

INTERIM REPORT
OF THE
SENATE FINANCE COMMITTEE
GENERAL BUDGET AND TAX ISSUES
CHARGES



RECOMMENDATIONS
TO THE
79TH LEGISLATURE

DECEMBER 2004

SENATE FINANCE COMMITTEE

78th Legislature

SENATOR STEVE OGDEN, Chair
SENATOR JUDITH ZAFFIRINI, Vice Chair
SENATOR KIP AVERITT
SENATOR GONZALO BARRIENTOS
SENATOR KIM BRIMER
SENATOR BOB DEUELL
SENATOR ROBERT DUNCAN
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SENATOR JANE NELSON
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SENATOR ELIOT SHAPLEIGH
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SENATOR ROYCE WEST
SENATOR JOHN WHITMIRE
SENATOR TOMMY WILLIAMS

December 16, 2004

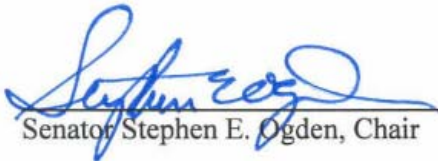
The Honorable David Dewhurst
Lieutenant Governor
State of Texas
Capitol Building, Room 2E.13
Austin, Texas 78701

Dear Governor Dewhurst:

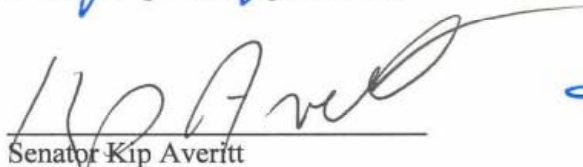
The Senate Finance Committee respectfully submits this report regarding the Committee's General Budget and Tax Issues charges to study the Rainy Day Fund, Pension Fund Review, State and Local Debt, and Endowment Fund Review. We thank you for providing us the opportunity to address these important issues.

The Senate Finance Committee conducted a series of public hearings and received testimony on the aforementioned charges in Austin, Texas on May 24th and 25th, June 7th, and July 19th, 2004. In addition, the Committee created a work group composed of Senator Kip Averitt (chair), Senator Kyle Janek, and Senator Kim Brimer to further study these issues and provide recommendations to the full Committee.

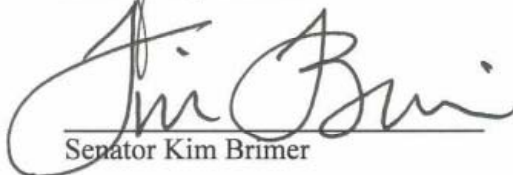
Respectfully submitted,


Senator Stephen E. Ogden, Chair


Senator Judith Zaffirini, Vice-Chair


Senator Kip Averitt


Senator Gonzalo Barrientos


Senator Kim Brimer


Senator Bob Deuell

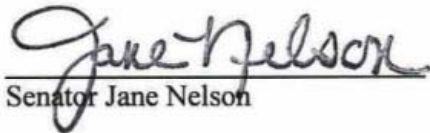




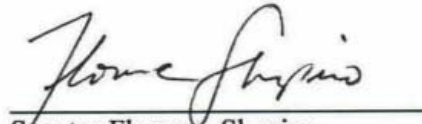
Senator Robert Duncan



Senator Kyle Janek



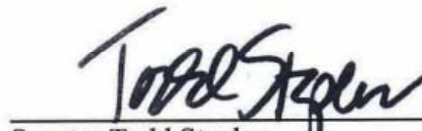
Senator Jane Nelson



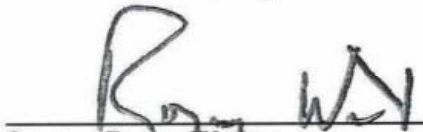
Senator Florence Shapiro



Senator Eliot Shapleigh



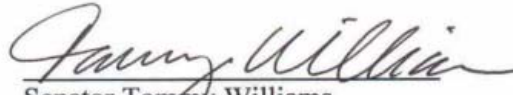
Senator Todd Staples



Senator Royce West



Senator John Whitmire



Senator Tommy Williams



The Senate of The State of Texas

GONZALO BARRIENTOS
STATE SENATOR DISTRICT 14

P.O. BOX 12068

AUSTIN, TEXAS 78711
TRAVIS (PART) COUNTY

(512) 463-0114 FAX: (512) 463-5949
DIAL 711 FOR RELAY CALLS

December 27, 2004

The Honorable Steve Ogden
Chairman
Senate Finance Committee
Capitol Extension, E1.038

VIA HAND DELIVERY

Dear Chairman Ogden:

Thank you for the opportunity to comment on the Pension Fund Review segment of the Senate Finance Committee's Interim Report to the 79th Legislature. Overall, I believe the recommendations regarding our major pension funds present reasonable options to increase the effectiveness of state agency oversight and address the ongoing challenge of maintaining actuarial soundness. I am concerned, however, that several recommendations unfairly shift the burden of maintaining pension funds' solvency onto the backs of our state employees, public school employees and emergency personnel.

As you are aware, recent figures provided by the State Classification Office within the State Auditors Office indicate that state employee pay generally lags 17 percent behind comparable wages in the private sector. That gap in pay, in conjunction with agency downsizing, outsourcing and benefit cuts, has made it increasingly difficult to recruit and retain the best talent for public service. Increasing the financial burden or further eroding the benefits available to our public servants will only exacerbate that challenge. Accordingly, I have concerns with the recommendations outlined below.

Recommendation #6: This recommendation asks that we consider charging firefighters a fee to cover the cost of state agency oversight provided through the Office of Fire Fighters' Pension Commissioner. While it asks that we consider the option, I believe the modest budget for the agency can be accommodated otherwise making this recommendation unnecessary.

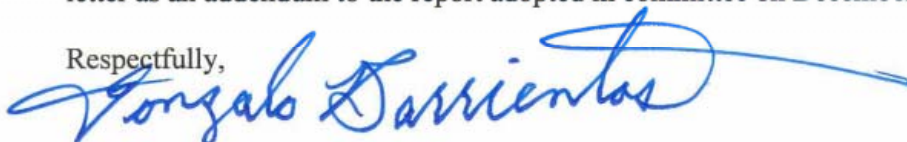
Recommendation #8: This recommendation directs the Legislature to raise state and employee contributions to the Employees Retirement System (ERS) from 6.0% to 6.4%. I take exception to the component which would take more money out of state employees' paychecks and believe that at a minimum, the recommendation should have directed the Legislature to "consider" the option.



Recommendations #10 and #12: These recommendations direct the Legislature to review the impact of increasing the Rule of 80 for ERS and the Teachers Retirement System (TRS.) Again, this recommendation asks that we simply study the potential change, however, I believe we should avoid any such change that makes it more difficult for state and public school employees to retire. In addition to increasing the challenges described above, shifting the eligibility criteria back creates a frustrating and often times highly complicated situation for those employees on the verge of retirement and the major life choices which coincide.

Thank you once again for the opportunity to provide my comments. I look forward to working with the committee on pension fund issues and respectfully request that you include this letter as an addendum to the report adopted in committee on December 16, 2004.

Respectfully,

A handwritten signature in blue ink that reads "Gonzalo Barrientos". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Gonzalo Barrientos
State Senator

GB/rd

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**Report on the
Rainy Day Fund**

EXECUTIVE SUMMARY

The Economic Stabilization Fund (ESF), also known as the "Rainy Day Fund," was ratified by voters in 1988. The Texas Constitution designates three sources of transfers into the fund: excess oil tax revenues ("excess" is defined as 75 percent of revenues that exceed the amount collected in 1987), excess natural gas tax revenues (see previous definition of "excess"), and half of any unencumbered balance left in the General Revenue Fund at the end of the biennium.

Three legislatures have appropriated funds from the ESF totaling \$1,487.3 million, with the most recent appropriation totaling \$1,260.5 million by the 78th Legislature in fiscal year 2003. After a transfer of \$595 million on September 3, 2004 and the appropriation out of the fund for FY 2005, the balance is projected by the Comptroller of Public Accounts to reach \$709.4 million by the end of FY 05.

Summary of Recommendations for the 79th Legislature

1. The Legislature should encourage the growth of the Economic Stabilization Fund to a level that responsibly anticipates the possibility of future emergency needs of the state, allows the state to achieve AAA bond rating status, and does not unnecessarily withhold large balances from the citizens and taxpayers of this state.

PROCEDURAL BACKGROUND

The Senate Finance Committee was charged with conducting a thorough and detailed study of the following issue, including state and federal requirements, and preparing recommendations to address problems or issues that are identified. The Senate Finance Committee (the Committee) met in accordance with the following General Budget interim charge as follows:

Rainy Day Fund. Track the history of appropriations out of and deposits of revenue into the Texas' rainy day fund. Monitor FY 2004-2005 deposits of revenue to the fund. As needed, make recommendations on how to improve revenue sources and the manner in which the fund can be spent.

The Committee met pursuant to the aforementioned interim charge in a public hearing in Austin, Texas, on March 30, 2004, to consider invited testimony provided by the Texas Comptroller of Public Accounts Office, and the Texas Legislative Budget Board. The Committee solicited public testimony on the interim charge in a public hearing in Austin, Texas, on July 20, 2004; however, none was provided.

The Committee extends its thanks to those who participated in the hearing, and assisted with or made presentations before the Committee.

BACKGROUND

The Economic Stabilization Fund (ESF) was created by the 70th Legislature and ratified by voters in November of 1988. The proposal added Section 49-g to Article III of the Texas Constitution. The ESF, also known as the "Rainy Day Fund," is a special fund within the state treasury.¹

The ESF is similar to any family's personal savings plan or a company's reserve account. The fund is a way to save money when economic times are good. This stored revenue may be used when a fiscal emergency arises or the economy suffers a downturn, such as the situation that faced the 78th Legislature in 2003.²

The ESF is capped at an amount not to exceed ten percent of the total deposits made in the previous biennium to General Revenue (GR) excluding investment income, interest income,

¹ Texas Comptroller of Public Accounts, Presentation to the Senate Finance Committee, March 30, 2004.

² Texas Comptroller of Public Accounts, *Fiscal Notes*, January 1999.

and amounts borrowed from special funds.³ The ESF balance has never reached this cap (for the current biennium, ten percent is approximately \$6 billion).

TRANSFERS INTO AND FROM THE ECONOMIC STABILIZATION FUND

The Texas Comptroller of Public Accounts (Comptroller) is responsible for making transfers into the ESF. The Comptroller is required to include any estimated transfers in the Biennial Revenue Estimate (BRE) prior to the beginning of a legislative session.

The following four types of transfers are made to the ESF:

1. Seventy-five percent of oil production tax revenues in excess of fiscal year (FY) 1987 levels,
2. Seventy-five percent of natural gas tax revenues in excess of FY 1987 levels,
3. Fifty percent of unencumbered positive GR balance on the last day of preceding biennium, and
4. Direct legislative appropriations.⁴

The fund retains all of its investment earnings.

Oil Production and Natural Gas Tax Revenues (Severance Taxes)

Two types of transfers into the ESF pertain to oil production and natural gas tax revenues. If the fiscal year's net revenues for either tax exceed the FY 1987 tax collections (\$599.8 million for natural gas - \$531.9 million for oil tax revenue), an amount equal to 75 percent of the excess

³ Texas Constitution, Article III, Section 49-g (g).

⁴ Texas Comptroller of Public Accounts, Presentation to the Senate Finance Committee, March 30, 2004.

revenue is transferred to the ESF.⁵ These transfers must be made within 90 days of the end of each fiscal year.⁶

Twelve separate transfers related to severance tax revenues have been made since FY 1990; eleven from natural gas tax revenues, and one from oil production tax revenues (see Attachment 3).⁷

Unencumbered Balance Transfers

The third type of transfer that can be made to the ESF is from the unencumbered balance of the General Revenue Fund (Fund 0001). At the end of each biennium, one-half of the unencumbered balance in Fund 0001 must be transferred to the ESF within 90 days.⁸

The state has historically carried large encumbrances into the next biennium, which have completely offset any of the cash balances. While for the most part, the state keeps financial records on a cash basis, the constitution directs that the calculation for purposes of transfers into the ESF is to be computed on an accrual basis. Encumbrances include earned but not yet dispersed tax allocations, state agency encumbrances and accounts payables (e.g. August's accrued payrolls to be paid in September), and General Revenue Dedicated account balances. **Attachment A** depicts balances in the General Revenue Account (GR Account) at the end of each biennium since the creation of the ESF.

An unencumbered balance in Fund 0001 has not existed since the end of the 1990-91 biennium. Only one transfer in the amount of \$20.2 million has been made from the

⁵ Texas Comptroller of Public Accounts, *Fiscal Notes*, January 1999.

⁶ *Ibid.*

⁷ Texas Comptroller of Public Accounts, Presentation to the Senate Finance Committee, March 30, 2004.

⁸ Texas Constitution, Article III, Section 49-g.

unencumbered balance in Fund 0001. This transfer occurred in FY 1992 and was the result of an unencumbered balance from the 1990-91 biennium.

Legislative Appropriations

The fourth type of transfer to the ESF results from direct appropriation from the Legislature. The Texas Constitution states that "the legislature may appropriate additional amounts to the economic stabilization fund."⁹

To date, the Legislature has never made a direct appropriation to the ESF.

Provisions for Accessing the Fund

The constitution provides three ways by which the ESF balances may be accessed including 1) by a 3/5 vote in each house to cover a budget deficit in the current biennium, 2) by a 3/5 vote in each house to cover estimated revenue decline from biennium to biennium, and 3) by a 2/3 vote in each house to appropriate the money for any purpose.¹⁰

Other Provisions Dictating Use and Appropriations of the ESF

The Comptroller, in computing the net amount of oil production taxes, is prohibited from considering refunds paid as a result of oil overcharge litigation.¹¹ The Comptroller may transfer money from the fund to GR to prevent or eliminate a temporary cash deficiency in GR, but must return the transferred amount to the fund no later than August 31 of each odd-numbered year.¹²

⁹ Texas Constitution, Article III, Section 49-g (f).

¹⁰ Texas Comptroller of Public Accounts, Presentation to the Senate Finance Committee, March 30, 2004.

¹¹ Texas Constitution, Article , §49-g (d).

¹² Texas Constitution, Article 3, §49-g (j).

OTHER LIMITATIONS

The Texas Constitution states that the ESF "may not exceed an amount equal to ten percent of the total amount, excluding investment income, interest income, and amounts borrowed for specials funds, deposited in general revenue during the preceding biennium."¹³ There is no provision that requires a minimum cash balance in the ESF.

The Comptroller has indicated that a 5 percent cash balance at the end of each biennium (GR balance plus ESF) could improve Texas' current bond rating to AAA. Bond ratings are used in determining the amount of interest paid by the state for issuing debt, and subsequently, the cost of the debt. Among the criteria that bond agencies consider when evaluating a state's economic stability are the presence of a reserve fund and the size of that fund as a percentage of the state's budget.¹⁴

The actual fund balance of \$878.1 million as of September 3, 2004, represents roughly 1.5 percent of GR appropriations for the 2004-05 biennium.¹⁵ Requiring the state to hold a five percent cash balance would require substantially increasing the amount held in reserve to approximately \$3 billion.

FUND BALANCES

Since the creation of the ESF, \$1,504.5 million in transfers and \$86.9 million in interest have been credited to the ESF. The last transfer (from natural gas tax revenues) made to the fund occurred on September 3, 2004, in the amount of \$594.5 million.¹⁶ The chart below gives a brief history of deposits to the ESF.

¹³ Texas Constitution, Article III, Section 49-g.

¹⁴ House Research Organization, Interim News, March 25, 2002.

¹⁵ Texas Comptroller of Public Accounts, Press Release, September 3, 2004.

¹⁶ Texas Comptroller of Public Accounts, Press Release, September 3, 2004.

Economic Stabilization Fund 0599 History

(in millions)						
Fiscal Year		Deposits	Interest	Expenditures		Ending Balance
1990		18.5	0.8	-		19.3
1991		7.8	1.9	-29	*	-
1992		156.6	6.8	-		163.4
1993		-	7.4	-119	**	51.7
1994		31	3	-56.6	**	29.1
1995		-	0.6	-21.5	**	8.1
1996		-	0.4	-0.5	**	8
1997		-	0.4	-		8.5
1998		47.5	2.3	-		58.3
1999		17.9	3.8	-		80
2000		-	4.7	-		84.7
2001		103.1	8.7	-		196.5
2002		685.8	21.6	-		903.9
2003		83.6	19.4	-446.5	***	560.5
2004		352.6	5.5	-553	***	365.6
2005	†	594.5	0	-82	***	878.1
* Appropriated by the 71st Legislature, Sixth Called Session						
** Appropriated by the 73rd Legislature						
*** Appropriated by the 78th Legislature						
† Actual thru Sep 7, 2004 (FY 05)						

* Source: Comptroller of Public Accounts

** See **Appendix C** for a detailed history of deposits and expenditures from the fund.

Three legislatures have appropriated funds from the ESF in four bills, all by two-thirds vote. Total appropriations out of the ESF equal \$1,487.3 million, with the most recent appropriation totaling \$1,260.5 million (by the 78th Legislature in FY 2003). **Appendix B** delineates the legislation and appropriations made by each of the three appropriating legislatures.

Of the \$1,260.5 million appropriated for the 2004 - 2005 biennium, \$1,081.5 million has been expended through September 7, 2004. The current unappropriated fund balance is \$878.1 million, as of September 7, 2004.¹⁷

¹⁷ Texas Comptroller of Public Accounts, Press Release, September 3, 2004.

FY 2004 - 2005 Appropriations from the ESF *

Health & Human Services Commission	\$406,748,606
Department of Health	6,900,000
Health & Human Services Commission	26,400,000
Department of Human Services	6,400,000
Teacher Retirement System	516,000,000
Texas Enterprise Fund	295,000,000
Comptroller Fiscal Program: Payment of Health Care Judgment	3,037,200
State Commission on Judicial Conduct: Misconduct Proceedings	44,000
Total	\$1,260,529,806
Amount expended thru September 7, 2004	\$1,081,500,000
Remaining appropriations	\$179,029,806^a

* Source: Texas Comptroller of Public Accounts

^aOf this amount, \$176.0 million will be expended during the rest of fiscal 2005 out of the \$516,000,000 appropriated to the Teacher Retirement System, for the purpose of funding the TRS - Care retiree health insurance program.

RECOMMENDATIONS

The Senate Finance Committee recommends that the 79th Legislature consider taking appropriate action to effectuate the following in regard to the ESF.

1. The Legislature should encourage the growth of the Economic Stabilization Fund to a level that responsibly anticipates the possibility of future emergency needs of the state, allows the state to achieve AAA bond rating status, and does not unnecessarily withhold large balances from the citizens and taxpayers of this state.

Appendix A

General Revenue Account* Balance
1987 - 2003

Fiscal Year	General Revenue Fund 0001 Bal.
1987	(745,222,805)
1989	296,828,021
1991	1,004,640,656
1993	442,497,706
1995	661,862,878
1997	1,052,369,278
1999	1,670,604,115
2001	2,254,804,490
2003	(1,978,434,878)

Source: Texas Annual Cash Reports
* Within the Consolidated General Revenue Fund. Excludes GR-Dedicated amounts.

Appendix B

S. B. No. 11, 71st Legislature, Sixth Called Session

"SECTION 3.02. ECONOMIC STABILIZATION FUND. In addition to amount previously appropriated for the biennium ending August 31, 1991, all amounts in the economic stabilization fund during the biennium are appropriated for that period to the Central Education Agency for purposes of distribution under the Foundation School Program."

S. B. 11 bill became effective on June 19th, 1990. The balance in the ESF at the time the appropriation was made was \$18.9 million. The balance on August 31, 1990 was \$19.3 million. In addition, a transfer was made to the fund in November 1990 of \$7.8 million based upon the excess gas production tax receipts. At the end of fiscal 1991, the balance of the fund was zero.

S. B. No. 171, 73rd Legislature, Regular Session

"SECTION 2. (C) In addition to amounts previously appropriated under the current General Appropriations Act or other law for the current fiscal biennium, the sum of \$125.8 million is appropriated to the Texas Department of Criminal Justice from the economic stabilization fund for the period beginning on the effective date of this Act and ending on August 31, 1993, ..."

The balance in the ESF at the end of fiscal 1992 was \$163.4 million. This was sufficient to finance the amount appropriated in S. B. No. 171. The appropriation was made for the biennium in which the bill was passed. By the end of the 1992-93 biennium, as a result of the appropriations made in S. B. 171, only \$51.7 million remained in the fund.

S. B. No. 532, 73rd Legislature, Regular Session

"SECTION 8.01. In addition to other amounts appropriated for the fiscal biennium ending August 31, 1995, the balance of the economic stabilization fund, but not to exceed \$72,000,000 is appropriated to the Texas Department of Criminal Justice..."

S. B. 532 was the second bill appropriating funds from the ESF passed by the 73rd Legislature. It appropriated funds for the 1994-95 biennium. The beginning balance for the ESF in the fiscal 199-95 biennium was, as indicated above, \$51.7 million. The balance at the end of the biennium was down to \$8.1 million. The fiscal 1995 ending balance benefited from a \$31.0 million transfer made on November 29, 1993 based on excess gas production taxes collected in the preceding year.

H. B. No. 7, 78th Legislature, Regular Session

"SECTION 1. HEALTH AND HUMAN SERVICES COMMISSION:
MEDICAID ACUTE CARE COSTS.

Out of the Economic Stabilization Fund 0599, the amount of \$406,748,606 is appropriated to the Health and Human Services Commission for use during the remainder of the state fiscal year ending August 31, 2003, for the purpose of providing services under the state Medicaid acute care program.

SECTION 2. DEPARTMENT OF HEALTH:

TEXAS HEALTH STEPS/MEDICAL TRANSPORTATION.

Out of the Economic Stabilization Fund 0599, the amount of \$6,900,000 is appropriated to the Department of Health for use during the remainder of the state fiscal year ending August 31, 2003, for the purpose of the Medicaid programs operated by the Department of Health, including Texas Health Steps and the Medical Transportation Program.

SECTION 4. HEALTH AND HUMAN SERVICES COMMISSION:
CHILDREN'S HEALTH INSURANCE PROGRAM.

Out of the Economic Stabilization Fund 0599, the amount of \$26,400,000 is appropriated to the Health and Human Services Commission for use during the remainder of the state fiscal year ending August 31, 2003, for the purpose of providing services under the Children's Health Insurance Program.

SECTION 7. DEPARTMENT OF HUMAN SERVICES:
DISASTER ASSISTANCE PAYMENTS.

Out of the Economic Stabilization fund 0599, the amount of \$6,400,000 is appropriated to the Department of Human Services for use during the state fiscal year ending August 31, 2003, for the purpose of reimbursing the Department of Human Services for previously expended disaster assistance payments.

SECTION 8. TEACHER RETIREMENT SYSTEM:
TRS-CARE RETIREE HEALTH INSURANCE.

(a) Out of the Economic Stabilization fund 0599, and in addition to other amounts appropriated for this purpose, the amount of \$516,000,000 is appropriated to the Teacher Retirement System for use during the state fiscal biennium beginning September 1, 2003, for the purpose of funding the TRS - Care retiree health insurance program.

SECTION 9. OFFICE OF THE GOVERNOR:
TEXAS ENTERPRISE FUND.

Contingent on legislation being enacted by the 78th Legislature, Regular Session, 2003, that becomes law and that creates a Texas Enterprise Fund that among other things may be used by the governor for purposes related to economic development, the amount of \$295,000,000 is appropriated out of the Economic Stabilization Fund 0599, with the amounts transferred to the Texas Enterprise Fund, for use by the office of the governor during the two-year period beginning on the date that the legislation creating the Texas Enterprise Fund takes effect for the purposes specified in the legislation creating the Texas Enterprise Fund. In the event legislation described by this section that becomes law also creates a single Other Events trust fund, the use of which is subject to the control of the governor, then out of the \$295,000,000 appropriated by this section the amount of \$10,000,000 is appropriated for deposit to the credit of the Other Events trust fund for use by the office of the governor for the purposes specified in the legislation creating the fund.

SECTION 10. COMPTROLLER FISCAL PROGRAM:
PAYMENT OF HEALTH CARE JUDGMENT.

Out of the Economic Stabilization Fund 0599, the amount of \$3,037,200 is appropriated to Fiscal Program - Comptroller of Public Accounts for use during the state fiscal year ending August 31,

2003, for payment of final judgment in State of Texas v. U.S. Department of Health and Human Services, No. 01-50338, U.S. Court of Appeals for the Fifth Circuit (upholding the administrative decision of the Departmental Appeals Board, Department of Health and Human Services, docket number A-97-91).

SECTION 12. STATE COMMISSION ON JUDICIAL CONDUCT:
MISCONDUCT PROCEEDINGS.

Out of the Economic Stabilization Fund 0599, the amount of \$44,000 is appropriated to the State Commission on Judicial Conduct for use during the remainder of the state fiscal year ending August 31, 2003, for purposes related to conducting misconduct proceedings.

HB 7 appropriated the balance of the Economic Stabilization Fund and the estimated transfer to the fund from the fiscal 2003 excess natural gas revenues

Appendix_C

ATTACHMENT 3

Revenue and Expenditures
Economic Stabilization Fund
Fiscal Years 1990 to Present*

Fiscal Year	Oil Tax Related Revenue	Natural Gas Tax Related Revenue	Uncumbered Balances			Appropriations to the ESF			Total Revenue	Expenditures from the ESF	Ending Balance
			Natural Gas Tax Related Revenue	Transferred to the ESF	Interests	Other	Other				
1990	0.00	18,526,123.00	0.00	0.00	768,017.00	0.00	0.00	0.00	0.00	19,294,140.00	
1991	0.00	7,779,489.00	0.00	0.00	1,920,687.00	0.00	0.00	0.00	0.00	9,700,176.00	
1992	118,006,503.00	78,370,104.00	20,225,291.00	20,225,291.00	6,750,733.00	0.00	0.00	0.00	0.00	223,352,631.00	
1993	0.00	0.00	0.00	0.00	7,383,354.00	0.00	0.00	0.00	0.00	51,695,850.00	
1994	0.00	31,048,685.00	0.00	0.00	3,000,440.00	0.00	0.00	0.00	0.00	29,104,254.00	
1995	0.00	0.00	0.00	0.00	577,535.00	0.00	0.00	0.00	0.00	8,133,133.00	
1996	0.00	0.00	0.00	0.00	423,018.00	0.00	0.00	0.00	0.00	8,041,516.00	
1997	0.00	0.00	0.00	0.00	436,219.00	0.00	55,903.00	0.00	55,853.00	8,477,785.00	
1998	0.00	47,526,206.00	0.00	0.00	2,299,758.00	0.00	0.00	0.00	0.00	58,303,749.00	
1999	0.00	17,914,917.00	0.00	0.00	3,778,399.00	0.00	0.00	0.00	0.00	79,997,065.00	
2000	0.00	0.00	0.00	0.00	4,684,904.00	0.00	0.00	0.00	0.00	84,681,969.00	
2001	0.00	103,132,694.00	0.00	0.00	8,681,293.00	0.00	0.00	0.00	0.00	196,495,956.00	
2002	0.00	685,804,382.00	0.00	0.00	21,635,787.00	0.00	0.00	0.00	0.00	903,936,125.00	
2003	0.00	83,567,733.00	0.00	0.00	19,439,820.00	0.00	0.00	0.00	0.00	560,486,935.00	
2004	0.00	352,565,752.00	0.00	0.00	3,088,639.00	0.00	0.00	0.00	0.00	363,138,439.00	
2005†	0.00	594,500,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	878,100,000.00	
Total	118,006,503.00	2,020,736,085.00	20,225,291.00	20,225,291.00	84,868,603.00	0.00	55,903.00	0.00	1,226,253,945.00	878,100,000.00	

1 Appropriated by Senate Bill 11, Seventy-First Legislature, Sixth Called Session. (Chapter 27)

2 Appropriated by Senate Bill 171, Seventy-Third Legislature, Regular Session. (Chapter 2)

3 Appropriated by Senate Bill 532, Seventy-Third Legislature, Regular Session. (Chapter 988)

4 Appropriated by House Bill 7, Seventy-Eighth Legislature, Regular Session. (Chapter 1311)

† Actual thru September 7, 2004. (FY 2005)

* Source: Legislative Budget Board

Report on
Pension Fund Review

EXECUTIVE SUMMARY

Texas has charged two state agencies with the responsibility to oversee and review public retirement systems in the state. The Pension Review Board (PRB) is designed to oversee and review state and local public retirement systems in Texas. The Office of the Fire Fighters' Pension Commissioner (Commissioner) administers the Texas Local Fire Fighter Retirement Act (TLFFRA) and the Texas Statewide Emergency Services Personnel Retirement Act (TSESRA) and its respective fund, the Statewide Emergency Services Personnel Retirement Fund (Fund).

In order to assess the health of public pensions in the state, the Senate Finance Committee, at the direction of the Lieutenant Governor, spoke with representatives of the PRB and TSESRA, and representatives of the state's two pension funds, Employees Retirement System (ERS) and Teachers Retirement System (TRS). The overall concerns of the committee focused on strengthening and better equipping the agencies tasked with oversight of public pensions and on addressing current unfunded actuarial liabilities within the state's funds.

Summary of Recommendations to the 79th Legislature

1. The Legislature should consider alternative methods of funding the Pension Review Board.
2. The Legislature should consider requiring the Pension Review Board to initiate an "early warning" report system to identify troubled plans and to release these reports on a regular basis.
3. The Pension Review Board should receive additional funding to improve the quality of the actuarial audit process.
4. The Legislature should require the Pension Review Board to adopt rules requiring at least one member of the board of directors of a pension to have financial experience related to the management of pensions.
5. The Legislature should study alternative methods of funding the Texas Statewide Emergency Services Personnel Retirement Act's unfunded liability.

6. The Legislature should consider charging Texas Local Fire Fighter Retirement Act members a fee to cover the administration and support of the Office of the Fire Fighters' Pension Commissioner oversight.
7. The Legislature should consider a more standardized investment approach for the Employees Retirement System.
8. The Legislature should raise both the state and employee contributions to the Employee Retirement System pension plan from the current level of 6 percent to 6.4 percent.
9. The Legislature should not extend the early retirement program created by House Bill 3208 (78th Legislature).
10. The Legislature should review the impact on the Employees Retirement System of increasing the Rule of 80.
11. The Legislature should review the impact of requiring retire/rehire members of the Employee Retirement System to contribute to the pension plan after being rehired.
12. The Legislature should study the best method to meet the future funding needs of the Law Enforcement and Custodial Officer Supplemental Retirement Fund.
13. The Legislature should consider providing the Teachers Retirement System with the flexibility to pursue downside risk protection to protect the pension funds.
14. The Legislature should increase the state's contribution to the Teachers Retirement System pension fund to match the teachers' contribution rate.
15. The Legislature should review the impact on the Teachers Retirement System of increasing the Rule of 80.
16. The Legislature should review the impact of requiring retire/rehire members of the Teachers' Retirement System to contribute to the pension plan after being rehired.

PROCEDURAL BACKGROUND

The Senate Finance Committee was charged with conducting a thorough and detailed study of the following issues, including state and federal requirements, and preparing recommendations to address problems or issues that are identified. The Senate Finance Committee (the Committee) met in accordance with the following General Budget interim charge as follows:

Pension Fund Review. Report on the current condition of the state's pension systems, including an analysis of unfunded liabilities. Make recommendations, as necessary, to ensure Texas meets its financial obligations in the future.

The Committee met pursuant to the aforementioned interim charge in a public hearing in Austin, Texas on March 29, 2004, to consider invited testimony provided by the Texas Pension Review Board, the Texas Employees Retirement System, the Texas Teacher Retirement System, the Texas Office of the Fire Fighter Pension Commissioner, and the Texas Statewide Emergency Services Retirement Fund. The Committee solicited public testimony on the interim charge in a public hearing in Austin, Texas on July 20, 2004; however, none was provided.

The Committee extends its thanks to those who participated in the hearing, and assisted with or made presentations before the Committee.

BACKGROUND

Some important definitions

- Normal cost: "Actuarial cost to fund benefits from date of hire. Expressed as % of pay = present value of benefits divided by present value of anticipate compensation. Must be less than total future contributions if unfunded liability is to be amortized. Otherwise, there must be a funding surplus sufficient to offset contribution rate shortfall."¹
- Unfunded Actuarial Accrued Liability (UAAL): "the portion of actuarial accrued liability (including the present value of benefits being paid to retired members and benefits to be paid to future retirees) that exceeds the value of current actuarial assets."²
- Smoothing: "Actuarial asset valuation method. TRS actuarial assets are based on a 5-year smoothed market, meaning annual investment gains and losses above or below the

¹ State Pension Review Board, *Guide To Public Retirement Systems In Texas: A Comparison of Statutory Public Retirement Systems in Texas*, March 2004, http://www.prb.state.tx.us/pls/reports/primer/primer_2005.pdf, p. 22. [hereinafter "Guide"] (see also Appendix A).

² *Ibid.*

assumed 8% return are recognized over a 5-year period." ERS actuarial assets are also based on a 5-year smoothed market.³

- Funding Period: "Number of years required to fund (i.e., pay off, amortize) unfunded liability."⁴
- Funding Ratio: "The actuarial value of assets expressed as a percentage of the actuarial accrued liability."⁵
- Public Retirement System: "a continuing, organized program of service retirement, disability retirement, or death benefits for officers or employees of the state or a political subdivision, or of an agency or instrumentality of the state or a political subdivision, and includes the optional retirement program governed by Chapter 830."⁶

PENSION REVIEW BOARD

The Pension Review Board (PRB) was created by the 66th Legislature in 1979 with the passage of House Bill 1506. The PRB is an independent state agency designed to oversee and review state and local public retirement systems in Texas, including the Employees Retirement System (ERS) and Teachers Retirement System (TRS). The board is composed of nine members. The Governor of Texas appoints seven members: three persons who have experience in the fields of securities investment, pension administration, or pension law and are not members or retirees of public retirement systems; one active public retirement system member; one retired public system member; one person who has experience in the field of governmental finance; and an actuary. The Lieutenant Governor appoints a State Senator, and the Speaker of the House appoints a State Representative.

Specifically, Section 801.202 of the Texas Government Code charges the PRB with four general duties:

³ State Pension Review Board, *Guide to Pension Terminology*, <http://www.prb.state.tx.us/tools/>. [hereinafter "*Terminology*"].

⁴ *Ibid.*

⁵ *Guide*, p. 21

⁶ Government Code, § 801.001(2).

1. Conducting a continuing review of public retirement systems, compiling and comparing information about benefits, creditable service, financing, and administrations of systems
2. Conducting intensive studies of potential or existing problems that threaten the actuarial soundness of or inhibit an equitable distribution of benefits in one or more public retirement systems
3. Providing information and technical assistance on pension planning to public retirement systems on request
4. Recommending policies, practices, and legislation to public retirement systems and appropriate governmental entities⁷

Currently, 382 public retirement systems are registered and report to the PRB. Of these, 196 are Total Defined Benefit Plans, and 186 are Total Defined Contribution Plans.⁸ A comparison of statutory public retirement systems in Texas is attached as Appendix A. The retirement systems registered with the PRB serve approximately 1.85 million current and retired employees. The total assets held in trust for public employee retirement exceeds \$144.1 billion.⁹

The majority of systems in Texas are locally controlled, although state law provides administrative guidelines for all systems and direct statutory control of the largest plans. Local systems in Austin, Dallas, Houston, Galveston, and San Antonio are covered by specific state laws, while paid and volunteer firefighters throughout Texas belong to local funds operating under the Texas Local Fire Fighter Retirement Act (TLFFRA).¹⁰

The 78th Legislature passed H.J.R. 54 proposing a constitutional amendment that would apply to public retirement systems other than statewide systems. Under the resolution, accrued benefits could not be reduced or impaired for retirees and active members eligible to retire prior to any proposed change in benefits. If fund balances were insufficient to pay benefits, costs

⁷ Texas State Statutes, Chapter 801, Government Code.

⁸ *Guide*, p. 1.

⁹ *Ibid.*

¹⁰ *Guide*, p. 1.

would be the responsibility of the political subdivision which is the plan sponsor.¹¹ This amendment, Proposition 15 on the September 15, 2003, ballot, passed statewide by an overwhelming majority.¹² The resolution permitted a political subdivision holding an election in May of 2004, by majority vote, to opt out of this requirement. The cities that opted out of Proposition 15 are Denison, Galveston, Houston, Marshall, McAllen, Paris, Port Arthur, and Sweetwater. Texas City held an election, though the measure did not pass.

PRB Guidelines for Actuarial Soundness

In reviewing local plans for actuarial soundness, the PRB utilizes the following guidelines:

1. The funding of a pension plan should reflect all plan liabilities and assets.
2. The allocation of the normal cost portion of contributions should be level as a percent of payroll over all generations of taxpayers.
3. Funding of the unfunded actuarial accrued liability should be level or declining as a percent of payroll over the amortization period.
4. Funding should be adequate to cover the normal cost, and to amortize the unfunded actuarial accrued liability over a period which should never exceed 40 years, with 25-30 years being a more preferable target.
5. The choice of assumptions should be realistic and reasonable in the aggregate.¹³

Although the vast majority of local public pension funds are sound, the PRB is currently monitoring the actuarial funding of 17 retirement systems with marginal financing arrangements that do not fall within the 40-year amortization schedule recommended by the PRB. Of those 17

¹¹ Legislative Budget Board, Fiscal Note 78th Legislature Regular Session, HJR 54.

¹² Texas Secretary of State website, <http://www.sos.state.tx.us/elections/forms/enrrpts/2003sep.pdf> accessed, September 3, 2004.

¹³ *Guide*, p. 1.

plans, 12 have infinite amortization periods.¹⁴ The remaining plans have amortization periods ranging between 30 and 72 years. See also Appendix A, p. 29.

Three pension plans are backed by obligated state funds: the Employees Retirement System (ERS), the Teachers Retirement System (TRS), and the Texas Statewide Emergency Services Personnel Retirement Fund (TSESRA). All three of these funds have infinite amortization periods. The ERS's actuarial value of assets is \$20,036.6 million with an actuarial accrued liability of \$20,591.8 million. The TRS has assets of \$88,784.0 million with an unfunded actuarial liability of \$7,953.0 million¹⁵, and the TSESRA has assets in excess of \$36 million and unfunded actuarial liabilities of \$13.4 million.¹⁶

The Houston Municipal Employees Pension System, with an estimated \$2.013 billion UAAL, is one of the worst-faring plans in the state, according to the PRB. In a May 15, 2004, election, the system opted out from the constitutional amendment, Proposition 15, barring cities from reducing municipal employee pensions.

During the Senate Finance Committee hearing, several questions were raised concerning noncompliant pension funds, under-funded pension funds and early identification of troubled plans. Although the PRB notifies certain legislative and gubernatorial offices, including the Senate Finance Committee, the Pensions and Investments Committee, and the Legislative Budget Board regarding major Texas pension issues, disclosures concerning noncompliant pension funds and under-funded pension funds are sent only upon request. This system of notification is inadequate for early identification of plans in trouble or those moving in that direction.

¹⁴ *Guide*, p. 29.

¹⁵ Teacher's Retirement System Actuarial Valuation as of August 31, 2004

¹⁶ Texas Statewide Emergency Services Personnel Retirement Fund Actuarial Valuation

Concerns

PRB does not currently have the resources to perform more in-depth reviews of troubled plans. The PRB testified that it faces limitations to the extent of analysis it can perform and the level of detail it can provide. Currently, the PRB has five employees with a fiscal year 2004 budget of \$283,583 and \$320,023 in FY 2005.¹⁷ The PRB is funded 100% with General Revenue (GR). Providing an actuarial analysis or review of each plan by the PRB would necessitate contracting with an outside actuary. Conducting a special audit or study of a single pension plan, according to the PRB, would cost an estimated \$20,000 to \$50,000 depending on the plan and the nature of the review.¹⁸ Currently, there are 90 defined benefit pension plans that would be candidates for an actuarial audit or review. If the PRB had an actuary on staff, the actuary could conduct on-going annual reviews of pension funds. The annual state salary for an experienced actuary would range from \$93,000 to \$150,000. Given the length of time required to conduct an actuarial audit, the total number of audits conducted in a given year would be small, perhaps ranging from three to five a year. The PRB does maintain a list of enrolled actuaries serving public pension plans which is provided to pension funds when requested.

Actuarial soundness of the many pension plans across the state is of paramount concern. If one of these plans was unable to meet its obligations, many Texans could be left without adequate funds to see them through their retirement years. The 90 defined benefit pension plans across the state are required to conduct actuarial audits every three years. The plans are responsible for hiring independent firms to conduct the audits. There is no state-wide mechanism to ensure the consistency and quality of these audits.

¹⁷ Letter from Shari O. Shivers to The Honorable Steve Ogden, April 8, 2004.

¹⁸ *Ibid.*

The membership of pension boards generally consists of members of the pension. In many cases, board members do not have financial backgrounds or experience. This leaves many boards without a board member with the necessary expertise to advise the board on its financial decisions. Pension boards would benefit from a member or members who were able to independently evaluate financial information provided to the board and point out any weaknesses in the information.

Recommendations

1. The Legislature should consider alternative methods of funding the Pension Review Board that will allow for a flexible approach to meeting the Board's statutory duty of conducting intensive studies of potential or existing problems in troubled plans.
2. The Legislature should consider requiring the Pension Review Board to initiate an "early warning" report system to identify troubled plans and to release these reports on a regular basis.
3. The Pension Review Board should receive additional funding to improve the quality of the actuarial audit process. In the past, the PRB has contracted with an actuary for review of the audits conducted by private companies; the actuary has identified some problems with those audits.
 - One option is to have an actuary on the PRB staff who would review the audits conducted by private companies.
 - Another option is to require the PRB to adopt a list of approved actuarial firms. The pension plans would then have to contract with one of those firms for their actuarial audits.
4. The Legislature should require the Pension Review Board to adopt rules requiring at least one member of the board of directors of a pension to have financial experience related to the management of pensions. The rules should include a procedure by which a board can be exempted from the requirement if they are unable to obtain a member with the required experience.

OFFICE OF THE FIREFIGHTERS' PENSION COMMISSIONER

The Office of the Fire Fighters' Pension Commissioner (Commissioner) was created in 1937, and administers two distinct programs: the Texas Local Fire Fighter Retirement Act (TLFFRA) and the Texas Statewide Emergency Services Personnel Retirement Act (TSESRA). Under TLFFRA, the Commissioner provides investment and legal guidance, administrative support, opinions concerning statutes and distributions, audits annual reports, and provides training and education programs to the 124 participating departments. The service is provided to pension fund board members and administrators or paid, part-paid and volunteer fire fighters and emergency personnel in the State of Texas.

The mission of the TSESRA is to provide an actuarially sound, professionally managed and administered retirement system for volunteer emergency services personnel. The Commissioner is the administrator of the \$37 million Pension Trust Fund consisting of appropriated and non-appropriated funding mechanisms. As the administrator, the Commissioner collects contributions from 177 participating departments, invests the proceeds, calculates benefits, and issues payments to retirees and their beneficiaries serving a total of 17,016 members.

Texas Statewide Emergency Services Personnel Retirement Act

The Statewide Emergency Services Personnel Retirement Fund (Fund), administered by the Commissioner on behalf of 179 participating communities is actuarially unsound. As of August 31, 2004, the Fund has assets in excess of \$36 million and unfunded actuarial liabilities of \$13.4 million.¹⁹ These unfunded liabilities cannot be amortized within 30 years as required by

¹⁹ Texas Statewide Emergency Services Personnel Retirement Fund Actuarial Valuation.

the TSESRA.²⁰ According to the Commissioner, the actuarial liabilities are the result of investment losses and increased actuarial liabilities during 2001 and 2002. To amortize the \$13 million unfunded liabilities within 30 years would require an additional \$946,388 in annual contributions. Under TSESRA, the "state shall contribute the sum necessary to make the fund actuarially sound each year. The state's contribution may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. If the state contributes one-third of the total contributions of the governing bodies in one year, the fund shall be presumed actuarially sound."²¹ To meet this requirement, the state contribution would be \$650,056 per year for the next 30 years or a single lump sum contribution of \$11.9 million. Another actuarial valuation is scheduled for August 2004.

The benefit of the Fund is its cost-effective means for small volunteer departments to belong to a professionally managed fund for the benefit of their local volunteer fire and EMS personnel. As administrator of the Fund, the Commissioner collects contributions of participating department members, invests the proceeds, calculates benefits, and issues payments to retirees and their beneficiaries. The monthly contribution is \$12, and at the age of 55 with 15 years of qualified service, the member is eligible for a retirement benefit of \$72 per month.²² If a member is injured on-duty, the member receives at least \$300 per month while unable to perform his/her duties for the participating department. On-duty death benefits include a lump-sum payment of at least \$60,000. Originally, this death benefit was \$5,000; however, in 1983, this benefit was increased to \$60,000 without an actuarial analysis. Currently, a proposed rule change to reduce the death benefit to \$5,000 is published for public comment. Thus far, at least 500 comments opposing this change have been received. The board of trustees is scheduled to

²⁰ Article 6243e.3 V.T.C.S.

²¹ *Ibid.* at 6243e.3 sec. 2(d).

²² Overview of Pension Funding Issues, rec'd 3.29.04 [hereinafter Overview], p. 4.

vote on this issue in November of 2004. According to the Commissioner, reducing the death benefit from \$60,000 to \$5,000 will not produce a significant savings.²³

The actuarial problem of the Fund is compounded by the administrative funding demands. Since 1998, more than \$2.4 million has been appropriated from the TSESRA pension trust fund for agency administrative operations. The use of Fund dollars for operations is even more egregious when considered in light of the fact that the TLFFRA does not provide any funding for operations, and so is essentially supplemented by the TSESRA fund. Prior to this time, the Commissioner's agency operations were fully funded by GR to support the Fund and the participating TLFFRA pension funds programs. In FY 2004, total funds to the Commissioner were 21 percent, leaving 79 percent of the agency's operating costs being funded solely by the Fund.²⁴

Texas Local Fire Fighter Retirement Act

The Texas Local Fire Fighter Retirement Act (TLFFRA) is a program that provides educational services and legal guidance to cities that manage their own pensions. TLFFRA is financed by GR and supplemented by the TSESRA fund to pay for daily operations.²⁵ According to the Commissioner, full funding by GR would increase efficiencies and services to the fire fighters' participating in this program, eliminating the need for funding from the volunteer fire fighters pension fund.²⁶

Recommendations

1. The Legislature should study alternative methods of funding the Texas Statewide Emergency Services Personnel Retirement Act's (TSESRA) unfunded liability to include

²³ Lisa Ivey Miller, telephone interview, 9.08.2004.

²⁴ Administrator's Statement, 70th Regular Session, Agency Submission, Version 1, 9.07.2004.

²⁵ *Ibid.*, p. 2.

²⁶ *Ibid.*

amending TSESRA allowing the Office of the Fire Fighters' Pension Commissioner more flexibility to respond to funding issues including changing benefits and explore a secure source of funding.

2. The Legislature should consider charging Texas Local Fire Fighter Retirement Act members a fee to cover the administration and support of the Office of the Fire Fighters' Pension Commissioner oversight and eliminate funding from Texas Statewide Emergency Services Personnel Retirement Act funds.

EMPLOYEES RETIREMENT SYSTEM

The Employees Retirement System of Texas (ERS) membership includes all full-time and part-time state agency employees and elected state officials (legislators, district attorneys, and statewide elected officials). Currently, there are 142,163 contributing members, 51,871 non-contributing members, 58,975 annuitants through service retirement and an \$87 million monthly annuity payroll.²⁷ The ERS also serves as the administrative and investment body for the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF) and the Judicial Retirement Systems Plans I and II.²⁸

Concerns

At this time, the amortization period of the ERS fund is infinity.²⁹ The current contribution rate is 12 percent of payroll - 6 percent state contribution and 6 percent employee contribution, with a normal cost (percent of payroll) of 12.258 percent. The actuarial value of assets is \$20,036.6 million with an actuarial accrued liability of \$20,591.8 million.³⁰ Factors contributing to the current fund status of ERS include FY 2001 and 2002 actuarial investment losses of more than 15% each year, thereby offsetting prior investment gains.³¹ Other

²⁷ Employees Retirement System of Texas, *Summary of Retirement Plans*, presented to the Senate Finance Committee, March 29, 2004. [hereinafter "*Summary*"].

²⁸ *See Guide*.

²⁹ *Guide*, p. 4.

³⁰ Employees Retirement System of Texas, *Summary of Actuarial Valuation Results*, December 8, 2004

³¹ *Guide*, p. 5.

contributing factors are benefit improvements in the formula, ad hoc cost of living adjustments and 13th checks granted in the last decade.³² In addition, retiree membership grew from 33,210 to 58,975 over the last 10 years with 8,172 new retirees in FY 2003. At the same time, active membership declined from 153,920 to 142,163, resulting in a ratio of active to retired membership decline from 4.6 to 2.4.³³ This ratio reflects fewer contributing employees and this impact, according to ERS, has been factored in to its projections. According to ERS, since 1996, contributions have been less than the normal cost rate.

During the hearing, ERS testified that they employ a conservative financing strategy with low risk.³⁴ There was subsequent discussion of exploring alternative investment approaches.³⁵ To address this funding issue, ERS reports, "[i]nvestment returns have improved with a 9.2 percent return in FY 03 and 26.75 percent return for the year ending February 29, 2004."³⁶ ERS utilizes an actuarial smoothing method that recognizes 20 percent of investment losses or gains each year. With this method, according to ERS, it could take several years of investment gains above the actuarial assumption for the funded ratio to return to 100 percent.³⁷ The ERS is one of three pension plans backed by obligated state funds to provide the necessary funding to achieve an unfunded liability period of less than 31 years.³⁸ To achieve an unfunded liability status through an increase in state contributions would require 6.83 percent of payroll or \$42.6 million additional state cost per year.³⁹ Increasing both the state contributions from the current rate of 6 percent to 6.4 percent would cost \$37.8 million per year in All Funds. Finally, Texas' statute prohibits benefit improvement unless the amortization period for the unfunded liability falls

³² *Ibid.*

³³ *Ibid.*

³⁴ Testimony of Sheila W. Beckett before the Senate Finance Committee, March 29, 2004.

³⁵ *Ibid.*

³⁶ *Summary*, p. 18.

³⁷ *Ibid.*

³⁸ See discussion of PRB, *supra*.

³⁹ *Summary*, p. 19

below 31 years.⁴⁰ To overcome these funding issues, consideration should be given to a more standardized investment approach.

House Bill 3208 (78th Legislature) sought to reduce payroll costs by providing an early retirement incentive to state employees. Although the bill created a positive impact on GR, the long term impact on ERS is negative. The bill expires on September 1, 2005.

The Finance Committee has asked ERS to provide the Committee with information about how much of a change in the Rule of 80 would be required to help restore the pension fund to an amortization period of within 31 years.

In 2001, the Texas Legislature passed legislation allowing retired pension plan members to return to work without reduction in benefits as long as they meet certain criteria. Under this law, retired employees who return to state employment are not required to contribute to the ERS.

Law Enforcement and Custodial Officer Supplemental Retirement Fund

The Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECOSRF) has 40,335 contributing members, 19 non-contributing members, 4,029 annuitants through service retirement and a \$1.9 million annuity monthly payroll.⁴¹ A unique feature of the LECOSRF is a current contribution rate of zero percent. The actuarial value of assets is \$679,242.9 million and an accrued liability of \$621,457.3 million.⁴² The normal cost (percent of payroll) is 1.621 percent, a funded ratio of 109.3 percent and an amortization period of zero.⁴³

Although the LECOSRF is influenced by the same factors as ERS, the impact has been less severe due to the retirement of fewer members.⁴⁴ There has been no contribution to the

⁴⁰ *Ibid.*, p. 18

⁴¹ *Ibid.*, p. 7.

⁴² Employees Retirement System of Texas, *Summary of Actuarial Valuation Results*, December 8, 2004

⁴³ *Ibid.*

⁴⁴ *Summary*, p. 9

LECOSRF since 1993 when, according to ERS, the use of the motor vehicle inspection fee revenue was replaced with an actuarial funding method.⁴⁵ This change was made in response to an actuarial analysis and valuation that determined a sufficient asset balance had been maintained -- primarily due to favorable investment returns -- to pay the required pension obligations from the supplemental fund without contribution from the state.

According to ERS, the LECOSRF is estimated to last three fiscal years (through FY 2006) with zero contribution.⁴⁶ Thereafter, a need for 1.607 percent of payroll would be required for an estimated state cost of \$20.3 million per year.⁴⁷

Recommendations

1. The Legislature should consider a more standardized investment approach for the Employees Retirement System.
2. The Legislature should raise both the state and employee contributions to the Employee Retirement System pension plan from the current level of 6 percent to 6.4 percent.
3. The Legislature should not extend the early retirement program created by House Bill 3208 (78th Legislature).
4. The Legislature should review the impact on the Employees Retirement System of increasing the Rule of 80.
5. The Legislature should review the impact of requiring retire/rehire members of the Employee Retirement System to contribute to the pension plan after being rehired.
6. The Legislature should study the best method to meet the future funding needs of the Law Enforcement and Custodial Officer Supplemental Retirement Fund.

TEACHER RETIREMENT SYSTEM

The Teacher Retirement System (TRS) manages a pension trust fund providing retirement benefits and death and survivor benefits for retirees of public educational institutions

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*, p. 19.

⁴⁷ *Ibid.*

and their beneficiaries. There are both member and state contributions.⁴⁸ The Texas Constitution requires a contribution rate of not less than 6 percent and not more than 10 percent of the total annual compensation of all members.⁴⁹ In 1996, the state contribution rate decreased from 7.31 percent to 6 percent.⁵⁰ According to the August 31, 2004, Actuarial Valuation of TRS, the actuarial value of assets is \$88,784.0 million with an unfunded actuarial liability of \$7,953.0 million and an amortization period of infinity. The PRB also monitors this pension trust fund.

Concerns

Contributing to the infinite amortization period is the current combined contribution rate of 12.40 percent with a normal cost (percent of payroll) of 12.46 percent, thereby creating a deficit of 0.06 percent.⁵¹ According to the August 31, 2004, Actuarial Valuation of TRS, returning to a state contribution rate of 7.31 percent would bring the pension fund to an amortization period of within 31 years. Increasing the state contribution from 6 to 7.31 percent would cost the state approximately \$325 million annually. TRS estimates that raising the state contribution to 6.4 %, which would then match the teacher contribution, would cost the state approximately \$100 million annually.

According to TRS's most recent actuarial valuation, the system's underfunded status has increased because of the continued recognition of the investment results during the poor investment markets of fiscal years 2001 and 2002. Even though the system earned an 11.9% return on a market value of assets basis for the plan year ending August 31, 2004, the system

⁴⁸ Teacher Retirement System, *Status of Pension Fund*, presented to the Senate Finance Committee on March 29, 2004. [Hereinafter "*Status*"].

⁴⁹ Texas Constitution, Art. XVI, Sec. 67.

⁵⁰ *Status*, p. 3

⁵¹ *Ibid.*, p. 7.

experienced a \$4.7 billion loss on the actuarial value of assets due to the recognition of prior investment losses.

