. (See page 11 for a description of MLPP.)

Submit a *Notice of Intent* to BRB Finance office **no later than 3 weeks prior to requested date for Board's consideration.**

MONDAY | **TUESDAY** | **WEDNESDAY** | **THURSDAY** | **FRIDAY**

No later than the first Tuesday of the month in which the issuer requests BRB consideration, file an *Application for Bond Approval of State Bond Issuance* with the BRB Bond Finance Office.

On or before the second Tuesday of alternate months, attend *a BRB Planning Session*, make a presentation, and submit written answers, as necessary, to questions regarding the application.

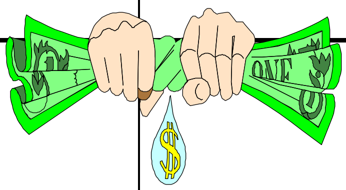


On the Thursday following the third Tuesday of alternate months, the BRB *meets to Approve Issuance of State Bonds*.

If the BRB fails to act on the proposed issuance, **the application will no longer be valid** the earlier of either:

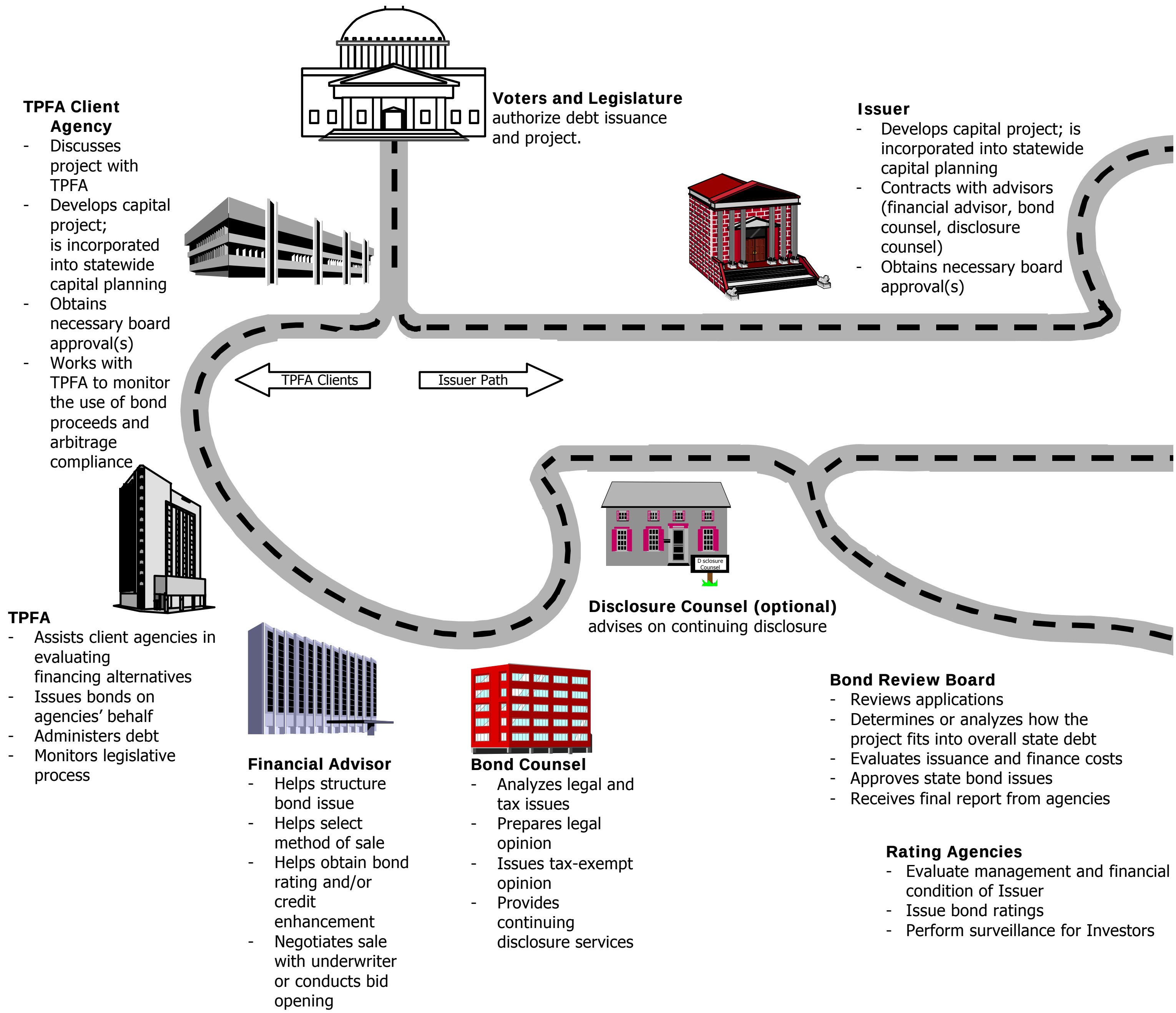
45 days after the date of the original Board meeting or, if no action is taken, immediately following the Board's next meeting.