The TRS pension fund suffered losses in investment returns of negative 10.6 percent in 2001 and negative 7.8 percent in 2002. Prior to that, there were investment returns of 21.1 percent in 1999 and 14 percent in 2000.⁵² In 2003, there was a positive investment return of 11.3 percent and a positive return of 11.9% for 2004. Downside risk protection may have ensured an even 8 percent return.

The Finance Committee has asked TRS to provide the Committee with information about how much of a change in the Rule of 80 would be required to help restore the pension fund to an amortization period of within 31 years. Although the figures will not be available until late 2004, TRS estimates that increasing the Rule of 80 would have a positive impact on the fund.


In 2001, the Texas Legislature passed legislation allowing retired pension plan members to return to work without reduction in benefits as long as they meet certain criteria. Under this law, retired employees who return to state employment are not required to contribute to the TRS.

Recommendations

1. The Legislature should consider providing the Teachers Retirement System with the flexibility to pursue downside risk protection to protect the pension funds.
2. The Legislature should increase the state's contribution to the Teachers Retirement System pension fund to match the teachers' contribution rate.
3. The Legislature should review the impact on the Teachers Retirement System of increasing the Rule of 80.
4. The Legislature should review the impact of requiring retire/rehire members of the Teachers' Retirement System to contribute to the pension plan after being rehired.

⁵² *Status.*, p. 6.

Appendix
A




TEXAS PENSION REVIEW BOARD

**GUIDE TO PUBLIC RETIREMENT SYSTEMS
IN TEXAS**

**A COMPARISON OF STATUTORY
PUBLIC RETIREMENT SYSTEMS IN TEXAS**

MARCH 2004



Pension Review Board
P. O. Box 13498
Austin, TX 78711-3498
(512) 463-1735
(800) 213-9425
www.prb.state.tx.us
www.texaspensions.org

2

**Texas Pension Review Board
Presentation to
Senate Finance Committee
March 29, 2004**

OVERVIEW

- 382 Public retirement systems registered and reporting to the Pension Review Board. (Total Defined Benefit Plans: 196 Total Defined Contribution Plans: 186)
- Total assets of these plans exceeds \$144.1 billion
- The Teacher's Retirement System alone constitutes 60.9% of all total assets at an approximate total of \$87.9 billion.
- The ten plans with greatest total asset value constitute 93.9% of all total assets, or approximately \$135.5 billion.
- Over 1.85 million current and retired members. (Total Active Members: 1,493,831 and Total Retired Members: 364,944)
- Majority of systems are controlled locally, although state law provides administrative guidelines for all systems and direct statutory control of the largest plans.
- The state provides benefits for teachers, higher education personnel at state colleges and universities, legislators, state employees, state judges, district attorneys, state elected officials and volunteer fire fighters.
- Besides the systems funded by state appropriations, the Legislature has authority over benefit changes for the statewide Texas Municipal Retirement System and the Statewide Texas County and District Retirement System.
- The state pays certain administrative costs for the Texas Statewide Emergency Services Personnel Retirement Fund.
- Paid and volunteer firefighters throughout Texas belong to local funds operating under the Texas Local Fire Fighter Retirement Act (TLFFRA)
- PRB is currently monitoring the actuarial funding of 17 retirement systems with a marginal financing arrangement. Of those 17 plans, 12 have infinite amortization periods. The other plans have amortization periods ranging between 30 and 72 years.

STATEWIDE FUNDS

- Employees Retirement System (ERS): \$21.3 billion; Unfunded Actuarial Accrued Liability (UAAL) \$480 million; 198,207 members (active and retired). 8/31/03
- Teacher Retirement System (TRS): \$87.9 billion; UAAL \$5.2 billion; 1,080,768 members (active and retired). 8/31/03
- Texas Statewide Emergency Services Personnel Retirement Fund: \$30.0 million; UAAL \$13.2 million; 7,114 members (active and retired). 8/31/02

THE PUBLIC RETIREMENT SYSTEMS OF TEXAS

EXECUTIVE SUMMARY

PRB Guidelines for Actuarial Soundness

1. The funding of a pension plan should reflect all plan liabilities and assets.
2. The allocation of the normal cost portion of contributions should be level as a percent of payroll over all generations of taxpayers.
3. Funding of the unfunded actuarial accrued liability should be level or declining as a percent of payroll over the amortization period.
4. Funding should be adequate to cover the normal cost, and to amortize the unfunded actuarial accrued liability over a period which should never exceed 40 years, with 25-30 years being a more preferable target.
5. The choice of assumptions should be realistic and reasonable in the aggregate.

Texas has a long tradition of providing sound retirement systems for its public employees. Employees of the state, cities, counties, and numerous special purpose subdivisions are covered by a wide variety of retirement programs. The funding of retirement programs represents significant expense for all levels of Texas government.

- Over 1.85 million current and retired employees belong to public retirement systems in Texas. Total assets held in trust for public employee retirement exceed \$144.1 billion.
- Currently, 382 public retirement systems report to the Pension Review Board. 99 percent of defined benefit plans have amortization periods under 40 years, and the few who do not are aware of the problem and are working with the PRB for a solution.
- The majority of systems in Texas are controlled locally, although state law provides administrative guidelines for all systems and direct statutory control of the largest plans.
- The state provides benefits for teachers, higher education personnel at state colleges and universities, legislators, state employees, state judges, district attorneys, volunteer fire fighters, and state elected officials.
- Besides the systems funded by state appropriations, the Legislature has authority over benefit changes for the statewide Texas Municipal Retirement System and the statewide Texas County and District Retirement System.
- Local systems in Austin, Dallas, El Paso, Galveston, Houston, and San Antonio are covered by specific state laws.
- The state pays certain administrative costs for the Texas Statewide Emergency Services Personnel Retirement Fund.
- Paid and volunteer fire fighters throughout Texas belong to local funds operating under the Texas Local Fire Fighter Retirement Act (TLFFRA).

Pension plans for private sector employees are governed by federal law, primarily the Employees Retirement Income Security Act (ERISA), which provides for oversight by the federal Department of Labor's Office of Pension and Welfare Benefits Administration. Even though public plans are increasingly affected by the Internal Revenue Code, and other federal laws such as the Age Discrimination in Employment Act, Congress has refrained from passage of comprehensive federal regulations, thereby leaving public retirement system oversight to the states.

**GUIDE TO PUBLIC RETIREMENT
SYSTEMS IN TEXAS**

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**ABOUT THE PENSION REVIEW BOARD
(PRB)**

Shari O. Shivers, Chair

Position: Governmental Finance

Rafael Cantu, Vice-Chair

Position: Retired Member

William Mahomes, Jr.

Position: Pension Law

Frederick E. Rowe, Jr.

Position: Securities & Investments

Allan Ritter

State Representative

John H. Whitmire

State Senator

Virginia P. Smith

Executive Director

Online Resources

www.prb.state.tx.us
www.texaspensions.org

The Pension Review Board was established by H.B. 1506, 66th Legislature, R.S. (V.T.C.A., Title 8, Chapter 801, Government Code,) effective September 1, 1979, as an oversight agency for Texas public pension systems. The PRB service population consists of the members, administrators, and trustees of 382 individual public retirement plans; state and local government officials; and the general public.

The PRB's functions are to provide actuarial and pension policy information on public pension legislation to the Legislature; conduct a continuing review of public retirement systems, compiling and comparing information about benefits, creditable service, financing, and administration of systems; conduct intensive studies of potential or existing problems that threaten the actuarial soundness of or inhibit an equitable distribution of benefits in one or more public retirement systems; provide information and technical assistance on pension planning to public retirement systems on request; and recommend policies, practices, and legislation to public retirement systems and appropriate governmental entities.

During the interim between legislative sessions, pension data is analyzed by PRB staff, summarized, and entered into a database enabling the PRB to respond to requests for information. The PRB also acts as a clearinghouse for comprehensive pension information, and PRB staff members provide technical assistance to systems, governments, and public employees through direct contact, the PRB newsletter, educational seminars, and our website.

During each legislative session, the PRB analyzes all bills that propose to change the benefits, funding, or participation in benefit provisions for any public retirement system. While measuring new legislation's current fiscal impact is important, changes to pension systems often create financial commitments that extend far into the future. By addressing the actuarial impact of proposed changes, the PRB can provide the Legislature with the information needed to manage pension costs.

Whenever a bill with a cost effect on a retirement system is going to be scheduled for committee hearing, the PRB obtains an actuarial analysis of the legislation. The initial analysis is commonly prepared by an actuary who represents the retirement system targeted by the bill. The analysis is submitted to the PRB's consulting actuary for review, thereby providing a "second opinion" on any costs associated with the bill. The PRB actuary also reviews the actuarial assumptions on which the initial analysis is based. These two actuarial documents are summarized and analyzed in an Actuarial Impact Statement prepared by PRB staff and reviewed and approved by the PRB actuary, then submitted to the Legislative Budget Board. The Impact Statement is attached to the bill in committee and stays with the bill during its passage through the Legislature. If a bill is subsequently amended or substituted so that its actuarial effect is changed, another analysis and review must be obtained and another Impact Statement prepared.

TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)

Governing Statute

Art. XVI, Sec. 67,
Texas Constitution

Subtitle C, Title 8
Government Code

Actuarial Snapshot

Total Value of Assets: \$87,930,339,882
Actuarial Value of Assets: \$89,033,000,000
Funded Ratio: 94.5%
Active Members: 863,291
Retired Members: 217,477
Date of Valuation: August 31, 2003

Executive Director

Mr. Ronnie Jung, Interim Director
1000 Red River Street, Austin, Texas 78701
(512) 397-6400

Online Resources

www.trs.state.tx.us
www.texaspensions.org/trs/

TRS is the largest public retirement system in Texas, in both membership and assets. The system covers public school teachers, other public school employees, and higher education personnel who are not eligible for the Optional Retirement Program (ORP), or who choose not to belong to ORP. Benefit changes, post retirement adjustments, and contribution changes require legislative action.

78TH LEGISLATIVE SESSION SUMMARY: SB 1369 and SB 1370 by Duncan, HB 2169 by Telford, HB 3237 by Smith

- A 90-day waiting period for new employees is required for TRS pension plan membership. Members may purchase this service credit.
- A retired teacher who is hired by a "third-party entity" retained by a Texas public educational institution to provide personnel to the institution will not be entitled to monthly service or disability retirement benefit payments for any month in which the retiree is employed by that public education institution.
- A retiree may work as a substitute and on a half-time basis during a single calendar month, given that the total days worked for that month can not exceed the number of days for one-half time employment.
- Funding for TRS-Care changed as the state and active member contribution rates increased from 0.5% and 0.25% to 1.0% and 0.5% respectively. Also, the eligibility criteria for TRS-Care have changed.

Teacher Retirement System of Texas Board of Trustees

Terence Ellis, Jr., Chair	New Ulm	<u>Term Expires</u>
Mary Alice Baker, Ph.D.	Beaumont	08/31/05
James W. Fonteno, Jr.	Houston	08/31/05
Jarvis Hollingsworth	Missouri City	08/31/07
John Graham	Fredericksburg	08/31/09
Dory A. Wiley	Dallas	08/31/09
John Mark Henry	Sulphur Springs	08/31/09
Greg Poole	Conroe	08/31/07
Linus Wright	Dallas	08/31/05

**OPTIONAL RETIREMENT PROGRAM
(ORP)**

Governing Statute

Chapter 830,
Government Code

ORP Coordinator

Mrs. Tomi Alexander
P.O. Box 12788, Austin, Texas 78711
(512) 427-6195

ORP is an alternative retirement plan to the Teacher Retirement System (TRS) available to teaching personnel and some professional, non-teaching personnel at state institutions of higher education, and to employees of the Coordinating Board of Texas College and University Systems. Active membership in ORP in 2002 was approximately 38,000. Employer contributions for FY2002 were approximately \$208.2 million, from combined state and other sources. Employee contributions were approximately \$182.9 million.

ORP was established by the legislature in 1967 to address the need for a more portable retirement option for higher education employees whose careers routinely involve interstate mobility. "Portability" refers to a person's opportunity to contribute to the same individual retirement plan as he or she becomes employed at different colleges and universities across the nation. Many colleges and universities offer ORP-type plans for this purpose, and often it is the only plan available to faculty members. Texas ORP is intended to assist in recruiting the highest quality of higher educational staff to Texas.

Each institution administers the plan for its own employees. ORP is a defined contribution plan offering members a choice of investment options. Contribution rates for the systems are 6.00% for the state and 6.65% for members. However, local higher education institutions are allowed to supplement the state rate to achieve a total employer rate of up to 8.5%. Contributions for members of ORP who are paid from federal or private grants are also paid from those sources. Members are entitled to the employer-funded portion of their account after one year of service. Under a defined contribution plan such as ORP, the contribution rates directly affect the benefits members will receive on retirement.

EMPLOYEES RETIREMENT SYSTEM OF TEXAS (ERS)

Governing Statute

Art. XVI, Sec. 67,
Texas Constitution

Subtitle B, Title 8,
Government Code

Actuarial Snapshot

Total Value of Assets: \$ 21,321,187,711
Actuarial Value of Assets: \$ 19,478,560,000
Funded Ratio: 97.6%
Active Members: 142,163
Retired Members: 56,044
Date of Valuation: August 31, 2003

Executive Director

Ms. Sheila Beckett
ERS Building, 4th Floor, Austin, Texas 78701
(512) 867-3174

Online Resources

www.ers.state.tx.us
www.texaspensionis.org/ers/

ERS covers elected state officials and state employees. ERS also acts as the administrative and investment body for the Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF) and the Judicial Retirement Systems Plans I and II.

78TH LEGISLATIVE SESSION SUMMARY: SB 1369 and SB 1370 by Duncan, HB 3208 by Heflin

- Allows a member of ERS, who is eligible for service retirement on or after August 31, 2003 and before September 1, 2005, to receive a lump sum payment equal to 25% of the member's salary for the prior 12 months. To be eligible for this payment, the member must be eligible to retire as of August 31, 2003 and must retire on that date. A member who is eligible to retire after August 31, 2003 and before September 1, 2005 must retire in the month that the member first becomes eligible.
- A 90-day waiting period for new employees is required for ERS pension plan membership. Members may purchase this service credit.
- An increase in co-payments and co-insurance and changes in the eligibility requirements for certain ERS member and retiree health insurance coverage.

Employees Retirement System Board of Trustees

	Term Expires
Milton Hixson, Chair	08/31/04
Owen Whitworth, Vice-Chair	08/31/08
Yolanda Griego	08/31/09
Carolyn Lewis Gallagher	08/31/06
Bill Cevertha	08/31/05
Don Green	08/31/07

LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND (LECOSRF)

Governing Statute
Subtitle B, Title 8,
Government Code

Actuarial Snapshot

Total Value of Assets: \$ 725,397,250
Actuarial Value of Assets: \$ 666,590,000
Funded Ratio: 111.5%
Active Members: 40,335
Retired Members: 4,173
Date of Valuation: August 31, 2003

Executive Director

Ms. Sheila Beckett
ERS Building, 4th Floor, Austin, Texas 78701
(512) 867-3174

Online Resources

www.ers.state.tx.us
www.texaspensions.org/lawenforcement/

LECOSRF is a supplemental plan to ERS, and is administered by ERS. Membership is limited to law enforcement officers who have been commissioned by the Department of Public Safety, Texas Alcoholic Beverage Commission, State Purchasing, General Services Commission Capital Area Security Force, Parks and Wildlife Department, and commissions recognized by the Commission on Law Enforcement Officers' Standards and Education. Membership is also provided to custodial officers employed by the Texas Department of Corrections and certified by the department as having direct contact with inmates. The supplemental benefits are available to any employee who completes 20 years of service in an eligible position.

**JUDICIAL RETIREMENT SYSTEM OF TEXAS
PLAN ONE (JRS I)**

Governing Statute
Subtitle D, Title 8,
Government Code

Online Resources
www.ers.state.tx.us
www.texaspensions.org/judicial1/

**JUDICIAL RETIREMENT SYSTEM OF TEXAS
PLAN TWO (JRS II)**

Governing Statute
Subtitle E, Title 8,
Government Code

Actuarial Snapshot
Total Value of Assets: \$ 140,050,111
Actuarial Value of Assets: \$ 129,426,000
Funded Ratio: 116.5%
Active Members: 477
Retired Members: 59
Date of Valuation: August 31, 2003

Executive Director
Ms. Sheila Beckett
ERS Building, 4th Floor, Austin, Texas 78701
(512) 867-3174

Online Resources
www.ers.state.tx.us
www.texaspensions.org/judicial2/

JRS I is a closed, pay-as-you-go retirement plan for State Judges and Justices who held office before September 1985. No trust fund exists for JRS I, and all benefits are paid by direct appropriation as they become due. To reduce the long-term liabilities associated with a pay-as-you-go retirement system, in 1985 this plan was replaced by the actuarially funded Judicial Retirement System Plan 2. Changes in funding, benefits, service credit, and eligibility under JRS I require legislative action. JRS I is administered by ERS.

State judges and justices who took office after August 31, 1985, belong to this system. All changes in funding, benefits, membership eligibility, and creditable service in JRS II require legislative approval.

78TH LEGISLATIVE SESSION SUMMARY: HB 820 by Grusendorf, HB 2916 by Ritter

- Eligibility requirements for a service retirement annuity were revised to provide later retirement eligibility for members who would have 20 years of service before age 55.
- Members with at least 10 years of actual membership service may establish up to an additional 60 months of service.

**TEXAS MUNICIPAL
RETIREMENT SYSTEM (TMRS)**

Governing Statute

Subtitle G, Title 8,
Government Code

Actuarial Snapshot

Total Value of Assets: \$10,334,094,982
Actuarial Value of Assets: \$9,998,700,000
Active Members: 119,747
Retired Members: 22,085
Date of Valuation: December 31, 2002

Executive Director

Gary W. Anderson
1200 N. I.H. 35
Austin, Texas 78701
(512) 476-5576

Online Resources

www.tmrs.org
www.texaspensions.org/tmrs/

TMRS is a centrally administered system for employees of 774 municipalities. The administration of TMRS is entrusted to a six-member Board of Trustees, who are appointed by the Governor with the advice and consent of the Senate. Individual municipalities have numerous options for benefit design within the system, but changes in available options depend upon legislative action. TMRS receives no state money; administrative costs are paid from the investment earnings of the fund.

78TH LEGISLATIVE SESSION SUMMARY: HB 1822 by Kuempel

- Increased death benefits for retirees, changed member service credit and retirement application, and clarified the Board's responsibilities.
- Added prudence standards and eliminated the restrictive investment list.

Texas Municipal Retirement System Board of Trustees

Carolyn Linér, Chair	San Marcos	Term Expires
Rick Menchaca, Vice Chair	Midland	02/01/07
Patricia Hernandez	Plainview	02/01/07
H. Frank Simpson	Missouri City	02/01/05
Connie J. Green	Killeen	02/01/09
Kathryn Ustrey	Carrollton	02/01/05

**TEXAS COUNTY AND DISTRICT
RETIREMENT SYSTEM (TCDRS)**

Governing Statute
Subtitle F, Title 8,
Government Code

Actuarial Snapshot

Total Value of Assets: \$ 11,745,741,048
Actuarial Value of Assets: \$ 8,779,300,000
Funded Ratio: 88.7%
Active Members: 101,415
Retired Members: 24,862
Date of Valuation: December 31, 2002

Executive Director

Ray Henry
P.O. Box 2034
Austin, Texas 78768-2034
(512) 328-8889

Online Resources

www.tcders.org
www.texaspensions.org/tcders/

TCDRS is a centrally administered system for employees of 535 counties and subdivisions. TCDRS is governed by a nine-member Board of Trustees selected from the System's membership and appointed by the Governor with the advice and consent of the Senate.

Individual units of government have numerous options for benefit design within the system, but changes in available options depend on legislative action. The plan is commonly described as a "hybrid defined contribution plan," and provides a benefit based primarily upon subdivision and member contributions plus interest earnings. Interest earnings are distributed to active members as interest credited to member accounts at a rate of 7%. TCDRS receives no state money; administrative costs are paid from investment earnings of the fund.

78TH LEGISLATIVE SESSION SUMMARY: HB 1984 by Koenig

- Authorized members to re-establish credit for an account previously canceled
- Allows public employers to take over functions of a defunct employer or an employer that is inadequately funded and to assume the financial obligations of the previous employer or alter the benefit structure.

Texas County and District Retirement System Board of Trustees

John Willy, Chair	Angleton	12/31/03
Kathy Reeves, Vice Chair	Midland	12/31/03
John Marshall	Fort Worth	12/31/01
Robert A. Eckels	Houston	12/31/07
Charlotte Carey	Fort Stockton	12/31/03
Martha Gustafsson	Comroe	12/31/05
Mitch Liles	Denton	12/31/05
Amador Reyna	Kountze	12/31/05
Bridget McDowell	Taylor	12/31/07

**TEXAS STATEWIDE
EMERGENCY SERVICES
PERSONNEL RETIREMENT
FUND**

Governing Statute

Article 6243e.3, V.A.C.S.

Actuarial Snapshot

Total Value of Assets: \$ 30,001,060
Actuarial Value of Assets: \$36,768,000
Active Members: 5,864
Retired Members: 1,250
Date of Valuation: August 31, 2002

Online Resources

www.ffpe.state.tx.us
<http://www.texaspensions.org/sesprf/>

**TEXAS LOCAL FIRE FIGHTERS
RETIREMENT ACT
(TLFFRA)**

Governing Statute

Article 6243e, V.A.C.S.

Commissioner

Lisa Ivie Miller
P.O. Box 12577
Austin, TX 78711
(512) 936-3372

Texas Statewide Emergency Services Personnel Retirement Fund is administered by the Office of the Fire Fighters' Pension Commissioner covers volunteer fire fighters in 170 municipalities which have chosen to participate in the fund. The fund was created as a funded alternative to numerous insolvent local volunteer funds operated under the Texas Local Fire Fighters' Retirement Act (TLFFRA).

The governing body of each fire-fighter must contribute at least \$12.00 for each month of service, beginning the date the fire fighter enters the pension system. The state pays the administrative costs of this fund and has a statutory obligation to fund benefits as the need arises. To date, the state has not made any contribution to the fund.

Texas Statewide Emergency Services Personnel Retirement Fund Board of Trustees

	Term Expires
Frank Torres, Chair	09/01/05
Allen Scopel, Vice Chair	09/01/05
Paul Loeffler, Secretary	09/01/07
Tim Bogisch	09/01/03
Oscar Choate	09/01/07
Kyle Donaldson	09/01/03
Landon McClain	09/01/03
Maxie Patterson	09/01/07
Robert Weiss	09/01/05
Raymondville	
Rosenberg	
Alpine	
Seguin	
Mineral Wells	
Sonori	
El Campo	
Houston	
Brenham	

Approximately 40 paid fire departments and departments with both paid and part paid members, and 95 volunteer departments, operate pension funds governed by V.A.C.S. Art. 6243e, the Texas Local Fire Fighters' Retirement Act (TLFFRA). The law, initially enacted in 1937, was completely rewritten during the 71st Regular Session to remove outdated, and sometimes contradictory, language. The state law provides general guidelines -- including some investment restrictions for local plans, but leaves administration, plan design, contributions, and specific investments to local boards. Plans operating under TLFFRA are entirely locally funded.

78TH LEGISLATIVE SESSION SUMMARY: HB 2561 by Rose

- Amends Section 2 of the Texas Local Fire Fighters Retirement Act by adding definitions of "Accrued Benefit" and "Vested Accrued Benefit." Also, clarifies a member's right to receive a vested accrued benefit.

BENEFIT SUMMARY FOR STATEWIDE PUBLIC RETIREMENT SYSTEMS

System Name	Normal Eligibility	Benefit Formula
Employees Retirement System	Employee Class: Age 60/5 YCS; Rule of 80 Elected Class: Age 50/12 YCS or Age 60/8 YCS	Employee Class: 2.3% x Avg. High 36 Mos. Salary x YCS Elected Officially: 2.3% x Current District Judge's Salary x YCS Minimum: \$150/month Maximum: 100% Avg. monthly salary
Judicial Retirement System Plan I	Age 65/10 YCS and currently holding judicial office Age 65/12 YCS or Any Age/20 YCS	50% of Final Compensation, increased by 10% of final compensation if in office or served as a visiting judge within 12 months of benefit commencement. Final Compensation is the state salary for a judge of a court of the same classification as last served.
Judicial Retirement System Plan II	Age 65/10 YCS (if currently holds judicial office) Age 65/12 YCS Age 55/20 YCS or Rule of 70 (with two full terms on appellate court)	50% of Final Compensation, increased by 10% of final compensation if in office or served as a visiting judge within 12 months of benefit commencement. Final Compensation is the state salary for a judge of a court of the same classification as last served.
Law Enforcement and Custodial Officer Supplemental Retirement Fund	Age 50/20 YCS or Rule of 80	The percentage of the normal benefit is the sum of the percentage factor for a standard service retirement under ERS plus 0.5% (2.3% + 0.5% = 2.8%).
Teacher Retirement System	Age 65/5 YCS, or Rule of 80	2.3% x Avg. High 3 Yr. Salary x YCS; Minimum: \$150/month
Texas County and District Retirement System	Depending on Election Age 60/(8, 10, 12 YCS), Rule of 75 or 80 in certain cases, or 30 YCS	[(Accumulated member contributions + Earned interest on member account) + Subdivision-financed monetary credits] / annuity purchase rate
Texas Municipal Retirement System	By City Option: Age 60/5YCS Age 60/10 YCS Any age/20 or 25 YCS	(Accumulated member contributions) + (City-financed monetary credits) + (Earned interest on both accounts)
Texas Statewide Emergency Services Personnel Retirement Fund	Age 55/15 YCS	(6 x Monthly Contribution x Vested %) + (7% of Accumulated Benefit per YCS > 15) Minimum monthly contribution is \$12.00.

BENEFIT SUMMARY FOR MUNICIPAL PENSION PLANS GOVERNED BY STATE STATUTE

Retirement System	Retirement Eligibility	Basic Service Retirement Benefit ¹
Austin Employees	Age 55/20 YCS or Age 62 or 23 YCS	$3.0\% \times (\text{High } 36 \text{ Mos. Salary of Final } 120) \times \text{YCS}$
Austin Fire	25 YCS or Age 50/10 YCS	$3.3\% \times (\text{High } 36 \text{ Mos. Salary}) \times \text{YCS}$ Minimum: \$1,200/month
Austin Police	Age 55/20 YCS or Age 62 or 23 YCS	$3.0\% \times (\text{High } 36 \text{ Mos. Salary of Final } 120) \times \text{YCS}$
Dallas Police and Fire	Age 50/5 YCS	$3\% \times (\text{High } 36 \text{ Mos. Salary}) \times \text{YCS}$ (Maximum: 32 YCS); Minimum: \$2,200/month.
El Paso Fire and Police	Age 45/20 YCS	$2.75\% \times (\text{High } 12 \text{ Mos. Salary}) \times \text{YCS}$; Maximum: 77% of High 12 Mos. Salary
Galveston Police	Age 65	$1.35\% \times (\text{Avg. Last } 60 \text{ Mos. Salary}) \times (\text{YCS} < 15) + 1.65\% \times (\text{Avg. Last } 60 \text{ Mos. Salary}) \times (\text{YCS} 15-30)$
Houston Fire	20 YCS	50.0% (Avg. of Member's Monthly Salary for Highest 78 pay periods) + $[3.0\% \times (\text{Avg. of Member's Monthly Salary for Highest } 78 \text{ pay periods}) \times (\text{YCS} > 20)]$ Maximum: 80% of Avg. of Member's Monthly Salary for Highest 78 pay periods
Houston Municipal Group A and C (Contributory)	Age 62/5 YCS Rule of 70 (w/5 YCS) Age 65 (Group C)	Group A: $[3.25\% \times (\text{High } 78 \text{ bi-weekly Salary}) \times (\text{YCS} < 10)] + [3.50\% \times (\text{High } 78 \text{ bi-weekly Salary}) \times (\text{YCS between } 10 \text{ and } 20)] + [4.25\% \times (\text{High } 78 \text{ bi-weekly Salary}) \times (\text{YCS} > 20)]$ Maximum: 90% Group C: $[6.50\% \times (\text{High } 78 \text{ bi-weekly Salary}) \times (\text{YCS} < 10)] + [7.00\% \times (\text{High } 78 \text{ bi-weekly Salary}) \times (\text{YCS between } 10 \text{ and } 20)] + [8.50\% \times (\text{High } 78 \text{ bi-weekly Salary}) \times (\text{YCS} > 20)]$ Maximum: 90%
Houston Municipal Group B (Non-Contributory)	Age 62/5 YCS Rule of 70 (w/5 YCS) Age 65 (Group C)	$[1.75\% \times (\text{High } 36 \text{ Mos. Salary}) \times (\text{YCS} < 10)] + [2.00\% \times (\text{High } 36 \text{ Mos. Salary}) \times (\text{YCS } 11-20)] + [2.75\% \times (\text{High } 36 \text{ Mos. Salary}) \times (\text{YCS} > 20)]$ Maximum: 90%
Houston Police	20 YCS	$[2.75\% \times (\text{Average Total Direct Pay}) \times (\text{YCS } 1-20)] + [2.00\% \times (\text{Average Total Direct Pay}) \times (\text{YCS} > 20)]$
San Antonio Fire and Police	20 YCS	$[2.25\% \times (\text{High } 36 \text{ Mos. Salary}) \times \text{YCS } 1-20] + [4.5\% \times (\text{High } 36 \text{ Mos. Salary}) \times \text{YCS } 21-27] + [3\% \times (\text{High } 36 \text{ Mos. Salary}) \times \text{YCS } 28-30] + [0.5\% \times (\text{High } 36 \text{ Mos. Salary}) \times \text{YCS } 31-34]$

ASSET AND MEMBERSHIP SUMMARY FOR STATEWIDE PUBLIC RETIREMENT SYSTEMS

System Name	Fiscal Year End	Total Value of Assets	Active Members	Annuityants	Total Members
Employees Retirement System of Texas	08/31/2003	\$21,321,187,711	142,163	56,044	198,207
Judicial Retirement System I	08/31/2003	\$247,026	57	505	562
Judicial Retirement System II	08/31/2003	\$140,050,111	477	59	536
Law Enforcement and Custodial Officer Supplemental Retirement Fund	08/31/2003	\$725,397,250	40,335	4,173	44,121
Teacher Retirement System of Texas	08/31/2003	\$ 87,930,339,882	863,291	217,477	1,080,768
Texas County and District Retirement System	12/31/2002	\$ 11,745,741,048	101,415	24,862	126,277
Texas Municipal Retirement System	12/31/2002	\$10,334,094,982	119,747	22,085	141,832
Texas Statewide Emergency Services Personnel Retirement Fund	08/31/2002	\$ 30,001,060	5,864	1,250	7,114

ASSET AND MEMBERSHIP SUMMARY FOR MUNICIPAL PENSION PLANS GOVERNED BY STATE STATUTE

System Name	Fiscal Year End	Total Value of Assets	Active Members	Annuitants	Total Members
Austin Employees	12/31/2002	\$ 1,168,643,270	8,251	2,783	11,034
Austin Fire	12/31/2002	\$ 332,181,859	938	375	1,313
Austin Police	12/31/2002	\$ 249,518,755	1,383	306	1,689
Dallas Police and Fire	12/31/2002	\$ 1,854,777,806	4,665	2,870	7,535
El Paso Fire	06/30/2002	\$166,324,692	684	494	1,178
El Paso Police	06/30/2002	\$292,540,838	1,105	604	1,709
Galveston Police	12/31/2002	\$21,098,770	148	77	225
Houston Fire	06/30/2003	\$1,951,506,399	3,318	1,921	5,239
Houston Municipal	06/30/2003	\$1,406,518,000	12,527	5,928	18,455
Houston Police	06/30/2003	\$2,267,619,000	5,373	1,886	7,259
San Antonio Fire & Police	09/30/2002	\$1,300,599,000	3,348	1,540	4,888

ACTUARIAL VALUATION SUMMARY FOR STATEWIDE PUBLIC RETIREMENT SYSTEMS

System Name Actuary and Valuation	Contributions			Normal Cost % Payroll	Actuarial Value of Assets \$Millions	Unfunded Actuarial Liabilities \$Millions	Amortization Period	
	Member	Employer	Method				Years	Method
Employees Retirement System Towers Perrin (08/31/2003)	6.00%	6.00%	Statutory	12.26%	\$ 19,478.6	\$ 480.6	Infinite	Variable
Judicial Retirement System I Towers Perrin (08/31/2003)	6.00%	Appropriation As Needed	Statutory	17.76%	\$ 0.0	\$ 262.8	NA	Variable
Judicial Retirement System II Towers Perrin (08/31/2003)	6.00%	16.83%	Statutory	19.58%	\$ 129.4	-\$18.3	0	Variable
Law Enforcement and Custodial Officer Supplemental Retirement Fund ¹ Towers Perrin (08/31/2003)	0.00%	0.00%	Statutory	1.61%	\$ 666.6	-\$ 68.8	0	Variable
Teacher Retirement System GRS (08/31/2003)	6.40%	6.00%	Statutory	12.46%	\$ 89,033.0	\$ 5,230.0	Infinite	Variable
Texas County & District Retirement System Milliman USA (12/31/2002)	4%, 5%, 6%, 7%	Actuarially Determined	Statutory	Varies by County & District	\$ 8,779.3	\$ 1,119.1	20	Open - Set by Board
Texas Municipal Retirement System Segal Company (12/31/2002)	5%, 6%, 7%	Matching Ratio: 1:1; 1.5:1; or 2:1	Actuarially Determined	Varies by City	\$ 9,998.7	\$ 1,869.4	25	Fixed
Texas Statewide Emergency Personnel Services Retirement Fund Rudd & Wisdom (08/31/2002)	0.00%	\$12 month per member	Statutory	NA	\$ 32.8	\$ 13.2	Infinite	Variable

Pension Review Board's guidelines state that contributions to a defined benefit plan should always cover the normal cost, and amortize any unfunded actuarial accrued liability over a period not to exceed 40 years.

ACTUARIAL VALUATION SUMMARY FOR MUNICIPAL PENSION PLANS GOVERNED BY STATE STATUTE

System Name Actuary and Valuation Date	Contributions			Normal Cost (% Payroll)	Actuarial Value of Assets (\$Millions)	Unfunded Actuarial Liabilities (\$Millions)	Amortization Period	
	Member	City	Method				Years	Method
Austin Employees Gabriel, Roeder, Smith & Co. (12/31/2002)	8.00%	8.00%	Fixed	14.8%	\$ 1,250.9	\$ 189.3	infinite	Variable
Austin Fire Towers Perrin (12/31/2001)	13.70%	18.05%	Fixed	30.5%	\$395.4	\$10.9	26.5	Variable
Austin Police Rudd & Wisdom (12/31/2002)	9.00%	18.00%	Fixed	20.1%	\$ 298.8	\$86.2	25.7	Variable
Dallas Police and Fire Buck Consultants (01/01/2003)	8.50%	27.50%	Fixed	23.4%	\$ 1,992.3	\$745.8	69	Variable
El Paso Fire Buck Consultants (07/01/2002)	15.28%	18.00%	Fixed	29.8%	\$ 189.1	\$108.1	Infinite	Variable
El Paso Police Buck Consultants (07/01/2002)	11.89%	18.00%	Fixed	30.4%	\$ 332.9	\$93.4	Infinite	Variable
Galveston Police Actuarial Business Consultants (01/01/2003)	10.00%	5.00%	Fixed	10.2%	\$ 21.0	\$10.6	30 Years from 01/01/1982	Board Policy
Houston Fire Towers Perrin (07/01/2002)	7.70%*	23.80%	Actuarial Determined	22.1%	\$ 1,922.4	\$47.7	30	Fixed
Houston Municipal Towers Perrin (07/01/2002)	Group A 4.0% Group C 4.0%	All Groups 10%	Statutory	12.3%	\$1,271.7	\$995.5	40 Years from 01/01/1983	Statutory
Houston Police Towers Perrin (07/01/2002)	8.75%	11.41%	Statutory	19.0%	\$2,337.2	\$256.6	30	Fixed
San Antonio Fire & Police Towers Perrin (10/01/2002)	12.32%	24.64%	Fixed	28.8%	\$1,341.3	\$289.2	23.2	Variable

* Member contribution rate increased to 8.35% on September 1, 2003.

MARCH 2004

TEXAS PENSION REVIEW BOARD
GUIDE TO PUBLIC RETIREMENT SYSTEMS IN TEXAS

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ACTUARIAL ASSUMPTIONS AND METHODS FOR STATEWIDE PUBLIC RETIREMENT SYSTEMS

System Name Actuary and Valuation Date	Actuarial Cost Method Amortization Method	Asset Valuation Method	Investment Rate of Return	Includes Inflation Ad	Projected Salary Increases	Cost of Living Adjustments
Employees Retirement System Towers Perrin (08/31/2003)	Entry Age Level Percent Open	5-Year Smoothed Market Value	8.0%	4.0%	5.25%-11.75%	Employee Class None Elected Class 6.0%
Judicial Retirement System I Towers Perrin (08/31/2003)	Entry Age Level Dollar Open	NA	8.0%	4.0%	4.0%	4.00%
Judicial Retirement System II Towers Perrin (08/31/2003)	Entry Age Level Percent Open	5-Year Smoothed Market Value	8.0%	4.0%	4.0%	None
Law Enforcement and Custodial Officer Supplemental Retirement Fund Towers Perrin (08/31/2003)	Entry Age Level Percent Open	5-Year Smoothed Market Value	8.0%	4.0%	6.0% - 14.0%	None
Teacher Retirement System GRS (08/31/2003)	Entry Age Level Percent Open	5-Year Smoothed Market Value	8.0%	3.0%	4.00%-26.15%	None
Texas County & District Retirement System Milliman USA (12/31/2002)	Entry Age Level Percent Open	Long-term appreciation with adjustment	8.0%	3.5%	0.5%-6.0%	Ad Hoc - Elective by subdivision
Texas Municipal Retirement System Segal Company (12/31/2002)	Unit Credit Level Percent Open	Amortized Cost	8.0%	0.0%	N/A	None
Texas Statewide Emergency Personnel Services Retirement Fund Rudd & Wisdom (08/31/2002)	Entry Age Level Dollar Open	5-Year Smoothed Market Value	8.0%	4.0%	N/A	None

ACTUARIAL ASSUMPTIONS AND METHODS FOR MUNICIPAL PENSION PLANS GOVERNED BY STATE STATUTE

System Name Actuary and Valuation Date	Actuarial Cost Method Amortization Method	Asset Valuation Method	Investment Rate of Return	Includes Inflation At	Projected Salary Increases	Cost of Living Adjustments
Austin Employees GRS (12/31/2002)	Entry Age Level Percent Open	5-Year Smoothed Market Value	7.75%	3.50%	4.0% - 14.0%	None
Austin Fire Towers Perrin (12/31/2001)	Entry Age Level Percent Open	5-Year Smoothed Market Value	8.00%	5.00%	6.5%	None
Austin Police Ruud and Wisdom (12/31/2002)	Entry Age Level Percent Open	5-Year Smoothed Market Value	8.00%	4.00%	4.0% - 22.7%	None
Dallas Police and Fire Richard Mackesey (01/01/2003)	Entry Age Level Percent	5-Year Smoothed Market Value	8.50%	4.00%	4.33%-10.0%	4.00%
El Paso Fire Busk Consultants (07/01/2002)	Entry Age Level Percent Open	5-Year Smoothed Fair Value	8.00%	4.00%	5.00% - 9.50%	3.00%
El Paso Police Busk Consultants (07/01/2002)	Entry Age Level Percent Open	5-Year Smoothed Fair Value	8.00%	4.00%	5.00% - 9.50%	3.00%
Galveston Police ABC (01/1/2003)	Entry Age Level Percent Closed	Market Value	7.50%	N/A	3%	None
Houston Fire Towers Perrin (07/01/2002)	Entry Age Level Percent Closed	5-Year Smoothed Fair Value	8.50%	4.00%	3.00% - 10.0%	3.00%
Houston Municipal Towers Perrin (07/01/2002)	Entry Age Level Percent Closed	5-Year Smoothed Fair Value	8.50%	4.00%	4.50%	3.50%
Houston Police Towers Perrin (07/01/2002)	Entry Age Level Percent Closed	5-Year Smoothed Fair Value	8.50%	4.00%	4.00%	3.00%
San Antonio Fire & Police Towers Perrin (10/01/2002)	Entry Age Level Percent Open	5-Year Smoothed Fair Value	8.00%	4.50%	5.50%	Two Tier: 4.5% 3.375%

Paid Fire Fighter Plans Under Texas Local Fire Fighters' Retirement Act (TLFFRA)

System Name	Total Members	Total Assets \$ Millions	Date
Abilene	288	\$30.3	09/30/02
Amarillo	337	\$77.5	12/31/02
Atlanta*	26	\$1.7	12/31/02
Beaumont	356	\$57.8	12/31/02
Big Spring	92	\$6.9	12/31/02
Brownwood	51	\$1.8	12/31/02
Cleburne	72	\$9.3	12/31/02
Conroe	82	\$5.7	12/31/02
Corpus Christi	628	\$85.8	12/31/02
Corsicana	54	\$2.9	12/31/02
Denison	87	\$9.8	12/31/02
Denton	180	\$23.2	12/31/02
Galveston	160	\$26.1	12/31/02
Greenville	112	\$9.4	12/31/02
Harlingen	148	\$13.7	09/30/02
Irving	376	\$69.8	12/31/02
Killeen*	163	\$13.0	09/30/02
Laredo	398	\$38.6	09/30/02
Longview	243	\$33.9	12/31/02
Lubbock	501	\$107.5	12/31/02

* Part-paid and part-volunteer fire department

System Name	Total Members	Total Assets \$ Millions	Date
Lufkin	113	\$11.1	12/31/02
Marshall	68	\$4.9	12/31/02
McAllen	194	\$20.9	09/30/02
Midland	278	\$41.9	12/31/02
Odessa	289	\$36.6	12/31/02
Orange	61	\$7.3	12/31/02
Pattis	81	\$6.2	12/31/02
Plainview	60	\$4.5	12/31/02
Port Arthur	158	\$22.9	12/31/02
San Angelo	237	\$33.8	12/31/02
San Benito	33	\$1.1	12/31/02
Sweetwater	41	\$4.9	12/31/02
Temple	133	\$18.3	09/30/02
Texarkana	127	\$17.6	12/31/02
Texas City	89	\$9.5	12/31/02
Tyler	211	\$32.2	09/30/02
University Park	67	\$7.9	12/31/02
Waxahachie	50	\$4.6	09/30/02
Weslaco*	82	\$2.3	12/31/02
Wichita Falls	225	\$28.7	12/31/02

Glossary of Commonly Used Pension Terms

Actuarial Value of Assets

A calculation made by an actuary who is preparing an actuarial valuation of a defined benefit plan, in order to assess fairly the value of a retirement plan's assets in a manner that reduces the volatility of short-term market fluctuations. An actuarial valuation should always state the method used to calculate the value of a plan's assets.

Actuarial Assumptions

Whenever an actuary calculates the long-term funding costs of a retirement system, certain assumptions are made as to the future of that plan. These assumptions represent the actuary's best projection of future plan experience, and are generally either economic or demographic. **Economic assumptions** include anticipated inflation ranges and performance of the fund's assets in the overall investment universe. **Demographic assumptions** tend to be more specific to the plan being evaluated, and are dependent on such factors as the age and life expectancy of plan members.

The primary assumptions, that is, the assumptions that have the most significant impact on the statement of plan liabilities, used by most actuaries include the rate of interest earnings on investments (the **interest assumption**), the rate of anticipated salary increases for plan members (the **salary assumption**), and the anticipated increase in the size of the covered payroll of the plan (the **payroll assumption**). The actuarial assumptions are not considered independently of one another, and should be reasonable when considered as a group. For example, a very high salary increase assumption and a very low payroll growth assumption would be unlikely, since similar factors influence both numbers. The distance between the interest and salary increase rates assumed in valuation is called the **spread**. Other assumptions include withdrawal rates for covered employees, mortality rates, expected ages at retirement, etc. The accuracy of any actuarial projection depends largely on how closely actual experience matches the assumptions made in the projection over the long term.

Actuarial Valuation

A review of the adequacy of a retirement plan's financing arrangement at a particular point in time, which may serve as a basis for determining the amount of funding needed to provide benefits to employees and retirees covered by a **defined benefit plan**. The valuation is dependent on **actuarial assumptions**, calculates the cost of benefits currently being earned, benefits due for past service, and benefits anticipated to be earned in the future. Public **defined benefit** plan valuations are required by state law to be made at least once every three years, but may be made annually or biennially.

Amortization Period or Funding Period

The length of time required to eliminate a **defined benefit plan's unfunded actuarial accrued liability** under the pattern of contributions at a particular point in time. An amortization period may, as a matter of policy, be fixed, rolling, or variable. A **fixed amortization period** means that all obligations of a retirement plan will be fully funded by a specific target date in the future. A **rolling amortization period** means that obligations of a plan will never be fully funded, but that a constant amortization period will be preserved from year to year. A **variable amortization period** means that the period can change either slightly or drastically from valuation to valuation. The Pension Review Board has adopted guidelines, which state that the funding period for a public retirement system should never exceed 40 years, with a preferred range of 25 to 30 years.

Glossary of Commonly Used Pension Terms

Cost-of-Living Adjustment (COLA)

An increase in benefits granted to retirees. A COLA can be granted as either a percentage increase in benefits or as a flat dollar amount. COLAs may be automatic, either set at a regular amount per year or triggered by some external event, such as a change in the Consumer Price Index, or they may be granted from time to time on an ad hoc basis at the discretion of an employer, board of trustee, or other appropriate governing body.

Deferred Retirement Option Programs (DROP)

The acronym "DROP" refers to "Delayed Retirement Option Plan" or "Deferred Retirement Option Plan." DROPs are optional payment forms under defined benefit plans similar to the traditional or partial lump-sum options that allow participants to elect to receive a lump sum in exchange for a reduced monthly benefit for life.

Defined Contribution Plan

A retirement plan that provides a benefit based entirely on the amount of money contributed by or for the employee over the employee's career, and the interest earned on that money. "Pure" defined contribution plans do not require actuarial valuations. Defined contribution plans are generally perceived as being easier to administer than defined benefit plans, although they provide a less predictable retirement benefit for the employee. Each member of a defined contribution plan directly bears any risks attached to the investment of the plan's funds.

Entry Age Actuarial Cost Method

One method of calculating the long-term funding needs of a defined benefit retirement plan. Under this method, the actuarial value of the anticipated benefit of each plan member is allocated on a level basis over the member's career. The primary actuarial method used by actuaries serving Texas' public retirement systems is the **Entry Age Actuarial Cost Method**, with costs calculated as a level percent of pay.

Fiduciary

A person who exercises discretionary authority or control over the management of a retirement plan or its assets, and who is responsible or liable for decisions affecting the plan or fund. In the state systems, fiduciary responsibility resides with the Board of Trustees. Some other systems allow delegation of fiduciary authority to professional investment advisers or managers.

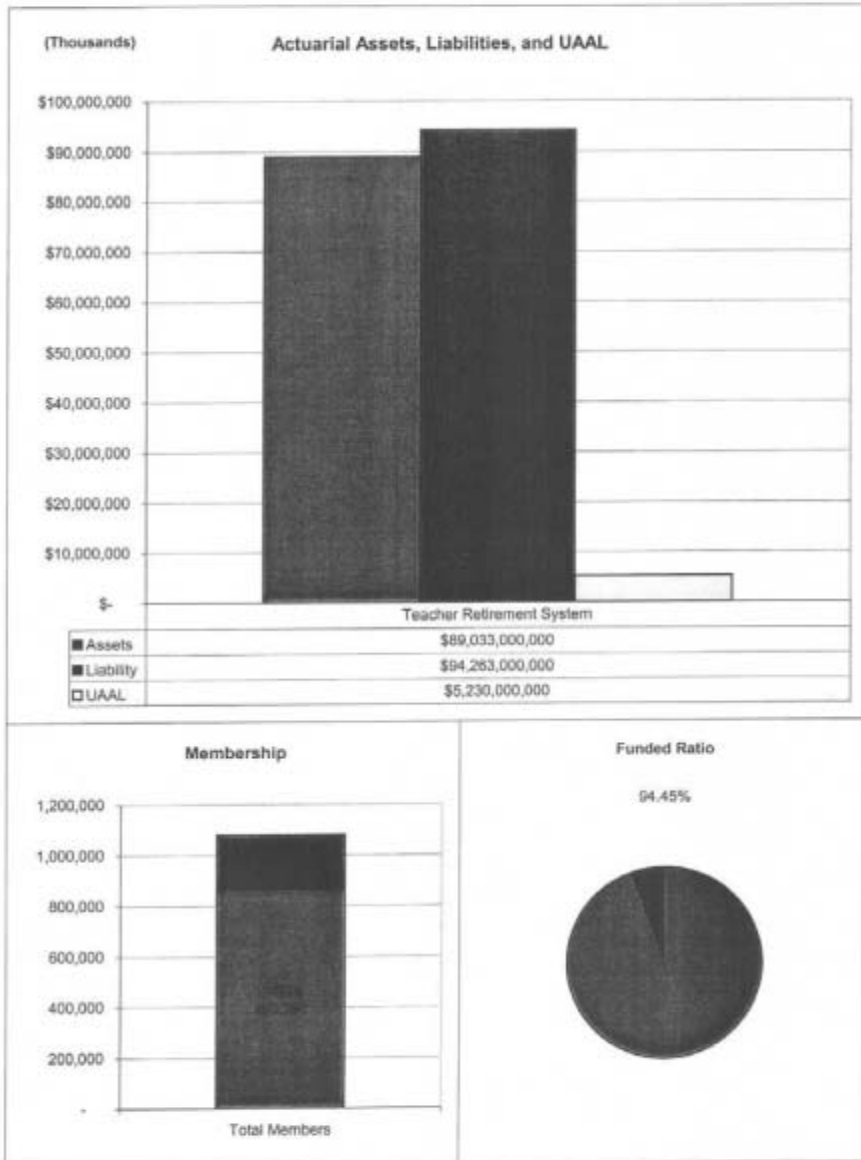
Funding Ratio

The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

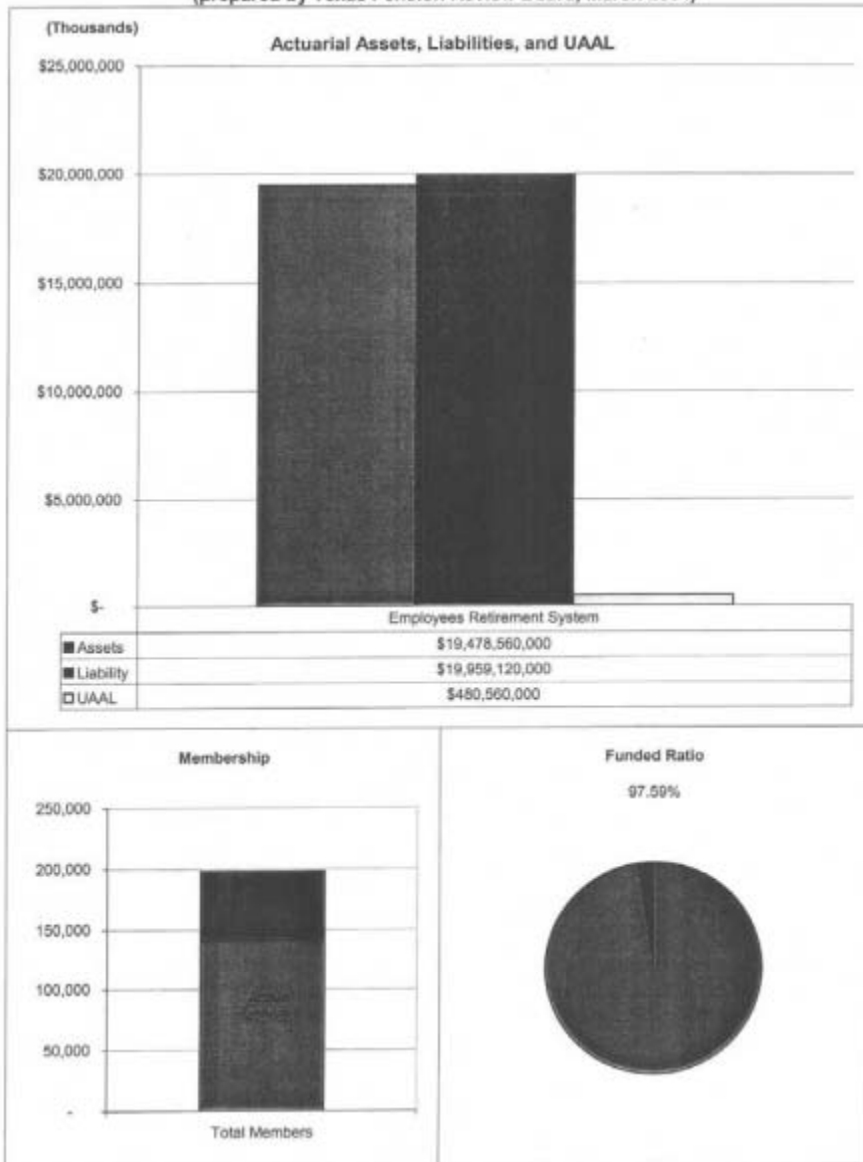
Glossary of Commonly Used Pension Terms

Normal Cost	<p>The portion of a defined benefit retirement plan's liability allocated to a single plan year under an actuarial cost method. This cost is usually expressed as a percentage of the annual payroll of employees covered by the plan. Under the cost methods used by most public plans, a plan's normal cost should remain relatively constant from year to year, unless the plan's benefit design changes or significant demographic change occurs in the covered group of employees. Pension Review Board guidelines state that contributions to a defined benefit plan should always cover the normal cost, and amortize any unfunded actuarial accrued liability over a period not to exceed 40 years.</p>
Overfunded Actuarial Accrued Liability	<p>If the actuarial value of assets and anticipated future normal cost contributions of a defined benefit pension plan exceed the plan's projected benefit obligations, the plan may be said to have an overfunded actuarial accrued liability.</p>
Prudent Person Rule	<p>A standard of fiduciary care applicable to trustees of retirement funds. The rule requires that a trustee invest public money in the manner of persons of ordinary prudence, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of the capital to be invested. All Texas public retirement funds are subject to the Prudent Person Rule, though many have additional "legal lists" of investments.</p>
Unfunded Actuarial Accrued Liability	<p>That portion of a defined benefit retirement plan's obligations not covered by the actuarial value of assets or by future normal cost contributions. This portion of a plan's obligation can be funded by contributions above the level needed to pay the plan's normal cost, which will result in an amortization of the amount over the plan's funding period. A fund with assets in excess of its obligations may be said to have negative unfunded actuarial accrued liability or an overfunded actuarial accrued liability.</p>

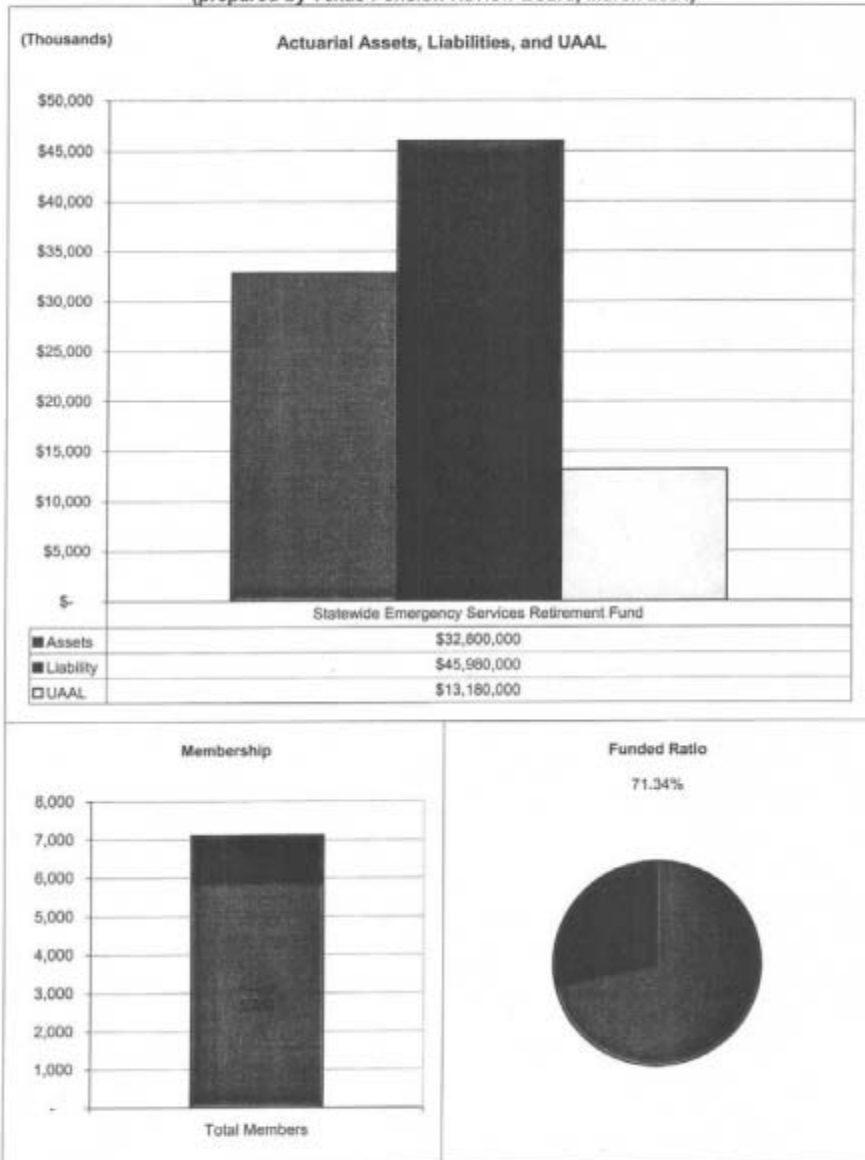
**Teacher Retirement System
as of 8/31/2003
(prepared by Texas Pension Review Board, March 2004)**



**Employees Retirement System
as of 8/31/2003
(prepared by Texas Pension Review Board, March 2004)**



Texas Statewide Emergency Services Personnel Retirement Fund
as of 8/31/2002
(prepared by Texas Pension Review Board, March 2004)



**Public Pension Plans
List of Underfunded Plans
As of March 19, 2004**

- 1) El Paso Fire – Infinity as of 7/1/00
- 2) El Paso Police – Infinity as of 7/1/00
- 3) Dallas Municipal – Infinity as of 12/31/01
- 4) Harlingen Fire – 62 years as of 9/30/01
- 5) Longview Fire – 71.6 years as of 12/31/01
- 6) Teacher Retirement System - Infinity as of 8/31/02
- 7) Lufkin Fire – Infinity as of 12/31/02
- 8) Marshall Fire – 55.9 years as of 12/31/02
- 9) Fort Worth Employees – Infinity as of 10/1/02
- 10) Austin Employees – Infinity as of 12/31/02
- 11) Dallas Police and Fire – 69 years as of 1/1/03
- 12) Texas City Fire – Infinity as of 6/30/02
- 13) Houston Municipal – as of 7/1/02*
- 14) Statewide Emergency Services – Infinity as of 8/31/02
- 15) Employees Retirement System – Infinity as of 8/31/03
- 16) Odessa Fire – 60.4 years as of 1/1/03
- 17) Waxahachie Fire – Infinity as of 10/1/02

* Not meeting annual required contributions per 7/1/02 actuarial valuation.