Upon receipt of the BRB's *Letter of Approval*, the issuer must inform the Director of the Bond Finance Office of changes in its application according to the specifications in the *Letter*.

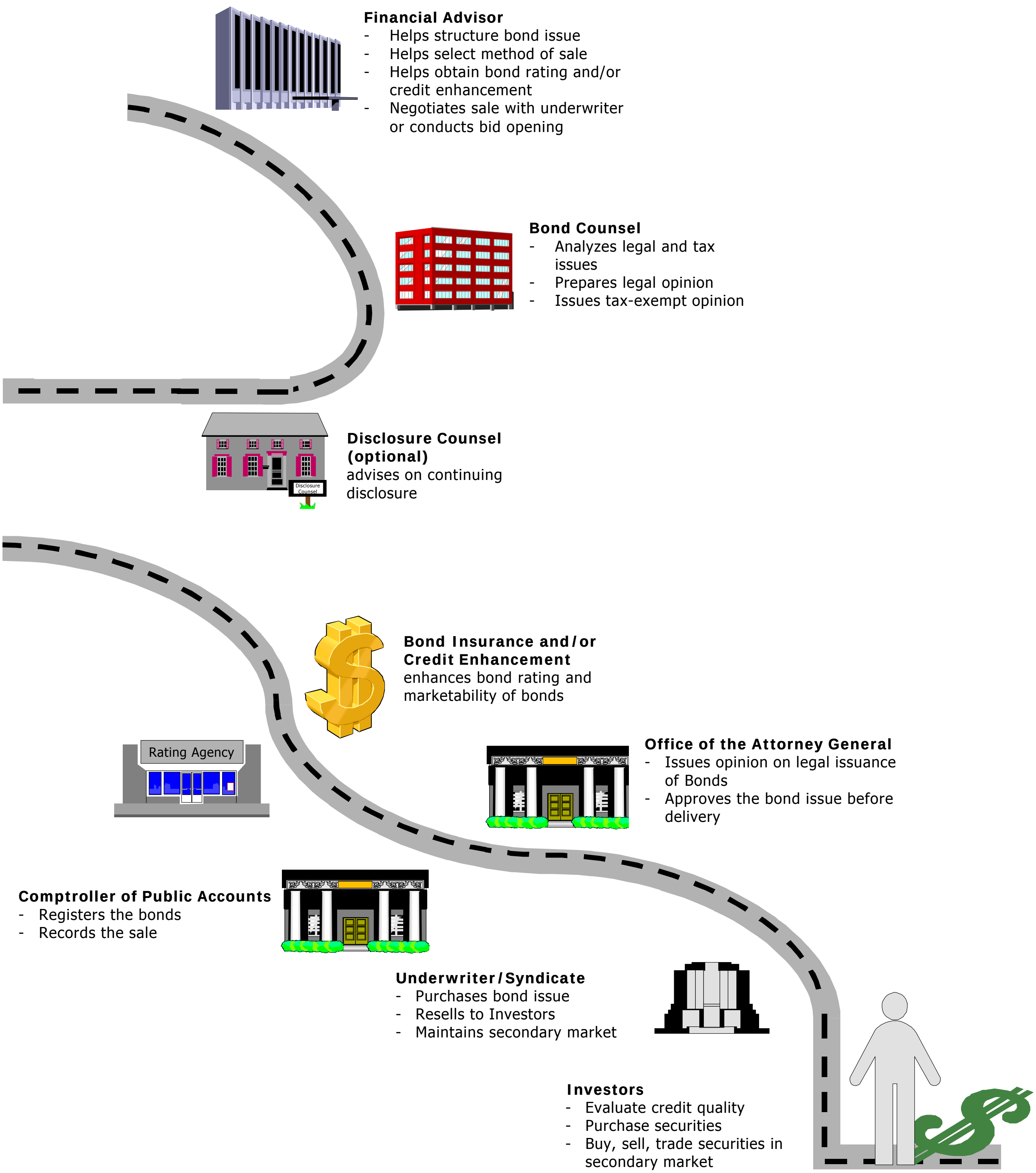


The issuer should submit early drafts of its *Preliminary Official Statement (POS)* to the director of the Bond Finance Office to allow adequate review time. The POS and other offering documents should be submitted to the director of the Bond Finance Office **prior to distribution**.

- **Within 60 days** after the delivery of state bonds and receipt of state bond proceeds, the issuer must submit a *Final Report* to the BRB.
- No later than **September 15 of each year**, all state bond issuers must file an *Annual Issuer Report* with the Bond Finance Office that includes:
  - The investment of all unspent state bond proceeds
  - Any changes in the debt retirement schedule during the previous fiscal year for any outstanding bond issue
  - A description of any bond issues expected for the fiscal year



Road Map to the Bond Issuance Process


Financial Advisor
- Helps structure bond issue
- Helps select method of sale
- Helps obtain bond rating and/or credit enhancement
- Negotiates sale with underwriter or conducts bid opening
Bond Counsel
- Analyzes legal and tax issues