Texas Statewide Retirement Systems Comparison of ERS-TRS Plan Design
 Updated: February 5, 2004


After each legislative session, the Pension Review Board produces this report to provide a simple comparison of the benefits provided by the two largest Texas public pension funds. Although there are many similarities between the Employees Retirement System of Texas and the Teacher Retirement System of Texas, each pension system is tailored to fit the needs of its particular members.

DESCRIPTION	EMPLOYEES RETIREMENT SYSTEM	TEACHER RETIREMENT SYSTEM
Contributions	Members 6.0 % State 6.0 % The 6.00 % state contribution is the rate appropriated by the state for the 2002-2003 biennium, but the state contribution rate in general law is 7.4%.	Members 6.4% State 6.0% The 6.00 % state contribution is the rate appropriated by the state for the 2002-2003 biennium, but the state contribution rate in general law is 8%.
Final Average Salary (FAS)	High 36 months	High 3 years
Creditable Service (YCS = Year of Creditable Service)	1 month or partial month of service = 1 month credit. 90-day wait for new members, option to purchase the service credit.	4½ months of service = 1 YCS 90 working days = 1 YCS Full semester of more than 4 calendar months = 1 YCS. Service credit given only in 1-year increments.

<p>Disability Benefits</p>	<p><u>Service-related</u></p> <p>2.30% x FAS x YCS Maximum: 100% salary Minimum: 35% salary or \$150/mo. No minimum YCS required</p> <p><u>Not Service-related</u></p> <p>2.30% x FAS x YCS Maximum: 100% FAS Minimum: 23.0% FAS or \$150/mo. Minimum 10 YCS required</p>	<p>With 10 or more YCS: Greater of:</p> <ul style="list-style-type: none"> • Standard service retirement annuity with no reduction for age; • Minimum of \$150/mo. <p>No distinction between Service or Non-Service cause. Disability retirement benefits and option selections are similar to service retirement plan. Payments continue for duration of the disability.</p> <p>Less than 10 YCS: \$150/mo. for shortest of:</p> <ul style="list-style-type: none"> • Duration of disability; • Number of months of YCS, • Or the duration of person's life.
<p>Survivor Benefits for Active Members</p>	<p>Beneficiary is allowed to choose one of the following:</p> <p><u>Service-related</u></p> <p>1 year's salary plus any benefits due</p> <p><u>Not Service-related</u></p> <p>With 10 YCS: Option 1 or 4 annuity or lump sum refund of contributions plus 5% of amount in account for each full year service not to exceed 100%.</p> <p>At least 5 but less than 10 YCS and eligible to retire: Option 1 or 4 annuity. (To spouse or minor child only)</p> <p>Less than 10 YCS and ineligible to retire: refund of member account plus 5% of amount in account for each full year creditable service.</p>	<p>Beneficiary is allowed to choose one of the following:</p> <ol style="list-style-type: none"> 1) Lesser of \$80,000 or twice member's final year compensation 2) Lesser of \$80,000 or twice member's compensation for school year immediately preceding year of death 3) Unreduced standard annuity paid for 60 months (5 YCS required) 4) Option 1 annuity for lifetime of beneficiary (5 YCS required) 5) Refund of member account, or 6) \$2,500 lump sum plus one of the following: <ul style="list-style-type: none"> • \$250/mo. to spouse or dependent parent (beginning at age 65) • \$350/mo. to spouse or dependent parent with one or more children until youngest becomes 18; when youngest is 18, \$250/mo. to spouse at age 65 • \$350/mo. to guardian of decedent's two or more children under 18 • \$250/mo. to guardian of decedent's child under 18 <p>Additionally a lump-sum death benefit of \$150,000 is available for active members employed by a school district who die due to a physical assault during the performance of their regular duties.</p>
<p>Survivor Benefits for Inactive Members</p>	<p>10 YCS: Option 1 or 4 annuity. Less than 10 YCS: Refund of member account.</p>	<p>Same as active member if within 5 Years of retirement eligibility or if absent due to sickness, accident, or other involuntary cause or in the furtherance of the objectives of the public school system. Otherwise: Refund of member account.</p>

<p>Post Retirement Survivor Benefits</p>	<p>Benefit due under retirement option plus \$5,000 lump sum.</p> <p>If no benefits due, then \$5,000 lump sum plus refund of undistributed accumulated contributions, if any.</p> <p>\$2,500 Basic Life Insurance if retiree was covered under state health insurance.</p>	<p>Benefits due under retirement option (if any) plus either</p> <p>(1) \$10,000 lump sum, or</p> <p>(2) \$2,500 lump sum plus 1 of following amounts:</p> <ul style="list-style-type: none"> • \$250/mo. To spouse or dependent parent beginning no earlier than age 65. • \$350/mo. To spouse with children under 18; when youngest is 18, \$250/mo to spouse at age 65 • \$350/mo. To guardian of decedent's two or more children under 18 • \$250/mo. To guardian of decedent's child under 18 <p>Refund of undistributed accumulated contribution</p> <p>Disability Retirement: Death benefits are the same as for active member or \$10,000 lump sum for members retired under a disability retirement before September 1, 1992. If disability retirement occurred after September 1, 1992, then the death benefits are the same as retired members.</p>
<p>Retiree Health Benefits</p>	<p>Age 65/10 YCS or rule of 80: Same group coverage as active employees. State pays 100% of premium for retiree and 50% of premium for dependents.</p>	<p>* TRS-Care eligibility criteria have changed. For Public School Retirees: Plan funded by .25% of payroll contributed by active public school employees, .5% contributed by state plus participant premiums.</p>

<p>Other</p>	<p>Accumulated sick and/or annual leave may be used to increase an annuity benefit or to meet retirement service or death benefit plan eligibility requirements. The exchange rate is one month of service credit for each 160 hours of accumulated sick and/or annual leave. Fractional months of service credit for leave to be rounded up to the next month.</p> <p>There are no costs to establish this service credit.</p> <p>Optional Retirement Program (ORP) and certain governmental service in Texas is creditable toward retirement eligibility. This is for eligibility purposes and is applicable to service not otherwise creditable under the proportionate retirement program.</p>	<p>Unused sick leave accumulated at retirement: 30 state provided personal or sick leave days or 40 state provided hours equal 1 year of service credit. Cost paid by member. Employer may reimburse the member.</p> <p>Work experience by career or technology teacher. After 5 YCS, member may establish equivalent membership service credit for one or two years of work experience for which the member is entitled to salary step credit. Member must deposit the actuarial present value of the additional standard retirement annuity attributable to the conversion work experience to service.</p>
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Texas Pension Review Board
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**Report on the
State & Local Debt**

EXECUTIVE SUMMARY

The following report analyzes debt that is assumed, both at a state and local level within Texas. The state portion of debt is broken down into two categories - General Obligation Bonds and Revenue Bonds. Local Debt Bonds are any obligations assumed by a city, county, or district, such as school, water, community college, or any other special type.

There are two agencies that are directly involved. The role of the Bond Review Board is: (1) to approve all state bond issues and lease purchases with an initial amount of greater than \$250,000 or a term of longer than five years, (2) to collect, analyze and report information on the debt of local political subdivisions in Texas, and (3) to administer the state's private activity bond program. Texas Public Finance Authority issues all debt for the State of Texas, except when the bonds are for housing loans, local water projects, or projects at an institution of higher education (except for Texas Southern University, Stephen F. Austin University and Midwestern State University).

Based on evaluations and projections supplied by the Bond Review Board for the years of 2001 through 2009, the state will have to closely evaluate its outstanding debt as it considers additional requests for bond authority in the upcoming legislative session.

Summary of Recommendations to the 79th Legislature

1. The Legislature should require the Texas Bond Review Board, in coordination with the Texas Public Finance Authority, to make recommendations regarding actions to improve the state's bond rating. These recommendations should be reported to the Legislature prior to the start of each regular session.
2. The Legislature should consider requiring the Texas Bond Review Board to collect data on the amount of Maintenance and Operation (M&O) tax that is being used to service debt. The Legislature should also clarify M&O tax collection rules to disallow usage for the support of lease purchase payments.

3. The Legislature should require all Tax Increment Financing boards across Texas to report all financial data, including but not limited to principal and interest due on all outstanding debt. This information would be required to be delivered to the Texas Bond Review Board in addition to the Texas Office of the Attorney General and the Texas Comptroller of Public Accounts.

PROCEDURAL BACKGROUND

The Senate Finance Committee (the Committee) met to discuss the total amount of State and Local Debt in a public hearing in Austin, Texas, on March 16, 2004, to consider invited testimony provided by the Texas Public Finance Authority, the Texas Bond Review Board, the Texas Education Agency, the University of Texas System, the Texas A&M University System, and the Texas Legislative Budget Board. The Committee solicited public testimony on the interim charge in a public hearing in Austin, Texas, on July 20, 2004; however, none was provided.

The Committee extends its thanks to those who participated in the hearing, and assisted with or made presentations before the Committee.

BACKGROUND

Texas Bond Review Board

The Texas Bond Review Board (BRB), composed of the Governor, the Lieutenant Governor, the Speaker of the House and the Comptroller of Public Accounts, was created in 1987. The role of the BRB is: (1) to approve all state bond issues and lease purchases with an initial amount of greater than \$250,000 or a term of longer than five years, (2) to collect, analyze

and report information on the debt of local political subdivisions in Texas, and (3) to administer the state's private activity bond program.¹

Texas Public Finance Authority

The Texas Public Finance Authority (TPFA) issues General Obligation (GO) Bonds and Revenue Bonds on behalf of other state agencies, as directed by the Legislature and in accordance with its enabling law, Texas Government Code, Chapter 1232. The State of Texas uses various types of debt, including GO bonds, revenue bonds, commercial paper, variable rate notes/bonds, tax and revenue anticipation notes (TRANS) and lease purchases.² TPFA issues all debt for the State of Texas, except when the bonds are for housing loans, local water projects, or projects at an institution of higher education (except for Texas Southern University, Stephen F. Austin University and Midwestern State University).³ Bonds for these projects are issued by alternate state agencies, such as the Texas Department of Housing and Community Affairs, the Texas Water Development Board and the various state university systems.

STATE DEBT

Types of Debt Issued by the State of Texas

State bonds can be divided into two categories - General Obligation Bonds and Revenue Bonds. These categories can then be subdivided into Self-Supporting and Not Self-Supporting.

¹ *Authorization and Issuance of State Bonds: Hearing before the Senate Finance Committee, 78th Tex. Legis., Interim (March 16, 2004) (Testimony of Patrick Krishock, Acting Executive Director, Texas Bond Review Board). [hereinafter Krishock Testimony] pg.1*

² *Authorization and Issuance of State Bonds: Hearing before the Senate Finance Committee, 78th Tex. Legis., Interim (March 16, 2004) (Testimony of Kim Edwards, Executive Director, Texas Public Finance Authority). [hereinafter Edwards Testimony]*

³ *Ibid.*

Self-supporting debt is supported by program revenues such as loan repayments. Bonds that are not self-supporting have no means of raising revenue to pay the debt service; GR must be appropriated (see Appendix III-30 for a complete listing of state bonds outstanding as of August 2003: FY2004 Annual Financial Report not yet complete).

General Obligation Bonds (GO bonds) pledge the full faith and credit of the state, and so require a constitutional amendment in order to be authorized. GO bonds can also be either self-supporting or not. The last GO bond authorization of \$850 million of not self-supporting debt was approved by voters in 1999. Of this amount, \$358.5 million has been appropriated, but only \$180.2 million of bond debt has been issued.

Revenue bonds or non-GO bonds pledge only a biennial appropriation of lease or rent payments, not the full faith and credit of the state. In a strict legal sense, revenue bonds are not considered “debt” because there is no legal obligation for future Legislatures to appropriate the lease payments, and therefore, do not require voter approval.⁴ As a practical matter, however, because both GO bonds and Revenue bonds are repaid from general revenue (GR) and because the Legislature has historically appropriated lease payments at the same level as GO bonds, Revenue bonds carry approximately the same interest rate as GO bonds.⁵

Revenue bonds are also categorized as either self-supporting or not self-supporting. Tuition Revenue Bonds, Workers' Compensation Fund Bonds, and Texas Department of Transportation Bonds are some examples of self-supporting revenue bonds that are expected to raise revenues enough to pay the debt service. By nature of being GO debt, the state is responsible to repay the bonds if program revenues are ever insufficient to repay the bonds.⁶

⁴ Information provided by the Texas Public Finance Authority.

⁵ *Ibid.*

⁶ Information provided by the Texas Bond Review Board.

State Debt Outstanding

According to data collected by the BRB, in fiscal year (FY) 2004, the state's total bonds and notes outstanding increased 9.7% to \$20.0 billion, compared to \$18.2 billion in FY 2003, \$17.1 billion in FY 2002 and \$13.7 billion in FY 2001.⁷ During FY 2003, Texas state agencies issued an aggregate total of \$2.88 billion in debt. Of this amount, \$1.6 billion was new money and \$1.3 billion was for refunding outstanding bonds. This represents a 36 percent decrease from the \$4.51 billion that was issued in FY 2002.⁸ The new money financing was due primarily to the \$1.4 billion Unemployment Compensation Revenue transaction to fund the repayment of advances made from the Federal Unemployment Trust Funds to the Federal Unemployment Trust Fund in 2003.

The state's total bonds and notes outstanding continued to grow in FY 2004. At the close of FY 04, the state had \$19.95 billion in outstanding bonds.⁹ In addition, the state will have over \$12.1 billion in authorized but not yet issued bond authority for FY 2004. If remaining TRB authority of \$235.6 million is added, the total remaining authority for this fiscal year is over \$12.3 billion.¹⁰

Debt service on outstanding state debt in FY 2003 was \$1.4 billion. Of this amount, 73.96 percent was self-supporting, and the remaining 26.03 percent was non self-supporting. Debt service for FY 2004 was \$2.4 billion. Of this amount, \$2.1 billion (86 percent) was self-supported and \$331.8 million (13.8 percent) was not self-supported debt. Debt service for FY

⁷ Information provided by the Texas Bond Review Board. December 3, 2004.

⁸ Krishock Testimony.

⁹ Information provided by the Texas Bond Review Board. December 3, 2004.

¹⁰ Information provided by the Texas Bond Review Board

2005-07 is expected to be between \$1.78 billion and \$2.51 billion per year for existing debt. Total debt service for existing debt for FY 2009 and beyond is projected to amount to more than \$22 billion.¹¹

Higher Education Debt

Higher Education has access to two types of debt, as well, 1) Revenue Financing System bonds, which can be likened to Revenue Bonds and 2) Permanent University Fund (PUF) or Higher Education Fund (HEF) bonds, which are more similar to GO bonds.

Revenue Financing System Bonds

Revenue Financing System (RFS) bonds are issued by institutions of higher education in accordance with the general laws of the State of Texas, including Chapter 55, Texas Education Code, and Chapters 1207 and 1371, Texas Government Code. For the most part, RFS debt is secured by all legally available revenue except for state appropriations in any given Texas university system. Each component of the system pays its own debt. RFS debt capacity is limited at each institution by the availability of revenues sufficient to support the repayment of that debt, as required by the master resolution adopted by the board of regents for each university system. Before eligible projects can be financed with RFS bonds, they must be approved by the board of regents and the THECB. RFS bonds (excluding TRBs) have few limitations on the type of projects they can be used to finance.

Tuition Revenue Bonds (TRBs) are considered a type of RFS bond, though TRBs have slightly different limitations. TRBs can only be issued in an amount and for a project specified

¹¹ *Debt-Service Requirements of Texas State Bonds by Fiscal Year*, (Table 12), Texas Bond Review Board, 2003 Annual Report. Updated December 3, 2004

by the Legislature and authorized in Chapter 55 of the Texas Education Code.¹² To support these bonds, a university or college system is authorized to pledge the tuition income from all of the system's schools. Statute prevents state appropriations from being used to pay debt service. In FY 2003, TRBs outstanding had increased from \$1.43 billion to \$1.73 billion in FY 2004.¹³

Once the Legislature has approved and appropriated funding for a new TRB issuance, a university must request project and financing approval from its board of regents. After approval, the project is submitted to the THECB for evaluation. The THECB reviews the project to determine whether the construction, rehabilitation, or repair meets the standards adopted by THECB for cost, efficiency, and space use.

Each university's criteria differ from THECB's standards, and no relationship exists other than THECB's consideration of the university's space needs. THECB reviews projects after they have been authorized by the Legislature and the university's board of regents and cannot overturn legislative authorization. If requested, THECB can review proposals prior to legislative approval.¹⁴ The Committee has already requested THECB to review TRB requests prepared for the 79th Legislature.

Historically, legislative practice has been to use general revenue (GR) to reimburse institutions for the cost related to debt service. However, for the FY 04-05 biennium, \$260 million of GR was appropriated to reimburse the interest only portion of debt service. Given the \$3.1 billion of requests for TRB authority in the higher education LARs, the Legislature may give serious consideration to changing the way it pays debt service for TRBs. Whether the Legislature directs universities to use tuition revenue to pay all or part of the debt service, the

¹² *Permanent University Funds Bonds: Hearing before the Senate Finance Committee, 78th Tex. Legis., Interim (March 16, 2004) (Testimony of Randy Wallace, Vice Chancellor and Controller, and Philip Aldridge, Interim Vice Chancellor for Business Affairs, University of Texas System).*

¹³ Information provided by the Texas Bond Review Board. December 3, 2004.

¹⁴ *Tuition Revenue Bond Authorization: Hearing before the Senate Finance Committee, 78th Tex. Legis., Interim (March 16, 2004) (Testimony of Greg Owens, Higher Education Analyst, Legislative Budget Board)*

enormity of the requests makes the discussion of how to share the responsibility for debt service with higher education necessary.

PUF and HEF Bonds

Permanent University Fund (PUF) and Higher Education Fund (HEF) Bonds pledge the first revenues to each of the respective funds in order to secure debt for projects that fall within similar constitutional limitations.^{15 16}

The issuance of Permanent University Fund (PUF) debt is authorized by the following: Article VII, Section 18 of the Texas Constitution; Chapter 1371 Texas Government Code, and Section 65.46, Texas Education Code. All debt issued is also pursuant to the terms of bond resolutions approved by the board of regents of the system responsible for issuing the debt. The constitution specifies that the University of Texas System (UT System) may bond up to 20 percent of the PUF book value. Likewise, Texas A&M University System is limited to bonding up to 10 percent of the PUF book value. A list of universities eligible for PUF debt is listed on Appendix III-151.

Higher Education Fund (HEF) bonds may only be used for certain constitutional purposes, including acquiring land; constructing, equipping and repairing buildings; and, acquiring capital equipment, library books and library materials. HEF bonds may not be used for student housing, intercollegiate athletics, or auxiliary enterprises. The Texas Constitution allows the governing board of each HEF eligible institution to issue HEF backed bonds (see Appendix III-151 for list of institutions). The constitution requires that HEF bond debt service be paid solely out of the HEF allocation, and not from the “Permanent HEF” corpus (approximately \$2 billion). GR cannot be used to service HEF bond debt. The Texas Constitution also requires that

¹⁵ Texas Constitution, Article VII, Section 18. Texas Government Code, Chapter 1371. Texas Education Code, Section 65.46.

¹⁶ Texas Constitution, Article VII, Section 17.

HEF backed bonds mature in ten years or less from their issuance dates. The constitution limits HEF eligible institutions to using no more than 50 percent of their respective HEF allocations for HEF debt service.

HEF backed bonds were last utilized as a financing tool in 1997. This drop-off in usage can be attributed primarily to the numerous constitutional limitations placed on HEF backed bonds, and the resulting uncertainty of the eligible institutions in knowing what funds will be available to service the debt.

UT System

The UT System has \$3.1 billion in total debt outstanding. Of this amount, \$987 million is PUF debt, and \$2.1 billion is RFS debt, which includes \$568 million in TRB debt. UT System is RFS debt requires \$230 million per year in debt service. The UT System is allocated 20 percent of the cost value capacity of the PUF, currently \$1.5 billion. The UT System currently has outstanding PUF debt equal to 16 percent of PUF capacity, or \$1 billion, primarily in 20-year bonds. These funds are restricted to educational and general expenditures and do not include auxiliary expenditures.¹⁷

Texas A&M System

The TAMUS has \$1.15 billion in total debt outstanding. Of this amount, \$850 million is RFS debt, and \$307 million is PUF debt. The TAMUS can bond up to 10 percent of the value of the PUF, currently \$740 million. Furthermore, RFS capacity is \$1 billion. The TAMUS debt service on RFS debt amounts to \$120-130 million per year.

¹⁷ *Hearing Regarding U.T. System Debt Programs: Hearing before the Senate Finance Committee, 78th Tex. Legis., Interim (March 16, 2004)*

Texas' Bond Rating

Texas is currently rated Aa1/AA/AA+ respectively by the three major bond rating agencies: Moody's, Standard and Poor's, and Fitch IBCA. Ratings are based on four factors: economy, financial condition, debt burden and general management practices. It is important to note that all but one of these factors, the economy, are controllable. The ability to influence the other factors provides an opportunity to improve the state's rating if the necessary actions are taken, but at a potentially significant cost.¹⁸

Regardless of the cost of certain actions related to improving the state's bond rating, the adoption of a general debt management plan would benefit Texas. In general, this process would involve three steps: 1) develop a state long term capital planning (e.g. 5 year capital budgets), 2) use the capital plan to conduct a debt affordability study or plan (i.e. project future debt issuance to meet capital budget needs, and factor in existing debt service), and 3) incorporate the long term plan into the operating budget of the state. The State of Florida currently has an effective model (See Appendix III-152).

Texas' rating was downgraded in 1987 because of the economic downturn related to oil and gas issues, but has since been upgraded to Aa1 by Moody's in 1999. Texas' rating has remained constant since that time, during which other states have seen changes in their ratings. In fact, during the period between August 2002 to July 2003, seven states (California, Connecticut, Illinois, Minnesota, New York, Oregon, and West Virginia) have seen their ratings decreased by one or more of the rating agencies, and only one state (Louisiana) has seen its rating increased. This trend continued in FY 2003, as eight states were downgraded (California, Maine, Michigan, New Hampshire, New Jersey, Oregon, Washington and Wisconsin) and only one was upgraded (Louisiana). It is important, however, to note that despite increases over the

¹⁸ Edwards Testimony.

last two fiscal years in their rating, the State of Louisiana still has the lowest GO bond rating in the nation.

During the budget writing process of the 78th Regular Legislative Session, it was determined that debt service on existing debt required \$50 million more GR than the amount available. As a result, \$50 million of existing GR debt was restructured by issuing \$50 million of "refunding" bonds, and the proceeds were used to pay a portion of the October 1, 2003, principal payment (this reduced the FY 2004 debt service appropriation by \$50 million). The \$50 million in refunding bonds will be repaid in FY 2006 through FY 2011 at a cost of about \$9 million to \$10 million per year. Furthermore, all new debt issued from March 2003 through the 2004-05 fiscal biennium was structured as "interest only," which will require principal payments to start in FY 2006.¹⁹ While these tactics are considered acceptable given the small proportion of debt involved compared to the overall amount of outstanding state debt, if used frequently, use of these tools could negatively impact Texas' bond rating.

According to recent information provided by the BRB, one of the major factors that rating agencies are considering when analyzing Texas' bond rating is the state's continued population increase and the resulting increased need for operating and capital spending in essential service areas such as education, criminal justice, transportation, water development and environmental protection. Reportedly, ratings agencies will also be closely monitoring the actions of the Legislature in regard to public school finance reform and internet taxation. Improved economic conditions and the resulting increase in tax collections and cash reserves would all benefit the state's credit ratings.

The BRB is not aware of any current proposed changes to Texas' bond rating. Research conducted by TPFA indicates that the interest rate on AAA rated bonds is approximately three to

¹⁹ Information provided by the Texas Public Finance Authority

seven basis points (0.03% to 0.07%) lower than on bonds with an AA 1 or AA+ rating. Using recent interest rates, the savings over the life of a 20-year, \$100 million bond would be approximately \$735,000 (or about \$36,750 per year) for an AAA rated bond compared to Texas' current rating. It is important to remember that while a rating change would apply to all of the state's outstanding GO bonds, it would not affect the debt service owed on outstanding debt. A rating change would only affect the interest rate of bonds issued after the change.²⁰

LOCAL DEBT

At the time of the 2000 U.S. Census, compared to the ten most populous states, Texas ranked third highest in local debt (behind New York and Pennsylvania) with a total of \$3,826 per capita, amounting to a total local debt burden of over \$95 billion.²¹ This debt burden had increased to \$102.6 billion.²² Local government debt includes debt issued by cities, counties, school districts, water districts, community college districts and other special districts. Texas taxpayers' high per capita local debt burden can be attributed to the fact that there is less centralized debt issuance in Texas. Historically, Texas has allowed local governments to issue debt on their own behalf. As a result, each local entity has its own individual bond rating. The BRB compiles a database of all local government ratings as determined by the various rating agencies (see Appendix III-173).

During the discussion of local debt at the hearing, the question of how Maintenance and Operation (M&O) tax collections are being used to service local debt issued by school districts was raised. If it is assumed that M&O tax collections are used to pay both M&O debt service and lease purchase payments, the BRB estimates FY 2003 M&O debt service to be nearly \$159

²⁰ Memo from Kim Edwards to Senate Finance Committee, March 26, 2004.

²¹ Krishock Testimony; Source cited for data in handout: U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 1999-2000*.

²² Information provided by Texas Bond Review Board. December 3, 2004.

million. This includes over \$49 million for lease purchase payments and approximately \$109.4 million for payments on M&O debt. These figures are derived from the actual debt-service schedules as submitted by the school districts. Compared to statewide M&O collections for FY 2003 of approximately \$14.4 billion, this amounts to 1.1 percent of total M&O collections used to service local debt issued by school districts.

There is uncertainty regarding the extent to which school districts are using M&O tax collections for lease purchase payments. Districts are restricted from dedicating M&O tax collections for the support of lease purchase payments. Instead, they are required to use only “surplus” funds in their General Fund. There is currently no statewide reporting that identifies the source of these “surplus” funds, which could be miscellaneous revenue from local or other sources, or leftover M&O revenue that was not explicitly dedicated for lease purchase but is available for that purpose.

Permanent School Fund Bond Guarantee Program

The Texas Permanent School Fund (PSF) was created with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas. The market value of fund has since grown to over \$19.5 billion as of September 30, 2004.²³

The PSF Bond Guarantee Program assures that bonds authorized by voters in school districts receive an enhanced credit rating equivalent to that of the PSF – currently AAA. To participate in the bond guarantee program, districts must apply to the Texas Education Agency (TEA) at least 15 days before the sale of the bonds and the Commissioner of Education must approve the sale. The application requires a \$1,000 application fee. The commissioner’s review of an application includes a review of the district’s financial status and stability. Few districts

²³ Information provided by the Texas Education Agency

are denied the backing of the guarantee program (estimated at two to three districts per year), due to the fact that few districts are in a financial situation, such as financial exigency, that would disqualify the district from being eligible for the guarantee.²⁴

Districts have the option of issuing bonds without the guarantee provided by the PSF. They may place bonds privately, usually with a bank, or buy private insurance in order to market the bonds publicly. The PSF guarantee reduces overall statewide interest costs paid by school districts by an estimated \$25 to \$50 million per year.²⁵

A statutory limit (amended in 2003) restricts the PSF bond guarantee to 2.5 times lower than the cost of the fund or its fair market value. As of the 78th Legislature, real estate owned by the PSF is included. The cap is currently valued at \$33.5 billion by the Internal Revenue Service (IRS). The PSF hit its cap on guaranteeing additional bonds in October 2004.

A second limit by IRS rulings limits the cap to 250 percent of the lower of historical cost or current fair market value of the PSF adjusted by a factor that allocates the historical cost or current fair market value between the value of the PSF as it existed on May 15, 1999, and the subsequent additions to the PSF.²⁶ Deposits to the PSF after that date (primarily from the General Land Office) are not included when calculating the current cap. If this limit is changed to include deposits made to the fund after 1989, the cap will rise to \$42 billion. The TEA recently sent a letter to the IRS seeking a ruling on inclusion of deposits made after 1989.

Recently, the State Board of Education's (SBOE) school finance committee approved a proposed administrative rule to establish a plan to ration assistance from the PSF Bond Guarantee Program in order to preserve the benefit of the program for those districts with the greatest need and the projects with the greatest merit. The SBOE adopted the rule change at their

²⁴ Information provided by the Texas Education Agency, Permanent School Fund Division (December 10, 2004).

²⁵ *Permanent School Funds Bonds: Hearing before the Senate Finance Committee, 78th Tex. Legis., Interim (March 16, 2004)* (Testimony of David Anderson, General Counsel, Texas Education Agency)

²⁶ *Ibid*

November 2004, meeting and so the rules apply to all debt issued after December 31, 2004, and all applications received after October 8, 2004.

As it currently reads, the plan would disqualify school districts that have more than \$1,250 per weighted average daily attendant, excluding high growth districts (25 percent growth within the last five years). Additionally, the rule proposes guaranteeing refunding bonds only if the original debt being refunded was guaranteed by the PSF.

Tax Increment Financing Debt

Currently, there are eighty-nine Tax Increment Financing (TIF) districts in the State of Texas. As of August 31, 2003, these TIF districts had approximately \$370 million in outstanding debt. Total interest due on these outstanding bonds totaled \$250 million. BRB records indicate that there have been sixteen issuances that are Combination Tax and Tax Increment bonds, meaning that the bondholders have the right to ad valorem taxes, as well as sales tax revenues generated by the TIF districts.

The Texas Tax Code requires municipalities to file reports on their TIF districts with the Texas Comptroller of Public Accounts Office (Comptroller) and the Texas Office of the Attorney General (OAG). These municipalities are required to report, “the amount of principal and interest due on outstanding bonded indebtedness.”²⁷ The Comptroller’s Property Tax Division receives this data, which at times is reported without the amount of principal and interest outstanding, or contains only the fiscal year’s amount payable. Furthermore, it is believed that some TIFs are not reporting debt data altogether.

The OAG Public Finance Division also receives the TIF reports, but does not use this data when approving bonds issued in the State of Texas. While the BRB is required to report on

²⁷ Texas Tax Code, Section 311.016(a)(3).

local debt outstanding (this information is provided to the BRB by the OAG Public Finance Division), the BRB many times does not receive complete information on debt issued by TIFs because TIFs are reported as “component units” in a city’s financial statements. The BRB compiles a database of outstanding TIF bonds from these reports.²⁸

TOTAL STATE AND LOCAL DEBT BURDEN

According to data from the U.S. Department of Commerce and the BRB, Texas currently has approximately \$98.6 billion total state and local debt outstanding. Data from 2000 placed Texas eighth lowest out of the ten most populous states on a per capita basis of total outstanding debt.²⁹

Total Debt Outstanding (as of 08/31/03)	
State Agencies	
GO Bonds	\$5,845,355,637
Non-GO Bonds	\$14,107,179,173
School Districts	
	\$30,599,131,223
Local Governments	
Cities	\$41,108,145,256
Water Districts	\$17,619,763,248
Counties	\$7,071,732,936
Other Special Districts	\$3,315,444,101
Community & Jr. Colleges	\$1,529,341,265
Health/Hospital Districts	\$1,353,187,510
TOTAL STATE & LOCAL DEBT	
	\$122,549,280,349

Provided by BRB, 12/3/04

²⁸ see Appendix III-212.

²⁹ *Ibid.*

RECOMMENDATIONS

1. The Legislature should require the Texas Bond Review Board, in coordination with the Texas Public Finance Authority, to make recommendations regarding actions to improve the state's bond rating. These recommendations should be reported to the legislature prior to the start of each regular session.
2. The Legislature should consider requiring the Texas Bond Review Board to collect data on the amount of Maintenance and Operation (M&O) tax that is being used to service debt. The Legislature should also clarify M&O tax collection rules to disallow usage for the support of lease purchase payments.
3. The Legislature should require all Tax Increment Financing boards across Texas to report all financial data, including but not limited to principal and interest due on all outstanding debt. This information would be required to be delivered to the Texas Bond Review Board in addition to the Texas Office of the Attorney General and the Texas Comptroller of Public Accounts.

Appendix A

Date: March 5, 2004
 To: Senate Finance Committee
 From: Patrick Krishock, Acting Executive Director
 Re: State and Local Debt

The Role of the Bond Review Board

- Approve all state bond issues and lease purchases with an initial principal amount of greater than \$250,000 or a term of longer than five years.
- Collect, analyze, and report information on the debt of local political subdivisions in Texas.
- Administer the state's private activity bond allocation program.

Texas Bonds Issuers

Prior to the creation of the Bond Review Board, there were 41 state issuers that had issuance authority.

Currently, through consolidation, the State has 16 authorized and active issuers. They are as follows:

- | | |
|---|--|
| 1. Texas Dept. of Agriculture | 9. The University of North Texas |
| 2. Higher Education Coordinating Board | 10. Texas Tech University |
| 3. Office of Economic Development & Tourism | 11. Texas Women's University |
| 4. Texas Public Finance Authority | 12. Texas Dept. of Housing & Community Affairs |
| 5. The University of Texas System | 13. Texas State Affordable Housing Corp. |
| 6. The Texas A&M University System | 14. Texas Veterans Land Board |
| 7. University of Houston System | 15. Texas Water Development Board |
| 8. Texas State University System | 16. Texas Dept. of Transportation/Turnpike Authority |

State Debt

In fiscal 2003, the state's total bonds and notes outstanding increased 3.2 percent to \$17.7 billion compared to \$17.1 billion in fiscal 2002, and \$13.7 billion in fiscal 2001. The large increase that occurred between fiscal 2001 and 2002 can be attributed to the \$2.2 billion transaction that was issued by the Texas Department of Transportation to fund the Central Texas Turnpike Project.

Texas Bonds Outstanding As of August 31, 2003* (in millions)			
	Self Supporting	Not Self Supporting	Total
General Obligation Bonds	\$3,292	\$2,521	\$5,813
Revenue Bonds	\$11,260	\$608	\$11,868
Total	\$14,552	\$3,129	\$17,681

* Includes commercial paper and variable rate notes; however, does not include short-term debt issued by the Comptroller of Public Accounts, Treasury Operations, for cash management purposes, or lease purchases that have been financed through means other than state commercial paper or bonds.

Texas state agencies issued an aggregate total of \$2.88 billion in debt in fiscal 2003. Of this amount, \$1.6 billion was new money and \$1.3 billion was for refunding outstanding bonds. This was a decrease of 36 percent from the \$4.51 billion that was issued in fiscal 2002.

Debt service on outstanding state debt in fiscal 2003 was \$1.4 billion. This was a slight decrease from the \$1.6 billion that was reported in fiscal 2002. Of the \$1.4 billion in debt service that was paid in fiscal 2003, 73 percent was self-supporting. The remaining 27 percent is debt service that is payable from the general revenues of the state. Debt service for fiscal 2004 is expected to be \$1.6 billion.



Texas' Ratings

Due to the recent economic downturn, many states have seen their general obligation bond ratings downgraded. Texas' current ratings are Aa1/AA/AA+ by Moody's, Standard and Poor's, and Fitch IBCA, respectively.

UPGRADES AND DOWNGRADES IN STATE GENERAL OBLIGATION BOND RATINGS August 2002 to July 2003		
State	Rating Change	Agency
Upgrades		
Louisiana	A to A+	Standard & Poor's
	A to A+	Fitch IBCA
Downgrades		
California	A1 to A2	Moody's
	A+ to BBB	Standard & Poor's
	AA to A	Fitch IBCA
Connecticut	Aa2 to Aa3	Moody's
Illinois	Aa2 to Aa3	Moody's
	Aa+ to Aa-	Fitch IBCA
Minnesota	Aaa to Aa1	Moody's
New York	AA to AA-	Fitch IBCA
Oregon	Aa2 to Aa3	Moody's
West Virginia	AA to AA-	Standard and Poor's

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

Rating agencies consider the following four factors in determining a rating: economy, financial condition, debt burden, and general management practices.

Currently, the Bond Review Board is not aware of any proposed changes to the state's rating. The state's primary dialogue with the rating agencies is conducted by the Comptroller's office each summer as they prepare to issue Tax and Revenue Anticipation Notes (TRANS). Improving economic conditions, increased tax collections, and improved reserves would all be factors that would benefit the state's ratings.

Texas' Debt Burden Compared to Other States

According to data published in 2000 by the U.S. Department of Commerce, Bureau of the Census, Texas had a total of \$95 billion in state and local debt outstanding. This equals \$4,555 on a per capita basis. When compared to the 10 most populous states Texas ranks 8th in total state and local debt, 10th in state debt, and 3rd in local debt. As the table below shows, the majority of the debt burden in Texas is at the local level.

TOTAL STATE AND LOCAL DEBT OUTSTANDING: TEN MOST POPULOUS STATES												
State	Total State and Local Debt				State Debt				Local Debt			
	Population (thousands)	Per Capita Rank	Amount (millions)	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount	Per Capita Rank	Amount (millions)	% of Total Debt	Per Capita Amount
New York	18,976	1	\$172,174	\$9,073	1	\$78,308	45.5%	\$4,127	1	\$93,867	54.5%	\$4,947
Pennsylvania	12,281	2	72,279	5,885	7	17,729	24.5%	1,444	2	54,550	75.5%	4,442
New Jersey	8,414	3	49,055	5,830	2	28,929	59.0%	3,438	9	20,126	41.0%	2,392
Illinois	12,419	4	67,406	5,428	3	28,828	42.8%	2,321	6	38,578	57.2%	3,106
California	34,600	5	183,093	5,292	5	62,343	34.0%	1,802	5	120,750	66.0%	3,490
Michigan	9,938	6	46,766	4,706	4	19,430	41.5%	1,955	7	27,336	58.5%	2,751
Florida	16,713	7	78,228	4,681	8	18,091	23.1%	1,082	4	60,137	76.9%	3,598
TEXAS	20,852	8	94,982	4,555	10	15,212	16.0%	730	3	79,770	84.0%	3,826
Georgia	8,186	9	29,472	3,600	9	7,086	24.0%	866	8	22,386	76.0%	2,735
Ohio	11,353	10	40,769	3,591	6	17,909	43.9%	1,577	10	22,860	56.1%	2,014
MEAN			\$83,422	\$5,264		\$29,386	35.4%	\$1,924		\$54,036	64.6%	\$3,330

Detail may not add to total due to rounding.
Source: U.S. Census Bureau, State and Local Government Finances by Level of Government and by State: 1999-2000.

As reported by the Comptroller of Public Accounts in the recently released *Comprehensive Annual Financial Report*, the general bonded debt per capita as of 2003 was \$260. General bonded debt per capita has remained fairly low in Texas, yet it has increased 21 percent from the \$214 that was reported in 1994.

For the ten-year period from 1990 through 2000, state debt per capita for Texas consistently ranked 10th out of the 10 most populous states. Texas also has the lowest net tax-supported debt per capita when compared against the seven states ranked AAA by the three major rating agencies, as shown in the table above.

SELECTED DEBT MEASURES FOR TEXAS AND STATES RATED AAA*				
State	Rating	Net Tax-Supported	Net Tax-Supported	2002 Personal
		Debt as a % of 2002 Personal Income	Debt Per Capita***	Income Per Capita
Delaware	AAA	4.9	\$1,289	\$32,790
Georgia	AAA	2.8	802	28,821
Maryland	AAA	2.7	977	36,298
Missouri	AAA	2.3	388	28,938
South Carolina	AAA	2.3	387	25,400
TEXAS	AA	0.9	248	28,551
Utah	AAA	2.8	682	24,206
Virginia	AAA	1.7	546	32,922
Median of AAA States		2.7	\$482	\$28,898
Mean of AAA States		2.4	\$794	\$29,826

* States listed as AAA are rated Aaa/AAA/AAA by Moody's, Standard & Poor's, and Fitch IBCA, respectively. Median and mean figures do not include Texas.
** Based on 2002 population figures.
Source: Moody's Investors Service, 2003 State Debt Manual; U.S. Census Bureau, and Bureau of Economic Analysis.

Appendix A

Date: March 5, 2004
 To: Senate Finance Committee
 From: Patrick Krishock, Acting Executive Director
 Re: State and Local Debt

The Role of the Bond Review Board

- Approve all state bond issues and lease purchases with an initial principal amount of greater than \$250,000 or a term of longer than five years.
- Collect, analyze, and report information on the debt of local political subdivisions in Texas.
- Administer the state's private activity bond allocation program.

Texas Bonds Issuers

Prior to the creation of the Bond Review Board, there were 41 state issuers that had issuance authority.

Currently, through consolidation, the State has 16 authorized and active issuers. They are as follows:

- | | |
|---|--|
| 1. Texas Dept. of Agriculture | 9. The University of North Texas |
| 2. Higher Education Coordinating Board | 10. Texas Tech University |
| 3. Office of Economic Development & Tourism | 11. Texas Women's University |
| 4. Texas Public Finance Authority | 12. Texas Dept. of Housing & Community Affairs |
| 5. The University of Texas System | 13. Texas State Affordable Housing Corp. |
| 6. The Texas A&M University System | 14. Texas Veterans Land Board |
| 7. University of Houston System | 15. Texas Water Development Board |
| 8. Texas State University System | 16. Texas Dept. of Transportation/Turnpike Authority |

State Debt

In fiscal 2003, the state's total bonds and notes outstanding increased 3.2 percent to \$17.7 billion compared to \$17.1 billion in fiscal 2002, and \$13.7 billion in fiscal 2001. The large increase that occurred between fiscal 2001 and 2002 can be attributed to the \$2.2 billion transaction that was issued by the Texas Department of Transportation to fund the Central Texas Turnpike Project.

Texas Bonds Outstanding As of August 31, 2003* (in millions)			
	Self Supporting	Not Self Supporting	Total
General Obligation Bonds	\$3,292	\$2,521	\$5,813
Revenue Bonds	\$11,260	\$608	\$11,868
Total	\$14,552	\$3,129	\$17,681

* Includes commercial paper and variable rate notes; however, does not include short-term debt issued by the Comptroller of Public Accounts, Treasury Operations, for cash management purposes, or lease purchases that have been financed through means other than state commercial paper or bonds.

Local government debt in Texas includes debt issued by cities, counties, school districts, water districts, community college districts, and other special districts. In debt per capita at the local level, Texas ranked number one among the ten most populous states in 1991 at \$3,258. Since that time, the state has moved up to number three in this category with \$3,826 per capita, behind New York at \$4,947 per capita and Pennsylvania at \$4,442 per capita.

The \$3,862 of local debt per capita reported in 2000 represents a 16 percent increase from data provided by the Census Bureau in 1997. The increase represents a direct response to the growing infrastructure needs of local communities. Net migration to the state has forced many small and medium-sized communities to increase financing for infrastructure such as roads, school construction, water and wastewater services, etc. Texas' population has grown from 18.6 million in 1994 to 22.24 million in 2003.

Constitutional Debt Limit

Article 3, Section 49-J of the Texas Constitution prohibits the issuance of additional state debt if the percentage of debt service payable by general revenue in any fiscal year exceeds 5 percent of the average of unrestricted general revenue for the past three years. For fiscal 2003, this percentage was 1.51 percent of issued debt, and 2.37 percent of authorized but unissued debt. As the table below shows, these numbers have remained fairly constant since 1992.

Fiscal Year	Issued Debt	Issued + Authorized but Unissued
1992	1.50%	2.90%
1993	1.10%	2.70%
1994	1.90%	3.20%
1995	1.80%	3.10%
1996	1.90%	2.70%
1997	1.80%	2.60%
1998	1.60%	2.40%
1999	1.58%	2.20%
2000	1.51%	2.03%
2001	1.47%	1.91%
2002	1.42%	2.22%
2003	1.51%	2.37%

Source: Texas Bond Review Board

Authorized but Unissued Debt

Authorized bonds are defined as those bonds that may be issued without further action by the Legislature. As of August 31, 2003, Texas had \$9.0 billion in authorized but unissued bonds. Of this amount, \$4.9 billion, or 54 percent, are general obligation bonds. Eighty-one (81) percent of these authorized but unissued GO bonds are designed to be self-supporting. However, the authorized but unissued bonds that would require the payment of debt service from general revenue total \$1.32 billion. The remaining outstanding authorized but unissued bonds are in programs that are designed to be self-supporting.

Private Activity Bond Program

Tax-exempt financing of "private activities" has been limited by federal law since the passage of the Tax Reform Act of 1986 (the "Tax Act"). Private activity bonds are those that meet any or all of the following tests: 1) Private Business Use Test - more than ten percent of the proceeds are to be used for any private business use; 2) Private Security or Payment Test - payment on principal or interest of more than ten percent of the proceeds is to be directly or indirectly secured by, or payments are to be derived from, a private business use; and 3) Private Loan Financing Test - proceeds are to be used to make or finance loans to persons other than governmental units. The Texas Bond Review Board administers this program and has since January 1, 1992.

The current cap allocation for the program is \$80 per capita. For the state of Texas, this translates into \$1.8 billion in volume cap, second only to California. The Texas Revised Civil Statutes, Article 5190.9a, as amended, and Chapter 1372, Texas Government Code mandates the allocation process for the state. These amounts are shown in the table below.

In recent years, Texas has seen an increase in the amount of cap allocation that allocated due to the growth of the state's population, and new federal legislation that increased the per-capita formula. On December 20, 2000, new legislation was passed that accelerated the increase in private-activity volume cap, the first such increase since the Tax Reform Act of 1986. The cap phase-in began January 1, 2001, when the limit was increased from \$50 per capita to \$62.50 per capita. The second part of the plan occurred in January of 2002 when the cap multiplier increased to \$75 per capita or \$225 million, whichever is greater. While the cap was indexed to inflation beginning in 2003, inflation levels in 2003 remained lower than the minimum federal requirement to boost the multiplier and thus the formula remained at \$75 per capita for 2003. The inflation index was triggered in 2004, bringing the per capita formula to \$80 for the current program year.

STATE OF TEXAS PRIVATE ACTIVITY BOND ALLOCATION PROGRAM 2003 SET-ASIDE vs. ISSUED ALLOCATION AMOUNTS (as of November 24, 2003)				
SUBCELLINGS	SET-ASIDE ALLOCATION	PERCENT OF TOTAL	ISSUED ALLOCATION	PERCENT OF TOTAL
Single Family Housing	\$483,513,624	29.60%	\$99,900,463	6.12%
State-Voted Issues	130,679,358	8.00%	100,000,000	6.12%
Small Issue IDBs	75,140,631	4.60%	700,000	0.04%
Multifamily Housing	375,703,155	23.00%	329,511,000	20.17%
Student Loan Bonds	143,747,294	8.80%	140,000,000	8.57%
All Other Issues	424,707,913	26.00%	391,476,662	23.97%
TOTALS	\$1,633,491,975	100.00%	\$1,061,588,125	64.99%

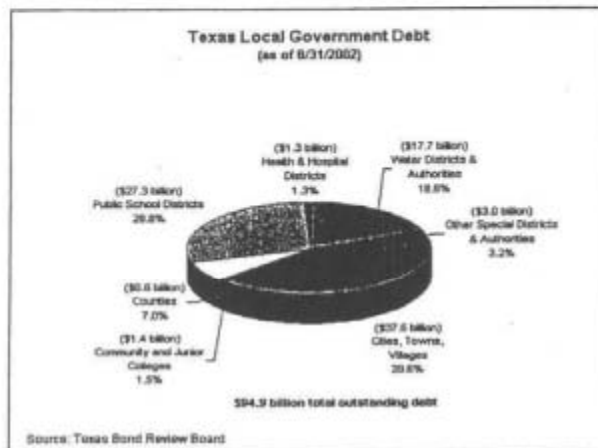
Source: Texas Bond Review Board, Office of the Executive Director.

Local Debt Outstanding

The Bond Review Board is responsible for tracking the debt of local political subdivisions in Texas. As of August 31, 2002, there were over 3,900 local government authorities including cities, community and junior college districts, counties, school districts, health and hospital districts, water districts, and other special districts. Not all of these entities have debt outstanding. The districts that do have debt outstanding at fiscal year end 2002 held nearly \$95 billion in tax, revenue, lease-purchase, conduit, and commercial paper debt.

Category	Number	Debt Outstanding	Percentage
Cities	1,211	\$37.637 billion	40%
School Districts	1,034	\$27.301 billion	29%
Water Districts	1,051	\$17.670 billion	19%
Counties	254	\$6.624 billion	7%
Other Special Districts	59	\$3.042 billion	3%
Comm./Junior Colleges	50	\$1.419 billion	1%
Health & Hospital Dist.	288	\$1.255 billion	1%

The \$95.948 billion outstanding at fiscal year end 2002 is \$8.27 billion, or 9.5percent, greater than the amount outstanding at fiscal year end 2001 and \$38.55 billion, or 68.36 percent, greater than at fiscal year end 1996. Of the seven types of local authorities that the Bond Review Board tracks, only the other special districts saw a decrease in debt outstanding from fiscal year end 2001 to fiscal year end 2002. This occurred only because Dallas Area Rapid Transit had \$405 million in commercial paper outstanding in fiscal 2001, and only \$132.4 million in fiscal 2002.



The increase in local debt outstanding has been aided, as of late, by an environment of low interest rates, which has spurred both new money issuance and refunding issuance. While this interest rate environment has continued through fiscal year 2003, it remains to be seen if the trend will continue through fiscal year 2004 and beyond. Another topic that may have an impact on local debt will be that of public school finance reform, particularly in the area of tax rate thresholds. While no changes have been made yet, there has been much anticipation of a special session on the matter.

Attachments

Texas Bond Review Board Presentation to the Senate Finance Committee

March 16, 2004

1. Types of Debt Used by the State of Texas
2. State of Texas Outstanding Debt as of 8/31/2003
3. State of Texas Debt Service Requirements of State Bonds by Fiscal Year
4. State of Texas Authorized but Unissued Bonds
5. State of Texas General Obligation and Revenue Bond Debt Service Payable from General Revenue and Tuition Revenue Bond Service Requirements

Types of Debt Used by the State of Texas

General Obligation (GO) Bonds

- Legally secured by a constitutional pledge of the first monies coming into the State Treasury that are not constitutionally dedicated for another purpose.
- Must initially be approved by a 2/3 vote of both houses of the legislature and by a majority of the voters; after this approval they may be issued in installments as determined by the issuing agency or institution.
- Usually have a 20-year final maturity, but may be shorter or longer depending upon the project being financed.

Examples

- GO bonds issued by the Texas Public Finance Authority (TPFA) to finance correctional and mental health facilities.
- GO bonds issued by the Veterans Land Board to finance land and housing loans to veterans.

Revenue Bonds

- Legally secured only by a specified revenue source.
- Do not require voter approval.
- Usually have a 20-year final maturity, but may be shorter or longer depending on the project being financed.