- Prepares legal opinion
- Issues tax-exempt opinion
Disclosure Counsel (optional)
advises on continuing disclosure
Bond Insurance and/or Credit Enhancement
enhances bond rating and marketability of bonds
Rating Agency
Office of the Attorney General
- Issues opinion on legal issuance of Bonds
- Approves the bond issue before delivery
Comptroller of Public Accounts
- Registers the bonds
- Records the sale
Underwriter/Syndicate
- Purchases bond issue
- Resells to Investors
- Maintains secondary market
Investors
- Evaluate credit quality
- Purchase securities
- Buy, sell, trade securities in secondary market

Competitive Sale Sample Timetable

TPFA Client Agencies

Six (6) to eight (8) weeks before taking official action, attend a Kick-Off Meeting with TPFA.

1/15
Agency's governing body approves financing.

2/10
The client agency submits a Notice of Request for Financing to TPFA and completes the Request.

2/19
The TPFA Board approves the Request and selects the method of sale. At this point, TPFA acts on behalf of the issuer.

Preliminary Actions

	Sample Dates
Review project and financing needs.	1/1
Size and structure bond issue.	2/24
Draft offering documents.	2/26

Application- and Approval-Related Actions

Refer to page 5 for details of the Texas Bond Review Board's (BRB's) process.