Examples

- Revenue bonds issued by the Texas Water Development Board to finance wastewater projects.
- Revenue bonds issued by institutions of higher education, secured by tuition and fees, are used to finance projects such as classroom facilities, dormitories, and other university buildings.

Lease Purchases

- Lease purchases are the purchase of an asset over time through lease payments that include principal and interest.
- Lease purchases are typically financed through a private vendor, or through one of the state's pool programs, such as TPFA's Master Lease Purchase Program.

Examples

- State private prisons and office buildings have been financed using lease-purchasing from nonprofit corporations.
- Automobiles, computers, and data/telecommunications equipment.

Commercial Paper

- Can be secured by the state's general obligation pledge or by a specified revenue source.
- Commercial paper secured by the state's general obligation pledge must be initially approved by 2/3 vote of both houses and a majority of the voters.
- Maturity ranges from 1 to 270 days.
- When the paper matures, it can be paid off or rolled over (reissued).

Types of Debt Used by the State of Texas (cont.)

Examples

- The TPFA issues commercial paper to finance its Master Lease Purchase Program.
- The Texas Agricultural Finance Authority issues commercial paper to purchase and guarantee loans made to agricultural businesses.

Tax and Revenue Anticipation Notes (TRANS)

- TRANS are issued by the Comptroller of Public Accounts, Treasury Operations to address cash flow shortages caused by the mismatch in the timing of revenues and expenditures in the general revenue fund.
- They must be repaid by the end of the biennium in which they are issued, but are usually repaid by the end of each fiscal year.
- TRANS are repaid with tax receipts and other revenues of the general revenue fund.
- TRANS must be approved by the Cash Management Committee, which is composed of the Governor, the Lieutenant Governor, and the Comptroller of Public Accounts, as voting members, and the Speaker of the House (as a non-voting member).

Variable Rate Notes

- Variable rate notes may be either general obligation or revenue obligations.
- The notes generally have a stated maturity, similar to a bond.
- The interest rate paid on the notes are reset at different intervals, such as daily, weekly, monthly or annually.

Committee on Senate Finance, Interim Report on State and Local Debt

TEXAS BONDS OUTSTANDING				
(amounts in thousands)				
	8/31/2000	8/31/2001	8/31/2002	8/31/2003
General Obligation Bonds				
Self-Supporting				
Veterans' Land and Housing Bonds	\$1,701,244	\$1,673,221	\$1,723,742	\$1,660,840
Water Development Bonds	644,545	756,870	879,280	881,242
Park Development Bonds	30,482	28,107	28,862	21,979
College Student Loan Bonds	565,084	606,530	635,418	691,698
Farm and Ranch Security Bonds*	1,000	1,000	1,000	0
Texas Agricultural Finance Authority*	29,000	34,000	34,000	34,000
Agriculture Water Conservation Bonds	2,813	6,580	0	0
Total, Self-Supporting	\$2,899,238	\$3,124,128	\$3,301,602	\$3,291,862
Not Self-Supporting¹				
Higher Education Constitutional Bonds ²	\$66,775	\$33,995	\$41,245	\$28,480
Texas Public Finance Authority Bonds	2,363,223	2,233,241	2,158,128	2,162,316
Park Development Bonds	44,310	15,675	14,830	14,023
Agriculture Water Conservation Bonds	0	0	16,100	14,030
Water Development Bonds—EDAP ³	126,165	146,775	166,195	166,733
Water Development Bonds—State Participation Bonds	30,000	90,840	119,840	141,710
Total, Not Self-Supporting	\$2,627,473	\$2,569,836	\$2,516,718	\$2,513,336
Total General Obligation Bonds	\$5,526,711	\$5,693,964	\$5,818,320	\$5,805,198
Non-General Obligation Bonds				
Self-Supporting				
Pension University Fund Bonds				
The Texas A&M University System	\$212,870	\$206,228	\$296,295	\$206,032
The University of Texas System	703,210	609,040	796,790	887,473
College and University Revenue Bonds (individual universities are listed below)	2,424,714	2,627,025	3,177,771	3,665,007
The Texas A&M University System	438,995	673,741	678,248	834,399
The University of Texas System	1,886,114	1,150,545	1,462,817	1,444,706
Texas Tech University System	180,820	215,170	315,525	313,954
University of Houston System	134,680	177,400	167,410	282,045
Texas State University System	166,725	213,130	200,645	331,360
The University of North Texas System	80,237	76,064	168,470	205,720
Texas Southern University	51,910	50,520	96,625	135,400
Texas Woman's University	25,260	22,020	37,242	39,280
Middlewestern State University	14,100	13,210	12,770	34,085
Stephen F. Austin State University	24,825	22,060	28,260	27,090
Texas State Technical College System	8,000	8,175	7,315	16,590
Texas Dept. of Housing and Community Affairs Bonds	1,208,348	1,241,840	1,602,135	1,784,377
Texas State Affordable Housing Corporation	0	33,037	481,929	501,896
Texas Small Business L.D.C. Bonds	99,335	99,235	99,315	99,335
Economic Development Program *	7,750	5,625	9,000	13,258
Texas Water Resources Finance Authority Bonds	104,875	86,290	69,790	54,430
College Student Loan Bonds	30,654	23,100	15,031	8,208
Texas Department of Transportation Bonds	0	0	2,199,394	2,198,984
Texas Workers' Compensation Fund Bonds	152,848	119,409	102,660	83,513
Veterans' Financial Assistance Bonds	200,000	196,597	197,284	188,998
Texas Public Finance Authority Bonds (Special Revenue)	36,145	34,715	33,320	31,865
Texas Water Development Board Bonds (State Revolving Fund)	1,592,140	1,524,367	1,493,025	1,422,100
Total, Self-Supporting	\$6,862,898	\$7,267,717	\$10,888,560	\$11,288,929
Not Self-Supporting¹				
Texas Public Finance Authority Bonds	\$450,273	\$415,146	\$396,239	\$476,754
TPFA Master Lease Purchase Program*	33,700	33,600	36,400	65,229
Texas Military Facilities Commission Bonds	18,715	13,725	17,710	14,663
Parks and Wildlife Improvement Bonds	40,680	57,030	24,715	51,833
Total, Not Self-Supporting	\$543,368	\$523,501	\$575,064	\$608,480
Total Non-General Obligation Bonds	\$7,406,266	\$7,791,218	\$11,463,624	\$11,897,409
Total Bonds	\$12,932,977	\$13,485,182	\$17,281,944	\$17,702,607

* commercial paper

¹ Bonds that are not self-supporting (general obligation and non-general obligation) depend solely on the state's general revenue fund for debt service.

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

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

⁴ Amounts do not include premiums on capital appreciation bonds.

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

⁶ Includes commercial paper notes outstanding.

Notes: The debt outstanding figures include the accretion on capital appreciation bonds as of August 31, 2003.
Source: Texas Bond Review Board, Office of the Executive Director and Texas Comptroller of Public Accounts.

Committee on Senate Finance, Interim Report on State and Local Debt

DEBT-SERVICE REQUIREMENTS OF TEXAS STATE BONDS BY FISCAL YEAR						
(Amounts in thousands)						
	2003	2004	2005	2006	2007	2008 beyond
General Obligation Bonds						
Self-Supporting						
Veterans' Land and Housing Bonds	\$187,242	\$155,387	\$137,310	\$137,253	\$136,150	\$2,721
Water Development Bonds	74,191	77802.631	79,666	80,075	81,297	1,123,182
Park Development Bonds	4,122	4,138	4,142	4,139	4,139	11,095
College Student Loan Bonds	53,026	62,321	75,912	98,177	87,623	672,732
Farm and Ranch Loan Bonds	1,010	0	0	0	0	0
Texas Agricultural Finance Authority	466	1,440	1,440	1,440	1,440	37,440
Total Self-Supporting	\$320,069	\$301,000	\$296,470	\$318,085	\$310,449	\$4,503,800
Not Self-Supporting¹						
Higher Education Constitutional Bonds ²	\$15,153	\$15,116	\$15,074	\$450	\$0	\$0
Texas Public Finance Authority Bonds	240,148	192,110	230,443	281,087	280,802	1,998,093
Park Development Bonds	1,641	1,595	1,550	1,504	1,459	1,477
Agriculture Water Conservation Bonds	2,697	2,694	2,896	2,693	2,693	5,391
Water Development EDAP Bonds ³	13,818	13,890	13,854	13,912	13,793	199,473
Water Development State Participation Bonds	6,494	7,659	7,716	7,714	7,777	298,787
Total Not Self-Supporting	\$289,071	\$233,069	\$291,333	\$307,421	\$308,525	\$7,303,220
Total General Obligation Bonds	\$609,140	\$534,139	\$587,803	\$625,506	\$618,974	\$11,807,020
Non-General Obligation Bonds						
Self-Supporting						
Permanent University Fund Bonds						
The Texas A&M University System	\$41,004	\$16,123	\$14,087	\$14,484	\$28,105	\$290,201
The University of Texas System	45,326	45,518	45,494	45,326	45,528	591,416
College and University Revenue Bonds	314,114	332,383	325,523	326,576	318,444	4,001,189
Texas Dept. of Housing & Community Affairs Bonds	107,165	124,742	140,856	128,650	129,734	3,640,409
Texas State Affordable Housing Corporation	41,249	43,373	35,329	35,376	35,379	956,633
Texas Small Business I.D.C. Bonds	1,682	3,973	3,973	3,973	3,973	79,468
Economic Development Program	265	530	530	530	530	5,310
Texas Water Resources Finance Authority Bonds	19,224	14,245	12,888	11,327	9,440	17,220
College Student Loan Bonds	7,879	1,768	1,368	1,118	738	9,397
Texas Workers' Compensation Fund Bonds ⁴	23,024	25,353	23,478	23,395	23,307	0
Veterans' Financial Assistance Bonds	9,716	170,256	379	379	379	17,222
Texas Public Finance Authority Bonds (Special Revenue)	3,141	3,141	3,142	3,145	3,141	32,870
Texas Department of Transportation Bonds	73,982	88,971	88,971	88,971	213,901	5,132,046
Texas Water Development Bonds (State Revolving Fund)	35,897	109,755	112,369	114,515	122,855	1,349,242
Total Self-Supporting	\$746,468	\$1,002,474	\$832,127	\$820,166	\$957,433	\$16,521,170
Not Self-Supporting¹						
Texas Public Finance Authority Bonds	\$70,183	\$71,234	\$71,136	\$71,190	\$3,718	\$460,160
TPFA Master Lease Purchase Program	15,282	11,232	11,203	11,097	8,173	14,517
Military Facilities Construction Bonds	4,350	2,290	2,160	2,170	1,409	10,191
Parks and Wildlife Improvement Bonds	5,585	5,078	5,078	5,484	5,389	51,822
Total Not Self-Supporting	\$95,399	\$89,833	\$89,577	\$89,941	\$18,689	\$545,890
Total Non-General Obligation Bonds	\$841,867	\$1,092,307	\$921,704	\$910,107	\$1,026,122	\$17,067,061
Total All Bonds	\$1,450,997	\$1,626,446	\$1,509,507	\$1,535,613	\$1,645,096	\$28,874,081

¹ Bonds that are not self-supporting depend solely on the state's general revenue for debt service. Debt service from general revenue totaled \$336.1 million during fiscal 2002, and totaled approximately \$375.5 million in fiscal 2003.

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

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

⁴ Texas Workers' Compensation Fund Bonds were economically defaulted. Full legal debt service requirements are reflected in this table.

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

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

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TEXAS BONDS AUTHORIZED BUT UNISSUED				
(amounts in thousands)				
	08/31/00	08/31/01	08/31/02	08/31/03
General Obligation Bonds				
Self-Supporting				
Veterans' Land and Housing Bonds	\$365,002	\$305,000	\$655,002	\$605,002
Water Development Bonds	600,410	481,388	2,344,586	2,385,264
Farm and Ranch Loan Bonds ⁴	474,000	474,000	474,000	475,000
College Student Loan Bonds	474,822	400,000	325,000	250,000
Texas Department of Economic Development Bonds	45,000	43,000	45,000	45,000
Texas Agricultural Finance Authority Bonds	26,000	21,000	21,000	19,000
Texas Military Preparedness Commission	0	0	0	250,000
Agricultural Water Conservation Bonds	181,000	181,000	164,840	164,840
Total Self-Supporting	\$2,166,234	\$1,907,588	\$4,029,728	\$4,095,106
Not Self-Supporting ¹				
Higher Education Constitutional Bonds	*	*	*	*
Texas Public Finance Authority ³	\$49,340	49,340	1,016,235	824,483
Water Development Bonds-EDAP ²	111,709	84,571	61,371	61,371
Water Development Bonds-State Participation Bonds	50,000	33,000	15,000	15,000
Total Not Self-Supporting	\$211,049	176,911	1,092,806	901,854
Total General Obligation Bonds	\$2,377,283	\$2,078,499	\$5,122,534	\$4,996,960
Non-General Obligation Bonds				
Self-Supporting				
Permanent University Fund Bonds ⁵				
The Texas A&M University System	\$479,208	\$466,140	\$456,275	\$406,824
The University of Texas System	980,946	879,713	655,174	927,420
College and University Revenues Bonds	**	**	**	**
Texas Department of Housing & Community Affairs	**	**	**	**
Texas Turnpike Authority Bonds	**	**	**	**
Texas Agricultural Finance Authority Bonds	300,000	300,000	500,000	500,000
Texas Department of Economic Development Bonds	**	**	**	**
Texas State Affordable Housing Corporation	**	**	**	**
Texas Water Resources Finance Authority Bonds	**	**	**	**
Texas School Facilities Finance Program	750,000	730,000	750,000	750,000
Texas Water Development Bonds (Water Resources Fund)	**	**	**	**
Texas Workers' Compensation Fund Bonds	**	**	**	**
Nursing Home Liability Insurance	0	0	0	75,000
FAIR Plan	0	0	0	75,000
Military Facilities Commission	0	0	0	20,271
Alternative Fuels Program	50,000	50,000	50,000	50,000
Veterans' Financial Assistance Bonds	50,000	1,000,000	795,720	795,720
Texas Department of Transportation Bonds	**	**	**	**
Texas Water Development Board (State Revolving Fund)	**	**	**	**
Total Self-Supporting	\$2,810,154	\$3,645,862	\$3,187,169	\$3,600,234
Not Self-Supporting ¹				
Texas Public Finance Authority Bonds	\$92,404	\$29,941	\$116,337	\$321,120
TPFA Master Lease Purchase Program	66,300	64,400	43,600	\$4,741
Texas Military Facilities Commission Bonds	**	**	**	**
Parks and Wildlife Improvement Bonds	12,683	0	9,000	13,500
Total Not Self-Supporting	\$171,387	\$96,341	\$168,937	\$419,561
Total Non-General Obligation Bonds	\$2,981,541	\$3,742,203	\$3,356,106	\$4,019,795
Total All Bonds	\$5,358,824	\$5,820,702	\$8,478,640	\$9,016,755

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

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

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

² Economically Distressed Areas Program (EDAP) bonds do not depend totally on the state's general revenue fund for debt service; however, up to 90 percent of bonds issued may be used for grants.

³ Issuance of PUF bonds by A&M is limited to 10 percent, and issuance by UT is limited to 20 percent of the cost value of investments and other assets of the PUF, except real estate. The PUF value used in this table is as of August 31, 2003.

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 Includes \$830 million that was authorized by state voters in November 2001; however, the Legislature has appropriated only \$403,508,888 as of 8/31/03.

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

Appendix B

**Texas Public Finance Authority
Report to the Senate Finance Committee
Interim Hearing on Bond Use and Debt Financing
March 16, 2004**

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OVERVIEW

The Texas Public Finance Authority ("TPFA") issues general obligation and revenue bonds on behalf of other state agencies, as directed by the Legislature and in accordance with its enabling law, Texas Government Code Ch. 1232. The following materials provide general information of typical debt instruments used by ALL state agencies authorized to issue debt, and provides specific information on debt and debt service issued by TPFA. All state agencies, including TPFA are required to obtain Bond Review Board approval for the issuance of debt and report certain information to the Bond Review Board.

I. Types of Debt Used by the State of Texas.

A. General Obligation (GO) Bonds

1. Legally secured by a constitutional pledge of the first monies coming into the State Treasury that are not constitutionally dedicated for another purpose.
2. Must initially be approved by a 2/3 vote of both houses of the legislature and by a majority of the voters, after this approval they may be issued in installments as determined by the issuing agency or institution and, if required, as directed by the legislature.
3. Usually have a 20-year final maturity, but may be shorter or longer depending upon the project being financed.

Examples

- GO bonds issued by the Texas Public Finance Authority (TPFA) to finance correctional and mental health facilities.
- GO bonds issued by the Veterans Land Board to finance land and housing loans to veterans.
- Per Bond Review Board, approximately \$5.8 billion outstanding as of August 31, 2003, \$2.52 billion of which is repaid from general revenue.

B. Revenue Bonds

1. Legally secured only by a specified revenue source.
2. Do not require voter approval.
3. Usually have a 20-year final maturity, but may be shorter or longer depending on the project being financed.
4. For TPFA Revenue Bonds, the Legislature must authorize the specific project for which the bonds are to be issued and the estimated cost of the project or the maximum amount of bonded indebtedness that may be incurred by the issuance of bonds.

Examples

- Revenue bonds issued by the Texas Water Development Board to finance wastewater projects.
- Revenue bonds issue by institutions of higher education, secured by tuition and fees, are used to finance projects such as classroom facilities, dormitories, and other university buildings.
- Lease Revenue bonds issued by the Texas Public Finance Authority (TPFA) for the acquisition or construction of facilities for a State agency.
- Per Bond Review Board, approximately \$11.26 billion outstanding as of August 31, 2003, \$608 million of which is repaid from general revenue.

C. Commercial Paper

1. Can be secured by the state's general obligation pledge or by a specified revenue source.
2. Commercial paper secured by the state's general obligation pledge must be initially approved by 2/3 vote of both houses and a majority of the voters.
3. Maturity ranges from 1 to 270 days; therefore considered "variable rate" debt
4. When the paper matures, it can be paid off or rolled over (reissued).
5. Frequently, commercial paper is eventually repaid by issuing long-term fixed-rate bonds (CP "fix-out")

Examples

- The TPFA issues commercial paper to finance its Master Lease Purchase Program and most General Obligation projects.
- Several universities use commercial paper to finance projects during the construction period, and then issue long-term fixed rate bonds to repay the CP when construction is complete (particularly useful on revenue supported projects, where the revenues are not generated to repay debt service until the construction is complete.)

D. Variable Rate Notes/Bonds

1. Variable rate notes may be either general obligation or revenue obligations.
2. The notes generally have a stated maturity, similar to a bond.
3. The interest rate paid on the notes are reset at different intervals, such as daily, weekly, monthly or annually.

Examples

Texas Water Development Board and Veterans Land Board have issued Variable Rate Demand Bonds (VRDB's) to secure a lower interest rates to finance loan programs. Sometimes, the agency will enter into an interest rate swap agreement, to convert the variable rate debt to a fixed rate.

E. Tax and Revenue Anticipation Notes (TRANS)

1. TRANS are issued by the Comptroller of Public Accounts, Treasury Operations to address cash flow shortages caused by the mismatch in the timing of revenues and expenditures in the general revenue fund.
2. They must be repaid by the end of the biennium in which they are issued, but are usually repaid by the end of each fiscal year.
3. TRANS are repaid with tax receipts and other revenues of the general revenue fund.
4. TRANS must be approved by the Cash Management Committee, which is composed of the Governor, the Lieutenant Governor, and the Comptroller of Public Accounts, as voting members, and the Speaker of the House (as a non-voting member).

F. Lease Purchase

1. Lease purchases are the purchase of an asset over time through lease payments that include principal and interest.
2. Lease purchases are typically financed through a private vendor, or through one of the state's pool programs, such as TPFA's Master Lease Purchase Program.

Examples

- State private prisons and office buildings have been financed using lease-purchasing from nonprofit corporations.
- Automobiles, computers, and data/telecommunications equipment.

TPFA Master Lease Purchase Program

AUTHORITY

The Master Lease Purchase Program ("MLPP") was established in 1992 under the authority of Texas Civil Statutes, Art. 601d, Section 9A, (now Texas Government Code, Chapter 1232), to finance equipment acquisitions by state agencies and other revenue bond projects that may be authorized by the Legislature to be financed by TPFA. The primary funding vehicle for the MLPP program is a revenue commercial paper program established under Article 717q (now Chapter 1371 of the Texas Government Code) and administered by the Texas Public Finance Authority. All state agencies can participate in MLPP, regardless of whether TPFA is responsible for issuing that agency's long-term financings.

ELIGIBLE PROJECTS

The program is available to finance purchases in excess of \$10,000 and projects with a useful life of at least three years. Equipment costing less than \$10,000 (such as PCs included in a network purchase) may be bundled into a \$10,000 purchase, provided that each bundled item has a minimum cost of \$100. All leases with a purchase price greater than \$250,000 or a term longer than five years must also be approved by the Bond Review Board.

II. DEBT REFINANCING

TPFA continually monitors bonds for refinancing opportunities and the TPFA Board has adopted policies and guidelines to this effect. In general, the policies require that any refinancing should lower overall debt service by at least 3% and that the refinancing should be structured so that the savings is achieved in equal increments over the remaining life of the bonds ("level savings") rather than "up-front" in the current fiscal year.

It should be noted that federal tax law prohibits you from refunding tax-exempt bonds more than one time. For example, the current low interest rates trend actually began in 1997, and increased significantly in 2001, as the U.S. economy entered recession. Provided below is a summary of refundings and refundings executed by TPFA. A complete list is attached as Exhibit A.

**Texas Public Finance Authority
Summary of Recent Refundings**

Bond Issue	Amount Refunded	Gross Savings	Interest Rate
GO Series 1997	\$ 341,515,000	\$ 17,364,500	4.99%
GO Series 1998	\$ 223,920,000	\$ 10,667,348	4.55%
GO Series 2001	\$ 320,930,000	\$ 9,680,571	4.41%
GO Series 2002 CP Fixout*	\$ 387,700,000	\$ 57,007,260	4.45%
GO Series 2003	\$ 72,239,350	\$ 2,291,948	2.37%
GO Series 2003A**	\$ 37,745,000	\$ 2,719,424	3.26%
Subtotal GO	\$ 1,384,049,350	\$ 99,731,051	
Revenue Series 1997	\$ 21,640,000	\$ 600,000	5.22%
Revenue Series 1998 (TDCJ)	\$ 182,230,000	\$ 39,304,746	4.69%
2002 TMFC Rev & Rev Ref	\$ 7,470,000	\$ 375,659	4.47%
Revenue Series 2002B	\$ 35,240,000	\$ 1,672,979	3.70%
Subtotal Revenue	\$ 246,580,000	\$ 41,953,384	
Total	\$ 1,630,629,350	\$ 141,684,435	

* Series 2002 CP Fixout generated \$57 million of budget savings from the FY02 GO bond debt service appropriation due to the difference between the assumed interest rate used for budget purposes (6%) and the actual rate 4.45% achieved from the CP fix-out.

** Data represents the advance refunding ("refinancing") component of this bond transaction. The transaction also included a restructuring of \$48,425,000 of GO bonds due October 1, 2004. The principal payment of this debt was extended 6 years, to be repaid in level increments from October 1, 2005 through October 1, 2010. The purpose of the restructuring was to meet the reduction in GO debt service appropriation approved by the 78th Legislature. The restructuring had an overall interest cost of 2.35%; gross debt service will increase by \$5.7 million, which translates into a \$230,665 loss on a present value basis.

III. DEBT POLICY

A copy of TPFA's debt policy is attached as Exhibit B. Please note that TPFA is in the process of hiring a financial advisor with specific expertise in the area of interest rate swaps to assist in training staff and Board and developing a more detailed swap policy. TPFA has not entered into any interest rate swaps at this time.

TPFA FINANCINGS APPROVED
By 78th Legislature

AGENCY	PROCEEDS		DEBT SERVICE		APPROPRIATION REFERENCE	COMMENTS/ PROJECT
	FY04	FY05	FY04	FY05		
GO BONDS (Tx. Const. Art. III, 50-f, Gov't. Code 1232.1115)						
Historical Commission	\$25,000,000	\$20,000,000	\$1,128,082 *	\$2,025,000*	HB1,p.I-56, A.1.5	Courthouse Preservation *Estimated debt service in TPFA's appropriation
MHMR NEW UB from 77 th Leg. Authorized but not issued	\$15,350,000 \$6,900,000	UB UB	\$1,000,000 *	UB*	HB1, p.II-98,Sec.58 HB1,p.II-94,Sec.37	*Issuance must be limited to \$1,000,000 debt service for each fiscal year which must be reimbursed from MHMR GR appropriation.
TDH UB from 77 th Leg. Authorized but not issued	\$31,700,000*	UB	**	**	HB1,p.II-24,MOF	*HB1,p.II-40, Sec. 61 requires funds to be used to construct new facility at UTHSC San Antonio. **Debt service in TPFA's appropriation
TDCJ UB from 77 th Leg. Authorized but not issued	\$34,500,000	UB	**	**	HB1,p.V-14, MOF HB1,p.V-24,Sec.62	**Debt service in TPFA's appropriation
TBPC UB from 77 th Leg. Authorized but not issued	\$8,021,500	UB	**	**	HB1,p.I-19,MOF HB1,p.I-21, Sec. 3	**Debt service in TPFA's appropriation
SUBTOTAL	\$141,471,500	\$20,000,000	\$2,128,082	\$3,025,000		
Tx DOT-Colonia Roadway Projects (Tx. Const. Art. III-49-I, Gov't. Code, ch.1403)	\$70,000,000*	UB	**	**	N/A	*Of the total \$175 million authorized in November 2001, \$50,000,000 has been requested and approved for issuance, but only \$5 million has been issued, and only \$70,000,000 is expected to be issued in FY04-FY05. **Debt service in TPFA's appropriation
Military Preparedness Comm. SJR 55 & SB 652, Acts, 78 th Leg., (2003)	\$250,000,000	UB	\$17,815,068	UB	HB1, IX-87, Sec. 11.44	Contingent on voter approval of SJR 55 at September election. SB 652 effective date is May 28, 2003. Debt proceeds are to be used for loans to defense communities
TOTAL GO	\$461,471,500	\$20,000,000	-----	-----		

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AGENCY	PROCEEDS		DEBT SERVICE		APPROPRIATION REFERENCE	COMMENTS/ PROJECT
	FY04	FY05	FY04	FY04		
REVENUE BONDS						
Texas Workforce Commission (Article 6, SB 280, Act, 78 th Leg., 2003)	\$2,000,000.00	UB	N/A	N/A	N/A	Revenue obligations are authorized to finance deficits in Unemployment Compensation Fund; debt service to be paid from special unemployment tax assessment on employers. Signed 6/20/03. Art. 6, Effective immediately.
TEA	\$200,000,000	0	\$5,013,699	\$200,000,000	HB1, p. 1X-82, Sec.11.27(d)	TPFA is to issue revenue debt to finance TEA's lease-purchase of textbooks; the debt is to be fully paid in FY 05.
TMFC/Adj. Gen.	\$9,928,655	\$4,085,171	\$458,950	985,802	HB1,p.V-40, MOF	
TPWD	\$9,159,565	0	0	0	HB1, p. VI-33, MOF HB1, p. VI-38, Sec. 31.	Tx Parks & Wildlife Code Sec. 22.233, adopted in 2001, authorized revenue bonds for \$9 million to renovate the Nimitz Museum. These proceeds are included in TPWD's appropriation, but Rider 31 expresses the intent that debt service be raised from private contributions.
DHS	\$17,014,926	UB	\$4,186,754	UB	HB1, p. II-75, Sec. 30	Additional authorization for TIERS Project for which \$34,900,000 has previously been approved for MLPP financing.
FAIR Plan (Art. 11, SB 14, Acts, 78 th Leg. 2003)	\$75,000,000	UB	N/A	N/A	N/A	SB 14 authorizes revenue bonds for the FAIR Plan association's residential property insurance. Debt service is to be paid through a special tax on property insurers.
Total Revenue	\$ 2,311,103,146	\$ 4,085,171	\$ 9,659,403	\$200,985,802		

TPFA FINANCINGS APPROVED
By 77th Legislature under HJR97/HB3064

AGENCY	PROCEEDS		DEBT SERVICE		SB 1 REFERENCE	COMMENTS/ PROJECT
	FY02	FY03	FY02	FY03		
GO BONDS						
<i>HB3064/HJR97</i>						Contingent on voter approval of HJR97 in November
GSC	0	\$16,484,500	0	\$576,975	IX-107, §10.87	Critical Repairs & Compliance Repairs at state office buildings
Historical Commission	0	\$45,000,000	0	\$1,575,000	IX-107, §10.87	County Courthouses VETOED
SPB	0	0	0	0	--	Repair and Maintenance of State Capitol Building and Grounds; No bonds in FY 02-03; Bonds in future biennia
TDH (Health Dept.)	33,900,000	0	\$678,000	\$3,678,150	II-29 II-45, Rider 68	Construction of 2 chest hospitals in San Antonio and Harlingen. Debt service paid from Tobacco settlement receipts
MHMR	0	\$35,000,000	0	\$1,225,000	IX-107, §10.87; II-96, Rider 29	Deferred maintenance; System Renewal
TSBVH (School for the Blind)	0	\$5,134,000	0	\$179,725	III-31 III-37, Rider 9	Renovation & Maintenance
TSD (School for the Deaf)	\$7,085,000	0	\$141,700	\$769,450	III-34 III-35, Rider 3 III-37, Rider 9	Construction, Renovation & Maintenance Work must be complete by August 31, 2003
Adjutant General	0	\$3,038,252	0	\$106,175	IX-107, §10.87	D/S estimated from end of Article V
TDCJ	0	\$80,000,000	0	\$2,800,000	V-10, V-12 V-13, projects listed in Rider 1, section b(2) and c.	Construction and Repair of Facilities; Expansion of Western Regional Medical Facility
TYC	UB	\$10,792,136	0	\$377,825	V-59, V-60 V-63, Rider 22 projects listed in Rider 1, Section (a) and (b)	Evins Regional Juvenile Center Education Bldg; Various Renovation and Repair
DPS	0	\$18,500,000	0	\$647,500	V-45 V-46, V-56, Rider 56	Grants to local law enforcement agencies to install video/audio equipment in compliance with SB1074
Department of Agriculture	0	\$45,000	0	0	IX-107, §10.87	Giddings Seed Laboratory Maintenance/Repairs
TPWD (Parks)	0	\$36,680,000	0	\$1,283,800	V1-34 V1-38, Rider 30	Repairs statewide; San Jacinto, Battleship Texas, Nimitz Museum, Sheldon
Equipment Acquisition	0	\$31,500,000	0	\$1,102,500	IX-107 § 10.87	Agency not specified
SUBTOTAL	40,985,000	\$237,173,888	\$819,700	14,215,925		Excludes \$45m Historical Comm veto

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AGENCY	PROCEEDS		DEBT SERVICE		SB 1 REFERENCE	COMMENTS/ PROJECT
	FY02	FY03	FY02	FY03		
SB1296/SJR37 Colonia Roadways	\$175,000,000		0	0		Contingent on SJR37 Debt service not funded
TOTAL GO	215,985,000	\$237,173,888	819,700	14,215,925		
REVENUE BONDS						
<i>HB 1</i>						
GSC	\$8,600,000		1,520,000	UB	IX - 10.02	Revenue bond proceeds to renovate Old Insurance Building (portion of authorization used)
GSC	---				IX - 72 § 10.01	REJ unused construction funds carry forward
TMFC/Adj. Gen.	\$2,567,182	2,154,398	566,139	802,094	V-37, V-1	Revenue bond proceeds for construction & renovation
TDA	\$1,800,000		63,000	156,000	VI-6, Rider 15	Revenue bond or note proceeds for metrology lab
TPWD	\$350,000	\$350,000			VI-35	Existing bond proceeds re-appropriated
DHS	\$34,900,000		7,398,800	UB	II-79, Rider 43	TIER5 project
<i>HB6</i> Charter Schools						Requires TPFA to issue revenue bonds for eligible open-enrollment charter schools under the higher education authority act (ch. 53, Ed. Code)
<i>HB658</i> Tuition Revenue Bonds						
TOTAL	1,081,755,576		76,423,393	UB	IX - 87 § 10.19	Debt service was not allocated to each university in Appropriations Act
Midwestern State		\$8,967,500				
Stephen F Austin		14,072,000				
Texas Southern		79,000,000				
Subtotal TPFA		\$102,039,500				TSU: \$14.5m not before 3/1/03
<i>SB1173</i> Nimitz Museum	\$9,000,000		0	0		Debt service not funded
<i>SB1839</i> Nursing Home Liability Insurance	\$75,000,000					Provides for insurance of last resort from the Joint Underwriting Association, with TPFA issuing \$75 million of revenue bonds to fund a stabilization reserve fund for the Association. Debt service is to be met by a tax surcharge on all liability insurance premiums.
SUBTOTAL	236,061,080					
MASTER LEASE						
HB2277						Clarifies that state agencies may use MLPP to finance energy conservation projects

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Texas Public Finance Authority
78th Legislative Session Remaining Authorization

As of 03/01/04

78th Legislature Par Amd Authorized	Amount Issued	Approved but Not Issued	Not Approved or Not Requested	HB1 Reference	Comments/Project
GO BONDS					
HB3064/HJR97					
Historical Commission	45,000,000	44,550,000	-	I-56, A.1.5	Courthouse Preservation
Texas Department of Mental Health and Mental Retardation	35,350,000	34,350,000	-	II-68, Sec. 66	Deferred maintenance; System Renewal 78th Autho issuance limited to \$1m dls to be reimbursed by MHHR GR appropriation
SUBTOTAL	80,350,000	78,900,000	-		
Military Preparedness Commission SJR 55 & SB 652	250,000,000	-	250,000,000	IX-67, Sec. 11.44	Proceeds to be used for loans to defense communities; debt service paid from loan payments
TOTAL GO	330,350,000	78,900,000	250,000,000		
REVENUE BONDS					
HB 1					
Texas Military Facilities Commission/Adjutant General	13,514,022	13,514,022	-	V-40, MOF	Armory construction and repair
HB 28					
Texas Southern University*	3,500,000	3,500,000	-		Third Called Session
SB 280					
Texas Workforce Commission	2,000,000,000	600,071,132	-		Renovation of damage by Tropical Storm Allison
Texas Education Agency	200,000,000	-	200,000,000		Finance deficits in the Unemployment Compensation Fund
SB 14					
FAIR Plan	75,000,000	-	75,000,000		Finance lease-purchase of textbooks
SUBTOTAL	2,292,014,022	1,413,442,690	275,000,000		FAIR Plan association's residential property insurance
MASTER LEASE**					
Texas Department of Human Services**	17,014,926	15,161,102	-	II-75, Sec. 30	Additional autho for TIERS project (\$44.7m prev. approved)
SUBTOTAL	17,014,926	15,161,102	-		

*BRB approval pending.

**Previous legislatures have authorized the following amounts:

76th Leg. - \$9,800,000

77th Leg. - \$34,900,000

78th Leg. - \$17,014,926

***The 77th Legislature also authorized TPFA to issue revenue bonds for Charter Schools and to fund a \$75 million stabilization reserve fund for Nursing Home Liability Insurance.

None of these bonds have been issued to date.

Texas Public Finance Authority
General Obligation Bonds
Conditionally Authorized and Unissued

Agency/Projects	2001*		2003*		2003		Total Unissued
	\$175,000,000 II 49-I	\$450,000,000 II 56-I	\$80,300,000 II 50-IV-B 1	\$120,000,000 SJR 55-9B 602			
Adjutant General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department of Agriculture	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department of Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment Acquisition (Agency unspecified)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Governor's Office/TEDOT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mental Health/Mental Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State Preservation Board	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas Building & Procurement Commission	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas Department of Criminal Justice	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas Department of Health	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas Historical Commission	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas Military Preparedness Commission	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas Parks & Wildlife Department	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas School for the Blind and Visually Impaired	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas School for the Deaf	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Texas Youth Commission	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Issued	\$ 30,000,000	\$ 172,007,388	\$ 1,455,000	\$ -	\$ -	\$ -	\$ 303,507,388
To be Issued	\$ 145,000,000	\$ 188,101,500	\$ 78,800,000	\$ 250,000,000	\$ -	\$ -	\$ 652,901,500
							Total Authorized \$ 762,929,888

* \$850,000,000 was authorized by voters via Constitutional amendment; however the Legislature only appropriated \$120,000,000 for projects in the FY 02-03 biennium.
 \$79,500,000 was appropriated for the FY 04-05 biennium. Remainder to be appropriated and issued in future biennia.
 **FY 02-03 appropriation voted by the Governor.

Texas Public Finance Authority
General Obligation Bonds
Constitutionally Authorized and Unissued

Authorization	1957	1957	1957	1957	1957	1987	1989	1991	1993	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	Unissued
Agencies/Projects										
Department of Public Safety	75,000,000	850,000,000*	900,000,000	400,000,000	400,000,000	900,000,000	400,000,000	1,100,000,000	1,000,000,000	
Mental Health Mental Retardation		1148-g (SCSO)**	1148-h1	4,320,000	45,883,711	87,293,289	45,883,711	34,229,253	68,740,000	
Texas Department of Criminal Justice						409,756,233	353,658,225	1,020,653,083	760,825,000	
Texas Juvenile Probation Commission									37,500,000	
Texas Historical Research Laboratory										
Texas Parks & Wildlife Department										
Texas Youth Commission										
Total Issued	75,000,000	850,000,000	900,000,000	400,000,000	400,000,000	1,309,756,233	799,487,950	2,120,653,083	1,809,325,000	3,311,678,008
To be Issued										

*\$250,000,000 of the authorization was issued and \$350,000,000 was repaid after the project was cancelled.

**Prior to 2001 Constitutional amendments that revised the section numbering of the Constitution.

**Texas Public Finance Authority
General Obligation Bonds - Key Terms**

The following documents outlines some of the key concepts and processes involved in issuing and administering constitutionally authorized general obligation bonds, in order to establish a common terminology and document procedures for future authorization.

Constitutional Authorization - Amount approved when voters approve an amendment to the constitution that allows the state to incur a specified amount of debt for specified broad categories of capital projects (Example: \$3billion for correctional facilities and mental health and mental retardation facilities)

Statutory Authorization - Amount approved when legislature passes a statute to implement the constitutional amendment (i.e., by amending the TPFA statute to direct TPFA or give TPFA the authority to issue a certain amount of debt on behalf of certain agencies or for certain projects.) (Example: \$3.05billion -mistake)

Legislative Appropriation - Amount specified when the legislature authorizes the client agencies to construct/acquire the projects and appropriates bond proceeds as funding source; this is specified in the agency's bill pattern, by line item or capital budget item. (Note: The amount of the legislative appropriation is based on actual project budgets. Since the appropriation bill does not make direct reference to the constitutional authorization, TPFA developed a methodology to allocate or "tie" the amount appropriated to the constitutional authorization)

Request for Financing - Amount specified when a client agency submits Request for Financing to TPFA; TPFA Board approves the request and determines financing vehicle (i.e., commercial paper or bonds). The amount of the Request for Financing is usually based on/ties to the amount of the Legislative Appropriation. A project budget and projected expenditure schedule is required.

Bond Review Board Approval - Bond Review Board approves issuance of bonds or CP in this amount. This amount should match the amount of Requests for Financing approved by the TPFA Board.

Request for Funding - Client agency requests TPFA to provide funding for all or a portion of the project (particularly relevant for CP). This amount is based on a project budget and includes a projected expenditure schedule. TPFA compares the amount of the request to the constitutional authorization and the legislative appropriation. TPFA provides the projected expenditure schedule to financial advisor for "net-funding" (i.e., to estimate the interest earnings on the project fund and decrease the amount of bonds or CP issued to account for these interest earnings)

Issuance - Amount of bonds or commercial paper TPFA issues. Amount Issued is usually less than amount of funding request, due to net funding. Amount issued can not exceed the amount

of the constitutional authorization. Typically, a separate fund is established for each agency for each request for financing. (Sometimes, a fund can be "re-used" if all previous proceeds have been spent, but the fund is still open). Commercial paper projects are labeled alphabetically by request and each tranche of commercial paper is sequentially numbered within its respective fund. Therefore, each fund number and project letter uniquely identify each fund.

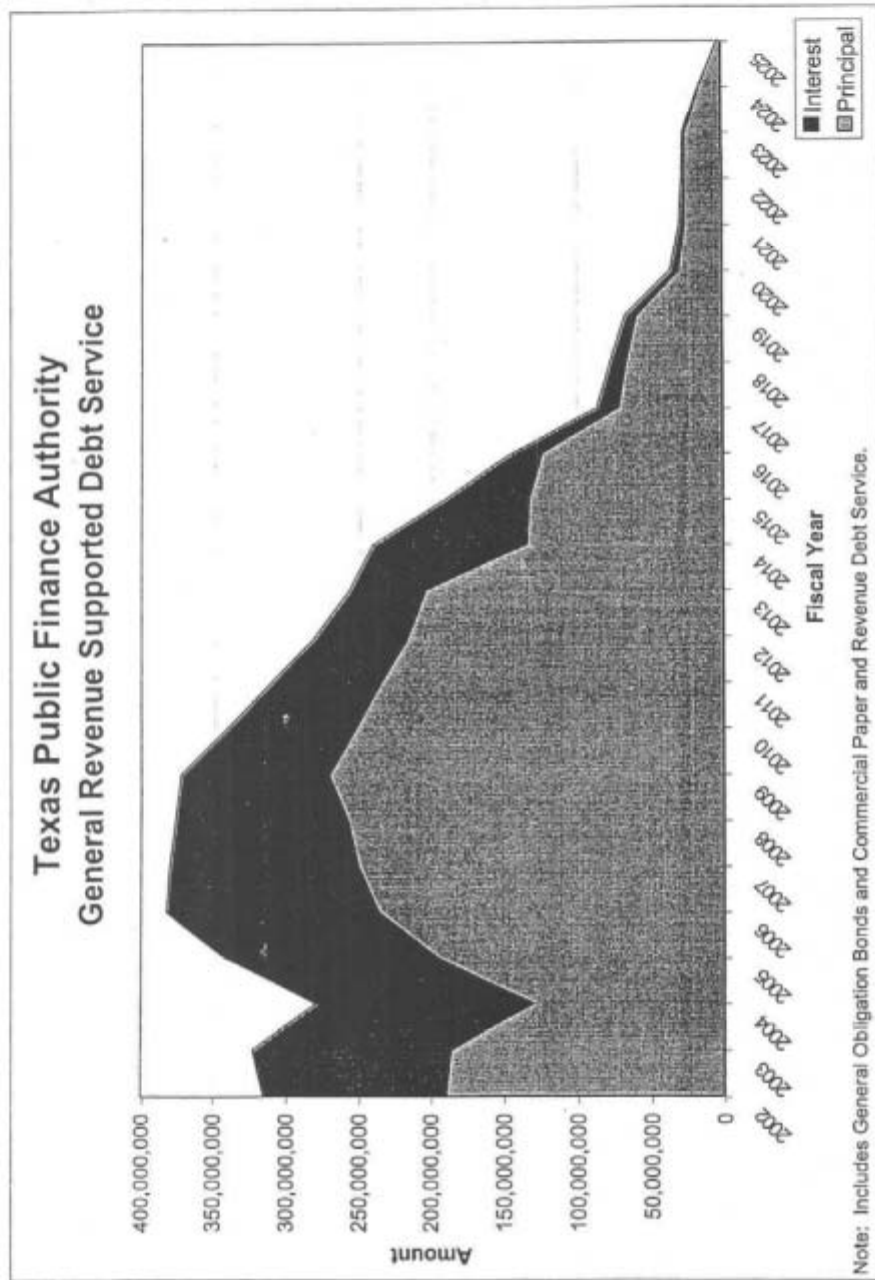
Actual Expenditures - amount of bond proceeds and interest earnings thereon agency expends for the project. Actual expenditures may exceed amount issued, and amount appropriated, due to interest earnings, including projected interest earnings and "excess interest" earnings. HB1, Article IX, page IX-59, Sec. 8.09, Acts, 78th Legislature, R.S. (2003).

"Excess Interest" - amount of interest earnings over and above interest earnings projected in the net funding. May be used for project cost with written approval of TPFA Executive Director, pursuant to terms of the financing agreement, after all arbitrage rebate obligations are met.

FY	General Obligation Bonds			Held in Escrow			Total Fixed Rate Debt Service			
	Estimated	Interest	Debt Service	Estimated	Interest	Debt Service	Estimated	Interest	Debt Service	
2002	118,920,000.00	83,323,274.74	211,843,274.74	\$1,600,000.00	\$0,791,212.20	\$1,851,212.20	2002	171,185,000.00	172,614,486.94	350,799,486.94
2003	121,385,000.00	109,737,051.25	241,102,051.25	54,105,000.00	26,833,603.34	80,938,603.34	2003	185,470,000.00	190,218,090.29	375,688,090.29
2004	84,090,680.80	107,121,571.58	191,202,252.38	43,378,091.40	23,832,019.87	67,210,111.27	2004	133,059,781.20	140,843,891.85	273,903,673.05
2005	148,801,570.25	102,290,271.38	250,991,841.63	47,094,336.00	32,817,312.82	79,911,648.82	2005	153,699,306.25	158,147,866.81	311,847,173.06
2006	170,534,961.50	101,160,110.64	271,695,072.14	38,813,298.60	27,010,861.02	65,824,159.62	2006	175,348,387.10	178,177,727.10	353,526,114.20
2007	103,000,000.00	65,386,752.24	168,386,752.24	27,350,018.15	17,850,833.38	45,200,851.53	2007	225,971,279.37	226,028,560.63	452,000,840.00
2008	211,121,000.00	129,123,335.80	340,244,335.80	42,103,523.80	27,177,144.37	69,280,668.17	2008	242,298,231.50	244,205,705.00	486,503,936.50
2009	291,121,000.00	162,632,735.80	453,753,735.80	42,103,523.80	27,177,144.37	69,280,668.17	2009	291,121,000.00	293,382,849.37	584,503,849.37
2010	391,185,000.00	214,470,407.66	605,655,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2010	332,481,933.45	334,549,423.84	667,031,357.29
2011	387,185,000.00	214,470,407.66	601,655,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2011	327,181,933.45	329,249,423.84	656,431,357.29
2012	353,855,000.00	214,470,407.66	568,325,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2012	291,851,933.45	293,919,423.84	585,771,357.29
2013	320,520,000.00	214,470,407.66	534,995,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2013	258,526,933.45	260,594,423.84	518,121,357.29
2014	287,185,000.00	214,470,407.66	501,660,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2014	225,191,933.45	227,259,423.84	450,451,357.29
2015	253,850,000.00	214,470,407.66	468,325,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2015	191,856,933.45	193,924,423.84	385,781,357.29
2016	220,515,000.00	214,470,407.66	434,990,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2016	158,521,933.45	160,589,423.84	352,111,357.29
2017	187,180,000.00	214,470,407.66	401,655,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2017	125,186,933.45	127,254,423.84	318,441,357.29
2018	153,845,000.00	214,470,407.66	368,320,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2018	91,851,933.45	93,919,423.84	284,771,357.29
2019	120,510,000.00	214,470,407.66	334,985,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2019	58,516,933.45	60,584,423.84	251,101,357.29
2020	87,175,000.00	214,470,407.66	301,650,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2020	25,181,933.45	27,249,423.84	117,431,357.29
2021	53,840,000.00	214,470,407.66	268,315,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2021	9,846,933.45	11,914,423.84	70,761,357.29
2022	20,505,000.00	214,470,407.66	234,980,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2022	2,511,933.45	2,579,423.84	33,101,357.29
2023	7,170,000.00	214,470,407.66	201,645,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2023	916,933.45	924,423.84	29,746,357.29
2024	3,835,000.00	214,470,407.66	168,310,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2024	511,933.45	519,423.84	26,391,357.29
2025	500,000.00	214,470,407.66	134,975,407.66	45,300,933.45	34,166,644.02	79,467,577.47	2025	116,933.45	124,423.84	23,036,357.29
Total	2,282,915,971.85	1,637,112,167.85	3,920,028,139.70	553,255,150.00	357,989,318.78	911,244,468.78	Total	3,037,170,792.95	3,394,772,498.71	6,431,943,291.66

FY	General Obligation Commercial Paper			Total General Revenue Supported Debt Service			
	Estimated	Interest	Debt Service	Estimated	Interest	Debt Service	
2002	17,000,000.00	3,728,657.78	21,318,657.78	2002	188,751,000.00	126,320,144.72	315,071,144.72
2003	18,000,000.00	4,100,000.00	22,500,000.00	2003	185,470,000.00	127,247,623.03	312,717,623.03
2004	19,000,000.00	4,470,000.00	23,470,000.00	2004	130,059,781.20	140,740,652.62	270,800,433.82
2005	20,000,000.00	4,840,000.00	24,840,000.00	2005	133,699,306.25	147,107,203.78	280,806,510.03
2006	21,000,000.00	5,210,000.00	26,210,000.00	2006	175,348,387.10	183,334,622.25	358,683,009.35
2007	22,000,000.00	5,580,000.00	27,580,000.00	2007	225,971,279.37	226,028,560.63	452,000,840.00
2008	23,000,000.00	5,950,000.00	28,950,000.00	2008	291,121,000.00	293,382,849.37	584,503,849.37
2009	24,000,000.00	6,320,000.00	30,320,000.00	2009	291,121,000.00	293,382,849.37	584,503,849.37
2010	25,000,000.00	6,690,000.00	31,690,000.00	2010	332,481,933.45	334,549,423.84	667,031,357.29
2011	26,000,000.00	7,060,000.00	33,060,000.00	2011	327,181,933.45	329,249,423.84	656,431,357.29
2012	27,000,000.00	7,430,000.00	34,430,000.00	2012	291,851,933.45	293,919,423.84	585,771,357.29
2013	28,000,000.00	7,800,000.00	35,800,000.00	2013	258,526,933.45	260,594,423.84	518,121,357.29
2014	29,000,000.00	8,170,000.00	37,170,000.00	2014	225,191,933.45	227,259,423.84	452,451,357.29
2015	30,000,000.00	8,540,000.00	38,540,000.00	2015	191,856,933.45	193,924,423.84	385,781,357.29
2016	31,000,000.00	8,910,000.00	39,910,000.00	2016	158,521,933.45	160,589,423.84	352,111,357.29
2017	32,000,000.00	9,280,000.00	41,280,000.00	2017	125,186,933.45	127,254,423.84	318,441,357.29
2018	33,000,000.00	9,650,000.00	42,650,000.00	2018	91,851,933.45	93,919,423.84	284,771,357.29
2019	34,000,000.00	10,020,000.00	44,020,000.00	2019	58,516,933.45	60,584,423.84	251,101,357.29
2020	35,000,000.00	10,390,000.00	45,390,000.00	2020	25,181,933.45	27,249,423.84	117,431,357.29
2021	36,000,000.00	10,760,000.00	46,760,000.00	2021	9,846,933.45	11,914,423.84	70,761,357.29
2022	37,000,000.00	11,130,000.00	48,130,000.00	2022	2,511,933.45	2,579,423.84	33,101,357.29
2023	38,000,000.00	11,500,000.00	49,500,000.00	2023	916,933.45	924,423.84	29,746,357.29
2024	39,000,000.00	11,870,000.00	50,870,000.00	2024	511,933.45	519,423.84	26,391,357.29
2025	40,000,000.00	12,240,000.00	52,240,000.00	2025	116,933.45	124,423.84	23,036,357.29
Total	3,037,170,792.95	1,394,772,498.71	4,431,943,291.66	Total	3,037,170,792.95	3,394,772,498.71	6,431,943,291.66

NOTE 1: Fixed rate debt includes all long term debt excluding university debt.
 NOTE 2: Revenue debt service appropriated to client agencies. Excludes debt service financed by parks and accessory fees.
 NOTE 3: Revenue bond debt service amounts include estimated debt service for the 2004 Texas Military Facilities Commission Issue.
 NOTE 4: General Obligation Commercial Paper estimates include unissued debt based on remaining appropriation status.
 NOTE 5: General Obligation Commercial Paper estimates assume a 4.2% interest rate through 2005, 5% thereafter.
 NOTE 6: Assumes low principal payments beginning in FY 2006, and a 20 year repayment schedule.
 NOTE 7: Principal payments on General Obligation Commercial Paper for fiscal year are not highly volatile.
 NOTE 8: General Obligation Commercial Paper estimates include commercial paper debt not reflected by MUDAP general revenue for FY 2004-2005.
 NOTE 9: General Obligation Commercial Paper estimates include ongoing program costs including debt, unamortized, intangible, and equity and liquidity fees.



TEXAS PUBLIC FINANCE AUTHORITY
GENERAL REVENUE SUPPORTED DEBT SERVICE BY AGENCY

Agency	General Obligation Bond Debt Service		Revenue Bond Debt Service		General Obligation Commercial Paper Debt Service		Total General Revenue Supported Debt Service	
	2004	2005	2004	2005	2004	2005	2004	2005
TX Building and Procurement Commission	377,946.97	486,136.94	45,725,405.91	45,666,793.76	370,766.03	360,967.50	46,474,118.01	46,513,898.24
Texas Historical Commission	-	-	-	-	1,128,082.00	2,035,000.00	1,128,082.00	2,035,000.00
State Preservation Board	-	-	6,692,570.00	6,630,390.00	-	-	6,692,570.00	6,630,390.00
TX Dept. of Mental Health & Mental Retardation	16,665,176.14	17,601,901.80	-	-	797,283.86	1,724,782.19	17,462,460.00	19,326,683.99
Texas Department of Health	70,253.80	91,635.29	-	-	687,896.00	939,744.66	758,149.80	1,031,380.05
Texas School for the Deaf	204,374.68	266,575.67	-	-	103,912.08	30,825.00	308,286.76	297,400.67
Texas School for the Blind & Visually Impaired	162,861.07	212,427.49	-	-	-	-	162,861.07	212,427.49
Adjutant General's Department	-	-	-	-	140,400.00	136,375.00	140,400.00	136,375.00
Texas Department of Criminal Justice	154,410,102.15	209,965,923.06	18,815,940.00	18,838,180.00	1,079,108.42	1,532,500.00	174,505,410.57	230,356,603.06
Texas Youth Commission	11,726,184.43	12,645,541.18	-	-	61,110.38	65,250.00	11,787,294.81	12,710,791.18
Texas Department of Public Safety	1,075,888.12	1,278,866.03	-	-	-	-	1,075,888.12	1,278,866.03
Texas Juvenile Probation Commission	3,879,916.29	3,894,301.31	-	-	-	-	3,879,916.29	3,894,301.31
Texas Military Facilities Commission	-	-	-	-	-	-	-	-
Texas Department of Agriculture	2,009.64	2,584.92	2,289,846.26	3,238,387.06	-	-	2,289,846.26	3,238,387.06
Texas Parks and Wildlife Department	3,227,748.49	3,649,998.41	5,676,350.00	5,577,700.00	-	-	2,009.64	2,584.92
Texas Department of Transportation	191,802,661.78	250,095,842.24	79,200,111.27	79,951,650.82	3,828,082.20	4,123,972.60	8,004,098.49	9,227,668.41
					7,796,700.87	10,959,616.95	278,799,474.02	341,007,110.01

Note 1: Fixed rate bond debt service includes all long term debt; excludes university debt.
 Note 2: Revenue debt service appropriated to client agencies. Excludes debt service financed by park and laboratory fees.
 Note 3: Texas Military Facilities Commission amounts include estimated debt service for a 2004 Revenue Bond issue.
 Note 4: General Obligation Commercial Paper estimates include unused debt based on remaining appropriation authority.
 Note 5: General Obligation Commercial Paper estimates assume a 6% interest rate.
 Note 6: General Obligation Commercial Paper estimates assume level principal payments beginning in FY 2006, and a 20 year repayment schedule.
 Note 7: General Obligation Commercial Paper are flexible and are not legally binding.
 Note 8: General Obligation Commercial Paper estimates include commercial paper debt service that is returned by MEMB, paying agent and liquidity fees.

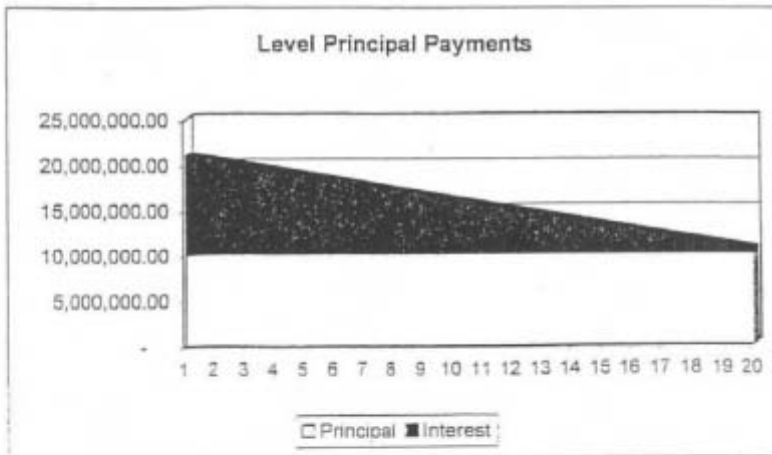
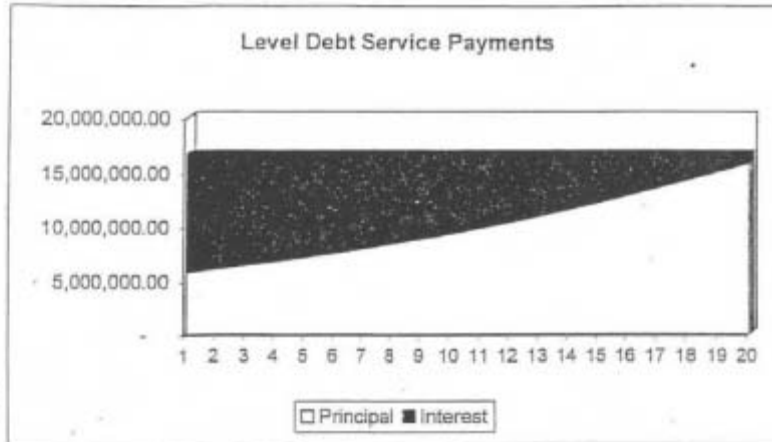
TEXAS PUBLIC FINANCE AUTHORITY
GENERAL REVENUE SUPPORTED DEBT SERVICE BY AGENCY

AGENCY	General Obligation Bond Debt Service		Revenue Bond Debt Service		General Obligation Commercial Paper Debt Service		Total General Revenue Supported Debt Service	
	2006	2007	2006	2007	2006	2007	2006	2007
TX Building and Procurement Commission	-	-	-	-	-	-	-	-
Texas Historical Commission	-	-	-	-	-	-	-	-
State Preservation Board	-	-	-	-	-	-	-	-
TX Dept. of Mental Health & Mental Retardation	20,612,385.22	20,830,493.12	6,573,755.00	6,510,890.00	-	-	6,573,755.00	6,510,890.00
Texas Department of Health	196,041.55	191,479.54	-	-	4,903,474.85	5,387,170.48	5,099,516.40	5,387,170.48
Texas School for the Deaf	570,302.68	557,031.39	-	-	2,401,033.16	2,556,363.76	2,597,076.71	2,747,843.30
Texas School for the Blind & Visually Impaired	454,459.55	443,884.39	-	-	77,659.90	74,776.56	647,362.58	631,807.95
Adjutant General's Department	-	-	-	-	-	-	454,459.55	443,884.39
Texas Department of Criminal Justice	-	-	-	-	-	-	341,425.95	331,309.28
Texas Department of Public Safety	227,212,899.40	226,280,186.38	18,835,425.00	11,451,175.00	2,070,000.00	3,881,118.72	248,118,324.40	242,112,480.10
Texas Department of Transportation	17,830,595.36	17,964,016.57	-	-	87,000.00	163,119.49	17,907,595.36	18,127,136.06
Texas Department of Agriculture	1,942,934.02	1,915,916.16	-	-	-	-	1,942,934.02	1,915,916.16
Texas Military Facilities Commission	4,875,578.36	4,895,768.20	-	-	-	-	4,875,578.36	4,895,768.20
Texas Department of Agriculture	-	-	-	-	-	-	3,196,420.01	2,433,959.38
Texas Parks and Wildlife Department	3,436.15	3,401.84	-	-	-	-	3,436.15	3,401.84
Texas Department of Transportation	4,310,714.30	4,236,807.36	5,483,975.00	5,388,892.50	-	-	9,794,689.30	9,625,699.86
	278,665,572.24	278,458,757.24	79,870,290.02	71,530,673.14	9,838,140.67	20,597,694.53	381,856,387.01	379,587,124.91

Note 1: Fixed rate bond debt service includes all long term debt, excludes university debt.
 Note 2: Revenue debt service appropriated to client agencies. Excludes debt service financed by park and laboratory fees.
 Note 3: Texas Military Facilities Commission amounts include estimated debt service for a 2004 Revenue Bond issue.
 Note 4: General Obligation Commercial Paper estimates include unissued debt based on remaining appropriation authority.
 Note 5: General Obligation Commercial Paper estimates assume a 6% interest rate.
 Note 6: General Obligation Commercial Paper estimates assume level principal payments beginning in FY 2006, and a 20 year repayment schedule.
 Note 7: General Obligation Commercial Paper estimates include commercial paper debt service that is reimbursed by MIMR general revenue for FY 2004-2005.
 Note 8: General Obligation Commercial Paper estimates include ongoing program costs including rating, remarketing, paying agent and liquidity fees.

Illustration of Level Debt Service vs Level Principal

Par Amount \$ 200,000,000
Term 20 Years
Rate 5.50%



Texas Public Finance Authority
Summary of Refunding Bonds

Exhibit A

General Obligation Refunding Bonds

Series	Refunded Par	Debt Service Savings	Present Value Savings	GOCP Refunded
1992A&B GO Refunding Bonds	602,605,000.00	26,890,901.87	17,023,709.02	
1992 GO Park Development Refunding Bonds	28,575,000.00	(6,187,428.96)	412,585.10	
1995A GO Refunding Bonds	300,000,000.00			300,000,000.00
1996B GO Refunding Bonds	312,940,000.00			312,940,000.00
1996C Go Refunding Bonds	82,505,000.00	195,355.44	1,527,480.88	
1997 GO Refunding Bonds	341,515,000.00	10,433,582.27	12,099,180.19	
1998B GO Refunding Bonds	209,010,000.00	9,756,927.23	7,722,511.03	
1998C GO Park Development Refunding Bonds	14,910,000.00	911,420.69	784,506.94	
2001A GO Refunding Bonds	318,921,221.65	11,413,538.72	9,635,293.06	
2002 GO Refunding Bonds	369,715,000.00			369,715,000.00
2003 GO Refunding Bonds	72,239,350.00	2,291,948.29	2,244,707.13	
2003A GO Refunding Bonds	37,745,000.00	2,719,423.91	2,576,647.98	67,695,000.00
Totals		58,424,669.46	54,026,601.33	1,050,350,000.00

Revenue Refunding Bonds

Series	Refunded Par	Debt Service Savings	Present Value Savings
1986 Revenue Refunding	127,123,417.20	NA	
1990 Building Revenue Refunding	174,090,180.09	NA	
1992B Building Revenue & Revenue Refunding	126,780,000.00	4,338,806.57	3,619,186.31
1993A Equipment Revenue & Revenue Refunding Bonds	73,890,000.00		
1994 Refunding & Armory Improvement Revenue Bonds	17,350,000.00	238,708.38	293,107.89
1997A Revenue Refunding	22,555,000.00	413,587.01	386,324.99
1998A Building Revenue (TDCJ Refunding)	169,320,000.00	39,304,746.13	27,305,406.06
2002 TMFC Rev & Rev Ref	7,470,000.00	375,656.69	283,222.25
2002B Revenue Refunding	35,240,000.00	1,672,979.35	1,247,834.59
Totals	753,788,597.29	46,344,886.13	33,135,082.09

TEXAS PUBLIC FINANCE AUTHORITY
DEBT MANAGEMENT GUIDELINES
August 21, 2001

Structure of Bond Issues

1. The term of the bond issue should equal the lesser of the useful life of the asset being financed or 20 years.
2. A level principal structure should be used for bonds repaid from general revenue. This structure results in 50% of debt being repaid in 10 years, and creates future capacity for debt service on additional bond issues. A level debt service structure should be reserved for bonds repaid from a dedicated revenue stream, if necessary or appropriate.
3. Variable rate debt should be amortized annually based on the same guidelines.
4. Refundings should be structured to maximize present value savings and achieve level debt service savings when appropriate.
5. The Board should establish savings criteria for each refunding appropriate to existing market conditions and outstanding debt. A minimum savings criteria of 3% present value savings for maturities with more than one year from the call date and at least positive savings for maturities with less than a year to the call date should be considered.

Variable Rate Exposure

6. The Authority should establish a target of maintaining 20 percent of its total outstanding debt in a variable rate mode.
7. Variable rate debt should be converted to fixed rate debt as necessary to maintain the 20% target, to meet the particular needs of a financing program, or to lock in low fixed interest rates. The Authority will consider locking in low interest rates when a typical fixed interest rate structure produces a true interest cost equal approximately 125% or less than the weighted average rates on the Authority's comparable variable rate debt for the past 3 years.

Method of Sale

8. The Authority will utilize both competitive and negotiated sales. In general, negotiated sales will be used in the following circumstances:
 - complex transactions that require extensive financial modeling, credit analysis, or pre-marketing efforts, or that are interest rate sensitive
 - volatile financial markets
 - the par amount allows the Authority to achieve the goals of its underwriting policy¹Competitive sales will be used in the following circumstances:
 - well known credit, such as a general obligation pledge or annual appropriation of general revenue
 - simple structure and financial analysis
 - stable financial market
 - moderate par amount

Swaps and Derivatives

9. The Authority will consider the advisory guidelines provided by its staff and financial advisors in implementing swaps and other derivative products.

¹These goals are outlined in TPFA's Underwriting Pool/Underwriter Selection Process.

TEXAS PUBLIC FINANCE AUTHORITY
ADVISORY GUIDELINES FOR THE USE OF DERIVATIVE PRODUCTS
August 21, 2001

Due to the nature of derivative products, this policy is intended to serve as an outline of the issues that must be considered and weighed before entering into a derivative agreement. Generally, the Texas Public Finance Authority (the "Authority") must consider the impact of an interest rate swap on the general revenues of the State of Texas, debt service appropriations and constitutional issues. Potential benefits must be weighed against potential risks and the swap counter party should identify risks. It is important to note that in most circumstances, only after the swap is terminated can the exact benefits or costs be determined, similar to the analysis of the benefits of variable rate debt.

In addressing the issues that may be encountered with a derivative product or swap, issues must be identified and analyzed before entering into a swap. Issues to be addressed and questions to be answered before undertaking an interest rate swap include:

- **Basis risk:** The potential differential between the rate the Authority would pay and the actual rate received. Does the index on which the contract is based move in lock step with the rate the Authority would normally pay for a fixed or variable rate debt.
- **Credit Risk:** The potential change in ratings or credit quality of either party between the time the Authority enters into an agreement and termination. Credit risk can be mitigated through the use of collateral provisions. Take into consideration whether the counter party has a rating higher or lower than that of the Authority. What is the next excess capital position of the counter party?
- **Tax risk:** The potential that a change in tax law would adversely affect the value of the payments of the Authority under the contract. This risk should be identified and it should be determined who takes the risk.
- **Termination risks:** The basis on which the contract is terminated. Is the Authority exposed to potential costs of terminating the transaction? If so, how is it calculated? It may be difficult to get market bids to terminate a swap in the future if the swap is of such a specialized nature that there is not a liquid transparent market or other parties willing to assume the unique responsibilities of the contract. The lack of a clearly defined termination provision may impede the Authority from altering the payment stream on the underlying bonds and potentially exercising the call option on the bonds. A termination provision should probably include a mechanism for a third party valuation or a competitive bid on the value of the swap termination. Careful consideration should be given to the political implications of the Authority possibly having to make a termination payment.
- **Valuation and pricing of the Swap:** The Authority must develop mechanisms to ensure efficient pricing of derivative products with counter parties with which it will contract. This could possibly include the use of a bidding process or some form of competition. Ideally, a swap should be of the nature where it is widely quoted and for which market information is readily available, i.e. Bloomberg, Telerate, Reuters.
- **Structuring Risk:** Does the transaction adversely affect existing bond ordinances, mitigate the value of bond calls, introduce collateralization requirements, complicate rebate or affect the benefits of exemptions from rebate? How will tax counsel treat the transactions?
- **What are the costs to implement such a structure?** The potential cost of negotiating and documenting the transactions need to be determined. There is a potential cost at termination as well as periodic monitoring. Who pays for such costs?

Before proceeding with an interest rate swap, the Authority must analyze a significant amount of parameters. When a swap is proposed to the Authority, it should be the responsibility of the proposer to clearly identify the

advantages and disadvantages of the transaction. The proposal should clearly and succinctly address the issues described above. The proposer should be responsible for the cost in developing the transaction. An analysis of bond ordinances and bond covenants as well as comparative alternative proposals that may achieve a significant amount of the benefit without the risks of a swap should be undertaken. The legal framework in which the Authority can enter into a swap agreement must be well defined. The documentation must be negotiated that is acceptable to the Authority and leaves the Authority with financial flexibility that does not impair the financial operations of the Authority. A risk-reward analysis must be undertaken to identify potential risks that the Authority will undertake if a swap is entered into and memorialized within the swap document.

Appendix C



ATTORNEY GENERAL OF TEXAS
GREG ABBOTT

PUBLIC FINANCE DIVISION
General Summary

Attorneys in the Public Finance Division ("PFD") review and approve all bonds and similar obligations issued by the state agencies, cities, counties, school districts, municipal utility districts, hospital districts, institutions of higher education and all other governmental entities or instrumentalities of the state, plus certain non-profit corporations created to act on behalf of some of these political subdivisions (Chapter 1202, Tex. Gov. Code Ann. and numerous other statutes and constitutional provisions).

While the review of transcripts of proceedings authorizing the issuance of bonds and the approval of bonds is the division's primary duty and responsibility, the division is called upon to advise representatives of the above entities, including bond counsel, with respect to the issuance of bonds (Section 402.044, Tex. Gov. Code Ann.).

PFD also acts as counsel of the Bond Review Board ("BRB"), attending its meetings and advising representatives and staff on legal matters relating to the issuance of bonds. (The BRB is composed of the Governor, Lieutenant Governor, Speaker, Comptroller and Treasurer who may designate representatives to attend the meetings. The BRB must approve all bonds issued by state agencies and institutions of higher education.)

Although the PFD no longer represents the Texas Public Finance Authority, PFD does review particular issues at the Authority's request. For example, the PFD advised the Authority regarding authorized uses of remaining superconducting supercollider bonds proceeds and the ability to refund some of those bonds. In recent years, the PFD has also been asked to advise the Texas Department of Criminal Justice regarding proposed financings, and to a limited extent, the Texas Water Development Board regarding a number of issues.

Attorneys in the PFD also represent the Attorney General of the State of Texas in bond validation litigation (The Attorney General is a statutory party to such litigation). This litigation is not that common (generally two to five cases a year), but it gets a priority setting in the district and appellate courts, compressing trial preparation into a very short time frame.

DESCRIPTION OF DIVISION FUNCTIONS:

Pursuant to Chapter 1202, Tex. Gov. Code Ann. (which combined many predecessor statutes dating back to the late 1800's), all state agencies, cities, counties, school districts, municipal utility districts, hospital districts, institutions of higher education and all other governmental entities or instrumentalities of the state, plus certain non-profit corporations created to act on behalf of some

of these political subdivisions, must submit all bonds and similar obligations to the Attorney General, along with the proceedings authorizing such obligations. Pursuant to this statute, if the Attorney General determines that the bonds have been authorized in accordance with law, he is to approve them and send them to the Comptroller for registration, after which they can be delivered to the purchasers in exchange for the purchase price. After approval by the Attorney General, the bonds are, under state law, valid, enforceable and incontestable in any court for any reason, except for a constitutional defect. (Some state agency bonds are specifically authorized by the state constitution, with a constitutional requirement for Attorney General review which carries with it constitutional incontestability.)

The PFD is the division responsible for fulfilling this duty by reviewing all bonds and their authorizing proceedings. This review is a legal one, and not a financial one, though division attorneys do determine whether bonds can legally be paid within any statutory or constitutional limits on taxation or revenues. Additionally, in 1995 the Attorney General was given the particular responsibility of determining whether school bonds can be paid without exceeding a legislatively specified tax rate, taking into account the various kinds of state aid to school districts, and attorneys in the division have devised formulas to apply in their review process to determine that this legislative mandate is satisfied.

There are occasions when problems arise after submission of the bond transcript. Some of these problems may require remedial action by the governing body of the issuer and in some rare instances, the division will refuse to approve a bond issue after it is submitted because the legal defect simply cannot be cured. For most complex bond financings, bond counsel for the entity issuing bonds (who sometimes submit legal memoranda or briefs) discuss with division attorneys prior to submission of the transcripts, the legal issues raised by a particular bond issuance, and the bonds will not be submitted if division attorneys do not agree that the proposed issue will meet all legal requirements. Ordinarily, the division requires bond transcripts to be submitted at least 10 working days (12 for bonds issued by non-profit corporation on behalf of a government entity) before the scheduled delivery date of the bonds. Many bond issues, such as voted tax bonds of cities, counties, and, until recently, school districts, are fairly straight forward, but others, such as bonds for sport facilities, airports, economic development, tax increment bonds, bonds for health facilities or housing, and bond financings involving lease purchase agreements, can be extremely complex.

The Attorney General is authorized to give advice "to the proper legal authorities in regard to the issuance of bonds" (Section 402.044, Tex. Gov. Code) and thus the attorneys in the division frequently talk to counsel for government entities, and sometimes directly to governmental officials, regarding various legal issues related to the issuance of bonds. An additional function of the Public Finance Division is its role as counsel for the Texas Bond Review Board, the state agency which must review and approval all bonds issued by state agencies.

The division also represents the Attorney General in bond validation suits brought under Chapter 1205, Tex. Gov. Code Ann., though a litigator from the General Litigation Division is assigned to contested cases.

Permanent School Fund Bond Guarantee Program

The bond guarantee program assures that general obligation bonds authorized by voters in school districts receive an enhanced credit rating equivalent to that of the permanent school fund, which is currently Aaa. In order to participate in the bond guarantee program, districts must apply to TEA at least 15 days before the sale of the bonds and be approved by the commissioner of education.

The TEA reviews each application in accordance with Texas Education Code (TEC), Section 45.056 and 19 Texas Administrative Code (TAC), Section 33.65 (c). As stated in the referenced TAC section, "A district must be accredited and financially sound to be eligible for approval by the commissioner of education." In accordance with this section, the commissioner's review of the district's application includes a review of the district's financial status and stability.

Districts have the option of issuing bonds without the guarantee provided by the permanent school fund. They may place the bonds privately, usually with a bank, or buy private insurance in order to market the bonds publicly. Private placements do not generally require insurance, but typically have higher interest costs. Private insurance is priced according to the underlying bond rating of the district and the amount of the bond issue. If the district's bond rating is below investment grade (BBB-), the district may not be able to sell the bonds at all.

The application for the guarantee program must be accompanied by a processing fee of \$1,000. The fee was recently raised from \$300 to more fully cover the costs of administering the program.

The monetary benefit to school districts from the bond guarantee program is difficult to quantify, but it is estimated that the guarantee reduces interest cost by \$25 to \$50 million per year, assuming a difference in interest rates of 12.5 to 25 basis points.

TEXAS EDUCATION CODE
CHAPTER 45. SCHOOL DISTRICT FUNDS
SUBCHAPTER C. GUARANTEED BONDS

§ 45.051. Definitions

In this subchapter:

- (1) "Board" means the State Board of Education.
- (2) "Paying agent" means the financial institution that is designated by a school district as its agent for the payment of the principal of and interest on guaranteed bonds.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.052. Guarantee

On approval by the commissioner, bonds issued under Subchapter A, including refunding bonds, are guaranteed by the corpus and income of the permanent school fund.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.053. Limitation; Value Estimates

(a) The commissioner may not approve bonds for guarantee if the approval would result in the total amount outstanding guaranteed bonds exceeding an amount equal to two times the cost value or market value, whichever is less, of the permanent school fund, exclusive of real estate, as estimated by the board and certified by the state auditor.

(b) Each year, the state auditor shall analyze the status of guaranteed bonds as compared to the cost value and market value of the permanent school fund. Based on that analysis, the state auditor shall certify whether the amount of bonds guaranteed is within the limit prescribed by this section.

(c) The commissioner shall prepare and the board shall adopt an annual report on the status of the guaranteed bond program.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.054. Eligibility

To be eligible for approval by the commissioner, bonds must be issued under Subchapter A of this chapter or under Subchapter A, Chapter 1207, Government Code, to make a deposit under Subchapter B or C of that chapter, by an accredited school district.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

Amended by Acts 2001, 77th Leg., ch. 1420, § 8.209, eff. Sept. 1, 2001.

§ 45.055. Application for Guarantee

(a) A school district seeking the guarantee of eligible bonds shall apply to the commissioner.

(b) The application must include:

- (1) the name of the school district and the principal amount of the bonds to be issued;
- (2) the name and address of the district's paying agent for those bonds; and
- (3) the maturity schedule, estimated interest rate, and date of the bonds.

(c) The application must be accompanied by a fee set by rule of the board in an amount designed to cover the costs of administering the guarantee program.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.056. Investigation

(a) Following receipt of an application for the guarantee of bonds, the commissioner shall conduct an investigation of the applicant school district in regard to:

- (1) the status of the district's accreditation; and
- (2) the total amount of outstanding guaranteed bonds.

(b) If following the investigation the commissioner is satisfied that the school district's bonds should be guaranteed under this subchapter, the commissioner shall endorse the bonds.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.057. Guarantee Endorsement

(a) The commissioner shall endorse bonds approved for guarantee with:

- (1) the commissioner's signature or a facsimile of the commissioner's signature; and
- (2) a statement relating the constitutional and statutory authority for the guarantee.

(b) The guarantee is not effective unless the attorney general approves the bonds under Section 45.005.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.058. Notice of Default

Immediately following a determination that a school district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, but not later than the fifth day before maturity date, the school district shall notify the commissioner.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.059. Payment From Permanent School Fund

(a) Immediately following receipt of notice under Section 45.058, the commissioner shall instruct the comptroller to transfer from the appropriate account in the permanent school fund to the district's paying agent the amount necessary to pay the maturing or matured principal or interest.

(b) Immediately following receipt of the funds for payment of the principal or interest, the paying agent shall pay the amount due and forward the canceled bond or coupon to the comptroller. The comptroller shall hold the canceled bond or coupon on behalf of the permanent school fund.

(c) Following full reimbursement to the permanent school fund with interest, the comptroller shall further cancel the bond or coupon and forward it to the school district for which payment was made.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

Amended by Acts 1997, 75th Leg., ch. 1423, § 5.07, eff. Sept. 1, 1997.

§ 45.060. Bonds Not Accelerated on Default

If a school district fails to pay principal or interest on a guaranteed bond when it matures, other amounts not yet mature are not accelerated and do not become due by virtue of the school district's default.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.061. Reimbursement of Permanent School Fund

(a) If the commissioner orders payment from the permanent school fund on behalf of a school district, the commissioner shall direct the comptroller to withhold the amount paid, plus interest, from the first state money payable to the school district. The amount withheld shall be deposited to the credit of the permanent school fund.

(b) In accordance with the rules of the board, the commissioner may authorize reimbursement to the permanent school fund with interest in a manner other than that provided by this section.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.062. Repeated Defaults

(a) If two or more payments from the permanent school fund are made on the guaranteed bonds of a school district and the commissioner determines that the school district is acting in bad faith under the guarantee, the commissioner may request the attorney general to institute appropriate legal action to compel the school district and its officers, agents, and employees to comply with the duties required of them by law in regard to the bonds.

(b) Jurisdiction of proceedings under this section is in district court in Travis County.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.063. Rules

The board may adopt rules necessary for the administration of the bond guarantee program.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

**Texas Administrative Code, Chapter 33. Statement of Investment Objectives,
Policies, and Guidelines of the Texas Permanent School Fund**

5. Guarantee Program for School District Bonds.

(a) The commissioner of education shall administer the guarantee program for school district bonds according to the provisions of the Texas Education Code, Chapter 45, Subchapter C.

(b) A school district seeking the guarantee of eligible bonds shall apply to the commissioner of education. The district shall submit, in a form specified by the commissioner of education, the information required under the Texas Education Code, §45.055(b), and this section and any additional information the commissioner may require. The application shall be accompanied by a fee to be set by the commissioner of education and approved by the State Board of Education (SBOE).

(c) Under the Texas Education Code, §45.056, the commissioner of education shall investigate the applicant school district's accreditation status and financial status. A district must be accredited and financially sound to be eligible for approval by the commissioner of education.

(1) The commissioner's review shall include the following:

(A) the purpose of the bond issue;

(B) the district's accreditation status and compliance with statutes and rules of the Texas Education Agency; and

(C) the district's financial status and stability, including approval of the bonds by the attorney general under the provisions of the Texas Education Code, §45.003(e) and §45.005.

(2) A district applying for approval for the guarantee of refunding bonds must be accredited and comply with the following.

(A) The district must demonstrate that issuing the bonds will result in a total interest saving to the district, if the refunding bonds are to be issued under the Texas Education Code, §45.004.

(B) If the refunding bonds do not meet the requirements of subparagraph (A) of this paragraph, the district must demonstrate to the satisfaction of the commissioner of education that the refunding is otherwise beneficial to the district.

(3) Under Texas Civil Statutes, Article 717k, a district may issue combination new money bonds and refunding bonds in a single guarantee bond issue and sell the issue at a private sale.

(d) If necessary to successfully operate the guarantee program, the commissioner of education may allocate specific holdings of the Texas Permanent School Fund (PSF) to specific bond issues guaranteed under this section. This allocation shall not prejudice the right of the State Board of Education (SBOE) to dispose of the holdings according to law and requirements applicable to the fund; however, the SBOE shall ensure that holdings of the PSF are available for a substitute allocation sufficient to meet the purposes of the initial allocation. This allocation shall not affect any rights of the bond holders under law.

(e) If, in the judgment of the commissioner of education, it becomes necessary or advisable to limit the total amount of bonds that may be guaranteed under this program, the commissioner may further investigate the proposed issues submitted for approval.

(1) The commissioner of education shall determine whether to guarantee an issue based on considerations that may include the following:

- (A) purpose of the bond issue and the district's need for the bond issue;
- (B) whether the bonds to be issued are new issues or refunding bonds;
- (C) the repayment plan for bonds;
- (D) the percentage of savings to the district represented by the refunding bonds, if any; or
- (E) any other consideration that, in the judgment of the commissioner, would enable the commissioner to make a decision in the best interest of the bond guarantee program and Texas school districts.

(2) The commissioner of education may limit approval of the guarantee to a district with a bond rating below the "AAA" category, as rated by a nationally recognized municipal bond rating service. When a rating is issued by more than one service, the lower of the two ratings shall be used to determine whether the school district shall be eligible for the guarantee.

(f) The guarantee shall be completely removed when bonds guaranteed by this program are defeased, and such a provision shall be specifically stated in the bond resolution. If bonds guaranteed by this program are defeased, the district shall notify the commissioner of education in writing within 10 calendar days of the action.

(g) For bonds issued before August 15, 1993, a school district seeking the guarantee of eligible bonds shall certify that, on the date of issuance of any bond, no funds received by the district from the Available School Fund are reasonably expected to be used directly or indirectly to pay the principal or interest on, or the tender or retirement price of, any bond of the political subdivision or to fund a reserve or placement fund for any such bond.

(h) For bonds guaranteed before December 1, 1993, if a school district cannot pay the maturing or matured principal or interest on a guaranteed bond, the commissioner of education shall cause the amount needed to pay the principal or interest to be transferred to the district's paying agent solely from the Texas Permanent School Fund and not from the Available School Fund. The commissioner also shall direct the comptroller of public accounts to withhold the amount paid, plus interest, from the first state money payable to the district, excluding payments from the Available School Fund.

(i) For bonds issued after August 15, 1993, and guaranteed on or after December 1, 1993, if a school district cannot pay the maturing or matured principal or interest on a guaranteed bond, the commissioner of education shall cause the amount needed to pay the principal or interest to be transferred to the district's paying agent from the Texas Permanent School Fund. The commissioner also shall direct the comptroller of public accounts to withhold the amount paid, plus interest, from the first state money payable to the district, regardless of source, including the Available School Fund.

Statutory Authority: The provisions of this §33.65 issued under the Texas Education Code, §7.102(b)(34).

Source: The provisions of this §33.65 adopted to be effective S

26 CFR § 1.148-11
26 C.F.R. § 1.148-11

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Treas. Reg. § 1.148-11

CODE OF FEDERAL REGULATIONS
TITLE 26--INTERNAL REVENUE
CHAPTER I--INTERNAL REVENUE
SERVICE, DEPARTMENT OF THE
TREASURY
SUBCHAPTER A--INCOME TAX
PART 1--INCOME TAXES
NORMAL TAXES AND SURTAXES
COMPUTATION OF TAXABLE INCOME
TAX EXEMPTION REQUIREMENTS FOR
STATE AND LOCAL BONDS
Current through February 27, 2004; 69 FR 9502

§ 1.148-11 Effective dates.

(a) In general. Except as otherwise provided in this section, §§ 1.148-1 through 1.148-11 apply to bonds sold on or after July 8, 1997.

(b) Elective retroactive application in whole--(1) In general. Except as otherwise provided in this section, and subject to the applicable effective dates for the corresponding statutory provisions, an issuer may apply the provisions of §§ 1.148-1 through 1.148-11 in whole, but not in part, to any issue that is outstanding on July 8, 1997, and is subject to section 148(f) or to sections 103(c)(6) or 103A(i) of the Internal Revenue Code of 1954, in lieu of otherwise applicable regulations under those sections.

(2) No elective retroactive application for 18-month spending exception. The provisions of § 1.148-7(d) (relating to the 18-month spending exception) may not be applied to any issue issued on or before June 30, 1993.

(3) No elective retroactive application for hedges of fixed rate issues. The provisions of § 1.148-4(h)(2)(i)(B) (relating to hedges of fixed rate issues) may not be applied to any bond sold on or before July 8, 1997.

(4) No elective retroactive application for safe harbor for establishing fair market value for guaranteed investment contracts and investments purchased for a yield restricted defeasance escrow.

The provisions of §§ 1.148-5(d)(6)(iii) (relating to the safe harbor for establishing fair market value of guaranteed investment contracts and yield restricted defeasance escrow investments) and 1.148-5(e)(2)(iv) (relating to a special rule for yield restricted defeasance escrow investments) may not be applied to any bond sold before December 30, 1998.

(c) Elective retroactive application of certain provisions and special rules-- (1) Retroactive application of overpayment recovery provisions. An issuer may apply the provisions of § 1.148-3(i) to any issue that is subject to section 148(f) or to sections 103(c)(6) or 103A(i) of the Internal Revenue Code of 1954.

(2) Certain allocations of multipurpose issues. An allocation of bonds to a refunding purpose under § 1.148-9(h) may be adjusted as necessary to reflect allocations made between May 18, 1992, and August 15, 1993, if the allocations satisfied the corresponding prior provision of § 1.148-11(j)(4) under applicable prior regulations.

(3) Special limitation. The provisions of § 1.148-9 apply to issues issued before August 15, 1993, only if the issuer in good faith estimates the present value savings, if any, associated with the effect of the application of that section on refunding escrows, using any reasonable accounting method, and applies those savings, if any, to redeem outstanding tax-exempt bonds of the applicable issue at the earliest possible date on which those bonds may be redeemed or otherwise retired. These savings are not reduced to take into account any administrative costs associated with applying these provisions retroactively.

(d) Transition rule excepting certain state guarantee funds from the definition of replacement proceeds--(1) Certain perpetual trust funds. A guarantee by a fund created and controlled by a State and established pursuant to its constitution does not cause the amounts in the fund to be pledged funds treated as replacement proceeds if--

(i) Substantially all of the corpus of the fund consists of nonfinancial assets, revenues derived from these assets, gifts, and bequests;

(ii) The corpus of the guarantee fund may be invaded only to support specifically designated

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essential governmental functions (designated functions) carried on by political subdivisions with general taxing powers;

(iii) Substantially all of the available income of the fund is required to be applied annually to support designated functions;

(iv) The issue guaranteed consists of general obligations that are not private activity bonds substantially all of the proceeds of which are to be used for designated functions;

(v) The fund satisfied each of the requirements of paragraphs (d)(1)(i) through (d)(1)(iii) of this section on August 16, 1986; and

(vi) The guarantee is not attributable to a deposit to the fund made after May 14, 1989, unless--

(A) The deposit is attributable to the sale or other disposition of fund assets; or

(B) Prior to the deposit, the outstanding amount of the bonds guaranteed by the fund did not exceed 250 percent of the lower of the cost or fair market value of the fund.

(2) Permanent University Fund. Replacement proceeds do not include amounts allocable to investments of the fund described in section 648 of Public Law 98-369.

(e) Transition rule regarding special allowance payments. Section 1.148-5(b)(5) applies to any bond issued after January 5, 1990, except a bond issued exclusively to refund a bond issued before January 6, 1990, if the amount of the refunding bond does not exceed 101 percent of the amount of the refunded bond, and the maturity date of the refunding bond is not later than the date that is 17 years after the date on which the refunded bond was issued (or, in the case of a series of refundings, the date on which the original bond was issued), but only if § 1.148-2(d)(2)(iv) is applied by substituting 1 and one-half percentage points for 2 percentage points.

(f) Transition rule regarding applicability of yield reduction rule. Section 1.148-5(c) applies to nonpurpose investments allocable to replacement proceeds of an issue that are held in a reserve or replacement fund to the extent that--

(1) Amounts must be paid into the fund under a constitutional provision, statute, or ordinance adopted before May 3, 1978;

(2) Under that provision, amounts paid into the fund (and investment earnings thereon) can be used only to pay debt service on the issues; and

(3) The size of the payments made into the fund is independent of the size of the outstanding issues or the debt service thereon.

(g) Provisions applicable to certain bonds sold before effective date. Except for bonds to which paragraph (b)(1) of this section applies--

(1) Section 1.148-11A provides rules applicable to bonds sold after June 6, 1994, and before July 8, 1997; and

(2) Sections 1.148-1 through 1.148-11 as in effect on July 1, 1993 (see 26 CFR part 1 as revised April 1, 1994), and § 1.148-11A(i) (relating to elective retroactive application of certain provisions) provide rules applicable to certain issues issued before June 7, 1994.

(h) Safe harbor for establishing fair market value for guaranteed investment contracts and investments purchased for a yield restricted defeasance escrow. The provisions of § 1.148-5(d)(6)(iii) are applicable to bonds sold on or after March 1, 1999. Issuers may apply these provisions to bonds sold on or after December 30, 1998, and before March 1, 1999.

(i) Special rule for certain broker's commissions and similar fees. Section 1.148-5(e)(2)(iii) applies to bonds sold on or after February 9, 2004. In the case of bonds sold before February 9, 2004, that are subject to § 1.148-5 (pre-effective date bonds), issuers may apply § 1.148-5(e)(2)(iii), in whole but not in part, with respect to transactions entered into on or after December 11, 2003. If an issuer applies § 1.148-5(e)(2)(iii) to pre-effective date bonds, the per-issue safe harbor in § 1.148-5(e)(2)(iii)(B)(1)(ii) is applied by taking into account all brokers' commissions or similar fees with respect to guaranteed investment contracts and investments for yield restricted defeasance escrows that the issuer treats as qualified administrative costs for the issue, including all such commissions or fees paid before February 9, 2004. For purposes of §§ 1.148-5(e)(2)(iii)(B)(3) and

26 CFR § 1.148-11
26 C.F.R. § 1.148-11

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148-5(e)(2)(iii)(B)(6) (relating to cost-of-living adjustments), transactions entered into before 2003 are treated as entered into in 2003.

(j) Certain prepayments. Section 1.148-1(e)(1) and (2) apply to bonds sold on or after October 3, 2003. Issuers may apply § 1.148-1(e)(1) and (2), in whole but not in part, to bonds sold before October 3, 2003 that are subject to § 1.148-1.

[T.D. 8418, 57 FR 21025, May 18, 1992; T.D. 8418, 57 FR 44990, Sept. 30, 1992; 57 FR 45879, Oct. 5, 1992; 57 FR 48851, Oct. 28, 1992; T.D. 8476, 58 FR 33547, June 18, 1993; 58 FR 44453, Aug. 23, 1993; T.D. 8538, 59 FR 24046, May 10, 1994; T.D. 8718, 62 FR 25512, May 9, 1997; T.D. 8476, 64 FR 37037, July 9, 1999; T.D. 9085, 68 FR 45777, Aug. 4, 2003; T.D. 9097, 68 FR 69023, Dec. 11, 2003]

26 C. F. R. § 1.148-11

26 CFR § 1.148-11

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Appendix D

**AN OVERVIEW OF THE
BOND GUARANTEE PROGRAM**

Since its inception in 1983, the Bond Guarantee Program has guaranteed 2,590 school district bond issues for a total of \$41.85 billion. At the end of fiscal year 2003, there were 1,929 issues outstanding with a balance of \$29.25 billion. This balance represents the principal amount of the bonds issued and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The balance also excludes bonds that have been refunded and released from the Bond Guarantee Program. During the fiscal year, there were 275 school district issues guaranteed by the Fund. These new issues totaled \$5.65 billion. As of August 31, 2003, the ratio of guaranteed debt outstanding to the book value of the Fund was 1.73:1 and the ratio of guaranteed debt to the fair value of the Fund was 1.62:1.

The guarantee capacity of the Fund is limited in two ways. The first limit is imposed by state law. During the Regular 78th Legislative session, the state law that limits the capacity of the program was changed from two times the lower of cost or fair value of the Fund's assets to two and one-half times the lower of cost or fair value of the Fund's assets. In addition, the exclusion of the value of real estate owned by the Fund was eliminated from the calculation. The second limit is imposed by Internal Revenue Service rulings limiting the amount guaranteed to 250% of the lower of historical cost or current fair value of the Fund adjusted by a factor that allocates the historical cost or current fair value between the value of the Fund as it existed on May 15, 1989, and the subsequent additions to the Fund. At fiscal year end, the Internal Revenue Service limitations were more restrictive.

In order to be eligible for the bond guarantee program, school districts must be accredited by the state, have bond ratings below Aaa, and have their applications approved by the Commissioner of Education.

If a school district fails to make scheduled payments for any bond issues guaranteed by the Fund, the Fund will make the scheduled debt service payment for the defaulting school district. The Fund will not accelerate the total bond issue. Any state funds subsequently due to the district will instead be paid to the Fund until all monies due the Fund are repaid.

Figure 15 lists the school districts with the ten largest aggregate amounts of bonds outstanding, which are guaranteed under the program as of August 31, 2003

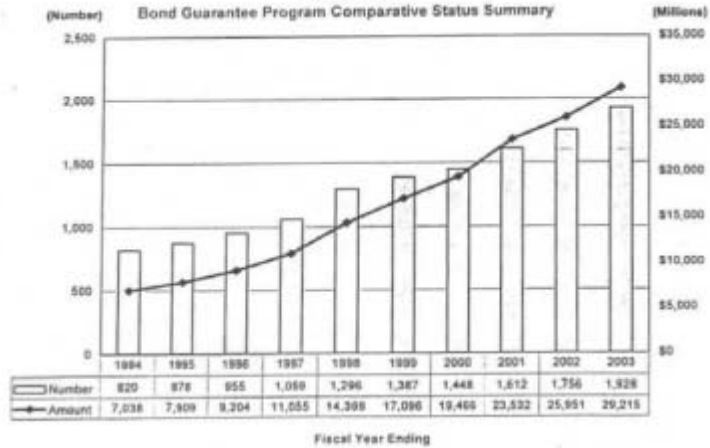
**FIGURE 15:
Bond Guarantee Program
Ten Largest Total Debt Outstanding
Guaranteed Under the Program
At August 31, 2003**

School District Name	Balance
Houston ISD	\$ 1,067,395,036
Northside ISD	811,884,960
Cypress-Fairbanks ISD	775,016,585
Piano ISD	730,859,890
Katy ISD	668,568,403
Dallas ISD	655,544,255
San Antonio ISD	547,664,573
Arlington ISD	534,945,091
Lewisville ISD	529,824,665
North East ISD	469,120,000

**BOND GUARANTEE PROGRAM SUMMARY
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003**

FISCAL YEAR	2003
NUMBER OF ISSUES	
Number of Issues at Beginning of Year	1,756
Fiscal Year Activity:	
District Issues Guaranteed During Fiscal Year	275
District Issues Refunded or Matured	<u>(102)</u>
Number of Issues at End of Year	<u>1,929</u>
BALANCE	
Balance at Beginning of Year	\$ 25,950,594,344
Fiscal Year Activity:	
District Issues Guaranteed During Fiscal Year	5,648,907,937
District Issues Refunded or Matured	<u>(2,350,500,838)</u>
Balance at End of Year	<u>\$ 29,249,001,443</u>

FIGURE 16:



BOND GUARANTEE PROGRAM ---- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name		Balance
Abilene ISD	\$	5,385,000
Academy ISD		7,122,338
Agua Dulce ISD		2,914,989
Alamo Heights ISD		36,946,680
Albany ISD		2,270,000
Aldine ISD		250,154,226
Aledo ISD		45,390,105
Alice ISD		36,540,000
Allief ISD		253,990,000
Allen ISD		206,376,294
Alpine ISD		3,464,995
Alto ISD		594,959
Alvarado ISD		41,445,533
Alvin ISD		76,069,867
Alvord ISD		5,408,057
Amarillo ISD		51,201,764
Anahuac ISD		6,290,000
Anderson-Shiro CISD		780,000
Andrews ISD		27,720,000
Angleton ISD		37,505,000
Anna ISD		6,912,991
Anthony ISD		4,000,000
Aquilla ISD		1,165,000
Aransas County ISD		12,600,000
Aransas Pass ISD		4,920,000
Archer City ISD		1,525,000
Argyle ISD		27,643,156
Arlington ISD		534,945,091
Arp ISD		9,680,000
Athens ISD		17,330,000
Atlanta ISD		1,690,000
Aubrey ISD		22,857,513
Austin ISD		444,014,994
Austwell-Tivoli ISD		1,150,000
Avalon ISD		1,445,000
Azle ISD		34,575,000
Ballinger ISD		695,500
Balmorhea ISD		1,505,000
Bandera ISD		29,410,000
Banquete ISD		55,605
Barbers Hill ISD		72,290,000
Bartlett ISD		2,050,258
Bastrop ISD		78,937,823
Bay City ISD		28,470,000
Beaumont ISD		48,400,000
Beckville ISD		5,460,000
Beeville ISD		20,484,652

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Bells ISD	4,405,000
Bellville ISD	6,112,400
Belton ISD	29,980,000
Ben Bolt-Palito Blanco CISD	3,835,000
Big Sandy ISD	4,650,000
Big Spring ISD	10,805,000
Birdville ISD	152,958,037
Bishop CISD	6,489,353
Blanco ISD	8,015,000
Bland ISD	505,000
Blanket ISD	1,430,000
Blooming Grove ISD	2,998,477
Bloomington ISD	5,785,000
Blue Ridge ISD	7,980,000
Bluff Dale ISD	640,000
Blum ISD	2,370,000
Boerne ISD	43,904,163
Boles ISD	5,795,000
Bonham ISD	6,000,511
Bosqueville ISD	1,530,000
Boyd ISD	1,661,889
Brackett ISD	120,000
Brady ISD	8,146,022
Brazosport ISD	72,652,707
Bremond ISD	5,360,000
Brenham ISD	17,994,987
Bridge City ISD	21,809,734
Bridgeport ISD	6,595,000
Brock ISD	5,536,374
Brookesmith ISD	1,540,000
Brooks County ISD	3,750,000
Brownfield ISD	9,000,000
Brownsboro ISD	10,230,000
Brownsville ISD	97,250,000
Brownwood ISD	9,471,686
Bruceville-Eddy ISD	52,406
Bryan ISD	67,256,468
Bryson ISD	395,000
Buckholts ISD	1,190,000
Buffalo ISD	2,250,000
Bullard ISD	13,945,639
Buna ISD	11,840,000
Burkburnett ISD	14,514,886
Burkeville ISD	2,865,000
Burleson ISD	64,360,761
Burnet CISD	38,240,000
Burton ISD	695,000

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Bushland ISD	940,000
Bynum ISD	1,405,000
Caddo Mills ISD	18,652,597
Calallen ISD	7,650,000
Caldwell ISD	6,535,402
Calhoun County ISD	2,390,000
Callisburg ISD	3,130,000
Cameron ISD	23,555,000
Campbell ISD	750,000
Canadian ISD	1,380,000
Canton ISD	21,206,878
Canutillo ISD	43,539,442
Canyon ISD	74,938,921
Carlisle ISD	1,495,000
Carrizo Springs CISD	7,870,000
Carroll ISD	160,270,132
Carrollton-Farmers Branch ISD	289,359,950
Carthage ISD	7,810,000
Castleberry ISD	22,140,000
Cedar Hill ISD	37,517,243
Celeste ISD	249,037
Celina ISD	15,091,016
Center ISD	7,667,213
Center Point ISD	1,950,000
Centerville ISD (Groveton)	890,000
Central Heights ISD	235,000
Channelview ISD	40,618,093
Chapel Hill ISD	13,880,000
Charlotte ISD	3,410,000
Chester ISD	700,000
Chico ISD	1,295,000
Childress ISD	3,860,000
China Spring ISD	17,744,416
Chireno ISD	1,360,000
Chisum ISD	7,209,364
Christoval ISD	1,450,000
City View ISD	8,534,893
Clear Creek ISD	303,739,438
Cleburne ISD	32,930,000
Cleveland ISD	47,225,904
Clifton ISD	5,779,075
Clint ISD	78,459,776
Clyde CISD	9,020,000
Coldspring-Oakhurst CISD	5,410,000
Coleman ISD	1,305,000
College Station ISD	57,188,482
Collinsville ISD	1,705,000

Committee on Senate Finance, Interim Report on State and Local Debt

Commerce ISD	
Community ISD	13,902,446
Comstock ISD	3,090,000
Connally ISD	13,211,338
Conroe ISD	415,388,529
Coolidge ISD	2,545,000
Corral ISD	6,305,000
Corsicana ISD	29,805,000
Cotulla ISD	3,170,000
Covington ISD	2,610,000
Crandall ISD	30,292,271
Crawford ISD	3,755,000
Crockett ISD	10,000,000
Crosby ISD	56,254,471
Cross Plains ISD	815,000
Cross Roads ISD	2,875,000
Crowley ISD	124,108,863
Crystal City ISD	15,810,000
Cuero ISD	15,325,565
Cumby ISD	1,445,000
Cypress-Fairbanks ISD	775,016,585
Daingerfield-Lonestar ISD	9,605,000
Dallas ISD	655,544,255
Danbury ISD	3,730,000
Dawson ISD	470,000
Dayton ISD	32,753,678
De Leon ISD	455,000
De Soto ISD	56,410,799
Decatur ISD	25,006,629
Deer Park ISD	97,450,000
Dekalb ISD	860,000
Del Valle ISD	93,495,000
Denison ISD	12,814,678
Denton ISD	296,657,329
Denver City ISD	6,590,000
Detroit ISD	1,415,000
Devers ISD	1,985,000
Devine ISD	4,415,000
Deweyville ISD	14,000,000

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
D'Hanis ISD	1,565,000
Diboll ISD	575,000
Dickinson ISD	56,174,524
Dilley ISD	2,690,000
Dodd City ISD	1,500,000
Donna ISD	66,385,000
Dripping Springs ISD	31,643,701
Driscoll ISD	3,275,000
Dublin ISD	4,575,000
Dumas ISD	4,215,000
Duncanville ISD	205,826,799
Eagle Mountain-Saginaw ISD	143,685,000
Eagle Pass ISD	35,525,000
Eanes ISD	110,110,000
Early ISD	4,444,999
East Bernard ISD	2,495,000
East Central ISD	56,960,000
Ector County ISD	104,140,299
Ector ISD	2,715,000
Edcouch-Elsa ISD	30,350,000
Edgewood ISD	73,144,892
Edinburg CISD	91,344,773
Edna ISD	954,383
El Campo ISD	5,935,000
El Paso ISD	171,390,874
Electra ISD	2,135,000
Elgin ISD	25,670,000
Elkhart ISD	175,000
Elysian Fields ISD	1,575,000
Ennis ISD	51,052,361
Era ISD	790,000
Eula ISD	5,290,000
Eustace ISD	2,674,949
Evadale ISD	2,000,000
Everman ISD	85,260
Fabens ISD	9,230,000
Fairfield ISD	23,475,000
Falls City ISD	2,460,000
Fannindel ISD	2,000,000
Farmersville ISD	8,545,000
Farwell ISD	975,000
Ferris ISD	425,000
Flatonia ISD	2,605,000
Florence ISD	6,329,219
Floresville ISD	22,140,000
Flour Bluff ISD	7,775,000
Forestburg ISD	515,000

BOND GUARANTEE PROGRAM ---- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Forney ISD	66,709,945
Fort Bend ISD	426,301,412
Fort Elliott CISD	250,000
Fort Hancock ISD	1,820,000
Fort Stockton ISD	11,960,000
Fort Worth ISD	397,534,476
Frankston ISD	1,300,000
Fredericksburg ISD	16,954,443
Frenship ISD	30,169,125
Friendswood ISD	23,905,000
Frisco ISD	373,567,233
Frost ISD	1,400,000
Fruitvale ISD	1,370,000
Gainesville ISD	8,610,000
Galena Park ISD	203,359,896
Galveston ISD	16,946,721
Ganado ISD	915,000
Gartland ISD	303,162,786
Garner ISD	574,000
Garrison ISD	2,255,000
Gary ISD	1,770,000
Galesville ISD	6,000,228
Georgetown ISD	72,399,991
Giddings ISD	6,960,000
Gladewater ISD	2,290,000
Godley ISD	9,360,000
Gold-Burg ISD	1,075,000
Goldthwaite ISD	2,130,000
Goliad ISD	1,250,000
Gonzales ISD	6,315,000
Goose Creek CISD	151,483,680
Gordon ISD	865,000
Graford ISD	3,785,000
Graham ISD	7,730,000
Granbury ISD	66,316,191
Grand Prairie ISD	199,551,876
Grand Saline ISD	7,781,194
Grandfalls-Royalty ISD	555,000
Grandview	2,425,000
Grandview-Hopkins ISD	630,000
Granger ISD	1,307,226
Grape Creek ISD	8,375,000
Grapevine-Colleyville ISD	241,000,813
Greenville ISD	29,964,998
Gregory-Portland ISD	32,844,512
Groom ISD	550,000
Gunter ISD	3,626,807

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Gustine ISD	1,515,000
Hallsville ISD	20,215,000
Hamilton ISD	4,800,000
Hamlin ISD	1,564,300
Hamshire-Fannett ISD	8,810,000
Hardin-Jefferson ISD	5,375,000
Harlandale ISD	161,200,498
Harleton ISD	2,300,000
Harlingen CISD	78,875,000
Harmony ISD	3,230,000
Hartley ISD	530,000
Hays CISD	135,576,677
Hedley ISD	895,000
Hempstead ISD	14,034,997
Henderson ISD	11,000,000
Hico ISD	4,245,000
Hidalgo ISD	23,970,000
Highland ISD	555,000
Highland Park ISD (Amarillo)	5,670,000
Hillsboro ISD	21,788,439
Hitchcock ISD	7,619,831
Holland ISD	3,112,506
Hondo ISD	10,705,000
Honey Grove ISD	2,590,000
Hooks ISD	7,205,000
Houston ISD	1,067,395,036
Howe ISD	11,509,917
Hubbard ISD	3,040,000
Hudson ISD	11,570,000
Huffman ISD	18,900,000
Hughes Springs ISD	690,000
Hull-Daisetta ISD	1,730,000
Humble ISD	300,260,000
Huntington ISD	10,105,000
Huntsville ISD	49,010,139
Hurst-Euless-Bedford ISD	235,925,613
Hutto ISD	34,931,617
Idalou ISD	1,269,998
Industrial ISD	10,380,000
Ingleside ISD	3,445,000
Ingram ISD	4,980,000
Iowa Park CISD	4,884,491
Iredell ISD	720,000
Irving ISD	377,764,750
Italy ISD	1,870,000
Itasca ISD	3,135,000
Jacksonville ISD	12,547,045

BOND GUARANTEE PROGRAM ---- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Jarrell ISD	2,500,000
Jasper ISD	17,940,000
Jayton-Girard ISD	1,700,000
Jefferson ISD	191,287
Jim Hogg County ISD	4,119,349
Jim Ned CISD	3,190,000
Joaquin ISD	2,615,000
Johnson City ISD	514,983
Joshua ISD	35,685,000
Judson ISD	161,735,199
Junction ISD	100,000
Kames City ISD	765,000
Katy ISD	668,568,403
Kaufman ISD	33,464,317
Keller ISD	400,520,389
Kemp ISD	6,859,875
Kendleton ISD	1,260,000
Kenedy ISD	2,885,000
Kennard ISD	250,000
Kennedale ISD	15,220,000
Kerens ISD	2,500,000
Kerrville ISD	38,485,000
Kilgore ISD	14,289,994
Killeen ISD	173,240,000
Kingsville ISD	19,650,000
Kirbyville CISD	7,031,556
Klein ISD	251,115,000
Knippa ISD	1,085,000
Knox City-O'Brien CISD	950,000
Kopperl ISD	220,000
Kountze ISD	1,055,000
Krum ISD	13,540,000
La Feria ISD	8,994,975
La Grange ISD	3,650,000
La Joya ISD	94,569,643
La Marque ISD	35,187,586
La Porte ISD	74,700,000
La Poynor ISD	1,925,000
La Pryor ISD	1,335,000
La Vega ISD	8,445,000
La Vernia ISD	10,135,000
La Villa ISD	4,425,000
Lago Vista ISD	16,375,798
Lake Dallas ISD	56,288,439
Lake Travis ISD	58,780,000
Lake Worth ISD	24,387,454
Lamar CISD	106,890,000