	Sample Dates
No later than three (3) weeks before the Bond Review Board is to consider the bonds, the issuer submits to the BRB a **Notice of Intent to Issue**.	2/27
No later than the first Tuesday of the month in which the bonds are to be considered by the BRB, the issuer files an **Application for Approval of State Bond Issuance** with the BRB.	3/4
On or before the second Tuesday of the month, all parties attend a BRB **Planning Session**.	3/11
The issuer's board approves the **Preliminary Official Statement (POS)** and the **Bid Forms.**	3/18
The BRB considers the **Application** followed by the issuance of a **Letter of Approval** for financing. The BRB Board meets on the Thursday following the third Tuesday of the month.	3/20

Sale-Related Actions

	Sample Dates
The financial advisor drafts a **Notice of Sale** and **Preliminary Official Statement (POS)**.	3/10*
Financial advisor solicits ratings from rating agencies and/or insurance from credit enhancers.	3/18*
Ratings are made available by the rating agencies.	3/28*
Print and mail **Notice of Sale** and **Preliminary Official Statement (POS)** to underwriters and investors.	4/2
The issuer's board receives bids from underwriters and awards the bonds.	4/16

Closing-Related Actions

	Sample Dates
Bond Counsel submits **Transaction Transcripts** to the Office of the Attorney General.	5/1
Closing. The bonds are delivered to the purchaser and the State receives the bond proceeds.	5/15
No later than sixty (60) days after the date of closing, the issuer submits a **Final Report** to the BRB and the Texas Comptroller of Public Accounts.	7/17

TPFA Client Agencies

TPFA certifies that proceeds are available to the client agency from the sale of the bonds.

* These dates vary

Negotiated Sale Sample Timetable

Preliminary Actions

Sample Dates	
1/1	Review project and financing needs.
2/20-3/19*	Select the underwriter.
3/21*	All parties begin work on the bond transaction documents.

Application- and Approval-Related Actions

Refer to page 5 for details of the Texas Bond Review Board's (BRB's) process.

Sample Dates	
3/27	No later than three (3) weeks before the Bond Review Board (BRB) is to consider the bonds, the issuer submits to the BRB a **Notice of Intent to Issue**.
4/1	No later than the first Tuesday of the month in which the bonds are to be considered by the BRB, the issuer files an **Application for Approval of State Bond Issuance** with the BRB.
4/8	On or before the second Tuesday of the month, all parties attend a BRB **Planning Session**.
4/16	The issuer's board approves the final draft of the **Preliminary Official Statement (POS).** Issuer determines the date on which the bonds will be priced.
4/17	The BRB considers the **Application** followed by the issuance of a **Letter of Approval** for financing. The BRB meets on the Thursday following the third Tuesday of the month.

Sale-Related Actions

Sample Dates	
3/21*	All parties prepare final drafts of the **Preliminary Official Statement (POS)** and other documents and solicit ratings or credit enhancement.
4/15	Obtain bond ratings and/or credit enhancement.
4/17	Print and mail **Preliminary Official Statement (POS)**.
4/28-4/29	The issuer, the financial advisor, and the underwriter pre-price, price, and negotiate the sale of the bonds.
4/30	The issuer's board and the underwriters execute bond purchase agreements.

Closing-Related Actions

Sample Dates	
5/15	Bond Counsel submits **Transaction Transcripts** to the Office of the Attorney General.
5/29*	Closing. The bonds are delivered to the purchaser and the State receives the bond proceeds.
7/29	No later than sixty (60) days after the date of closing, the issuer submits a **Final Report** to the BRB and the Texas Comptroller of Public Accounts.

* These dates vary

TPFA Client Agencies

Six (6) to eight (8) weeks before taking official action, attend a Kick-Off Meeting with TPFA.

1/15
Agency's governing body approves financing.

2/10
The client agency submits a Notice of Request for Financing to TPFA and completes the Request.

2/19
The TPFA Board approves the Request and selects the method of sale. At this point, TPFA acts on behalf of the issuer.

TPFA Client Agencies

TPFA certifies that proceeds are available to the client agency from the sale of the bonds.

Statewide Capital Planning

As stated in Article IX, Rider 83 (page IX-90) of the General Appropriations Act, 75th Legislature, Regular Session, certain capital project information will be requested from state entities in order for the Texas Bond Review Board to compile a statewide capital expenditure plan. The information will be collected through Legislative Appropriations Requests.