BOND GUARANTEE PROGRAM — ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Lampasas ISD	4,844,996
Lancaster ISD	11,475,000
Laredo ISD	136,577,655
Lasara ISD	2,880,000
Letexo ISD	3,100,000
Leander ISD	381,432,998
Lefors ISD	235,000
Leon ISD	1,900,000
Leonard ISD	2,904,604
Lewisville ISD	529,824,665
Lexington ISD	3,435,000
Liberty Hill ISD	13,270,000
Liberty ISD	17,000,000
Liberty-Eylau ISD	4,835,000
Lindale ISD	30,141,430
Lingleville ISD	1,445,000
Lipan ISD	3,030,336
Little Cypress-Mauriceville CISD	16,486,658
Little Elm ISD	108,118,479
Livingston ISD	11,975,000
Llano ISD	16,450,000
Lockhart ISD	33,464,998
Lohn ISD	1,465,000
Lone Oak ISD	4,211,373
Longview ISD	23,645,000
Loop ISD	1,585,000
Lorena ISD	15,569,758
Los Fresnos CISD	31,982,259
Louise ISD	2,510,000
Lovejoy ISD	21,260,000
Lubbock ISD	68,970,070
Lubbock-Cooper ISD	14,399,555
Lueders-Avoca ISD	1,540,000
Lufkin ISD	22,725,000
Luling ISD	5,075,000
Lumberton ISD	18,325,000
Lyford CISD	5,375,000
Lytie ISD	2,210,000
Mabank ISD	13,831,432
Madisonville CISD	16,455,000
Magnolia ISD	97,999,956
Malakoff ISD	5,715,000
Malta ISD	1,215,000
Manor ISD	32,668,408
Mansfield ISD	344,188,545
Marble Falls ISD	22,847,267
Marfa ISD	4,965,000

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Marion ISD	6,065,000
Marlin ISD	4,005,000
Marshall ISD	1,365,000
Mart ISD	4,115,000
Martins Mill ISD	1,503,907
Martinsville ISD	1,745,000
Mathis ISD	6,035,000
Maud ISD	1,055,000
May ISD	1,895,000
Maypearl ISD	6,109,998
McAllen ISD	37,660,000
McCamey ISD	1,600,000
McDade ISD	1,435,000
McGregor ISD	7,453,264
McKinney ISD	275,040,000
McMullen County ISD	2,730,000
Meadow ISD	1,445,000
Medina Valley ISD	20,045,000
Melissa ISD	13,355,000
Mercedes ISD	37,470,000
Meridian ISD	1,950,000
Merkel ISD	2,435,000
Mesquite ISD	384,924,432
Mexia ISD	4,329,998
Miami ISD	362,000
Midland ISD	67,289,952
Midlothian ISD	63,109,205
Midway ISD (Waco)	59,263,298
Mildred ISD	2,630,000
Miles ISD	1,405,000
Milford ISD	591,065
Miller Grove ISD	2,695,000
Millsap ISD	8,910,000
Mineral Wells ISD	25,460,000
Mission CISD	66,810,000
Monte Alto ISD	3,220,000
Montgomery ISD	48,611,312
Moulton ISD	375,000
Mount Enterprise ISD	55,000
Mount Pleasant ISD	35,617,169
Muenster ISD	2,546,623
Nacogdoches ISD	57,435,000
Natalia ISD	3,425,000
Navarro ISD	8,685,000
Navasota ISD	12,205,000
Nazareth ISD	1,850,795
Nederland ISD	15,695,000

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Needville ISD	18,520,000
New Boston ISD	3,844,999
New Braunfels ISD	74,203,782
New Caney ISD	72,128,002
New Summerfield ISD	160,000
New Waverly ISD	10,135,000
Newton ISD	10,395,000
Nixon-Smiley CISD	1,500,000
Nordheim ISD	1,150,000
Normangee ISD	4,630,000
North East ISD	469,120,000
North Forest ISD	38,950,000
North Hopkins ISD	1,120,000
North Lamar ISD	7,894,344
Northside ISD	811,884,960
Northwest ISD	144,629,093
Nueces Canyon CISD	45,245
Odem-Edroy ISD	6,735,000
O'Donnell ISD	825,000
Oglesby ISD	1,145,000
Olfen ISD	1,340,000
Oliny ISD	5,090,000
Cliton ISD	2,030,000
Onalaska ISD	6,943,390
Orange Grove ISD	12,140,000
Orangefield ISD	695,000
Ore City ISD	2,500,000
Overton ISD	1,500,000
Paducah ISD	325,000
Palestine ISD	5,097,079
Palmer ISD	5,680,000
Palo Pinto ISD	930,000
Pampa ISD	7,175,000
Paradise ISD	9,609,998
Paris ISD	7,863,345
Pasadena ISD	256,882,670
Pearland ISD	179,376,130
Pearsall ISD	16,359,982
Peaster ISD	9,479,476
Perrin-Whitt CISD	535,000
Perryton ISD	6,380,000
Petersburg ISD	405,000
Petrolia ISD	4,905,000
Plugerville ISD	222,809,973
Pharr-San Juan-Alamo ISD	99,340,000
Pilot Point ISD	6,960,000
Pine Tree ISD	9,884,028

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Pittsburg ISD	5,980,000
Plano ISD	730,859,890
Pleasant Grove ISD	13,404,995
Pleasanton ISD	11,175,000
Plemons-Stinnett-Phillips CISD	6,675,000
Point Isabel ISD	9,963,946
Ponder ISD	14,860,000
Poolville ISD	5,750,000
Port Aransas ISD	10,449,979
Port Arthur ISD	8,000,000
Port Neches-Groves ISD	29,500,000
Poteet ISD	5,880,000
Poth ISD	2,100,000
Pottsboro ISD	10,301,966
Prairiland ISD	9,695,000
Premont ISD	2,970,000
Presidio ISD	10,495,160
Priddy ISD	755,000
Princeton ISD	34,761,783
Progreso ISD	15,500,000
Prosper ISD	23,576,172
Quanah ISD	220,000
Queen City ISD	2,671,751
Quinlan ISD	25,886,062
Quitman ISD	5,545,000
Rains ISD	4,565,000
Raymondville ISD	17,400,000
Red Oak ISD	20,632,143
Redwater ISD	4,175,000
Rice CISD	1,796,334
Rice ISD	4,215,000
Richardson ISD	374,668,552
Riesel ISD	3,035,000
Rio Grande City CISD	51,465,000
Rio Hondo ISD	23,429,995
Rio Vista ISD	5,964,184
River Road ISD	3,370,000
Rivercrest ISD	8,465,000
Robinson ISD	13,769,999
Robstown ISD	14,230,350
Roby CISD	740,000
Rochester County Line ISD	1,155,000
Rockwall ISD	174,803,049
Rogers ISD	2,381,619
Roma ISD	17,410,000
Roscoe ISD	1,600,000
Rotan ISD	615,000

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Round Rock ISD	396,547,419
Round Top-Carmine ISD	1,895,000
Roxton ISD	1,335,000
Royal ISD	13,125,000
Royse City ISD	31,129,430
Rusk ISD	8,128,012
S&S CISD	4,263,265
Sabinal ISD	1,710,000
Sabine Pass ISD	11,099,487
Saint Jo ISD	1,425,000
Salado ISD	7,227,361
Sam Rayburn ISD	735,000
San Angelo ISD	33,650,000
San Antonio ISD	547,564,573
San Benito CISD	50,550,000
San Diego ISD	8,640,000
San Elizario ISD	8,560,000
San Felipe-Del Rio CISD	27,705,000
San Marcos CISD	11,295,000
San Perita ISD	1,565,000
San Saba ISD	2,400,000
Sanford ISD	3,425,000
Sanger ISD	24,572,493
Santa Anna ISD	1,540,000
Santa Fe ISD	16,727,618
Santa Maria ISD	3,555,000
Santa Rosa ISD	11,600,000
Santo ISD	3,783,548
Savoy ISD	3,475,000
Schertz-Cibolo-Universal City ISD	93,035,690
Schulenburg ISD	7,789,000
Scurry-Rosser ISD	9,918,144
Sealy ISD	28,993,729
Seguin ISD	51,625,000
Seminole ISD	5,900,000
Seymour ISD	984,306
Shallowater ISD	8,279,008
Sharyland ISD	37,755,000
Shelbyville ISD	2,775,000
Sheldon ISD	65,243,989
Shepherd ISD	4,590,000
Sherman ISD	30,434,404
Sitsbee ISD	20,445,000
Simms ISD	1,925,000
Sinton ISD	6,400,000
Skidmore-Tynan ISD	2,185,000
Slaton ISD	6,090,000

BOND GUARANTEE PROGRAM ---- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Slidell ISD	2,955,000
Smithville ISD	17,936,734
Socorro ISD	218,460,941
Somerset ISD	24,646,118
Somerville ISD	2,870,000
Sonora ISD	6,900,000
South San Antonio ISD	83,956,212
Southside ISD	26,275,000
Southwest ISD	56,835,000
Spearman ISD	230,000
Splendora ISD	25,134,997
Spring Branch ISD	312,888,009
Spring Hill ISD	10,055,000
Spring ISD	243,352,066
Springtown ISD	22,030,000
Spurger ISD	3,355,000
Stafford Msd	17,850,000
Stamford ISD	2,750,000
Stephenville ISD	16,369,703
Stockdale ISD	2,275,000
Stratford ISD	2,100,000
Sudan ISD	235,000
Sulphur Bluff ISD	1,770,000
Sulphur Springs ISD	3,957,627
Sunray ISD	3,460,000
Sweeny ISD	12,700,000
Sweetwater ISD	5,180,000
Taft ISD	5,925,000
Tarkington ISD	8,000,000
Taylor ISD	20,061,842
Teagus ISD	6,505,000
Temple ISD	38,755,000
Terrell ISD	49,698,624
Texarkana ISD	25,140,000
Texas City ISD	21,808,456
Thorndale ISD	2,558,955
Thrall ISD	2,305,000
Three Rivers ISD	3,070,000
Tolar ISD	6,554,999
Tom Bean ISD	2,600,000
Tomball ISD	137,245,000
Tornillo ISD	9,804,997
Trent ISD	4,980,000
Trinidad ISD	2,245,000
Trinity ISD	56,289
Troup ISD	2,285,000
Troy ISD	7,319,996

BOND GUARANTEE PROGRAM --- ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Tuloso-Midway ISD	31,215,000
Tyler ISD	29,005,000
Union Grove ISD	659,889
United ISD	186,092,783
Uvalde CISD	36,865,000
Valley Mills ISD	1,930,000
Valley View ISD (Pharr)	12,475,000
Valley View ISD (Valley View)	2,230,000
Van Alstyne ISD	18,214,802
Van ISD	2,845,000
Venus ISD	9,491,834
Veribest ISD	1,830,000
Vernon ISD	6,357,443
Victoria ISD	34,034,936
Vidor ISD	24,600,000
Waco ISD	62,410,000
Wall ISD	2,905,000
Waller ISD	35,326,916
Waxahachie ISD	55,191,209
Weatherford ISD	115,110,864
Weimar ISD	5,619,769
Westlaco ISD	40,460,000
West Hardin County CISD	3,830,000
West ISD	8,623,670
West Orange Cove CISD	4,050,000
West Osco ISD	4,180,000
Westhoff ISD	100,000
White Oak ISD	4,535,000
White Settlement ISD	34,781,243
Whitehouse ISD	27,894,998
Whitesboro ISD	17,310,000
Whitewright ISD	10,160,637
Whitney ISD	7,227,256
Wichita Falls ISD	23,244,590
Wills ISD	60,414,111
Wills Point ISD	8,185,000
Wilmer-Hutchins ISD	2,385,722
Wilson ISD	380,000
Wimberley ISD	7,075,736
Windthorst ISD	2,650,000
Winona ISD	254,895
Winters ISD	530,000
Woden ISD	2,405,000
Wolfe City ISD	4,579,165
Woodville ISD	7,515,000
Wortham ISD	1,000,000
Wylie ISD	109,534,050

BOND GUARANTEE PROGRAM — ISSUED AND GUARANTEED
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

School District Name	Balance
Wylie ISD (Taylor County)	9,915,837
Yantis ISD	2,345,000
Yoakum ISD	9,160,000
Ysleta ISD	30,427,899
Zapata County ISD	7,810,000
Zavalla ISD	995,000
Zephyr ISD	460,000
TOTAL BOND GUARANTEE PROGRAM	<u>\$ 29,249,001,443</u>

TEXAS EDUCATION CODE
CHAPTER 45. SCHOOL DISTRICT FUNDS
SUBCHAPTER C. GUARANTEED BONDS

§ 45.051. DEFINITIONS. In this subchapter:

- (1) "Board" means the State Board of Education.
- (2) "Paying agent" means the financial institution that is designated by a school district as its agent for the payment of the principal of and interest on guaranteed bonds.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.052. GUARANTEE. On approval by the commissioner, bonds issued under Subchapter A, including refunding bonds, are guaranteed by the corpus and income of the permanent school fund.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.053. LIMITATION; VALUE ESTIMATES. (a) The commissioner may not approve bonds for guarantee if the approval would result in the total amount of outstanding guaranteed bonds exceeding an amount equal to 2-1/2 times the cost value or market value, whichever is less, of the permanent school fund, as estimated by the board and certified by the state auditor.

(b) Each year, the state auditor shall analyze the status of guaranteed bonds as compared to the cost value and market value of the permanent school fund. Based on that analysis, the state auditor shall certify whether the amount of bonds guaranteed is within the limit prescribed by this section.

(c) The commissioner shall prepare and the board shall adopt an annual report on the status of the guaranteed bond program.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.
Amended by Acts 2003, 78th Leg., ch. 89, § 1, eff. May 20, 2003.

§ 45.054. ELIGIBILITY. To be eligible for approval by the commissioner, bonds must be issued under Subchapter A of this chapter or under Subchapter A, Chapter 1207, Government Code, to make a deposit under Subchapter B or C of that chapter, by an accredited school district.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.
Amended by Acts 2001, 77th Leg., ch. 1420, § 8.209, eff. Sept. 1, 2001.

§ 45.055. APPLICATION FOR GUARANTEE. (a) A school district seeking the guarantee of eligible bonds shall apply to the commissioner.

(b) The application must include:

- (1) the name of the school district and the principal amount of the bonds to be issued;
- (2) the name and address of the district's paying agent for those bonds; and
- (3) the maturity schedule, estimated interest rate, and date of the bonds.

(c) The application must be accompanied by a fee set by rule of the board in an amount designed to cover the costs of

administering the guarantee program.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.056. INVESTIGATION. (a) Following receipt of an application for the guarantee of bonds, the commissioner shall conduct an investigation of the applicant school district in regard to:

- (1) the status of the district's accreditation; and
- (2) the total amount of outstanding guaranteed bonds.

(b) If following the investigation the commissioner is satisfied that the school district's bonds should be guaranteed under this subchapter, the commissioner shall endorse the bonds.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.057. GUARANTEE ENDORSEMENT. (a) The commissioner shall endorse bonds approved for guarantee with:

- (1) the commissioner's signature or a facsimile of the commissioner's signature; and
- (2) a statement relating the constitutional and statutory authority for the guarantee.

(b) The guarantee is not effective unless the attorney general approves the bonds under Section 45.005.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.058. NOTICE OF DEFAULT. Immediately following a termination that a school district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, but not later than the fifth day before maturity date, the school district shall notify the commissioner.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.059. PAYMENT FROM PERMANENT SCHOOL

D. (a) Immediately following receipt of notice under Section 45.058, the commissioner shall instruct the comptroller to transfer from the appropriate account in the permanent school fund to the school district's paying agent the amount necessary to pay the maturing or matured principal or interest.

(b) Immediately following receipt of the funds for payment of the principal or interest, the paying agent shall pay the amount and forward the canceled bond or coupon to the comptroller. The comptroller shall hold the canceled bond or coupon on behalf of the permanent school fund.

(c) Following full reimbursement to the permanent school district with interest, the comptroller shall further cancel the bond or coupon and forward it to the school district for which payment was made.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

Added by Acts 1997, 75th Leg., ch. 1423, § 5.07, eff. Sept. 1, 1997.

§ 45.060. BONDS NOT ACCELERATED ON DEFAULT. If a school district fails to pay principal or interest on a guaranteed bond that matures, other amounts not yet mature are not accelerated.

and do not become due by virtue of the school district's default.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.061. REIMBURSEMENT OF PERMANENT SCHOOL

FUND. (a) If the commissioner orders payment from the permanent school fund on behalf of a school district, the commissioner shall direct the comptroller to withhold the amount paid, plus interest, from the first state money payable to the school district. The amount withheld shall be deposited to the credit of the permanent school fund.

(b) In accordance with the rules of the board, the commissioner may authorize reimbursement to the permanent school fund with interest in a manner other than that provided by this section.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.062. REPEATED DEFAULTS. (a) If two or more

payments from the permanent school fund are made on the guaranteed bonds of a school district and the commissioner determines that the school district is acting in bad faith under the guarantee, the commissioner may request the attorney general to institute appropriate legal action to compel the school district and its officers, agents, and employees to comply with the duties required of them by law in regard to the bonds.

(b) Jurisdiction of proceedings under this section is in district court in Travis County.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

§ 45.063. RULES. The board may adopt rules necessary for the administration of the bond guarantee program.

Added by Acts 1995, 74th Leg., ch. 260, § 1, eff. May 30, 1995.

Appendix E



Overview of Tuition Revenue Bonds

Prepared by the Legislative Budget Board
Staff for the Senate Finance Committee

March 16, 2004

Legislative Budget Board

Page 1



Overview of Tuition Revenue Bonds

- Tuition revenue bonds (TRBs) are revenue bonds, backed by tuition and fees, issued by institutions of higher education.
- The tuition revenue bonds are used to finance projects such as classroom facilities, dormitories, and other university buildings.
- A university or college system is authorized to pledge the tuition income from all of the system's schools to support the system's bonds.



Overview of Tuition Revenue Bonds

- All higher education institutions request projects in their Legislative Appropriations Requests.
- The Legislature authorizes issuance of the bonds in legislation.
- The authorization and issuance of the bonds is not contingent on an appropriation for related debt service, but legislative practice has been to use General Revenue to reimburse institutions for the cost related to debt service.
- The TRB debt service appropriation can only be used for paying related debt service. The appropriation lapses at the end of the biennium if not used for that purpose.



Overview of Tuition Revenue Bonds

- A University requests project and financing approval from its Board of Regents.
- The project is submitted to the Higher Education Coordinating Board for evaluation.
- The Higher Education Coordinating Board reviews the project to determine whether the construction, rehabilitation, or repair meets the standards adopted by the Coordinating Board for cost, efficiency, and space use.



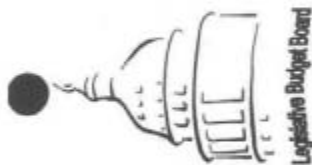
Overview of Tuition Revenue Bonds

- The Bond Review Board verifies that the university has approval for the issuance of bonds, analyzes the project request to determine that funds are available to service the debt, and verifies that the financing system is appropriate.
- The university or system completes an application for the Bond Review Board.
- The Bond Review Board authorizes issuance of the bonds.



Overview of Tuition Revenue Bonds

- The Attorney General reviews and approves the issuance of the bonds.
- The university (or system) sells the bonds and services the debt.
- The Texas Public Finance Authority issues bonds for Midwestern State University, Stephen F. Austin University and Texas Southern University.
- All other institutions issue their own bonds.



History of Tuition Revenue Bonds

- Tuition Revenue Bonds were first authorized in 1971 in the amount of \$185 million.
- In 1973, the 63rd Legislature authorized \$57.5 million.
- No additional authorizations were made between 1973 and 1991.
- In 1991, as part of the South Texas Border Initiative, the legislature authorized \$60 million in tuition revenue bonds.



History of Tuition Revenue Bonds

- In 1993, the 73rd Legislature authorized \$352.4 million.
- In 1995, the 74th Legislature authorized \$9.0 million.
- In 1997, the 75th Legislature authorized \$638.5 million.
- The 77th Legislature authorized \$1.081 billion in tuition revenue bonds in 2001.
- The 78th Legislature authorized \$253.9 million.



78th Regular Session Tuition Revenue Bond Authorization

Texas A&M University System	\$12.5 million for Texas A&M International.	Facilities and equipment to support kinesiology program.
University of Texas System	\$56 million for UT Southwestern Medical Center in Dallas.	Construct buildings to be used primarily for biomedical research.



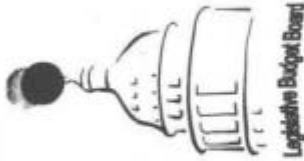
78th Regular Session Tuition Revenue Bond Authorization

University of Texas System	\$64.9 million for UT Health Science Center Houston.	Recovery from damage caused by Tropical Storm Allison.
University of Texas System	\$20.0 million for UT MD Anderson Cancer Center.	Facilities for bio-technology.



78th Regular Session Tuition Revenue Bond Authorization

Texas State University System.	\$27.0 million for Texas State University-San Marcos (formerly Southwest Texas State).	Multi-institutional education center.
University of Houston System.	\$25.0 million for University of Houston System and individual campuses.	Facilities and related infrastructure.



78th 3rd Called Special Session

Tuition Revenue Bond Authorization

Texas Tech University System	\$45.0 million for Texas Tech University Health Science Center.	Construct health science center in El Paso.
Texas Southern University	\$3.5 million.	Restore facilities damaged by Tropical Storm Allison.

Tuition Revenue Bond Authority by System

Year	TAMU		UT		TT		UH		UNT		TSU	
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority
1971		\$150,000,000		\$0	\$35,000,000	\$0						
1973	\$7,500,000	\$0	\$10,000,000	\$0			\$40,000,000	\$0				
1991	\$60,000,000	\$0										
1992												
1993	\$75,000,000	\$0	\$163,000,000	\$0	\$25,000,000	\$0	\$22,400,000	\$0	\$35,000,000	\$0	\$27,000,000	\$0
1994												
1995							\$0,000,000	\$0				
1996												
1997	\$145,200,000	\$0	\$239,800,000	\$0	\$92,500,000	\$0	\$59,500,000	\$0	\$39,000,000	\$0	\$90,950,000	\$0
1998												
1999												
2000												
2001	\$241,450,000	\$92,935,000	\$322,272,845	\$79,749,695	\$90,529,525	\$0	\$102,966,250	\$0	\$69,433,750	\$25,500,000	\$105,398,106	\$0
2002												
2003	\$12,500,000	\$12,500,000	\$140,900,000	\$84,900,000			\$25,000,000	\$25,000,000			\$27,000,000	\$0
Total	\$541,650,000	\$105,435,000	\$1,025,972,845	\$164,649,695	\$213,029,525	\$0	\$228,895,250	\$25,000,000	\$154,433,750	\$25,500,000	\$240,348,106	\$0

TAMU = Texas A&M University System
 UT = The University of Texas System
 TT = Texas Tech University System
 UH = The University of Houston System
 UNT = University of North Texas System
 TSU = Texas State University System
 TSTC = Texas State Technical College System
 TS = Texas Southern University*
 MSW = Midwestern State University*
 SFA = Stephen F. Austin University*
 TW = Texas Woman's University*

* Independent institution, not part of a system

3/10/2003

Prepared by: Texas Bond Review Board

SFC Authorized

Tuition Revenue Bond Authority by System

YSTC Authority	TS		MWS		SFA		TW		Total		
	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	
										\$185,000,000	1971
										\$57,500,000	1973
										\$60,000,000	1991
								\$5,000,000	\$0	\$352,400,000	1992
										\$0	1993
										\$0	1994
										\$9,000,000	1995
		\$18,000,000	\$0	\$9,000,000	\$0	\$6,000,000	\$0	\$8,500,000	\$0	\$638,450,000	1996
										\$0	1997
										\$0	1998
										\$0	1999
\$10,880,000	\$0	\$79,000,000	\$0	\$9,997,500	\$0	\$14,070,000	\$0	\$25,797,500	\$8,297,500	\$1,081,755,576	2000
		\$3,500,000	\$3,500,000							\$205,482,195	2001
										\$208,900,000	2002
\$10,880,000	\$0	\$100,500,000	\$3,500,000	\$17,997,500	\$0	\$20,070,000	\$0	\$39,297,500	\$8,297,500	\$2,593,005,576	2003
										\$332,362,195	

3/10/2004

Prepared by: Texas Bond Review Board

SFC_authorized

Tuition Revenue Bond Authority by Institution
Texas A M University

Year	Prairie View A&M		Terleton State		West Texas A&M		International (Laredo)		Kingsville		Corpus Christi	
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority
1971												
1973												
1991												
1992							\$30,000,000	\$0			\$20,000,000	\$0
1993												
1994							\$36,000,000	\$0	\$17,000,000		\$22,000,000	\$0
1995												
1996												
1997	\$15,000,000	\$0	\$15,000,000	\$0	\$9,000,000	\$0	\$39,900,000	\$0	\$15,000,000		\$25,000,000	\$0
1999												
2000												
2001	\$68,000,000	\$27,000,000	\$18,700,000	\$16,145,000	\$22,780,000	\$0	\$21,620,000	\$0	\$20,950,000	\$4,110,000	\$14,000,000	\$15,000,000
2002												
2003							\$12,500,000	\$12,500,000				
Total	\$83,000,000	\$27,000,000	\$33,700,000	\$16,145,000	\$31,760,000	\$0	\$139,620,000	\$2,500,000	\$52,060,000	\$4,110,000	\$111,000,000	\$15,000,000

3/10/200

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Tuition Revenue Bond Authority by Institution
Texas A M University

Commanche	Tasarkans		HBC		Galveston (Maritime Ac)		Texas A&M		Total		
	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	
						\$7,500,000				\$7,500,000	1971
										\$0	1973
										\$0	1991
										\$75,000,000	1992
										\$0	1993
											1994
											1995
\$4,200,000	\$0	\$4,000,000	\$0	\$6,000,000	\$0		\$12,500,000	\$0	\$145,200,000	\$0	1996
											1997
											1998
											1999
\$14,960,000	\$10,680,000	\$17,000,000	\$17,000,000	\$14,300,000	\$3,100,000	\$10,300,000	\$0		\$241,720,000	\$92,935,000	2000
											2001
									\$12,500,000	\$12,500,000	2002
\$10,160,000	\$10,680,000	\$21,000,000	\$17,000,000	\$20,300,000	\$3,100,000	\$17,600,000	\$0	\$12,500,000	\$541,960,000	\$106,435,000	2003

3/10/2004

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Tuition Revenue Bond Authority by Institution
University of Texas

Year	UT System*		Austin		Arlington		Brownsville		Dallas		El Paso		Pan American	
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority
1971	\$150,000,000	\$0												
1973														
1991														
1992														
1993			\$2,000,000	\$0			\$22,600,000	\$0			\$22,000,000	\$0	\$26,000,000	\$0
1994														
1995														
1996														
1997			\$12,500,000	\$0	\$16,000,000	\$0	\$22,800,000	\$0	\$5,000,000	\$0	\$14,000,000	\$0	\$17,000,000	\$0
1998														
1999														
2000														
2001					\$16,030,945	\$5,945	\$26,010,000	\$0	\$21,993,750	\$21,993,750	\$12,750,000	\$0	\$23,950,000	\$0
2002														
2003														
Total	\$150,000,000	\$0	\$14,500,000	\$0	\$32,032,945	\$5,945	\$72,010,000	\$0	\$28,993,750	\$21,993,750	\$48,750,000	\$0	\$42,950,000	\$0

* The System was provided \$150,000,000 for several of its institutions in HB 278 of the 62nd Legislature, but the legislation did not specifically state what amount each institution would receive.

Tuition Revenue Bond Authority by Institution
University of Texas

Perman Basin Authority	San Antonio		Tyler		Southwestern Med. Cen.		HSC at Houston		Med. Branch at Galveston		Health Center at Tyler		Harding RACH (San Ant)	
	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority
		\$63,500,000												
	\$50,000,000		\$9,500,000		\$20,000,000		\$17,500,000							\$30,000,000
\$5,010,000		\$22,950,000	\$20,510,000		\$40,000,000		\$19,550,000	\$18,850,000	\$20,000,000		\$11,513,250		\$29,550,000	\$26,600,000
					\$50,000,000		\$64,950,000	\$64,900,000						
	\$126,480,000		\$26,410,000		\$118,000,000		\$101,950,000	\$84,450,000	\$20,000,000		\$11,513,250		\$58,000,000	\$58,000,000

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3/16/2004

Tuition Revenue Authority by System
Texas State Technical College System

Year	Hartlingen		Marshall		Waco		West Texas		Total	
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority
1971										
1973										
1981										
1992										
1993										
1994										
1995										
1996										
1997										
1998										
1999										
2000										
2001	\$3,400,000	\$0	\$1,785,000	\$0	\$3,400,000	\$0	\$2,295,000	\$0	\$10,880,000	\$0
2002										
2003										
Total	\$3,400,000	\$0	\$1,785,000	\$0	\$3,400,000	\$0	\$2,295,000	\$0	\$10,880,000	\$0

3/12/2004

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Tuition Revenue Bond Authority by Institution
University of Texas

M.D. Anderson	HSC at San Antonio		Total		
	Unissued Authority	Unissued Authority	Authority	Unissued Authority	
			\$150,000,000	\$0	1971
			\$10,000,000	\$0	1973
					1991
					1992
	\$25,000,000	\$0	\$163,000,000	\$0	1993
					1994
					1995
			\$239,800,000	\$0	1997
					1999
\$20,000,000	\$0	\$28,900,000	\$322,272,945	\$79,749,895	2000
\$20,000,000	\$20,000,000		\$140,900,000	\$54,800,000	2002
\$40,000,000	\$20,000,000	\$53,900,000	\$1,025,672,945	\$154,649,895	2003

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3/10/2004

**Tuition Revenue Bond Authority by Institution
Texas Tech University**

Year	Texas Tech		Health Science Center		Total	
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority
1971			\$35,000,000	\$0	\$35,000,000	\$0
1973						
1991						
1992						
1993			\$25,000,000	\$0	\$25,000,000	\$0
1994						
1995						
1996						
1997	\$30,000,000	\$0	\$32,500,000	\$0	\$62,500,000	\$0
1998						
1999						
2000						
2001	\$23,647,000	\$0	\$66,882,525	\$0	\$90,529,525	\$0
2002						
2003						
Total	\$53,647,000	\$0	\$159,382,525	\$0	\$213,029,525	\$0

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Tuition Revenue Bond Authority by System
University of Houston System

Year	UH System*		University of Houston		Victoria		Clear Lake		Downtown		Total	
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority
1971												
1973							\$40,000,000				\$40,000,000	\$0
1991												
1992												
1993												
1994										\$22,400,000	\$0	\$0
1995												
1998					\$0,000,000	\$0						\$0
1997			\$12,000,000	\$0	\$10,000,000	\$0						\$0
1998										\$7,500,000		\$0
1999												
2000												
2001			\$51,000,000	\$0	\$2,805,000	\$0	\$30,918,750	\$0	\$18,232,500	\$0	\$102,956,250	\$0
2002												
2003	\$25,000,000	\$25,000,000										
Total	\$25,000,000	\$25,000,000	\$63,000,000	\$0	\$21,805,000	\$0	\$70,918,750	\$0	\$48,132,500	\$0	\$228,866,250	\$25,000,000

* The University of Houston System received \$25 Million in HB 1941 of 78th Legislature, but the legislation did not specifically state what amount each institution would receive.

Tuition Revenue Bond Authority by Institution
University of North Texas System

Year	University of North Texas		UNT at Dallas		N. Texas HSC at Fort Worth*		Col. Of Osteopathic Med.*		Total
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	
1971									
1973									
1981									
1982									
1983	\$25,000,000	\$0					\$10,000,000	\$0	\$35,000,000
1984									
1985									
1986									
1987	\$20,000,000	\$0			\$19,000,000				\$39,000,000
1988									
1989									
2000									
2001				\$52,933,750**		\$27,500,000**		\$25,500,000**	
2002									
2003									
Total	\$45,000,000	\$0		\$52,933,750	\$0	\$46,500,000	\$10,000,000	\$0	\$154,433,750
						\$25,500,000			\$25,500,000

* The Colleges of Osteopathic Medicine may now be what is known as the North Texas Health Science Center at Fort Worth.

** It is unclear what portion of the bonds issued from the authority granted in 2001 is attributed to the University of North Texas at Dallas or the North Texas Health Science Center at Fort Worth.

Tuition Revenue Bond Authority by Institution
Texas State University System

Year	TSU System*		Angelo State University		Lamar Univ. Beaumont		Lamar Univ. Inst. Of Tech.		Lamar Univ. Orange		Lamar Univ. Port Arthur	
	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority
1971												
1973												
1991												
1992												
1993	\$27,000,000	\$0										
1994												
1995												
1996												
1997			\$20,000,000	\$0	\$8,000,000	\$0	\$2,000,000	\$0	\$3,500,000	\$0	\$2,750,000	\$0
1998												
1999												
2000												
2001			\$16,917,550	\$0	\$21,792,095	\$0	\$5,301,960	\$0	\$2,125,000	\$0	\$7,650,000	\$0
2002												
2003												
Total	\$27,000,000	\$0	\$36,917,550	\$0	\$29,792,095	\$0	\$7,301,960	\$0	\$5,625,000	\$0	\$10,400,000	\$0

* The System was granted \$27 Million in HB 2056 of the 73rd Legislature, but the legislation does not specify what amounts were given to the individual institutions.

** Texas State University at San Marcos was formerly Southwest Texas State University.

Tuition Revenue Bond Authority by Institution
Texas State University System

Sam Houston State Authority	Texas State University**		Sul Ross State Univ.		Total	
	Unissued Authority	Authority	Unissued Authority	Authority	Unissued Authority	Authority
					\$27,000,000	\$0
\$7,500,000	\$0	\$19,700,000	\$0	\$17,500,000	\$0	\$90,950,000
\$18,000,000	\$0	\$18,438,500	\$0	\$15,175,000	\$0	\$105,388,106
		\$27,000,000				\$27,000,000
\$25,500,000	\$0	\$65,136,500	\$0	\$32,675,000	\$0	\$240,348,108
						\$0

3/10/2004

Prepared by: Texas Bond Review Board

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**TUITION REVENUE BOND
DEBT SERVICE REQUIREMENTS**
as of February 28, 2004

Year	Principal Balance		Interest		Issuance		Principal		Interest		Principal Balance															
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010														
1999	60,374,000																									
2000		47,000,000																								
2001			8,000,000																							
2002				8,965,000																						
2003					14,070,000																					
2004						16,505,000																				
2005							15,975,000																			
2006								15,215,000																		
2007									14,525,000																	
2008										13,800,000																
2009											13,040,000															
2010												12,250,000														
2011													11,425,000													
2012														10,590,000												
2013															9,650,000											
2014																8,695,000										
2015																	7,695,000									
2016																		6,650,000								
2017																			5,560,000							
2018																				4,410,000						
2019																					3,200,000					
2020																						1,940,000				
2021																							615,000			
2022																								81,164		
2023																									880,000	
2024																										0
2025																										0

Note: Amounts do not include debt service for TAMU's \$25.07 million, UT's \$26.1 million, and Texas Tech University's \$360,000 in outstanding TRB commercial paper. The University of North Texas plans to issue their remaining \$25.5 million of authorized tuition revenue bonds in fiscal 2005. Texas Woman's University plans to issue their remaining \$5.3 million of authorized but unissued tuition revenue bonds in May 2004. The University of Texas System refunded \$137,915,000 tuition revenue bonds in February 2004.

Prepared by Bond Review Board staff

EF00Tuition Revenue/Tuition Revenue Bonds - Feb 28, 2004

**TUITION REVENUE BOND
DEBT SERVICE REQUIREMENTS**
as of February 29, 2004

Year	1996-2000		2001-2005		2006-2010		2011-2015		2016-2020		2021-2025		Total
	Issuance	Principal Balance	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
1996	18,000,000	89,625,000	405,000	4,062,925	405,000	4,062,925	405,000	4,062,925	405,000	4,062,925	405,000	4,062,925	180,625,000
1999		90,865,000	415,000	4,330,734	415,000	4,330,734	415,000	4,330,734	415,000	4,330,734	415,000	4,330,734	189,160,000
2000		88,630,000	420,000	4,201,648	420,000	4,201,648	420,000	4,201,648	420,000	4,201,648	420,000	4,201,648	191,160,000
2001	48,065,000	84,730,000	435,000	4,054,613	435,000	4,054,613	435,000	4,054,613	435,000	4,054,613	435,000	4,054,613	171,960,000
2002	37,240,000	80,800,000	445,000	3,914,269	445,000	3,914,269	445,000	3,914,269	445,000	3,914,269	445,000	3,914,269	161,710,000
2003	3,400,000	76,715,000	455,000	3,746,488	455,000	3,746,488	455,000	3,746,488	455,000	3,746,488	455,000	3,746,488	150,845,000
2004		72,465,000	470,000	3,567,423	470,000	3,567,423	470,000	3,567,423	470,000	3,567,423	470,000	3,567,423	139,660,000
2005		68,030,000	490,000	3,383,175	490,000	3,383,175	490,000	3,383,175	490,000	3,383,175	490,000	3,383,175	127,830,000
2006		63,395,000	505,000	3,149,293	505,000	3,149,293	505,000	3,149,293	505,000	3,149,293	505,000	3,149,293	116,800,000
2007		58,540,000	525,000	2,928,028	525,000	2,928,028	525,000	2,928,028	525,000	2,928,028	525,000	2,928,028	105,800,000
2008		53,470,000	545,000	2,679,144	545,000	2,679,144	545,000	2,679,144	545,000	2,679,144	545,000	2,679,144	94,800,000
2009		48,190,000	565,000	2,396,922	565,000	2,396,922	565,000	2,396,922	565,000	2,396,922	565,000	2,396,922	84,200,000
2010		42,545,000	585,000	2,106,916	585,000	2,106,916	585,000	2,106,916	585,000	2,106,916	585,000	2,106,916	73,800,000
2011		37,080,000	590,000	1,815,538	590,000	1,815,538	590,000	1,815,538	590,000	1,815,538	590,000	1,815,538	63,800,000
2012		31,325,000	615,000	1,507,225	615,000	1,507,225	615,000	1,507,225	615,000	1,507,225	615,000	1,507,225	54,800,000
2013		25,260,000	640,000	1,182,450	640,000	1,182,450	640,000	1,182,450	640,000	1,182,450	640,000	1,182,450	46,800,000
2014		18,875,000	670,000	876,560	670,000	876,560	670,000	876,560	670,000	876,560	670,000	876,560	39,800,000
2015		13,685,000	700,000	597,200	700,000	597,200	700,000	597,200	700,000	597,200	700,000	597,200	32,800,000
2016		8,085,000	735,000	308,956	735,000	308,956	735,000	308,956	735,000	308,956	735,000	308,956	26,800,000
2017		2,185,000	770,000	108,250	770,000	108,250	770,000	108,250	770,000	108,250	770,000	108,250	21,800,000
2018		0	0	0	0	0	0	0	0	0	0	0	16,800,000
2019		0	0	0	0	0	0	0	0	0	0	0	11,800,000
2020		0	0	0	0	0	0	0	0	0	0	0	6,800,000
2021		0	0	0	0	0	0	0	0	0	0	0	1,800,000
2022		0	0	0	0	0	0	0	0	0	0	0	680,000
2023		0	0	0	0	0	0	0	0	0	0	0	200,000
2024		0	0	0	0	0	0	0	0	0	0	0	50,000
2025		0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000	104,985,000

Prepared by Bond Review Board staff

BFO Tuition Revenue/Tuition Revenue Bond 2/29/2004

**TUITION REVENUE BOND
DEBT SERVICE REQUIREMENTS**
as of February 28, 2004

	Texas Tech University			Texas Woman's University			University of Houston System					
	Issuance	Principal	Interest	Principal Balance	Issuance	Principal	Interest	Principal Balance	Issuance	Principal	Interest	Principal Balance
1998												
1999	65,081,000	2,453,000	7,298,462	89,100,527	0	885,000	1,194,735	24,525,000	99,205,000	6,030,000	6,543,968	150,060,000
2000		2,566,475	7,437,913	150,496,952	0	925,000	1,147,735	23,640,000	25,000,000	7,070,000	7,952,285	169,030,000
2001		5,882,869	7,282,053	144,613,162	8,500,000	875,000	1,098,735	22,715,000		7,320,000	7,171,173	154,630,000
2002	19,510,000	6,078,470	7,077,193	138,536,692	17,500,000	1,025,000	1,047,135	20,715,000	33,350,000	7,620,000	6,856,671	147,010,000
2003	0	6,327,826	6,833,052	132,208,861	0	1,090,000	985,635	19,635,000		7,945,000	6,519,533	139,065,000
2004	86,415,000	6,511,945	6,561,099	125,696,921	0	1,190,000	870,835	18,505,000		8,275,000	6,163,747	130,790,000
2005		6,906,056	6,271,496	118,696,865		1,190,000	859,075	17,325,000		8,635,000	5,789,399	122,195,000
2006		7,237,115	5,538,286	111,458,750		1,295,000	819,845	16,090,000		9,020,000	5,395,288	113,135,000
2007		8,017,051	5,158,600	103,846,983		1,295,000	767,885	14,795,000		9,430,000	4,982,307	103,705,000
2008		8,440,270	4,730,711	97,361,962		1,390,000	710,470	13,435,000		9,690,000	4,549,549	93,845,000
2009		8,906,961	4,274,012	91,475,000		1,425,000	649,650	12,010,000		10,325,000	4,095,421	83,520,000
2010		7,250,000	3,848,763	71,225,000		1,490,000	584,495	10,520,000		10,815,000	3,518,728	72,705,000
2011		7,655,000	3,457,856	63,670,000		1,560,000	514,875	8,960,000		11,340,000	3,117,628	61,355,000
2012		8,060,000	3,047,100	55,510,000		1,635,000	441,273	7,520,000		11,895,000	2,595,249	49,470,000
2013		8,495,000	2,614,544	47,015,000		1,715,000	363,088	6,510,000		10,135,000	2,087,336	39,335,000
2014		8,945,000	2,166,269	38,070,000		1,795,000	278,888	5,615,000		10,625,000	1,622,944	28,710,000
2015		9,395,000	1,707,869	28,675,000		1,210,000	190,750	4,605,000		8,500,000	1,197,941	20,210,000
2016		8,315,000	1,225,875	20,360,000		1,270,000	130,250	3,335,000		8,925,000	809,035	11,265,000
2017		8,740,000	799,500	11,620,000		1,335,000	66,750	2,565,000		9,370,000	366,975	1,915,000
2018		1,705,000	538,375	9,915,000				0		1,915,000		0
2019		1,790,000	451,000	8,125,000				0				0
2020		1,890,000	359,000	6,235,000				0				0
2021		1,875,000	262,375	4,260,000				0				0
2022		2,080,000	191,000	2,160,000				0				0
2023		2,160,000	54,500	54,500				0				0
2024												
2025												

Prepared by Bond Review Board Staff

BTCTuition Revenue/Tuition Revenue Bonds - Feb 28, 2004

**TUITION REVENUE BOND
DEBT SERVICE REQUIREMENTS**
as of February 29, 2004

Year	University of North Florida System			The University of South Florida			Total Debt Service Requirements				
	Issuance	Principal	Interest	Principal Balance	Issuance	Principal	Interest	Principal Balance	Principal	Interest	Balance Total
1988											
1999	25,500,000				10,650,000			438,125,000	62,248,274	72,461,202	1,395,403,979
2000				45,175,000		18,185,000	22,841,231	419,940,000	84,300,829	72,957,866	1,447,950,302
2001				101,745,000		19,805,000	21,522,819	401,135,000	75,182,710	68,713,950	1,384,354,373
2002	54,195,000				0	13,745,000	20,584,571	381,390,000	78,324,952	65,181,741	1,309,911,662
2003				84,590,000		20,765,000	19,956,404	395,625,000	79,870,799	61,919,194	1,232,367,000
2004	0	4,880,000	5,122,891	108,435,000		21,770,000	18,956,958	338,895,000	81,126,038	57,791,479	1,193,516,202
2005	5,060,000	5,060,000	4,932,475	98,495,000		22,795,000	17,540,624	316,060,000	79,446,436	53,900,950	994,698,728
2006	5,300,000	5,300,000	4,708,886	93,195,000		23,940,000	18,398,944	292,120,000	81,321,857	50,025,242	914,321,871
2007	5,530,000	5,530,000	4,497,819	87,665,000		25,150,000	15,170,610	266,970,000	85,301,930	46,071,241	830,034,941
2008	5,770,000	5,770,000	4,296,464	81,895,000		26,465,000	13,865,710	240,505,000	89,391,571	41,814,714	741,458,371
2009	6,025,000	6,025,000	4,005,128	75,870,000		27,855,000	12,473,698	212,650,000	94,135,151	37,294,930	648,400,220
2010	6,310,000	6,310,000	3,735,450	69,560,000		29,320,000	11,020,968	183,330,000	95,025,195	32,471,443	554,510,024
2011	6,610,000	6,610,000	3,448,244	62,950,000		31,380,000	9,482,460	151,950,000	92,032,688	22,853,617	460,532,899
2012	6,925,000	6,925,000	3,139,824	56,025,000		33,035,000	7,839,476	118,915,000	79,830,000	18,231,299	399,740,000
2013	7,270,000	7,270,000	2,816,830	48,785,000		35,345,000	6,110,263	90,510,000	72,950,000	14,333,758	294,226,000
2014	7,620,000	7,620,000	2,477,511	41,135,000		38,475,000	4,628,825	71,085,000	62,285,000	10,828,696	223,535,000
2015	8,305,000	8,305,000	2,093,096	34,890,000		42,105,000	3,053,450	57,980,000	53,725,000	7,716,256	99,480,000
2016	8,450,000	8,450,000	1,174,008	29,380,000		46,890,000	1,879,000	47,850,000	49,365,000	4,963,375	35,170,000
2017	5,720,000	5,720,000	1,562,699	23,660,000		51,105,000	1,173,750	38,990,000	23,950,000	1,963,019	11,620,000
2018	6,025,000	6,025,000	1,272,149	17,035,000		56,890,000	433,000	31,790,000	1,705,000	581,463	9,915,000
2019	6,330,000	6,330,000	964,524	11,305,000		63,035,000	0	25,000,000	1,750,000	451,000	8,125,000
2020	3,865,000	3,865,000	642,113	7,720,000		69,000,000	0	19,000,000	1,860,000	359,000	6,235,000
2021	3,765,000	3,765,000	473,384	3,899,000		74,105,000	0	14,000,000	1,975,000	262,375	4,260,000
2022	3,955,000	3,955,000	291,875	0		79,060,000	0	11,000,000	2,060,000	161,000	2,180,000
2023	0	0	98,875	0		83,950,000	0	8,990,000	2,180,000	54,500	0
2024											
2025									1,508,298,576	765,727,228	

Prepared by Trust Review Board Staff

BFOI/Trust Review Board Revenue Bond Report 28, 2004

TUITION REVENUE BOND
DEBT SERVICE REQUIREMENTS
as of February 28, 2004

Year	Balance	Principal	Interest	Principal Balance	Issuance	Principal	Interest	Principal Balance	Issuance	Principal	Interest	Principal Balance
1998												
1999	60,374,000											
2000												
2001	47,000,000				9,000,000				6,000,000			
2002	124,035,000				8,865,000				14,070,000			
2003	0				0				0			
2004	17,405,274	14,346,702	282,832,775	280,236,048	0	630,000	743,949	16,503,000	0	670,000	834,970	18,770,000
2005	17,749,454	13,516,319	245,083,321	244,083,321	0	660,000	714,674	15,875,000	0	705,000	806,228	19,100,000
2006	20,939,831	12,559,653	224,143,000	224,143,000	0	690,000	866,521	15,215,000	0	740,000	777,028	17,395,000
2007	21,628,192	11,508,568	202,515,306	202,515,306	0	725,000	808,056	13,850,000	0	780,000	746,118	15,875,000
2008	20,397,873	10,403,714	182,117,236	182,117,236	0	760,000	820,781	13,040,000	0	820,000	713,398	15,065,000
2009	19,174,052	9,400,078	162,943,243	162,943,243	0	790,000	893,314	12,250,000	0	850,000	678,923	14,200,000
2010	14,096,360	8,410,531	146,376,863	146,376,863	0	825,000	898,533	11,425,000	0	800,000	641,769	13,300,000
2011	13,304,742	7,851,442	135,072,121	135,072,121	0	865,000	871,808	10,560,000	0	845,000	601,651	12,350,000
2012	13,985,162	6,968,670	121,062,959	121,062,959	0	910,000	882,181	9,660,000	0	865,000	558,545	11,370,000
2013	14,686,620	6,227,528	106,303,439	106,303,439	0	955,000	839,510	8,695,000	0	1,035,000	512,265	10,335,000
2014	15,454,881	5,497,258	90,938,658	90,938,658	0	1,000,000	784,403	7,695,000	0	1,060,000	464,634	9,260,000
2015	15,663,334	4,643,869	75,275,034	75,275,034	0	1,045,000	747,279	6,660,000	0	1,135,000	415,273	8,120,000
2016	15,462,356	3,817,056	59,812,666	59,812,666	0	1,090,000	597,149	5,560,000	0	1,195,000	362,296	6,935,000
2017	14,692,668	3,018,659	45,150,000	45,150,000	0	1,150,000	443,730	4,410,000	0	1,240,000	308,943	5,695,000
2018	8,165,000	2,297,775	36,985,000	36,985,000	0	1,205,000	197,619	3,205,000	0	1,305,000	245,918	4,390,000
2019	8,595,000	1,649,626	28,400,000	28,400,000	0	1,265,000	126,971	1,940,000	0	1,370,000	181,796	3,070,000
2020	9,026,000	1,420,275	19,385,000	19,385,000	0	845,000	51,164	1,325,000	0	960,000	125,800	2,060,000
2021	9,460,000	970,025	9,935,000	9,935,000	0	680,000	17,000	680,000	0	1,005,000	77,875	1,065,000
2022	9,935,000	497,025	0	0	0	0	0	0	0	1,055,000	26,375	0
2023												
2024												
2025												

Notes:
Amounts do not include debt service for TAMU's \$26.07 million, UT's \$26.1 million, and Texas Tech University's \$30.0 million in outstanding 199 commercial paper.
The University of North Texas plans to issue their remaining \$25.5 million of authorized tuition revenue bonds in fiscal 2005.
Texas Woman's University plans to issue their remaining \$8.3 million of authorized but unissued tuition revenue bonds in May 2004.

Prepared by David Pridemore, Bond Staff

BTU/Tuition Revenue/Tuition Revenue Bonds - Feb 28, 2004

Appendix F

Senate Committee on Finance

Hearing Regarding U. T. System Debt Programs
March 16, 2004

The University of Texas System is pleased to have the opportunity to discuss our debt programs today and to respond to any questions you may have. My name is Philip Aldridge, and I am the Interim Vice Chancellor for Business Affairs at the U. T. System. I'm joined today by Randy Wallace, Controller and Chief Budget Officer, and Terry Hull, Director of Finance.

The U. T. System Office of Finance manages a debt portfolio totaling \$3.1 billion. All debt is issued centrally by the U. T. System on behalf of the fifteen academic and health institutions. Revenue Financing System (RFS) debt, which is secured by all legally available revenues of the System, represents \$2.1 billion of the total, including \$568 million of Tuition Revenue Bonds (TRBs), which are issued under the RFS debt program. Permanent University Fund (PUF) debt, secured by the U. T. System's 2/3 interest in the Available University Fund, represents the second largest portion of debt outstanding, at \$987 million, and the Higher Education Fund (HEF) comprises the remaining \$6 million of debt outstanding.

In addition to the core function of issuing debt to fund capital projects on behalf of our 15 academic and health institutions, the U. T. System Office of Finance is also responsible for the investment of debt proceeds, the payment of debt service, the tracking of arbitrage, and SEC compliance. All of this is performed by a staff of five full-time employees.

Low Cost of Issuance

The Committee should be comforted by the knowledge that the U. T. System is an extremely low cost and efficient issuer of debt. Consider the following facts:

- The U. T. System is one of only two public institutions of higher education to obtain AAA/Aaa credit ratings from all three major credit rating agencies. Both the RFS and PUF programs have achieved the highest possible ratings.
- By virtue of these ratings, the U. T. System, its component institutions, and the State of Texas benefit from the absolute lowest cost of debt in Texas.
- According to Bond Review Board data for fiscal year 2003, the U. T. System is also one of the lowest cost issuers of debt in the state. The U. T. System's average cost of issuance (including Underwriter's Spread) of \$4.39 per bond is almost one-half of the average for all Texas governmental issuers (\$8.40 per bond).

- The U.T. System is the only state issuer that does not regularly utilize an outside Financial Advisor to assist it in issuing debt. With the exception of the bond underwriting itself, the Office of Finance models, plans, and executes all bond transactions, including maintaining credit rating relationships. Based on an average Financial Advisor fee of \$1.25 per bond (per Bond Review Board data), the avoidance of a Financial Advisor has saved the U. T. System \$2.4 million over the past two years – more than twice the entire budget for the Office of Finance during that period of time.
- The U. T. System is one of the few Texas governmental issuers that use a short-term commercial paper program for interim financing purposes. This means that projects can be constructed with an interim financing cost of less than 1.0% at today's interest rates, before permanent bond financing is needed. This interim financing methodology saves the U. T. System several million dollars per year in interest costs.
- Finally, I would note that our interim financing programs do not rely on the purchase of external bank liquidity. This avoidance of bank liquidity fees saves the U. T. System approximately \$1.8 million per year.

In addition to the cost savings already articulated, the Office of Finance has taken advantage of declining interest rates by refunding outstanding debt. Since 2001, the U. T. System has refunded approximately \$800 million of debt, thereby reducing future debt service by an aggregate \$65.7 million. Of this amount, \$18.3 million is attributable to TRBs, which directly benefit the State.

Debt Limitations

The U. T. System's debt programs are governed by numerous Federal and State statutes and internal policies.

1. RFS Debt

RFS bonds (including TRBs) are issued in accordance with the general laws of the State of Texas, including particularly Chapter 55, Texas Education Code, and Chapters 1207 and 1371, Texas Government Code. RFS bonds are issued as parity debt pursuant to a Master Resolution adopted by the Board of Regents. The Board adopted the Master Resolution for the purpose of assembling the System's revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to component institutions of the System and to maximize the financing options available. RFS debt capacity is limited at each institution by the availability of revenues sufficient to support the repayment of that debt, as required by the Master Resolution. All projects financed with RFS debt must have the requisite approvals from the Board of Regents and the Texas Higher Education Coordinating Board. TRBs can only be issued in the amount and

for the project specified by the Legislature and authorized in Chapter 55 of the Texas Education Code.

2. PUF Debt

PUF debt is issued under the authority of Article VII, Section 18 of the Texas Constitution, Chapter 1371, Texas Government Code, and Section 65.46, Texas Education Code, and pursuant to the terms of bond resolutions approved by the Board of Regents. The constitution specifies that the U. T. System receive 2/3 of the amount distributed from the PUF to the Available University Fund (AUF) and states that AUF monies be used to pay debt service on all PUF debt, for the support and maintenance of The University of Texas at Austin, and for the administration of the U. T. System

The constitution contains the following provisions:

- Limits the amount of PUF debt that can be issued by the U. T. System to 20% of the cost value of the PUF
- Limits the maximum term of PUF debt to 30 years
- Requires that PUF debt be used for financing capital construction and renovation of facilities devoted to Educational & General purposes, including library acquisitions and the purchase of educational and research equipment
- Specifies the institutions that are eligible to benefit from PUF debt.
- Specifies that the amount of any distribution to the AUF must be determined by the Board of Regents in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF assets and annual distributions to the AUF
- The amount distributed to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that year.
- An annual distribution made by the Board to the Available University Fund during any Fiscal Year may not exceed an amount equal to 7% of the average net fair market value of PUF assets, except as necessary to pay any principal and interest due and owing on PUF debt.

In preparing recommendations for PUF projects to be approved, the System Administration staff is guided by the following justification criteria:

- a. Consistency with an institution's mission;
- b. Project need;
- c. Unique opportunity;
- d. Matching funds/leverage;
- e. Cost effectiveness;
- f. State of existing facility condition; and
- g. Other available funding sources.

Again, I want to thank you Mr. Chairman and members for the opportunity to discuss our debt programs with you today. If you or your staff have additional questions, please feel free to contact me.

THE UNIVERSITY OF TEXAS SYSTEM

Response to a Request by the

Senate Committee on Finance

Regarding

Permanent University Fund Bonds
and Higher Education Fund Bonds

March 8, 2004

Prepared by:

The University of Texas System Office of Finance
The University of Texas System Office of the Controller

PUF/HEF Bond Authority by Sem		
The University of Texas System		
	Authority* (1)	Unissued Unexpired Author
1991	60,480,876	
1992	55,827,542	
1993	14,292,568	
1994	9,913,133	
1995	25,247,380	
1996	54,855,348	
1997	60,618,547	
1998	35,390,778	
1999	23,818,010	
2000	171,223,783	
2001	146,366,805	
2002	182,544,211	
2003	140,062,428	
* Dollar Value of PUF-backed approved by board		
** Dollar Value of any PUF being authority granted by board that is unissued but has not expired		
(1) Reflects the total amount PUF bond proceeds that were allocated by the Board of Regents to specific projects within the fiscal year.		
(2) Reflects the total amount authorized, but unissued PUF proceeds allocated to projects by the Board of Regents less the amount of PUF bond proceeds held at 8/31/03.		

PUF/HEF bond authority by Institutions

	System Administration		U.T. Arlington		U.T. Austin		U.T. Dallas		U.T. El Paso	
	Authority* (1)	Unissued Authority** (2)	Authority* (1)	Unissued Authority** (2)	Authority* (1)	Unissued Authority** (2)	Authority* (1)	Unissued Authority** (2)	Authority* (1)	Unissued Authority** (2)
1991	32,202,234		216,639		7,654,983		488,603		50,000	
1992	7,292,184		4,595,000		7,815,000		6,298,803		4,698,569	
1993			(582,153)		(11,500,000)		641,149		660,000	
1994	165,348		(4,128,000)		(397,207)		557,246		552,424	
1995	3,000,000		1,844,438		12,204,380		1,410,000		1,054,106	
1996	(223,631)		3,934,989		1,246,914		5,259,774		2,806,876	
1997	2,300,000		8,015,015		5,598,930		1,939,004		6,335,000	
1998	5,314,606		4,241,735		5,620,000		1,689,074		2,512,000	
1999	-		1,750,000		3,646,100		1,350,000		1,625,000	
2000	-		5,273,646		5,037,896		31,799,347		2,470,000	
2001	3,845,250		14,304,633		499,733		1,600,000			
2002	(284,632)		1,900,427		43,629,994		33,990,000		19,104,998	
2003	1,830,910		15,322,500		9,756,581		2,100,000		10,500,000	
			2,933,807		9,756,581		16,146,399		1,877,336	
										12,534,413

* Dollar Value of PUF-backed bond approved by board

**Dollar Value of any PUF bonding authority granted by board that is unissued but has not expired

- (1) Reflects the total amount of PUF bond proceeds that were allocated by the Board of Regents to specific projects within the fiscal year. Negative allocations generally reflect lapsed allocations or changes in funding source for a project.
- (2) Reflects the total amount of authorized, but unissued PUF proceeds allocated to projects by the Board of Regents less the amount of PUF bond proceed held at 8/31/03, allocated pro rata across institutions on the basis of remaining authorized, but unissued PUF proceeds.
- (3) Reflects the total amount of HEF bond proceeds that were allocated by the Board of Regents to specific projects within the fiscal year.
- (4) There was no unissued unexpired HEF bond authority at 8/31/03.

	U.T. Pan American		U.T. Permian Basin		U.T. San Antonio		U.T. Tyler		U.T. SMC-Dallas	
	Authority* (3)	Unissued Unexpired Authority** (4)	Authority* (1)	Unissued Unexpired Authority** (2)	Authority* (1)	Unissued Unexpired Authority** (2)	Authority* (1)	Unissued Unexpired Authority** (2)	Authority* (1)	Unissued Unexpired Authority** (2)
1991										
1992			3,407,000	500,000	11,800,000	3,700,000	500,000	1,038,000	3,216,000	
1993			769,000	599,120	360,000	599,120	20,925,000	800,000	800,000	
1994			1,731,000	500,000	985,482	500,000	719,716	375,000	375,000	
1995	26,000,000		1,886,000	1,216,200	410,000	1,216,200	22,461,000	4,500,000	4,500,000	
1996			460,000	13,537,160	4,847,000	7,754,433	5,700,000	(1,462,990)	89,000,000	
1997			590,000	7,754,433	670,000	241,000	1,800,000	1,800,000	1,800,000	
1998			553,748	241,000	225,000	1,150,000	1,030,000	1,030,000	1,030,000	
1999			240,900	51,032,154	14,500,000	55,750	1,050,000	1,857,998	2,400,000	
2000			3,114,200	56,390,000	48,269,713	2,446,303	14,910,474	3,057,199		
2001			200,000	1,922,133						
2002			1,300,000							
2003			3,734,000							

* Dollar Value of PUF-backed bond approved by board

** Dollar Value of any PUF bonding authority granted by board that is unissued but has not expired

(1) Reflects the total amount of PUF bond proceeds that were allocated by the Board of Regents to specific projects within the fiscal year. Negative allocations generally reflect lapsed allocations or changes in funding source for a project.

(2) Reflects the total amount of authorized, but unissued PUF proceeds allocated to projects by the Board of Regents less the amount of PUF bond proceed held at 8/31/03, allocated pro rata across institutions on the basis of remaining authorized, but unissued PUF proceeds.

(3) Reflects the total amount of HEF bond proceeds that were allocated by the Board of Regents to specific projects within the fiscal year.

(4) There was no unissued unexpired HEF bond authority at 8/31/03.

	U.T.M.B.-Galveston		U.T. HSC-Heaston		U.T. HSC-San Antonio		U.T. H.C.-Tyler		U.T.M.D. Anderson	
	Authority* (1)	Unissued Unexpired Authority** (2)	Authority* (1)	Unissued Unexpired Authority** (2)	Authority* (1)	Unissued Unexpired Authority** (2)	Authority* (1)	Unissued Unexpired Authority** (2)	Authority* (1)	Unissued Unexpired Authority** (2)
1991	4,125,000	-	-	2,943,417	-	-	-	-	-	-
1992	2,943,204	4,399,000	4,399,000	2,261,582	3,200,200	963,000	29,452	545,000	414,000	556,355
1993	648,000	856,000	856,000	30,000	917,000	29,452	545,000	414,000	556,355	2,133,315
1994	(504,000)	3,500,000	3,500,000	(124,160)	603,000	603,000	746,628	2,093,650	502,500	1,263,000
1995	393,540	950,000	950,000	(823,000)	(61,917)	11,140,200	6,200,000	1,350,000	3,720,000	32,097,915
1996	1,721,000	2,000,000	2,000,000	(61,917)	10,699,712	16,000,000	2,370,000	1,999,022	1,219,349	(128)
1997	2,272,000	1,100,000	1,100,000	11,140,200	16,520,290	1,999,022	803,472	1,471,671	2,051,048	789,431
1998	451,115	1,695,000	1,695,000	6,200,000	502,500	1,263,000	32,097,915	1,219,349	2,051,048	789,431
1999	1,350,000	11,850,000	11,850,000	(519,000)	1,350,000	3,720,000	1,999,022	1,471,671	2,051,048	789,431
2000	2,094,855	20,504,148	20,504,148	10,699,712	16,000,000	2,370,000	1,999,022	1,471,671	2,051,048	789,431
2001	4,192,000	(200,433)	(200,433)	16,000,000	1,999,022	1,471,671	2,051,048	789,431	2,051,048	789,431
2002	1,909,000	2,015,763	2,015,763	16,520,290	803,472	1,471,671	2,051,048	789,431	2,051,048	789,431
2003	20,165,489	9,437,398	51,714,372	28,813,134	8,700,000	20,474,989	803,472	1,471,671	2,051,048	789,431

* Dollar Value of PUF-backed bond approved by board
 **Dollar Value of any PUF bonding authority granted by board that is unissued but has not expired

- (1) Reflects the total amount of PUF bond proceeds that were allocated by the Board of Regents to specific projects within the fiscal year. Negative allocations generally reflect leaped allocations or changes in funding source for a project.
- (2) Reflects the total amount of authorized, but unissued PUF proceeds allocated to projects by the Board of Regents less the amount of PUF bond proceeds held at 8/31/03, allocated pro rata across institutions on the basis of remaining authorized, but unissued PUF proceeds.
- (3) Reflects the total amount of HEF bond proceeds that were allocated by the Board of Regents to specific projects within the fiscal year.
- (4) There was no unissued unexpired HEF bond authority at 8/31/03.

Appendix G

THE TEXAS A&M UNIVERSITY SYSTEM
Permanent University Fund
Benefiting Members

The Texas A&M University System Members benefiting from bond and note proceeds include the following:

- Prairie View A&M University
- Tarleton State University
- Texas A&M University
- Texas A&M University at Galveston
- Texas A&M University System Health Science Center
- Texas Agricultural Experiment Station
- Texas Cooperative Extension
- Texas Forest Service
- Texas Engineering Experiment Station
- Texas Engineering Extension Service
- Texas Transportation Institute
- System Administrative and General Offices

THE TEXAS A&M UNIVERSITY SYSTEM
 Permanent University Fund
 Benefiting Member Debt Issuance

The following table shows The Texas A&M University System Members benefiting from bond and note issues:

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Prairie View A&M University	\$5,563,056	\$736,944	\$6,000,000	\$2,579,000	\$20,849,393
Tarleton State University	4,903,356	3,935,000		3,500,000	8,481,644
Texas A&M University	1,500,000	5,863,056	1,600,000	10,797,000	552,784
Texas A&M University at Galveston	432,290			1,024,000	3,226,000
Texas A&M University System Health Science Center	830,000		4,000,000		225,000
Texas Agricultural Experiment Station	250,000			1,082,727	2,432,879
Texas Cooperative Extension	112,000			336,000	640,000
Texas Forest Service	598,700		2,000,000	281,273	500,000
Texas Engineering Experiment Station	349,000			1,800,000	892,300
Texas Engineering Extension Service	340,000		4,000,000	550,000	1,100,000
Texas Transportation Institute	121,598			550,000	1,100,000
System Administrative and General Offices					
	\$15,000,000	\$10,555,000	\$17,600,000	\$22,500,000	\$40,000,000

THE TEXAS A&M UNIVERSITY SYSTEM
 Available University Fund
 Excellence and Operations Appropriations

The amounts appropriated to Texas A&M University and Prairie View A&M University are calculated based on a fair and equitable ratio of the total of all funds appropriated by the Legislature, averaged over a five-year period. Following is a table showing the appropriations for excellence and operations for a five-year period from FY 2001 to FY 2005.

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Prairie View A&M University	\$8,500,000	\$9,500,000	\$10,600,000	\$10,900,000	\$11,000,000
Texas A&M University	68,000,000	68,000,000	70,000,000	70,000,000	70,000,000
System Administrative and General Offices	6,100,000	6,100,000	6,200,000	6,200,000	6,200,000
	\$82,600,000	\$83,600,000	\$86,800,000	\$87,100,000	\$87,200,000

THE TEXAS A&M UNIVERSITY SYSTEM
 Permanent University Fund Authority

	System	
	Authority*	Unissued Unexpired Authority
1971		
1973		
1991		
1992		
1993		
1994		
1995		
1996		
1997		
1998		
1999		
2000		
2001	TAMUS Board of Regents	3,251,399
2002	TAMUS Board of Regents	6,316,982
2003	TAMUS Board of Regents	8,500,000

* Dollar Value of PUF projects authorized by The Texas A&M University System Board of Regents
 ** Dollar Value of any bonding authority that is unissued but unexpired

THE TEXAS A&M UNIVERSITY SYSTEM					
Debt Retirement Schedule - by System					
PERMANENT UNIVERSITY FUND BONDS					
	Issuance*	Principal Payments**	Interest Payments***	Capital Accretion	Principal Balance****
Beginning Balance					\$ 255,685,000.00
1991	55,000,000.00	2,385,000.00	20,141,838.27		308,300,000.00
1992	8,200,000.00	19,760,024.00	21,315,871.77	177,182.32	296,917,158.32
1993	31,800,000.00	4,460,000.00	17,434,420.69	501,601.28	324,758,759.60
1994	40,000,000.00	10,010,000.00	17,615,534.51	570,682.25	355,319,441.85
1995		11,310,000.00	18,373,822.95	649,277.13	344,658,718.98
1996		13,510,000.00	17,074,805.87	738,696.15	331,887,415.13
1997	35,000,000.00	14,950,000.00	17,444,912.59	840,430.03	352,777,845.16
1998		17,265,000.00	17,328,515.89	956,174.81	336,469,019.97
1999	15,000,000.00	21,440,000.00	16,337,749.27	1,087,860.06	331,116,880.03
2000	10,555,000.00	30,040,000.00	16,240,030.76	1,237,681.11	312,869,561.14
2001	17,600,000.00	23,650,000.00	15,562,188.82	1,408,135.66	308,227,696.80
2002	22,500,000.00	32,935,000.00	14,279,499.60	1,602,065.35	299,394,762.15
2003	40,000,000.00	34,285,000.00	11,354,182.33	1,822,703.22	306,932,465.37
2004		5,375,000.00	10,779,725.00	2,073,727.53	303,631,192.90
2005		4,135,000.00	10,552,475.00	2,359,323.13	301,855,516.03
2006		4,310,000.00	10,374,670.00	2,684,251.20	300,229,767.23
2007		17,920,000.00	10,185,030.00	3,053,928.67	285,363,695.90
2008		18,165,000.00	9,960,030.00	1,626,304.10	268,825,000.00
2009		12,575,000.00	9,723,530.00		256,250,000.00
2010		12,955,000.00	9,139,945.00		243,295,000.00
2011		18,910,000.00	8,529,772.50		224,385,000.00
2012		14,105,000.00	7,616,572.50		210,280,000.00
2013		14,840,000.00	6,881,642.50		195,440,000.00
2014		15,610,000.00	6,108,387.50		179,830,000.00
2015		16,425,000.00	5,293,237.50		163,405,000.00
2016		17,290,000.00	4,435,525.00		146,115,000.00
2017		18,190,000.00	3,532,625.00		127,925,000.00
2018		19,130,000.00	2,582,725.00		108,795,000.00
2019		2,235,000.00	1,583,725.00		106,560,000.00
2020		2,360,000.00	1,460,800.00		104,200,000.00
2021		2,490,000.00	1,331,000.00		101,710,000.00
2022		2,625,000.00	1,194,050.00		99,085,000.00
2023		2,770,000.00	1,049,675.00		96,315,000.00
2024		2,925,000.00	897,325.00		93,390,000.00
2025		3,085,000.00	736,450.00		90,305,000.00
2026		3,255,000.00	566,775.00		87,050,000.00
2027		3,430,000.00	387,750.00		83,620,000.00
2028		3,620,000.00	199,100.00		80,000,000.00

*Dollar value of bonds issued that fiscal year
 **Dollar value of principal paid on all previously issued debt
 ***Dollar value of interest paid on all previously issued debt
 ****New principal balance

Appendix H

Presentation Materials on Higher Education Fund Bonds

Prepared by the Legislative Budget Board Staff
March 16, 2004

1

Purpose of Higher Education Fund (HEF) Bonds

- Higher Education Fund-backed bonds may only be used for certain Constitutional purposes, including:
 - acquiring land;
 - constructing, equipping and repairing buildings; and
 - acquiring capital equipment, library books and library materials.
 - HEF bond income may not be used for student housing, intercollegiate athletics, or auxiliary enterprises.

Texas Constitutional Requirements for HEF Bonds

- The Texas Constitution allows the governing board of each HEF-eligible institution to issue HEF-backed bonds. [Article 7, Sec. 17(a)]
- The Constitution requires that HEF bond debt service must be paid solely out of HEF allocations, and not from the “Permanent HEF” corpus.

Texas Constitutional Requirements for HEF Bonds, Cont'd

- The Constitution also requires that HEF-backed bonds must mature in 10 years or less from their issuance dates.
- The Constitution limits HEF-eligible institutions to using at most 50 percent of their respective HEF allocations for HEF debt service.

Summary of HEF Bond Principal Balances

Higher Education Fund Bond Debt (as of 8/31/03)		
Institution	Principal Balance as of 8/31/03	Years after 8/31/03 to Debt Maturity
University of Texas - Pan American	\$6,135,000	2
Texas Woman's University	\$4,040,000	2
Texas State Technical College (System)	\$3,005,000	2
Stephen F. Austin State University	\$2,870,000	3
Texas Southern University	\$4,010,000	2
Texas State University - San Marcos	\$8,430,000	2
Total:	\$28,490,000	

HEF Debt Retirement Schedule - UT Pan American

University of Texas - Pan American (as of 8/31/xx)					
	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****	
Beginning Principal Balance					
1991	\$ -	\$ -	\$ -	\$ -	
1992	\$ -	\$ -	\$ -	\$ -	
1993	\$ -	\$ -	\$ -	\$ -	
1994	\$ -	\$ -	\$ -	\$ -	
1995	\$ 26,000,000	\$ -	\$ -	\$ 26,000,000	
1996		\$ 2,330,000	\$ 973,243	\$ 23,670,000	
1997		\$ 2,120,000	\$ 1,286,200	\$ 21,550,000	
1998		\$ 2,300,000	\$ 1,201,400	\$ 19,250,000	
1999		\$ 2,400,000	\$ 1,109,400	\$ 16,850,000	
2000		\$ 2,505,000	\$ 1,011,000	\$ 14,345,000	
2001		\$ 2,615,000	\$ 860,700	\$ 11,730,000	
2002		\$ 2,735,000	\$ 703,800	\$ 8,995,000	
2003		\$ 2,860,000	\$ 539,700	\$ 6,135,000	
2004		\$ 2,995,000	\$ 368,100	\$ 3,140,000	
2005		\$ 3,140,000	\$ 188,400	\$ -	
2006		\$ -	\$ -	\$ -	

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

HEF Debt Retirement Schedule - Texas Woman's University

Texas Woman's University (as of 8/31/xx)				
	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****
Beginning Principal Balance				
FY 1991		\$ 1,280,000	\$ 512,250	\$ 6,190,000
FY 1992		\$ 1,380,000	\$ 412,500	\$ 4,810,000
FY 1993		\$ 1,520,000	\$ 199,832	\$ 3,290,000
FY 1994		\$ 1,600,000	\$ 106,270	\$ 1,690,000
FY 1995		\$ 1,690,000	\$ 36,335	-
FY 1996	\$ 17,000,000	\$ 1,560,000	\$ 451,423	\$ 15,440,000
FY 1997		\$ 1,395,000	\$ 677,925	\$ 14,045,000
FY 1998		\$ 1,470,000	\$ 617,044	\$ 12,575,000
FY 1999		\$ 1,545,000	\$ 552,975	\$ 11,030,000
FY 2000		\$ 1,625,000	\$ 485,613	\$ 9,405,000
FY 2001		\$ 1,705,000	\$ 414,850	\$ 7,700,000
FY 2002		\$ 1,785,000	\$ 339,572	\$ 5,915,000
FY 2003		\$ 1,875,000	\$ 259,275	\$ 4,040,000
FY 2004		\$ 1,970,000	\$ 173,700	\$ 2,070,000
FY 2005		\$ 2,070,000	\$ 64,688	\$ -
FY 2006		\$ -	\$ -	\$ -

* Dollar value of bonds issued that year

** Dollar value of principal paid on all previously issued debt

*** Dollar value of interest paid on all previously issued debt

**** New principal balance

HEF Debt Retirement Schedule - Texas State Technical College (System)

Texas State Technical College System (as of 8/31/xx)					
	Beginning Principal Balance	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****
1991	\$ -	\$ -	\$ -	\$ -	\$ -
1992	\$ -	\$ -	\$ -	\$ -	\$ -
1993	\$ -	\$ -	\$ -	\$ -	\$ -
1994	\$ -	\$ -	\$ -	\$ -	\$ -
1995	\$ -	\$ -	\$ -	\$ -	\$ -
1996	\$ -	\$ -	\$ -	\$ -	\$ -
1997	\$ 11,660,000	\$ 1,125,000	\$ 1,125,000	\$ 415,293	\$ 10,535,000
1998	\$ -	\$ 1,125,000	\$ 1,125,000	\$ 490,540	\$ 9,410,000
1999	\$ -	\$ 1,170,000	\$ 1,170,000	\$ 443,290	\$ 8,240,000
2000	\$ -	\$ 1,220,000	\$ 1,220,000	\$ 391,810	\$ 7,020,000
2001	\$ -	\$ 1,280,000	\$ 1,280,000	\$ 336,910	\$ 5,740,000
2002	\$ -	\$ 1,335,000	\$ 1,335,000	\$ 278,030	\$ 4,405,000
2003	\$ -	\$ 1,400,000	\$ 1,400,000	\$ 215,285	\$ 3,005,000
2004	\$ -	\$ 1,465,000	\$ 1,465,000	\$ 148,785	\$ 1,540,000
2005	\$ -	\$ 1,540,000	\$ 1,540,000	\$ 77,000	\$ -
2006	\$ -	\$ -	\$ -	\$ -	\$ -

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

HEF Debt Retirement Schedule, Stephen F. Austin State University

Stephen F. Austin State University (as of 8/31/xx)					
	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****	
Beginning Principal Balance					
1991	\$ -	\$ -	\$ -	\$ -	-
1992	\$ -	\$ -	\$ -	\$ -	-
1993	\$ -	\$ -	\$ -	\$ -	-
1994	\$ -	\$ -	\$ -	\$ -	-
1995	\$ 6,800,000	\$ -	\$ -	\$ -	6,800,000
1996	\$ 3,590,000	\$ 605,000	\$ 284,048	\$ 9,785,000	
1997		\$ 865,000	\$ 416,350	\$ 8,920,000	
1998		\$ 900,000	\$ 381,839	\$ 8,020,000	
1999		\$ 935,000	\$ 343,843	\$ 7,085,000	
2000		\$ 980,000	\$ 302,903	\$ 6,105,000	
2001		\$ 1,025,000	\$ 258,961	\$ 5,080,000	
2002		\$ 1,080,000	\$ 212,038	\$ 4,000,000	
2003		\$ 1,130,000	\$ 161,760	\$ 2,870,000	
2004		\$ 1,185,000	\$ 107,935	\$ 1,685,000	
2005		\$ 1,245,000	\$ 50,223	\$ 440,000	
2006		\$ 440,000	\$ 10,175	\$ -	
2007		\$ -	\$ -	\$ -	

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

HEF Debt Retirement Schedule - Texas Southern University

Texas Southern University (as of 8/31/xx)					
	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****	
Beginning Principal Balance	\$ 14,610,000				
1991		\$ 2,555,000	\$ 866,613	\$ 12,055,000	
1992		\$ 2,725,000	\$ 695,013	\$ 9,330,000	
1993		\$ 2,910,000	\$ 511,875	\$ 6,420,000	
1994		\$ 3,105,000	\$ 316,388	\$ 3,315,000	
1995		\$ 3,315,000	\$ 107,738	\$ -	
1996		\$ -	\$ -	\$ -	
1997	\$ 15,090,000	\$ 1,340,000	\$ 694,753	\$ 13,750,000	
1998		\$ 1,415,000	\$ 694,263	\$ 12,335,000	
1999		\$ 1,490,000	\$ 627,050	\$ 10,845,000	
2000		\$ 1,575,000	\$ 552,550	\$ 9,270,000	
2001		\$ 1,660,000	\$ 473,800	\$ 7,610,000	
2002		\$ 1,750,000	\$ 390,800	\$ 5,860,000	
2003		\$ 1,850,000	\$ 303,300	\$ 4,010,000	
2004		\$ 1,950,000	\$ 210,800	\$ 2,060,000	
2005		\$ 2,060,000	\$ 113,300	\$ -	
2006		\$ -	\$ -	\$ -	

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

BEF Debt Retirement Schedule - Texas State University System

	Southwest Texas State University (as of 8/31/xx)				Texas State University System (By Institution)				Sam Houston State University (as of 8/31/xx)			
	Insurance*	Principal Payment**	Interest Payment***	Principal Balance****	Insurance	Principal Payment	Interest Payment	Principal Balance	Insurance	Principal Payment	Interest Payment	Principal Balance
Beginning Principal Balance	\$ 26,997,627				\$ 5,819,947				\$ 7,737,426			
1991	\$ -	\$ 4,621,026	\$ 1,851,533	\$ 22,276,592	\$ -	\$ 996,168	\$ 399,140	\$ 4,823,779	\$ -	\$ 1,327,796	\$ 532,015	\$ 6,429,630
1992	Refunded 03/92	\$ 4,980,339	\$ 1,491,482	\$ 17,396,253	Refunded 03/92	\$ 1,073,624	\$ 321,423	\$ 3,250,155	Refunded 03/92	\$ 1,431,037	\$ 428,538	\$ 4,968,952
1993	\$ 17,396,253	\$ 5,515,966	\$ 1,148,609	\$ 11,880,287	\$ 3,750,155	\$ 1,189,091	\$ 247,609	\$ 2,561,064	\$ 4,998,592	\$ 1,584,043	\$ 330,008	\$ 3,413,650
1994	\$ -	\$ 5,795,424	\$ 673,693	\$ 6,084,863	\$ -	\$ 1,269,334	\$ 145,250	\$ 1,311,729	\$ -	\$ 1,665,242	\$ 193,577	\$ 1,748,408
1995	\$ -	\$ 6,084,863	\$ 228,182	\$ -	\$ -	\$ 1,311,729	\$ 49,190	\$ -	\$ -	\$ 1,748,408	\$ 65,565	\$ -
1996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1998	\$ 26,460,000	\$ -	\$ -	\$ 26,460,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1999	\$ -	\$ 3,285,000	\$ 1,096,217	\$ 23,175,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2000	\$ -	\$ 3,440,000	\$ 1,132,550	\$ 19,735,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2001	\$ -	\$ 3,600,000	\$ 977,750	\$ 16,135,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2002	\$ -	\$ 3,785,000	\$ 806,750	\$ 12,370,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2003	\$ -	\$ 3,940,000	\$ 618,500	\$ 8,430,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2004	\$ -	\$ 4,120,000	\$ 421,500	\$ 4,310,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2005	\$ -	\$ 4,310,000	\$ 215,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

HEF Debt Retirement Schedule - Lamar University System
 (Note: The Lamar institutions joined the Texas State University System in 1995)

Lamar University System (as of 8/31/xx)				
	Issuance *	Principal Payments **	Interest Payments ***	Principal Balance ****
Beginning Principal Balance	(See Note, Below)			
1991				\$ 12,335,000
1992		\$ 2,735,000	\$ 849,981	\$ 9,600,000
1993		\$ 2,955,000	\$ 629,494	\$ 6,645,000
1994		\$ 3,195,000	\$ 391,181	\$ 3,450,000
1995		\$ 3,450,000	\$ 133,688	-
1996		\$ -	\$ -	-
1997	Note: Lamar debt was issued at the System Level. TSUS records			
1998	only go back to FY 1992. The Lamar HEF debt was retired			
1999	prior to the System consolidation in September 1995.			
2000	\$ -	\$ -	\$ -	\$ -

- * Dollar value of bonds issued that year
- ** Dollar value of principal paid on all previously issued debt
- *** Dollar value of interest paid on all previously issued debt
- **** New principal balance

HEF Debt Retirement Schedule - Texas Tech University System

Texas Tech University System (By Institution)									
Texas Tech University (as of 8/31/xx)					Texas Tech University Health Sciences Center (as of 8/31/xx)				
Beginning Principal Balance	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****	Issuance	Principal Payments	Interest Payments	Principal Balance	
1991 \$	\$ 21,745,000	\$ -	\$ -	\$ 21,745,000	\$ 8,900,000	\$ -	\$ -	\$ -	\$ 8,900,000
1992 \$	-	\$ 3,680,000	\$ 1,667,600	\$ 18,065,000	\$ -	\$ 1,515,000	\$ 644,919	\$ 7,385,000	
1993 \$	\$ 14,090,000	\$ 18,065,000	\$ 1,367,200	\$ 14,090,000	\$ 3,405,000	\$ 5,040,000	\$ 525,119	\$ 5,750,000	
1994 \$	-	\$ 4,400,000	\$ 616,676	\$ 9,690,000	\$ -	\$ 1,790,000	\$ 304,105	\$ 3,960,000	
1995 \$	-	\$ 4,620,000	\$ 347,580	\$ 5,070,000	\$ -	\$ 1,895,000	\$ 178,235	\$ 2,065,000	
1996 \$	-	\$ 5,070,000	\$ 106,470	\$ -	\$ -	\$ 2,065,000	\$ 57,082	\$ -	

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

HEF Debt Retirement Schedule - University of Houston System

	University of Houston System				University of Houston - Clear Lake			
	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****
Beginning Principal Balance	\$ 53,445,000	\$ 18,860,000	\$ 7,261,063	\$ 34,585,000				
FY 1991								
FY 1992		\$ 6,245,000	\$ 1,612,830	\$ 28,340,000				
FY 1993		\$ 6,550,000	\$ 1,305,598	\$ 21,790,000				
FY 1994		\$ 6,885,000	\$ 969,555	\$ 14,905,000				
FY 1995		\$ 7,255,000	\$ 603,544	\$ 7,650,000				
FY 1996		\$ 7,650,000	\$ 206,550	-				
FY 1997		\$ -	\$ -	\$ -				
		\$ -	\$ -	\$ -	\$ 3,900,000	\$ 3,900,000	\$ 158,858	\$ 3,900,000
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

HEF Debt Retirement Schedule - University of North Texas

University of North Texas (as of 8/31/xx)					
	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****	
Beginning Principal Balance					
1991	\$0.00	\$ 1,645,000	\$ 635,859	\$ 9,750,000	
1992	\$ -	\$ 1,785,000	\$ 517,865	\$ 8,105,000	
1993	\$ -	\$ 1,935,000	\$ 386,698	\$ 6,320,000	
1994	\$ -	\$ 2,100,000	\$ 242,405	\$ 4,385,000	
1995	\$ -	\$ 2,285,000	\$ 83,403	\$ 2,285,000	
1996	\$ -	\$ -	\$ -	\$ -	

- * Dollar value of bonds issued that year
- ** Dollar value of principal paid on all previously issued debt
- *** Dollar value of interest paid on all previously issued debt
- **** New principal balance

HEF Debt Retirement Schedule - Midwestern State University

Midwestern State University (as of 8/31/xx)					
	Issuance*	Principal Payments**	Interest Payments***	Principal Balance****	
Beginning Principal Balance	\$1,500,000 issued 1989				\$ 1,500,000
1991		\$ 255,000	\$ 87,120	\$ 1,245,000	
1992		\$ 280,000	\$ 68,103	\$ 965,000	
1993		\$ 300,000	\$ 58,765	\$ 665,000	
1994		\$ 320,000	\$ 51,938	\$ 345,000	
1995		\$ 345,000	\$ 28,517	\$ -	
1996	\$ 4,035,000	-	\$ 16,014	\$ 4,035,000	
1997		\$ 710,000	\$ 149,258	\$ 3,325,000	
1998		\$ 770,000	\$ 130,005	\$ 2,555,000	
1999		\$ 810,000	\$ 98,050	\$ 1,745,000	
2000		\$ 850,000	\$ 67,675	\$ 895,000	
2001		\$ 895,000	\$ 35,800	\$ -	
2002		\$ -	\$ -	\$ -	

* Dollar value of bonds issued that year
 ** Dollar value of principal paid on all previously issued debt
 *** Dollar value of interest paid on all previously issued debt
 **** New principal balance

Permanent University Fund Institutions	Higher Education Assistance Fund Institutions
<p>The University of Texas at Arlington The University of Texas at Austin The University of Texas at Dallas The University of Texas at El Paso The University of Texas of the Permian Basin The University of Texas at San Antonio The University of Texas at Tyler Texas A&M University Texas A&M University – Galveston Prairie View A&M University Tarleton State University Texas A&M University Services Agencies The University of Texas SWMC – Dallas The University of Texas Medical Branch – Galveston The University of Texas HC – Tyler The University of Texas HSC – Houston The University of Texas MD Anderson Cancer Center The University of Texas HSC – San Antonio Texas A&M University System HSC The University of Texas System Administration Texas A&M University System Administration</p>	<p>Texas A&M University – Corpus Christi Texas A&M International University Texas A&M University – Kingsville Texas A&M University – Commerce Texas A&M University – Texarkana West Texas A&M University Lamar University Lamar Institute of Technology Lamar State College – Orange Lamar State College – Port Arthur Sul Ross State University Sul Ross State University – Rio Grande College Angelo State University Sam Houston State University Southwest Texas State University University of Houston University of Houston – Clear Lake University of Houston – Downtown University of Houston – Victoria The University of Texas – Pan American The University of Texas at Brownsville Midwestern State University Stephen F. Austin State University Texas Southern University Texas Woman’s University Texas Tech University Texas Tech University HSC University of North Texas University of North Texas HSC Texas State Technical College System</p>

Appendix I

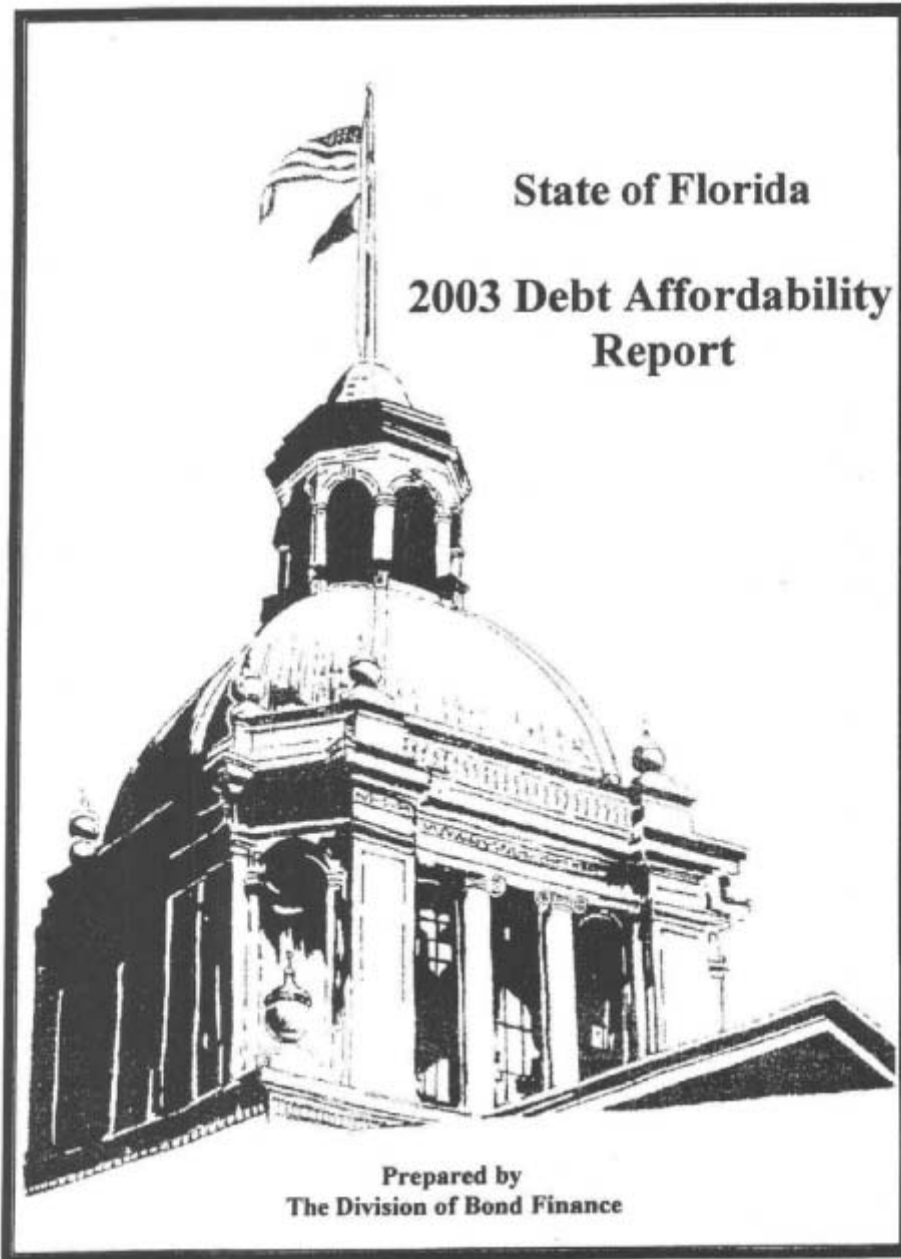


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EXECUTIVE SUMMARY

The purpose of this 2003 Report is to review changes in the State's debt position and to revise the projections to measure the financial impact of future debt issuance and changing economic conditions reflected in the current revenue estimates. The 2003 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: Total State debt outstanding at June 30, 2003 was \$20.4 billion, \$1.2 billion more than at June 30, 2002. Net tax-supported debt totaled \$16.2 billion for programs supported by State tax revenues and the self-supporting debt totaled \$4.2 billion representing debt secured by revenues generated from operating facilities financed with bonds. Additionally, indirect State debt at June 30, 2002 was \$6.2 billion. Indirect debt is not secured by traditional State revenues or is the primary obligation of a legal entity other than the State, such as the Florida Housing Finance Corporation and University Direct Support Organizations.

Estimated Revenues: The current long-run revenue forecast is not significantly different from last year's forecast except for the current and next fiscal years. The revised revenue forecasts used in the debt analyses reflect an increase of \$440 million or 1.8% more than last year's forecast for Fiscal Year 2004 and \$361 million or a 1.4% decrease for Fiscal Year 2005.

Estimated Debt Issuance: Approximately \$10.5 billion of debt is expected to be issued over the next ten years for all of the State's financing programs currently authorized. This estimated issuance decreased \$533 million compared to the previous projection of expected debt issuance.

Estimated Annual Debt Service Requirements: Annual debt service payments are estimated to grow from the existing \$1.5 billion to \$2.2 billion by Fiscal Year 2013, assuming projected bond issuance of \$10.5 billion.

Overview of the State's Credit Ratings: The State's credit ratings have been maintained by conservative financial management and the maintenance of reserves. Therefore, Florida's ratings have remained strong and did not suffer due to the reduction in revenue growth and the weak economic environment.

Debt Ratios: The State exceeded the 6% target ratio of debt service as a percentage of revenues for the first time in Fiscal Year 2003. The benchmark debt ratio increased from 5.82% in 2002 to 6.12% for 2003. The benchmark debt ratio is expected to increase to a high of 6.67% in 2005 assuming the projected debt issuance of \$10.5 billion over the next 10 years.

A comparison of 2002 ratios shows that Florida's debt ratios are generally higher than the national and Ten State Peer Group averages. Florida has the second highest ratio for the benchmark debt ratio of debt service to revenues.

	Net Tax Supported Debt as a % of Revenues	Net Tax Supported Debt as a % of Personal Income	Net Tax Supported Debt Per Capita
Florida	5.82%	3.25%	\$936
Peer Group Mean	4.27%	3.05%	\$1,081
National Median	Not Available	2.25%	\$486

Debt Capacity: There is no debt capacity available within the 6% target until 2011.

INTRODUCTION

In 1999, the Governor and Cabinet, acting as Governing Board of the Division of Bond Finance, requested staff to prepare a Debt Affordability Study. *The purpose of the study was to provide policymakers with a basis for assessing the impact of bond programs on the State's fiscal position enabling informed decisions regarding financing proposals and capital spending priorities.* A secondary goal was to provide a methodology for measuring, monitoring and managing the State's debt thereby protecting, and perhaps enhancing, Florida's bond ratings of AA/Aa2/AA+.

A report entitled "*State of Florida Debt Affordability Study*" was prepared and presented to the Governor and Cabinet on October 26, 1999. The Debt Affordability Study was the first comprehensive analysis of the State's debt position. The methodology used to analyze the State's debt position was as follows:

- Catalogued All State Debt;
- Evaluated Trends in Debt Levels Over the Last Ten Years;
- Calculated Debt Ratios;
- Compared Florida Debt Ratios to National Medians and to Ten-state Peer Group Medians;
- Designated Debt Service to Revenues as the Benchmark Debt Ratio;
- Established Guidelines for Calculating Debt Capacity;
 - 6% Debt Service to Revenues as the Target;
 - 8% Debt Service to Revenues as the Cap; and,
- Calculated Debt Capacity Within the Guideline Range.

The Debt Affordability Study enabled the State's debt position to be evaluated using objective criteria. One of the benefits of the Debt Affordability Study was the development of an analytical approach to measuring, monitoring and managing the State's debt position. The process of analyzing the State's debt position also helps integrate debt management practices (an Executive Branch function) with capital spending decisions (a Legislative Branch function). The information produced by the Debt Affordability Study and the yearly updates can be used by policymakers to evaluate the long-term impact of financing decisions and assist in prioritizing capital spending.

During the 2001 Legislative Session, the Legislature endorsed and formalized the debt affordability analysis by passing Section 215.98, Florida Statutes. The statute requires the debt affordability analysis to be prepared and delivered to the President of the Senate, Speaker of the House and the chair of each appropriations committee by December 15th each year and, among other things, designates debt service to revenues as the benchmark debt ratio. *Additionally, the Legislature created a 6% target and 7% cap for calculating estimated debt capacity.*

Additional debt that would cause the benchmark debt ratio to exceed 6% requires the Legislature to determine that the authorization and issuance of such additional debt is in the best interest of the State. Additional debt that would cause the benchmark debt ratio to exceed 7% requires the Legislature to determine that such additional debt is necessary to address a critical state emergency. The Legislature made the required determination that the debt being authorized is in the best interest of the State in each of the last two years. This determination was set forth in the appropriations act applicable to each year.

The Debt Affordability Study resulted in the development of a financial model which measures the impact of two changing variables: (1) the State's annual debt service payments; and (2) the amount of revenues available for debt repayment. The analysis compares the State's current debt position to relevant industry standards and evaluates the impact on the State's debt position of issuing more debt as well as changes in the economic climate reflected in the current revenue forecast.

This 2003 Report is the debt affordability analysis which satisfies the requirements of Section 215.98, Florida Statute. *The purpose of this 2003 Report is to review changes in the State's debt position and revise the projections to measure the financial impact of future debt issuance and changing economic conditions reflected in the current revenue estimates.* Performing the debt affordability analysis enables the State to monitor changes in its debt position. The 2003 Report also provides more current information regarding the impact of changes in economic conditions and enables the State to anticipate and plan for changing economic conditions in its future borrowing plans.

The essence of the 2003 Report is to revise projected debt ratios for three factors: (1) actual debt issuance and repayments over the last year; (2) expected future debt issuance over the next 10 years; and (3) revised revenue forecasts by the Office of Economic and Demographic Research. The revised debt ratios are compared with national averages and the debt ratios of our ten-state peer group. Additionally, the revised benchmark debt ratio is evaluated vis-à-vis the 6% target and 7% cap. Lastly, *the target benchmark debt ratio of 6% and the cap of 7% are used to calculate anticipated future debt capacity available within the respective limits.*

The information generated by this analysis will be presented to the Governing Board of the Division of Bond Finance on December 16, 2003 and provided to the Governor's Office of Planning and Budgeting for their use in connection with formulating the Governor's Budget Recommendations. The analysis will be repeated for revised revenue estimating conference forecasts. The information can then be used by the legislature to establish priorities during the legislative appropriation process. Accordingly, *State policymakers will have the latest information available when making critical decisions regarding borrowing when formulating the appropriations act.* Additionally, as the legislature considers new financing initiatives, the long-term financial impact of any proposal can be evaluated upon request. *The information generated by this analysis is important for policymakers to consider because their decisions on additional borrowing can affect the fiscal health of the State.*

This is the third year that the Annual Debt Affordability Report has been prepared and provided to the Legislature.

COMPOSITION OF FLORIDA DEBT OUTSTANDING

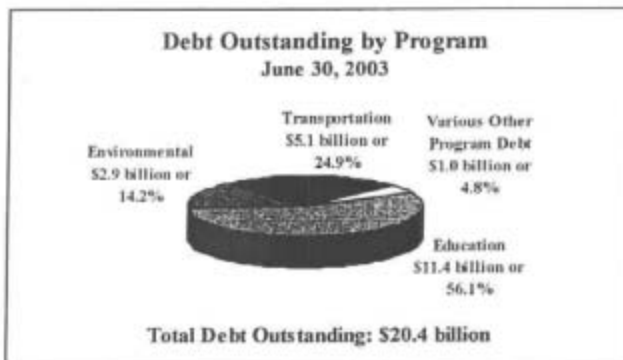


Figure 1

The State of Florida had total debt outstanding of approximately \$20.4 billion at June 30, 2003. The pie chart illustrates the State's investment in infrastructure financed with bonds by programmatic area. The largest investment financed with bonds is for educational facilities with \$11.4 billion or 56% of total debt outstanding devoted to school construction. Public Education Capital Outlay or "PECO" is the State's largest bond program with approximately \$8 billion of debt outstanding. The second largest programmatic area financed with bonds is for transportation infrastructure. The transportation infrastructure financed with bonds consists primarily of toll roads. The combined investment in toll roads by Florida's Turnpike and the State's Expressway Authorities is approximately \$3.3 billion. The third largest investment financed with bonds has been for acquiring environmentally sensitive lands with Preservation 2000 / Florida Forever bonds now outstanding for \$2.6 billion.

As shown in Figure 2, the \$20.4 billion debt outstanding at June 30, 2003 consisted of net tax-supported debt totaling \$16.2 billion. Net tax-supported debt consists of debt secured by state tax revenue. Self-supporting debt represents debt secured by revenues generated from operating the facilities financed with bonds. Toll facilities, including the Turnpike and other expressway authority bond programs, are the primary self-supporting debt outstanding. The remaining self-supporting debt relates to university auxiliary enterprises such as dormitories and parking facilities.

Debt Outstanding by Type and Program	
As of June 30, 2003	
<i>(In Million Dollars)</i>	
<u>Debt Type</u>	<u>Amount</u>
Net Tax-Supported Debt	\$ 16,186.1
Self Supporting Debt	\$ 4,194.3
Total State Debt Outstanding	\$ 20,380.4
	<u>Dollar Amount</u>
Net Tax-Supported Debt	
Education	
Public Education Capital Outlay	\$ 8,017.7
Capital Outlay	897.0
Lottery	1,847.9
University System Improvement	199.2
Total Education	\$ 10,961.8
Environmental	
Preservation 2000 / Florida Forever	2,604.4
Conservation and Recreation	21.0
Save Our Coast	134.5
Total Environmental	2,759.9
Transportation	
Right-of-Way and Bridge Acquisition	1,156.8
Florida Ports	338.8
Total Transportation	1,495.6
Appropriated Debt / Other	
Facilities	373.1
Master Lease	20.7
Prisons	166.2
Juvenile Justice	18.8
Children & Families	33.5
Affordable Housing	284.3
Florida High Charter School	22.8
Lee Moffitt Cancer Center	49.3
Total Appropriated Debt	968.8
Total Net Tax-Supported Debt Outstanding	\$ 16,186.1
Self Supporting Debt	
Education	
University Auxiliary Facility Revenue Bonds	\$ 472.4
Environmental	
Florida Water Pollution Control	143.5
Pollution Control	0.1
Transportation	
Toll Facilities	\$ 1,921.5
Orlando-Orange Co. Expressway Authority	1,369.8
Road and Bridge	287.0
Total Transportation	3,578.3
Total Self Supporting Debt Outstanding	\$ 4,194.3

Figure 2

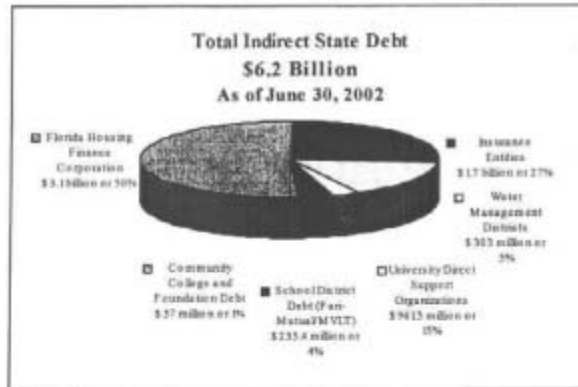


Figure 3

In addition to the direct debt comprised of net tax-supported and self-supporting debt, the State also has indirect debt. Indirect debt is debt that is not secured by traditional State revenues or is the primary obligation of a legal entity other than the State. *Indirect debt of the State totaled \$6.2 billion at June 30, 2002.* Figure 3 sets forth the State's indirect debt by type. The Florida Housing Finance Corporation, which administers the State's housing programs, is the primary issuer of indirect debt with \$3.1 billion or 50% of the total. Special purpose, quasi-governmental insurance entities have \$1.7 billion or 27% of total indirect debt. University direct support organizations follow with \$961 million or 13% of the indirect debt.

State indirect debt by program is listed in Figure 4 to illustrate which entities incur such debt and for what purpose. For example, 74% of the Florida Housing Finance Corporation debt has been issued for multi-family housing projects and 26% for single family housing. The Shands Hospital at the University of Florida accounts for 44% of the university direct support organization debt. Lastly, 27% of total indirect debt is for the special purpose insurance entity, Citizens Property Insurance Corporation.

Florida Housing Finance Corporation		
Single Family Programs	\$ 807.7	
Multi-Family Programs	2,320.7	
Total		\$ 3,128.5
University Direct Support Organizations		
Shands Teaching Hospital	422.5	
Florida State University	132.2	
University of South Florida	132.0	
University of Florida	101.8	
Other State Universities	172.8	
Total		961.3
School District Debt (Revenue Debt/M.V.T. Pre-Matual)		
Palm Beach	143.5	
Oceola	42.3	
Other School Districts	49.6	
Total		235.4
Community College and Foundation Debt		57.0
Water Management Districts		175.4
Citizens Property Insurance Corporation		1,675.0
Total State Indirect Debt		\$ 6,232.6

Figure 4

GROWTH IN STATE DEBT

Trends in debt are an important tool to evaluate debt levels over time. Figure 5 graphically illustrates the growth in total State direct debt outstanding over the last 10 years.

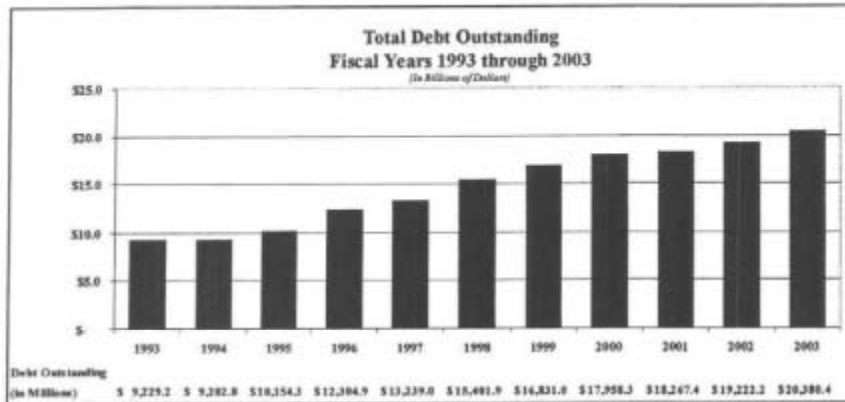


Figure 5

The State made a substantial investment in infrastructure over the ten year period shown, addressing the requirements of a growing population for education, transportation and preserving environmental lands. *Total State debt more than doubled over the last 10 years, increasing from approximately \$9.2 billion at June 30, 1993 to approximately \$20.4 billion at June 30, 2003.* The increase was primarily due to the issuance of additional PECO bonds of \$4.3 billion and implementing both the lottery bond program for school construction of \$1.8 billion and the Preservation 2000 / Florida Forever programs for \$2.9 billion.

Debt increased \$1.2 billion in Fiscal Year 2003 from \$19.2 billion at June 30, 2002 to approximately \$20.4 billion at June 30, 2003, slightly greater than the average annual increase of approximately \$1.1 billion per year over the last 10 years. The increase in debt is due primarily to additional borrowing for school construction with financing programs for education facilities accounting for 50% or \$601 million of the increase over the prior year.

Growth in annual debt service mirrors the growth in debt outstanding. Figure 6 depicts the increase in yearly debt service payments caused by the increase in debt over the last ten years.

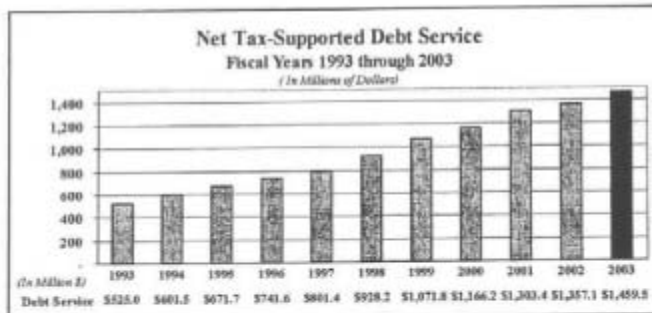


Figure 6

The State's annual debt service payments on net tax-supported debt have grown to approximately \$1.5 billion per year. Annual debt service requirements have nearly tripled over the last 10 years reflecting the increase in debt outstanding. The State's annual debt service payment obligation has risen from \$525 million in 1993 to approximately \$1.5 billion in 2003. This measure is important from a budgetary perspective because it indicates how much of the State's budget is devoted to paying off debt before providing for other essential government services.

The debt service for the next ten years on the State's existing net tax-supported debt is shown in Figure 7. The total annual payments consist of both principal and interest on outstanding debt as depicted below. The State policy of using a level debt structure is apparent with annual debt service requirements of approximately \$1.5 billion per year over the next ten years. Additionally, total interest payments of \$6.8 billion are slightly less than principal amortization of \$7.6 billion over the next ten fiscal years.