The plan will identify needs, alternatives to finance them, and the potential impact on the State's debt capacity. The completed plan will be forwarded to the Governor's Office of Budget and Planning (GOBP) and the Legislative Budget Board (LBB). The Bond Review Board will inform the Legislature of the possible budget effect of the capital plan on the State's debt capacity.

The following questions are offered to assist agencies and institutions of higher education in their deliberations on capital project requests:

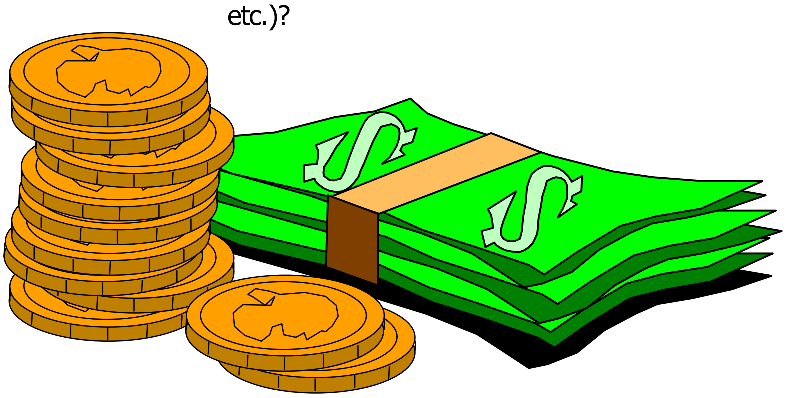
1 Is the capital request for a routine maintenance, repair, or replacement item, or is it for a new item?

2 Should the acquisition be financed or purchased with cash?

3 Should the request be funded out of operating appropriations or as a capital budget item? (See the General Appropriations Act or the LBB-GOBP Joint Budget Instructions.)

4 What is the appropriate source of funds for the project or the acquisition?

5 Have all available sources of funds been considered as a method of payment (appropriated receipts, federal funds, etc.)?



6 Is the proposed type of financing appropriate for the purchase?

7 Have other types of financing alternatives been considered (lease purchase, revenue bonds, etc.)?

8 Has an analysis been performed to determine the most cost effective alternative?

9 Does the financing term coincide with the anticipated useful life of the project?

10 Will the capital purchase result in any additional or reduced operating costs?

11 How will the capital acquisition affect future Legislative Appropriations Requests?

12 Does the capital budget appropriation request reflect the anticipated timing of the acquisition?

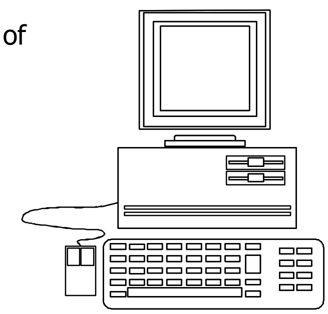
The Master Lease Purchase Program

TPFA administers the Master Lease Purchase Program (MLPP) to finance equipment and certain building-related projects for state agencies and institutions of higher education, as authorized by the Legislature. To cover its cost of running the program, TPFA charges a small administrative and cost of issuance fee.

With the MLPP, an agency can finance purchases over $10,000 and projects with a useful life of at least three (3) years. Equipment that costs less than $10,000 (such as PCs included in a network purchase) can be bundled into a $10,000 purchase, provided that each item in the bundle costs a minimum of $500. All leases or lease purchases with terms longer than five (5) years or with a purchase price of over $250,000 must be approved by the Texas Bond Review Board.

Prior to procurement, agencies need to confirm through TPFA that projects can be financed through the MLPP.

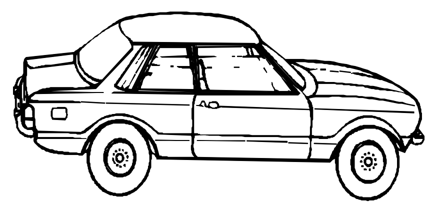
Why should you use the MLPP?



The MLPP can save agencies, the State, and taxpayers money because the large number of financed leases combined with the tax-exempt status of highly-rated commercial paper enables the TPFA to secure extremely favorable interest rates. There is no penalty for prepayment.

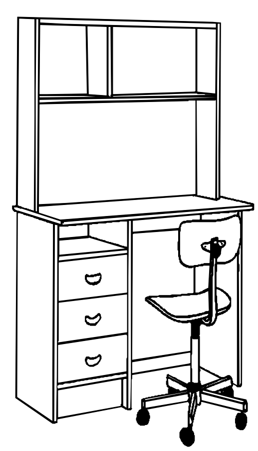
How can your entity obtain financing?

Agencies must have legal authority for the project under consideration, and the project must be for a public purpose. The agency's governing board must determine that it is appropriate to finance the project rather than pay cash for it. The participating agency provides the following items to TPFA:



- **Board Resolution -** A board resolution, approved prior to purchase, authorizing agency participation in MLPP. The agency's governing body must pass a new resolution each biennium. The resolution, however, does not mandate that the agency use MLPP.

- **Master Lease Purchase Agreement -** This agreement must be executed by authorized representatives of the agency and TPFA prior to financing. The agreement is the actual contract between the client agency and TPFA and is not subject to revision. Only one agreement is necessary for all future purchases under MLPP.



Normal Procurement Process: The agency follows its normal purchasing practices when making MLPP purchases. TPFA does not involve itself in the procurement of any purchase. TPFA must be registered as the lienholder on original titles issued for financed vehicles.

Lease Supplement Form and Approved Invoices: The agency submits a Lease Supplement form and approved invoices to TPFA for payment.

Payment to Vendor: TPFA pays the vendor based on the information provided in the Lease Supplement. In general, payment is made after delivery of equipment.

Lease Payments: Agencies make semi-annual lease payments to TPFA each February and August. Payments are based on an estimated fixed rate of 4%. The difference between the actual variable rate and the fixed rate is credited to the agencies semi-annually.

Resources

Institutions:

U.S. Securities and Exchange Commission (SEC)
Annette L. Nazareth, Director
Division of Market Regulation
Tel: (202) 942-0090
Website: http://www.sec.gov

Municipal Advisory Council of Texas (MAC)
Dan Black, Executive Director
Tel: (512) 476-6947

Texas Bond Review Board (BRB)
Executive Director
Tel: (512) 463-1741
Patrick Krishock, Deputy Executive Director
Tel: (512) 475-4805
Website: http://www.brb.state.tx.us

Texas Comptroller of Public Accounts
Paula E. Griffin, Senior Cash Flow Analyst
Tel: (512) 463-6070
Website: http://www.window.state.tx.us

Texas Legislative Budget Board
John Keel, Director
Tel: (512) 463-9017
Website: http://www.lbb.state.tx.us

Texas Office of the Attorney General (OAG)
Lynn Stuck, Chief, Public Finance Division
Tel: (512) 475-2929
Website: http://www.oag.state.tx.us

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

Texas State Auditor's Office (SAO)
Carol Ann Smith, CPA, Manager
Tel: (512) 936-9550
Website: http://www.sao.state.tx.us

Publications:

Annual Report, State and Local Debt Report, Semi-Annual HUB Report,
Bond Review Board, State of Texas

Status Report to the Legislature,
Legislative Budget Board, State of Texas

Texas State Debt Management, LBJ School of Public Affairs, The University of Texas at Austin, Policy Research Project Report No. 115

Debt Primer: A Debt Reference Guide,
Bond Review Board, State of Texas
website http://www.brb.state.tx.us/brbpages/bfo/bfo.html

To learn about the Master Lease Purchase Program and how it can benefit your debt management program, see page 11.