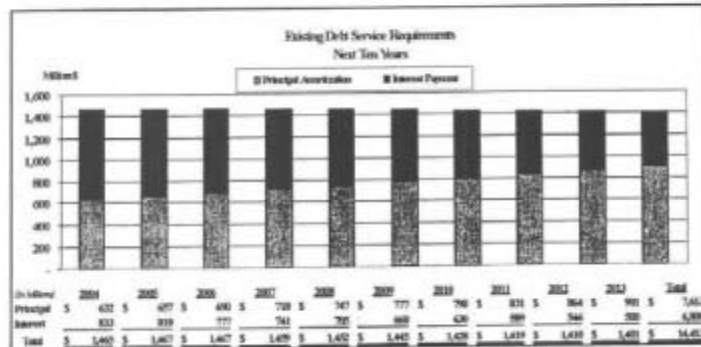


Figure 7

EXPECTED DEBT ISSUANCE

The table set forth in Figure 8 represents the expected debt issuance over the next 10 years for each of the State's currently authorized bonding programs.

Projected Debt Issuance By Program/Fiscal Years 2004 through 2013
(in thousands)

Fiscal Year	Capital			Florida Forever					General	Affordable Housing	Hazardous Waste	Eminent Domain	FLAB	Mortgage Loans	Total Issuance
	TRUST	Debt	Lottery	Capital	Debt	DCRF	Other								
2004	\$ 812,000	\$ 74,000	\$ 412,000	\$ 202,000	\$ 150,000	\$ 300,000	\$ -	\$ -	\$ -	\$ 35,000	\$ 35,000	\$ 25,000	\$ -	\$ -	\$ 1,659,000
2005	600,700	-	310,000	300,000	150,000	300,000	-	-	100,000	-	35,000	-	-	-	1,745,700
2006	277,200	-	-	300,000	-	225,000	250,000	100,000	100,000	-	12,140	25,000	-	-	1,384,340
2007	60,500	-	-	300,000	-	300,000	250,000	-	100,000	-	-	-	-	-	1,350,500
2008	275,000	-	-	300,000	-	275,000	250,000	-	100,000	-	-	-	-	-	1,225,000
2009	395,700	-	-	300,000	-	175,000	-	-	100,000	-	-	-	-	-	945,700
2010	400,000	-	-	300,000	-	80,000	-	-	100,000	-	-	-	-	-	880,000
2011	470,000	-	-	-	-	30,000	-	-	-	-	-	-	-	-	500,000
2012	490,000	-	-	-	-	20,000	-	-	-	-	-	-	-	-	510,000
2013	470,000	-	-	-	-	-	-	-	-	-	-	-	-	-	470,000
Expected Issuance:	\$ 4,624,200	\$ 74,000	\$ 680,000	\$2,600,000	\$ 300,000	\$1,675,000	\$ 125,000	\$ 100,000	\$ 680,000	\$ 25,000	\$ 82,270	\$ 75,000	\$ -	\$ -	\$ 10,590,120
Prior Projection:	\$ 4,960,100	\$ 30,000	\$ 351,000	\$2,400,000	\$ 300,000	\$1,200,000	\$ 525,000	\$ 100,000	\$ 800,000	\$ -	\$ -	\$ -	\$ -	\$ 75,000	\$ 11,021,200

Figure 8

Approximately \$10.5 billion of debt is expected to be issued over the next 10 years for all of the State's financing programs currently authorized. This estimated issuance decreased \$533 million compared to the previous projection of expected debt issuance. The decrease in expected debt issuance over the next 10 years is due to off-setting increases and decreases in various financing programs. The primary decrease is due to using \$300 million in cash from a debt service reserve for funding Florida Forever and Everglades Restoration instead of issuing bonds. Other decreases were caused by issuing bonds for the Florida Forever and Right of Way programs which are not expected to be repeated. The offsetting increase was caused by adding \$600 million in lottery bonds to fund the constitutional initiative requiring class size reduction. It is important to note that no debt has been included in the projections for further funding of the constitutional initiatives for class size reduction or high speed rail. Any borrowing to fund these constitutional initiatives or other programs would be in addition to the \$10.5 billion expected borrowing detailed above.

PROJECTED DEBT SERVICE

Annual debt service is estimated to grow to \$2.2 billion by Fiscal Year 2013 assuming projected bond issuance of \$10.5 billion. Figure 9 shows existing debt service and the estimated annual debt service for the projected bond issuance over the next ten fiscal years.

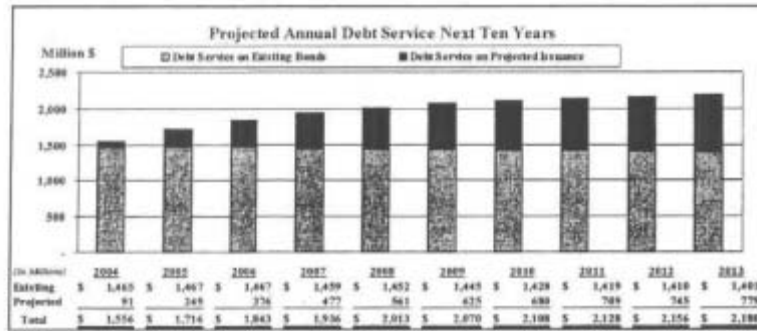


Figure 9

LONG-RUN REVENUE FORECASTS

Projected revenue available to pay debt service is one of the two variables used to calculate the benchmark debt ratio. Revenue projections are especially important when they change to reflect a different economic environment. Changes to revenue estimates have a significant impact on the calculation of available debt capacity because of the multiplier effect. The chart in Figure 10 sets forth the estimated revenues available to pay debt service for the next 10 years. Additionally, the chart shows the change in expected revenue collections by comparing the current Revenue Estimating Conference forecast to that of last year.

	Fiscal Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenue Available (in Millions):											
Total Revenue Available		\$25.03	\$25.74	\$28.80	\$29.44	\$30.72	\$31.95	\$33.12	\$34.64	\$36.44	\$38.51
(Fall 2009 Estimate)											
Prior Projected Revenues Available		\$24.59	\$26.10	\$28.85	\$29.51	\$30.76	\$32.06	\$33.22	\$34.76	\$36.47	\$0.00
(Fall 2008 Estimate)											
Decrease in Revenue Estimate		\$0.4	(\$0.4)	(\$0.0)	(\$0.1)	(\$0.0)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.0)	-
Percent Change in Estimate		1.8%	(1.4)%	(0.2)%	(0.2)%	(0.1)%	(0.3)%	(0.3)%	(0.4)%	(0.1)%	-

Figure 10

The current long-run revenue forecast is not significantly different from last year's forecast except for the next two fiscal years. The revised revenue forecasts used in the debt analyses reflect an increase of \$440 million or 1.8% more than last year's forecast for Fiscal Year 2004 and a decrease of \$361 million or 1.4% for Fiscal Year 2005.

BENCHMARK DEBT RATIO

The benchmark debt ratio designated for the debt affordability analysis is debt service to revenues available to pay debt service. *The guidelines established by the Legislature for the debt ratio are 6% as a target and 7% as a cap.* The graphic in Figure 11 shows the historical growth in the benchmark debt ratio over the last ten years and the projected ratio reflecting the most current expected debt issuance and revenue collections.

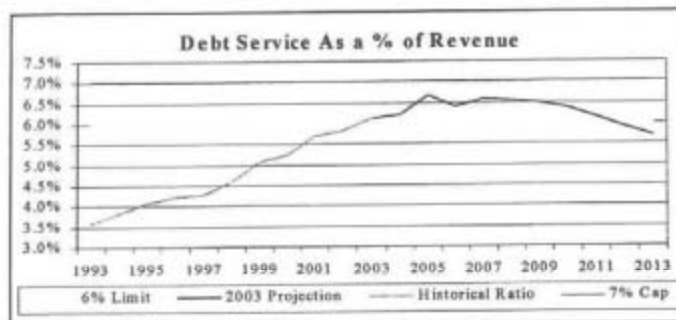


Figure 11

The State's debt position measured by the benchmark debt ratio was 6.12% at June 30, 2003, exceeding the 6% target for the first time. The benchmark ratio is projected to continue increasing through 2005, peaking at 6.67%.

Debt Service to Revenues											
Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2003 Projection	6.12%	6.21%	6.67%	6.40%	6.58%	6.55%	6.48%	6.36%	6.14%	5.92%	5.69%

Figure 12

The increase in the benchmark debt ratio is due to \$1.8 billion of additional borrowing expected during Fiscal Year 2004 together with lower revenue collections expected during the 2005 Fiscal Year. The additional expected issuance includes an expansion of the lottery bond program providing \$600 million to implement the constitutional amendment requiring reduced class sizes.

CHANGE IN DEBT CAPACITY

The last step in the Debt Affordability Study Update is to estimate the future available debt capacity. Figure 13 sets forth the debt capacity available within the 6% target benchmark, taking into account expected issuance under existing state bond programs. *The debt capacity available over the next ten fiscal years within the 6% target totals \$1.5 billion.* The estimated debt capacity within the 6% target is not available until 2011 and 2012 because the benchmark debt ratio is expected to exceed 6% until this time. Future expected debt issuance does not include any additional bonding authorization to implement the constitutional initiatives for class size reductions or high speed rail.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Total Capacity	\$ 1,818.3	\$ 1,740.2	\$ 1,284.3	\$ 1,203.5	\$ 1,025.1	\$ 944.7	\$ 883.2	\$ 486.9	\$ 916.2	\$ 1,507.7	\$ 12,000.1
Expected Issuance	\$ 1,818.3	\$ 1,740.2	\$ 1,284.3	\$ 1,203.5	\$ 1,025.1	\$ 944.7	\$ 883.2	\$ 486.9	\$ 516.2	\$ 407.7	\$ 10,500.1
Available Capacity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 400.0	\$ 1,100.0	\$ 1,500.0

Figure 13

Based on the 6% target benchmark debt ratio, the total bonding capacity over the next ten years would be \$12.0 billion. As shown previously, the expected debt issuance for the existing financing programs is estimated to be approximately \$10.5 billion. This leaves approximately \$1.5 billion of debt capacity available over the next ten years. This represents a \$300 million increase in available debt capacity over last year's estimate. However, as previously noted this debt capacity is not available until 2011.

Figure 14 shows the additional capacity under the 7% cap for the benchmark ratio which could be available for critically needed infrastructure. *The debt capacity available over the next ten fiscal years within the 7% cap totals \$6.5 billion.* The near term additional debt capacity available through 2007 is \$1.75 billion. However, debt capacity can change significantly because of changes in revenue estimates reflecting a different economic environment.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Total Capacity	\$ 2,918.3	\$ 2,240.2	\$ 1,284.3	\$ 1,543.5	\$ 1,431.1	\$ 1,329.7	\$ 1,583.2	\$ 1,786.9	\$ 1,866.2	\$ 437.7	\$ 16,990.1
Expected Issuance	\$ 1,818.3	\$ 1,740.2	\$ 1,284.3	\$ 1,203.5	\$ 1,025.1	\$ 944.7	\$ 883.2	\$ 486.9	\$ 516.2	\$ 407.7	\$ 10,500.1
Available Capacity	\$ 1,100.0	\$ 500.0	\$ -	\$ 340.0	\$ 406.0	\$ 385.0	\$ 700.0	\$ 1,300.0	\$ 1,350.0	\$ 430.0	\$ 6,490.0

Figure 14

The available debt capacity should be considered a scarce resource to be used sparingly to provide funding for critically needed infrastructure. It is not prudent to use the capacity simply because the financial model indicates it is available. Once used, the capacity is not available again for 20 years.

DEBT RATIO COMPARISON

There are three debt ratios used by the municipal industry to evaluate a government's debt position. The three debt ratios are debt service to revenues, debt per capita, and debt to personal income. A comparison to national and peer group medians are helpful because absolute values are not particularly useful without a basis for comparison.

2002 Comparison of Florida to Peer Group and National Medians			
	Net Tax Supported Debt as a % of Revenues	Net Tax Supported Debt as a % of Personal Income	Net Tax Supported Debt Per Capita
Florida	5.82%	3.25%	\$930
Peer Group Mean	4.27%	3.05%	\$1,002
National Median	Not Available	2.20%	\$606

Figure 15

Florida's debt ratios are generally higher than the national and ten-state peer group averages. The only exception is that Florida's debt per capita is lower than the Peer Group mean.

2002 Comparison of Florida to Ten Most Populous States							
	Net Tax Supported Debt Service as a % of Revenues		Net Tax Supported Debt Per Capita		Net Tax Supported Debt as a % of Personal Income		General Obligation Ratings Fitch/Moody's/S&P
	Rank		Rank		Rank		
New York	1	9.11%	2	\$2,095	1	5.80%	AA-/A2/AA
Florida	2	5.82%	4	\$930	3	3.25%	AA/Aa2/AA+
Ohio	3	5.82%	7	\$730	6	2.60%	AA+/Aa1/AA+
Illinois	4	4.30%	3	\$1,040	4	3.10%	AA/Aa3/AA
New Jersey	5	4.63%	1	\$2,110	2	5.50%	AA/Aa2/AA
California	6	4.17%	5	\$810	7	2.50%	A/A3/BBB
Georgia	7	3.07%	6	\$802	5	2.80%	AAA/Aaa/AAA
Pennsylvania	8	2.29%	8	\$603	8	2.20%	AA/Aa2/AA
Michigan	9	1.89%	9	\$542	9	1.80%	AA-/Aa3/AAA
Texas	10	1.29%	10	\$246	10	0.90%	AA+/Aa1/AA
Median		4.38%		\$886		2.78%	
Mean		4.27%		\$1,002		3.05%	

Figure 16

A more meaningful comparison is made by looking at a peer group consisting of the ten most populous states. Figure 16 details the Ten Most Populous State Peer Group Comparison for the three debt ratios evaluated. As indicated above, Florida has the second highest ratio for the benchmark debt ratio of debt service to revenues.

LEVEL OF RESERVES

An important measure of financial health is the level of general fund reserves. The following graphic, Figure 17, shows the level of the State's general fund reserves by combining unencumbered balances in the General, Working Capital and Budget Stabilization Funds over the last ten fiscal years. The graphic also shows an estimate of the expected fiscal 2004 year-end general fund reserves.

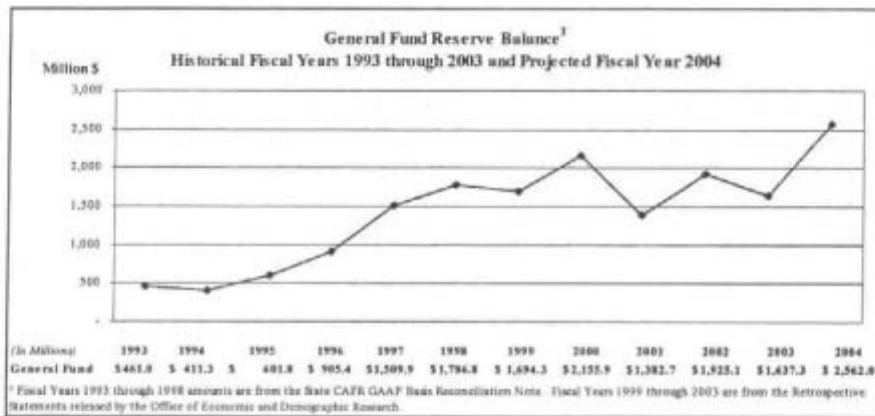


Figure 17

The level of reserves is also an important indicator of the ability to respond to unforeseen financial challenges that is relevant in evaluating a state's credit position. The traditional measure used by credit analysts, investors and rating agencies is the ratio of general fund balance to general revenues expressed as a percentage. In measuring State reserves for this purpose, the State's unencumbered general fund balance plus monies in the Working Capital and Budget Stabilization Funds have been included. Trust fund balances which could be considered a "reserve", such as funds in the Lawton Chiles Endowment Fund and other trust fund balances whose purpose is limited by law, are not included.

Florida's general fund reserves have increased substantially over the last ten years from \$461 million to \$1.6 billion due primarily to the funding of a constitutionally required budget stabilization fund. The general fund reserves have increased almost every year except for fiscal years 2001 and 2003 when general fund reserves were drawn-down to mitigate the impact of budget cuts necessary to adjust for expected revenue shortfalls. Notwithstanding difficult economic conditions and drawingdown a portion of general fund reserves to mitigate budget cuts, the State has maintained adequate general fund reserves. The general fund reserves at the end of fiscal 2003 totaled \$1.6 billion or 8.2% of general revenues. The general fund reserves consist of combined balances in the Budget Stabilization Fund (\$958.9 million) and General and Working Capital Funds (\$678.9 million).

The balance of general fund reserves is expected to increase during the current fiscal year. General fund reserves are expected to increase to approximately \$2.6 billion by June 30, 2004, or 12.2% of general revenues.

The expected increase in general fund reserves is due to moneys being received by the State from the federal government under the Jobs and Growth Tax Relief Reconciliation Act of 2003 and higher revenue estimates for the second half of Fiscal Year 2004 for documentary stamp taxes and intangibles taxes. Increasing general fund reserves during a difficult economic climate distinguishes Florida from virtually all other states.

REVIEW OF CREDIT RATINGS

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis. *Credit ratings are an important indicator in the credit markets and can influence interest rates a borrower must pay. Each of the rating agencies believe that debt management generally and the Debt Affordability Report in particular are positive factors in assigning credit ratings.*

There are several factors which rating agencies analyze in assigning credit ratings: financial factors, economic factors, debt factors, and administrative / management factors. Weakness in one area may well be offset by strength in another. However, significant variations in any single factor can influence a bond rating.

State of Florida General Obligation Credit Ratings	
Fitch Ratings	AA
Moody's Investors Service	Aa2
Standard & Poor's Ratings Services	AA+

Figure 18

The State's credit rating has been protected over the last few years through conservative financial management. The State's economy weakened over the last few years consistent with a slowing national economy and exacerbated by the terrorist attacks. Unemployment rose, peaking at 5.5% in 2002. Job growth also slowed, growing only .5% in 2002. The slowing economy was reflected in lower revenue forecasts for 2002 and 2003. Revenues were projected to decrease requiring budget adjustments totaling \$1.3 billion or 6.6% of estimated general fund revenues in Fiscal Year 2002.

Despite being challenged with lower revenue estimates, the State balanced the budget in both fiscal 2002 and 2003 without drawing on the Budget Stabilization Fund. Additionally, the State has managed to maintain the balances in the general and working capital funds.

Florida's economy has proved fairly durable during the latest recession and appears to be improving. Actual general revenue collections for the 2003 fiscal year were \$374 million more than the March, 2003 estimates. The latest general revenue forecast completed in November, 2003, projected a \$541 million increase for the current fiscal year or 2.6% more than the prior revenue estimates. The increase reflects better than expected collections of documentary stamp and intangibles taxes.

The rating agencies note that the State's debt burden has increased significantly to meet the demands of a growing population. However, the debt burden is still considered moderate at the current level. A positive factor cited in rating reports is the formal process established by the legislature for evaluating the State's debt position through this Debt Affordability Report.

The outlook for the State's credit rating is stable which is a positive reflection of the State's credit in view of 31 negative rating actions affecting 15 states' credit ratings. However, the single most important caveat to the State's stable outlook are the challenges presented over the last year by the constitutional amendment on class size reduction.

CONCLUSION

Florida's debt increased \$1.2 billion over the past year, growing slightly more than the ten-year average of \$1.1 billion. The expected future debt issuance over the next ten years totals \$10.5 billion. The expected debt issuance does not include any additional bonding authorizations to fund constitutional mandates such as class size reduction or high speed rail.

The benchmark debt ratio was 6.12% at June 30, 2003, exceeding the 6% target for the first time. The benchmark debt ratio is expected to continue increasing through 2005 peaking at 6.67%. The increase is caused by additional debt issuance of approximately \$3.6 billion expected over the next two years.

The projected debt capacity available over the next ten years within the 6% target is \$1.5 billion but is not available until 2011. The projected debt capacity available over the next ten years within the 7% cap is \$6.5 billion. However, only \$1.75 billion is available over the next 3 years within the 7% cap. Both estimates are slightly higher than last year because of higher revenue forecasts reflecting an improving economy.

Florida's debt is considered moderate and is manageable at the current level. However, *the State faces significant challenges for funding potentially very expensive constitutional initiatives which may cause the benchmark debt ratio to increase beyond the current projections if they are funded with additional debt authorizations.*

Appendix J

TALLY SHEET WORKSHEET
LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
AS OF 8/31/03

Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A-, and above	below A-
School District	Abilene ISD	221-901-02	AA-	A1		1	
City	ABILENE, CITY OF	221-105-03	AA	Aa3		1	
School District	Academy ISD	014-901-02		Baa3			0
Water District	Action MUD	111-201-04	A-	Baa1		1	
City	ADDISON, TOWN OF	057-101-03	AA	Aa3	AA+	1	
School District	Agua Dulce ISD	178-601-02	BBB	Baa3			0
Comm./Jr. College	Alamo CCD	015-201-15	AA	Aa2		1	
School District	Alamo Heights ISD	015-901-02		As3		1	
City	Alamo, City of	108-101-03		BBB			0
School District	Aldine ISD	101-902-02	A+	Aa3		1	
School District	Aledo ISD	184-907-02	BBB+	Baa1			0
School District	Alice ISD	125-901-02	A-	Baa1		1	
Water District	Alice Water Authority	125-201-21	BBB	Baa2			0
City	ALICE, CITY OF	125-103-03	BBB+	Baa2			0
School District	Alief ISD	101-903-02	AA-	Aa3		1	
School District	Allen ISD	043-601-02	A-	Aa3		1	
City	ALLEN, CITY OF	043-101-03	AA-	Aa3		1	
School District	Amarillo ISD	126-901-02	BBB+	Baa2			0
City	ALVARADO, CITY OF	126-101-03	BBB				0
School District	Austin ISD	020-901-02	A	A2		1	
City	ALVIN, CITY OF	020-109-03	A	A3		1	
School District	Amarillo ISD	188-901-02	AA	Aa3		1	
School District	Amarillo JCD	188-201-15	AA	Aa3		1	
Comm./Jr. College	AMARILLO, CITY OF	188-101-03	AA+	Aa2		1	
County	Anderson County	001-000-00	A			1	
School District	Anderson-Shiro Cons ISD	093-901-02		Baa2			0
School District	Andrews ISD	002-901-02	A-			1	
County	Angelina County	003-000-00		A2		1	
Comm./Jr. College	Angelina County JCD	003-201-15	A3			1	
School District	Angleton ISD	020-902-02	A+	A1		1	
City	ANGLETON, CITY OF	020-101-03	A+	A2		1	
Health/Hospital	Angleton-Danbury Hospital District	020-201-11	A-			1	
School District	Anna ISD	043-902-02		Baa3			0
School District	Anthony ISD	071-906-02		Baa1			0
County	Aransas County	004-000-00	A		A+	1	
School District	Aransas Pass ISD	205-901-02		Baa2			0
City	ARANSAS PASS, CITY OF	205-106-03	BBB+	Baa2			0
School District	Archer City ISD	005-901-02	BBB				0
County	Archer County	005-000-00	BBB				0
School District	Argyle ISD	061-910-02	BBB+	Baa3			0
City	Argyle, City of	061-123-03	BBB+				0
School District	Arlington ISD	220-901-02		Aa3		1	
City	ARLINGTON, CITY OF	220-124-03	AA	Aa2	AA	1	
School District	Arg ISD	212-901-02		Baa3			0
County	Atascosa County	007-000-00	BBB+	A1		1	
School District	Athens ISD	107-901-02	BBB+				0

TALLY SHEET WORKSHEET
 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
 AS OF 8/31/03

Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
City	ATHENS, CITY OF	107-105-03		Baa2			0
School District	Atlanta ISD	034-901-02		Baa1			0
City	ATLANTA, CITY OF	034-101-03	BBB-	Baa3			0
School District	Aubrey ISD	061-907-02		Baa2			0
City	Aubrey, City of	061-101-03	BBB				0
Comm./Jr. College	Austin CCD	227-201-15	AA	Aa2	AA	1	1
School District	Austin ISD	227-901-02	AA	Aa2	AA+	1	1
City	AUSTIN, CITY OF	227-104-03	AA+	Aa2	AA+	1	1
School District	Azle ISD	220-915-02	AA	A3	A	1	1
City	AZLE, CITY OF	220-101-03	BBB+	Baa2			0
City	BALCH SPRINGS, CITY OF	067-103-03	BBB+	Baa2	A-	1	1
School District	Balch Springs Heights, City of	015-101-03	BBB+	Baa2			0
School District	Ballinger ISD	206-901-02		Baa2			0
School District	Bandera ISD	010-902-02		Baa1			0
City	Bandera, City of	010-101-03	AA			1	1
School District	Barbers Hill ISD	036-902-02	A-	A3		1	1
School District	Barlett ISD	014-902-02		Baa3			0
County	Bastrop County	011-000-00	A-	Baa3			0
School District	Bastrop ISD	011-901-02	A-	A3		1	1
City	BASTROP, CITY OF	011-101-03	A-	A-		1	1
School District	Bay City ISD	156-901-02	BBB+	A3		1	1
City	BAY CITY, CITY OF	156-101-03		Baa1			0
City	BAYTOWN, CITY OF	101-120-03	AA-	Aa3		1	1
School District	Beaumont ISD	123-910-02	A+	A1		1	1
City	BEAUMONT, CITY OF	123-104-03	A+	A1		1	1
School District	Beckville ISD	183-901-02		Baa1			0
City	BEDFORD, CITY OF	220-102-03		A1		1	1
County	Bee County	013-006-00	A-			1	1
School District	Beeville ISD	013-901-02	BBB+	Baa3			0
Water District	Beeville WSD	013-201-20	BBB	Baa3			0
City	BEEVILLE, CITY OF	013-101-03	BBB	Baa3			0
County	Bell County	014-000-00	AA-	Aa3		1	1
City	BELLAIRE, CITY OF	101-121-03	BBB+	Aa3		1	1
City	BELLMead, CITY OF	161-106-03	BBB+				0
School District	Bellville ISD	006-901-02		Baa1			0
City	Bellville, City of	006-101-03	BBB	Baa2			0
School District	Belton ISD	014-903-02		Baa1			0
City	BELTON, CITY OF	014-107-03	A	Baa1		1	1
School District	Ben Bolt-Palito Blanco ISD	125-902-02	BBB+				0
City	BENBROOK, CITY OF	220-103-03	A	A2		1	1
County	Bexar County	015-000-00	AA	Aa2	AA+	1	1
School District	Big Sandy ISD (Palk County)	187-901-02		Baa2			0
School District	Big Spring ISD	114-901-02		A3		1	1
City	BIG SPRING, CITY OF	114-103-03		Baa1			0
Water District	Blinn PUD	101-217-14		Baa2			0
School District	Birchville ISD	220-902-02		Aa3	AA	1	1

TALLY SHEET WORKSHEET
LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
AS OF 8/31/03

Government Type	Government Name	ID#	SGP*	Moody's	Fitch	A- and above	below A-
School District	Bishop Cons ISD	178-902-02	BBB				0
City	BISHOP, CITY OF	178-102-03	BBB-	Baa3			0
Water District	Blossmet MUD	101-233-04	BBB-				0
School District	Bianco ISD	016-902-02	BBB	Baa1			0
City	Bianco, City of	016-101-03	BBB				0
School District	BlockHouse MUD	116-915-02	BBB	Baa3			0
Water District	BlockHouse MUD	246-205-04	BBB	Baa2			0
Water District	Blueridge West MUD	079-201-04		Baa2			0
School District	Bluff Dale ISD	072-904-02		Ba1			0
School District	Boerne ISD	130-901-02		A3		1	0
City	BOERNE, CITY OF	130-101-03		A3	A+	1	0
School District	Bonham ISD	074-903-02		Baa3			0
City	BONHAM, CITY OF	074-109-03	BBB+	Baa3			0
City	BORGER, CITY OF	117-103-03	A-	Baa2		1	0
County	Bowie County	019-000-00	A	A3		1	0
School District	Brackett ISD	249-902-02		Baa3			0
School District	Brady ISD	136-901-02		Baa3			0
School District	Brazoria County	020-901-02		Baa2			0
County	Brazoria County	020-000-00	AA-	Aa3	AA-	1	0
Water District	Brazoria County MUD 1	020-206-04	BBB+				0
Water District	Brazoria County MUD 2	020-207-04	BBB+				0
Water District	Brazoria County MUD 3	020-208-04	BBB				0
Water District	Brazoria County MUD 4	020-209-04	BBB				0
Water District	Brazoria County MUD 5	020-204-04	BBB	Baa3			0
Water District	Brazoria County MUD 6	020-209-04	BBB-				0
County	Brazos County	021-000-00	AA			1	0
Water District	Brazos River Harbor ND	020-201-16		Aa3			0
School District	Brazosport ISD	020-905-02		Aa3		1	0
School District	Bremont ISD	198-901-02		Baa1			0
School District	Brenham ISD	239-901-02		A2		1	0
City	BRENHAM, CITY OF	239-101-03	A-	Baa1	A	1	0
School District	Bridge City ISD	181-901-02		Baa1			0
City	BRIDGE CITY, CITY OF	181-106-03		Baa1			0
School District	Bridgeport ISD	248-903-02		A3		1	0
City	BRIDGEPORT, CITY OF	248-103-03		Baa2			0
Water District	Bridgestone MUD	101-246-04	BBB+				0
School District	Brock ISD	184-909-02	BBB+	Baa3			0
School District	Brooksmith ISD	025-908-02		Baa3			0
County	Brown County	025-000-00		A3		1	0
School District	Brownboro ISD	107-902-02	A-				0
School District	Brownsville ISD	031-901-02	A	A2	A+	1	0
Water District	Brownsville ND	031-202-1B	A	A3		1	0
City	BROWNSVILLE, CITY OF	031-107-03	A	A2	A+	1	0
School District	Brownwood ISD	025-902-02		Baa2			0
City	BROWNWOOD, CITY OF	025-104-03		Baa1			0
School District	Bruceville-Eddy ISD	161-919-02		Baa3			0

TALLY SHEET WORKSHEET
 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
 AS OF 8/31/03

Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
Water District	Brushy Creek MUD	246-201-04		Baa1			0
School District	Bryan ISD	021-902-02	A+	A1		1	
City	BRYAN, CITY OF	021-101-03	AA-	Aa3		1	
School District	Bryson ISD	116-901-02	Baa3				0
School District	Buffalo ISD	145-901-02	Baa3				0
School District	Bullard ISD	212-902-02	Baa1				0
School District	Buna ISD	121-903-02	Baa1				0
City	BUNKER HILL VILLAGE, CITY OF	101-101-03	AA-	Aa3		1	
School District	Burk Burnett ISD	243-901-02	BBB+ A3			1	
City	BURKBURNETT, CITY OF	243-102-03	A-	A3		1	
School District	Burkeville ISD	176-901-02	Baa2				0
School District	Burleson ISD	126-902-02	Baa1				0
City	BURLESON, CITY OF	126-102-03	A	A3	A	1	
School District	Burnet Cons ISD	027-903-02	BBB+ Baa1				0
County	Burnet County	027-000-00	A	Baa1		1	
City	BURNET, CITY OF	027-101-03	BBB				0
School District	Caddo Mills ISD	116-901-02	BBB+				0
School District	Calallen ISD	176-903-02	BBB	A1		1	
County	Calwell County	026-000-00	BBB				0
School District	Calwell ISD	026-901-02	Baa1				0
School District	Calhoun Co ISD	029-901-02	A+	A2		1	
County	Calhoun County	029-000-00	A+	A2		1	
School District	Callisburg ISD	049-905-02	BBB				0
County	Cameron County	031-000-00	A	A2	A+	1	
City	CANADIAN, CITY OF	106-101-03	Baa1				0
School District	Canton ISD	234-902-02	BBB+	Baa1			0
City	CANTON, CITY OF	234-101-03	Baa3				0
School District	Carroll ISD	071-907-02	A-	A-		1	
School District	Carrollton ISD	191-901-02	A+	A2		1	
City	CARRIZO SPRINGS, CITY OF	064-103-03	Baa3				0
School District	Carroll ISD	220-919-02	A+	A3		1	
City	CARROLLTON, CITY OF	057-116-03	AA	Aa2	AA+	1	
School District	Carrollton-Farmers Branch ISD	057-903-02	AA	Aa2		1	
City	CARTHAGE, CITY OF	183-102-03	BBB+	Baa1			0
County	Cass County	034-000-00	Baa2				0
School District	Castleberry ISD	220-917-02	BBB+		A	1	
City	Castroville, City of	163-101-03	BBB-				0
School District	Cedar Hill ISD	057-904-02	BBB	Baa3	BBB		0
City	CEDAR HILL, CITY OF	057-104-03	A-	A2		1	
City	CEDAR PARK, CITY OF	246-101-03	A	A1	A+	1	
School District	Celeste ISD	116-902-02		Baa3			0
School District	Celina ISD	043-903-02		Baa2			0
City	CELINA, CITY OF	043-104-03	BBB				0
School District	Center ISD	210-901-02		Baa2			0
City	CENTER, CITY OF	210-101-03		Baa2			0
School District	Central Heights ISD	174-908-02		Baa3			0

Report prepared by: Texas Bond Review Board

TALLY SHEET WORKSHEET
 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
 AS OF 8/31/03

Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A-, and above	below A-
County	Chambers County	036-000-00		Baa1			0
School District	Charmelview ISD	101-906-02	A+	A1		1	
School District	Chapel Hill ISD (Smith County)	212-908-02	A-			1	
School District	Chapel Hill ISD (Titus County)	224-906-02	BBB+				0
School District	Charlottesville ISD	007-901-02	A-		A-	1	
County	Cherokee County	037-000-00		A3		1	
School District	Cherokee ISD	206-903-02		Baa1			0
School District	Chico ISD	249-904-02		Baa3			0
City	CHILDRESS, CITY OF	039-101-03		Baa3			0
Water District	Chimney Hill MUD	101-237-04	BBB-				0
School District	China Spring ISD	161-920-02	A-	Baa1		1	
School District	Chisum ISD	139-905-02		Baa1			0
City	CIBOLO, CITY OF	094-104-03	BBB+				0
Water District	Cimarron MUD	101-236-04	BBB				0
Water District	Cinco MUD 01	079-286-04	BBB				0
Water District	Cinco MUD 02	079-276-04		Baa2			0
Water District	Cinco MUD 07	079-287-04	BBB				0
Water District	Cinco MUD 09	079-279-04	BBB				0
Water District	Cinco MUD 10	079-289-04	BBB-				0
School District	City View ISD	243-908-02	BBB				0
City	CLARKSVILLE, CITY OF	194-104-03		Baa3			0
Water District	Clear Brook City MUD	101-961-04		Baa2			0
School District	Clear Creek ISD	064-910-02	A+	Aa3		1	
Water District	Clear Lake City WA	101-202-21	A	A1		1	
School District	Cleburne ISD	126-903-02	A	A2		1	
City	CLEBURNE, CITY OF	126-107-03	A	A2	A+	1	
School District	Cleveland ISD	146-901-02	BBB+	Baa2			0
City	CLEVELAND, CITY OF	146-102-03	BBB	Baa2			0
School District	Clifton ISD	018-901-02	BBB+	Baa1			0
School District	Clint ISD	071-901-02	BBB+	Baa3	BBB+		0
School District	Clyde Cons ISD	030-902-02		Baa1			0
Water District	CNP UD	101-216-05		Baa2			0
School District	Coleman ISD	042-901-02		Baa3			0
City	COLEMAN, CITY OF	042-102-03	BBB				0
School District	College Station ISD	021-901-02	A+	A1		1	
City	COLLEGE STATION, CITY OF	021-102-03	AA-	Baa3		1	
City	COLLEVILLE, CITY OF	220-105-03	AA+	Aa3	AA+	1	
County	Collin County	043-000-00	AAA	Aaa		1	
Comm./Jr. College	Collin County CCD	043-201-15	AAA	A3		1	
School District	Columbia-Brazoria ISD	020-907-02		Baa1			0
School District	Columbus ISD	045-902-02		A1			0
County	Comal County	046-000-00		A1		1	
School District	Comal ISD	046-902-02		A1	A+	1	
School District	Comanche ISD	047-901-02		Baa1			0
School District	Comfort ISD	130-902-02		Baa1			0
School District	Commerce ISD	116-903-02		Baa2			0

TALLY SHEET WORKSHEET
LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
AS OF 8/31/03

Government Type	Government Name	ID#	S&P [®]	Moody's	Fitch	A- and above	below A-
City	COMMERCE, CITY OF	115-106-03	BBB+	Baa1	A	1	0
School District	COMMUNITY ISD	043-918-02	BBB+				0
School District	Connally ISD	161-921-02	A	Baa1		1	0
School District	Conroe ISD	170-902-02	A	A3		1	0
City	CONROE, CITY OF	170-102-03	A	A3		1	0
School District	COPPELL ISD	057-922-02	AA-	A-	AA-	1	0
City	COPPELL, CITY OF	057-109-03	AA-	A-	AA-	1	0
School District	Copperas Cove ISD	050-910-02	Baa1				0
City	COPPERAS COVE, CITY OF	050-101-03	A-	A3		1	0
City	CORINTH, TOWN OF	061-114-03	A-	A2		1	0
Water District	Cornerstones MUD	101-261-04	BBB+	Baa3		1	0
School District	Corpus Christi ISD	178-904-02	AA-	A1	AA	1	0
Comm./Jr. College	Corpus Christi JCD, City of	178-201-15	AA	Aa3	AA	1	0
City	CORPUS CHRISTI, CITY OF	178-105-03	A+	A2	AA-	1	0
School District	Carrigan-Carmden ISD	187-904-02	Baa1				0
School District	Corsicana ISD	175-903-02	A			1	0
City	CORSICANA, CITY OF	175-107-03	BBB+	Baa1		1	0
City	COTULLA, CITY OF	142-101-03	Baa3				0
School District	Crandall ISD	129-901-02	BBB+	Baa3	A-	1	0
County	Crane County	052-000-00	Baa1				0
City	CROCKETT, CITY OF	113-103-03	Baa3				0
School District	Crosby ISD	101-906-02	Baa3				0
School District	Cross Plains ISD	030-901-02	Baa3				0
School District	Crowley ISD	220-912-02	A	A3		1	0
City	CROWLEY, CITY OF	220-106-03	BBB+	Baa2		1	0
School District	Crystal City ISD	254-901-02	BBB+	Baa2		1	0
School District	Cuero ISD	062-901-02	BBB+	Baa2		1	0
City	CUERO, CITY OF	062-103-03	BBB				0
School District	Culberson County-Allamore ISD	055-901-02	Baa1				0
Water District	Cy-Champ PUD	101-218-14	Baa2				0
Water District	Cypress Forest PUD	101-201-14	A-	Aa3	AA-	1	0
School District	Cypress-Fairbanks ISD	101-907-02	AA-	Aa3	AA-	1	0
Water District	Cypress-Klein UD	101-203-05	Baa1				0
City	DAINGERFIELD, CITY OF	172-101-03	Baa2				0
City	Dalhart, City of	056-102-03	A-			1	0
County	Dallas County	057-000-00	AAA	Aaa		1	0
Water District	Dallas County U&RD	057-203-26	BBB	Baa3	BBB-	1	0
School District	Dallas ISD	057-905-02	AA	Aa3	AA	1	0
City	DALLAS, CITY OF	057-117-03	AAA	Aaa		1	0
School District	Dayton ISD	146-902-02	BBB+	A3		1	0
City	Dayton, City of	146-104-03	BBB+				0
School District	De Leon ISD	047-902-02	Baa3				0
School District	De Soto ISD	057-906-02	A	A+	A+	1	0
City	DE SOTO, CITY OF	057-107-03	A+	A2	AA-	1	0
Health/Hospital District	Deaf Smith County Hospital District	059-201-11	A			1	0
School District	Decatur ISD	249-905-02	Baa2				0

TALLY SHEET WORKSHEET
 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
 AS OF 8/31/03

Government Type	Government Name	ID#	S&P+	Moody's	Fitch	A- and above	below A-
City	DECATUR, CITY OF	249-105-03		Baa1			0
School District	Deer Park ISD	101-908-02	AA	Aa1		1	0
City	DEER PARK, CITY OF	101-122-03	A+	A1		1	0
City	DEL RIO, CITY OF	235-101-03		Baa2	A-	1	0
School District	Del Valle ISD	227-910-02	A	A3	A	1	0
School District	Denison ISD	091-603-02		A3		1	0
City	DENISON, CITY OF	091-111-03	A	A3		1	0
County	Denton County	091-111-03	AA	Aa2		1	0
Other Special	Denton County Road UD 1	091-111-03	AA	Aa2	BBB+	1	0
School District	Denton ISD	061-901-02	AA	A2	BBB+	1	0
School District	DENTON, CITY OF	061-201-05	AA-	Aa3	AA-	1	0
City	DENVER CITY	051-111-03	BBB			1	0
School District	Deueryville ISD	251-101-03		Baa3		0	0
City	DIBOLL, CITY OF	176-903-02		Baa3		0	0
School District	Dickinson ISD	003-101-03	A-	Baa1		0	0
City	DICKINSON, CITY OF	064-901-02	A-	Baa1		1	0
Health/Hospital District	Donley County Hospital District	084-112-03	A			1	0
School District	Dorma ISD	085-201-11	BBB			0	0
City	DONNA, CITY OF	109-902-02	BBB	Baa2		0	0
School District	Douglas ISD	109-107-03	BBB-			0	0
School District	Dripping Springs ISD	174-911-02		Baa3		0	0
School District	Dublin ISD	105-904-02		Baa3		1	0
School District	Dumas ISD	072-902-02		Baa1		0	0
City	DUMAS, CITY OF	171-901-02		A1		1	0
School District	Duncanville ISD	171-103-03	BBB			0	0
City	DUNCANVILLE, CITY OF	057-907-02	A+	A2		1	0
City	EAGLE LAKE, CITY OF	057-118-03	A+	A2		1	0
School District	Eagle Mt. Saginaw ISD	045-102-03	BBB	Baa3		0	0
School District	Eagle Pass ISD	220-916-02	AA-	A1		1	0
City	EAGLE PASS, CITY OF	159-901-02	BBB	Baa2		0	0
School District	Eames ISD	159-101-03		Baa2	BBB+	0	0
School District	Early ISD	227-909-02	AA	Aa2	AA	1	0
School District	East Bernard ISD	025-909-02		Baa3		0	0
School District	East Central ISD	241-902-02		A3		1	0
School District	East Chambers ISD	015-811-02	A	A3		1	0
School District	East Plantation UD	036-903-02		Baa2		0	0
Water District	Eastland County	170-203-05		Ba2		0	0
County	Ector County	067-000-00		Baa2		0	0
School District	Ector County ISD	068-000-00	AA-	Aa3		1	0
School District	Edcouch-Elsa ISD	068-901-02	AA-	Aa3		1	0
School District	Edgewood ISD (Bexar County)	109-903-02		Baa3		0	0
School District	Edgewood ISD (Van Zandt County)	015-905-02		Baa1		0	0
School District	Edinburg, Com ISD	234-903-02		Baa2		0	0
City	EDINBURG, CITY OF	109-904-02	A	A3	A	1	0
School District	Edna ISD	109-109-03	A+	A2	A+	1	0
City	EDNA, CITY OF	120-901-02	BBB+	Baa2		0	0
City		120-101-03	BBB+	Baa2		0	0

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 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P ⁺	Moody's	Fitch	A-, and above	below A-
City	El Campo, City of	241-102-03	A	A3			1
Comm./Jr. College	El Paso CCO	071-201-15			AA-		1
County	El Paso County	071-000-00	AA-	A1			1
Health/Hospital District	El Paso County Hospital District	071-202-11	A+	A+			1
Water District	El Paso County WA	071-201-21		Baa1			0
School District	El Paso ISD	071-902-02	A+	A1	A+		1
City	EL PASO, CITY OF	071-102-03	AA	Aa3	AA-		1
Water District	Eldridge Road MUD	079-242-04	BBB+				0
School District	Electra ISD	243-902-02		Baa2			0
City	ELECTRA, CITY OF	243-103-03	BBB-				0
School District	Elgin ISD	011-902-02	BBB	Baa1			0
City	ELGIN, CITY OF	011-102-03		Baa3			0
School District	Ekhart ISD	001-903-02		Baa1			0
County	Ellis County	070-000-00		A1			0
Water District	Ellis County WCID 1	070-201-19	A-	A3			1
School District	Elysian Fields ISD	102-908-02		Baa1			0
Water District	Emerald Forest LID	101-204-05		Baa2			0
School District	Ennis ISD	070-903-02		A3	A		1
City	ENNIS, CITY OF	070-109-03	A	A3			1
School District	Era ISD	049-806-02		Baa1			0
County	Erath County	072-000-00		A1			1
City	EULESS, CITY OF	220-125-03	A+	A1			1
School District	Eustace ISD	107-805-02		Baa2			0
School District	Evadale ISD	121-906-02	BBB	A3			1
School District	Everman ISD	220-904-02		Ba1			1
City	EVERMAN, CITY OF	220-109-03	BBB	Ba1			0
School District	Fabens ISD	071-903-02		Baa3			0
City	FAIR OAKS RANCH, CITY OF	015-123-03	BBB+				0
School District	Fairfield ISD	061-902-02	A-				1
City	FAIRFIELD, CITY OF	061-101-03		Baa1			0
City	FAIRVIEW, TOWN OF	043-105-03					1
Water District	Fallbrook LID	101-220-05	BBB				0
County	Falls County	073-000-00		Baa2			0
County	Fannin County	074-000-00		Baa1			0
City	FARMERS BRANCH, CITY OF	057-119-03	AA	Aa3			1
School District	Farmersville ISD	043-904-02		Baa2			0
City	FARMERSVILLE, CITY OF	043-105-03	BBB	Baa3			0
City	FARMERSVILLE, CITY OF	185-902-02		Baa3			0
School District	Farwell ISD	101-244-04		Baa1			0
Water District	Faulkley Gully MUD	246-209-04					1
Water District	Fern Bluff MUD	070-905-02		Baa2			0
School District	Ferris ISD	079-267-04					0
Water District	First Colony MUD #9	246-902-02	BBB	Baa3			0
School District	Florence ISD	247-901-02	BBB+	Baa1			0
School District	Floresville ISD	247-101-03		Baa3			0
City	FLORESVILLE, CITY OF	178-914-02	A				1
School District	Flour Bluff ISD						0

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Government Type	Government Name	IDM	S&P*	Moody's	Fitch	A- and above	below A-
City	FLOWER MOUND, TOWN OF	061-103-03	A+	Aa3	AA-	1	
City	FOREST HILL, CITY OF	220-110-03	BBB+	BBB+			0
School District	Forney ISD	129-902-02	A-	Baa1	A-	1	
City	FORNEY, CITY OF	129-102-03		Baa2			0
County	Fort Bend County	079-000-00	AA	Aa2		1	
Water District	Fort Bend County LID 002	079-201-07	A+	A2		1	
Water District	Fort Bend County LID 007	079-207-07	A-	Baa1		1	
Water District	Fort Bend County LID 010	079-211-07	BBB-				0
Water District	Fort Bend County LID 014	079-210-07	BBB				0
Water District	Fort Bend County LID 017		BBB	Baa2			0
Water District	Fort Bend County MUD 001	079-295-04	BBB-				0
Water District	Fort Bend County MUD 002	079-202-04		Baa2			0
Water District	Fort Bend County MUD 002	079-206-04	BBB	Baa1			0
Water District	Fort Bend County MUD 021	079-227-04	BBB				0
Water District	Fort Bend County MUD 025	079-251-04	BBB+				0
Water District	Fort Bend County MUD 042	079-251-04	BBB+	Baa2			0
Water District	Fort Bend County MUD 067	079-289-04	BBB+				0
Water District	Fort Bend County MUD 068	079-283-04	BBB+				0
Water District	Fort Bend County MUD 069	079-273-04	BBB				0
Water District	Fort Bend County MUD 081	079-274-04	BBB				0
Water District	Fort Bend County MUD 108	079-275-04	BBB				0
Water District	Fort Bend County MUD 109	079-285-04	BBB	Baa3			0
Water District	Fort Bend County MUD 111	079-300-04	BBB				0
Water District	Fort Bend County MUD 112	079-293-04	BBB+				0
Water District	Fort Bend County MUD 113	079-300-04	BBB				0
Water District	Fort Bend County MUD 119	079-001-04	BBB				0
Water District	Fort Bend County WCID 2	079-202-19	A	A2		1	
Water District	Fort Bend ISD	079-907-02	AA-	Aa3	AA	1	
School District	Fort Stockton ISD	186-902-02	A-			1	
School District	Fort Worth ISD	220-905-02	AA	Aa2		1	
School District	Fort Worth ISD	220-128-03	AA+	Aa1	AA+	1	
City	FORT WORTH, CITY OF	101-208-04		Baa1			0
Water District	Fountainhead MUD	060-000-00		Baa1			0
County	Franklin County	198-903-02	BBB+				0
School District	Franklin ISD	001-904-02		Baa3			0
School District	Franklin ISD	068-901-02	A+	A2		1	
School District	Frederickburg ISD	096-101-03	A	A3		1	
City	FREDERICKSBURG, CITY OF	152-907-02		A3		1	
City	Friendship ISD	084-911-02		A2		1	
School District	Friendwood ISD	084-101-03	A	A1		1	
City	FRIENDSWOOD, CITY OF	165-103-03	BBB				0
City	Ftoma, City of	043-905-02		A2	A	1	
School District	Frisco ISD	043-107-03	A+	A1		1	
City	FRISCO, CITY OF	117-101-03	BBB				0
City	Fritch, City of	101-281-04		Baa3			0
Water District	Fry Road MUD	049-201-11		A3	A-	1	
Health/Hospital District	Gainesville Hospital District						
School District	Gainesville ISD	049-901-02	A	A3		1	

Report prepared by: Texas Bond Review Board

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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
City	GAINESVILLE, CITY OF	049-103-03	BBB+	Baa1			0
School District	Galena Park ISD	101-910-02	A1	A1		1	0
City	GALENA PARK, CITY OF	101-123-03	Baa1				0
County	Galveston County	064-000-00	A+	Aa3	AA-	1	0
Water District	Galveston County FWSD 6 - Tik	064-201-13	BBB	Baa1			0
Water District	Galveston County MUD 03	064-207-04	BBB				0
Water District	Galveston County MUD 13	064-215-04	BBB				0
Water District	Galveston County WCID 01 - Dickinson	064-201-19	BBB+	Baa1			0
School District	Galveston ISD	064-902-02	A2	A3		1	0
City	GALVESTON, CITY OF	064-104-03	A-	A3		1	0
City	Ganado, City of	120-102-03	BBB				0
City	GARDEN RIDGE, CITY OF	046-102-03	BBB				0
School District	Garland ISD	057-908-02	AA	Aa1		1	0
City	GARLAND, CITY OF	057-120-03	AA	Aa2	AA+	1	0
School District	Gary ISD	183-904-02		Ba1			0
School District	Gatesville ISD	050-902-02		Baa1			0
City	GATESVILLE, CITY OF	050-102-03		Baa2			0
School District	Georgetown ISD	246-904-02	A	A3		1	0
City	GEORGETOWN, CITY OF	246-103-03	A+	A1	A+	1	0
School District	Giddings ISD	144-901-02		Baa1			0
City	GIDDINGS, CITY OF	144-101-03		Baa1			0
County	Gillespie County	086-000-00	A1			1	0
School District	Gilmer ISD	230-902-02	BBB+	Baa3			0
City	GILMER, CITY OF	230-102-03		Baa3			0
School District	Gladewater ISD	082-901-02		Baa1			0
City	GLADEWATER, CITY OF	082-104-03		Baa2			0
School District	Glen Rose ISD	213-901-02	A	A3		1	0
City	GLENN HEIGHTS, TOWN OF	057-102-03	BBB+				0
School District	Godley ISD	126-911-02		Baa2			0
School District	Goldswaine ISD	167-901-02	BBB				0
City	GOLIAD, CITY OF	088-101-03		Baa3			0
County	Gonzales County	089-000-00	BBB+				0
School District	Gonzales Healthcare Systems (HD)	089-201-11	BBB+				0
School District	Gonzales ISD	089-901-02		Baa2		1	0
School District	Goose Creek ISD	101-911-02		Aa3			0
City	GRAHAM, CITY OF	252-103-03	BBB	Baa2			0
School District	Granbury ISD	111-901-02		A	A3	1	0
City	GRANBURY, CITY OF	111-101-03	A	A3	A+	1	0
School District	Grand Prairie ISD	057-910-02	AA-	A1		1	0
Water District	Grand Prairie Metropolitan UARD	057-204-26	A				0
City	GRAND PRAIRIE, CITY OF	057-121-03	AA-	Aa3	AA	1	0
School District	Grand Saline ISD	234-904-02		Baa1			0
School District	Grandview ISD	126-904-02		Baa2			0
School District	Granger ISD	246-905-02		Baa3			0
City	GRANGER, CITY OF	246-104-03	BBB				0
Water District	Grant Road PUD	101-222-14	BBB				0

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 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
School District	Grape Creek ISD	226-907-02	BBB				0
City	GRAPELAND, CITY OF	113-101-03	BBB				0
City	GRAPEVINE, CITY OF	220-111-03	A+	A1		1	
School District	Grapevine-Colleyville ISD	220-506-02	AA-	A2		1	
County	Gray County	060-000-00	A			1	
Water District	Green Trails MUD	101-463-04		Baa3			0
School District	Greenville ISD	116-905-02	A+	A3	A+	1	
City	GREENMILE, CITY OF	116-107-03	A+	A3	A+	1	
County	Gregg County	092-000-00	A+	A2		1	
School District	Gregory-Portland ISD	205-902-02	A-	A2		1	
County	Grimes County	063-000-00		Baa1		1	
City	GROESBECK, CITY OF	147-102-03	BBB+	Baa3			0
County	Guadalupe County	064-000-00		A2		1	
County	Hale County	095-000-00		A3		1	
School District	Hallsville ISD	102-904-02	A	A3		1	
City	HALTOM CITY, CITY OF	220-127-03	A			1	
School District	Hamilton ISD	097-902-02	BBB			1	
School District	Hardin-Jefferson ISD	100-905-02	A-	Baa1		1	
City	HARKER HEIGHTS, CITY OF	014-103-03	BBB+	Baa1		1	
School District	Harlandale ISD	015-904-02	A	Baa1	A	1	
School District	Harleton ISD	102-905-02		Baa3		1	
School District	Harrington Cons ISD	031-903-02	A+	A3	A+	1	
City	Harrington, City of	031-108-03	A+	A2		1	
School District	Harmony ISD	230-905-02		Baa1		1	
County	Harris County	101-000-00	AA+	Aa1	AA+	1	
Water District	Harris County FCO	101-201-12	AA+	Aa1	AA+	1	
Water District	Harris County FWSD 51	101-208-13	A-			1	
Water District	Harris County FWSD 58	101-210-13	BBB	Baa1		1	
Water District	Harris County FWSD 61	101-212-13		Baa3		1	
Water District	Harris County ID 1	101-210-09	A	A3		1	
Water District	Harris County MUD 005	101-261-04	BBB-			1	
Water District	Harris County MUD 023	101-333-04		Baa2		1	
Water District	Harris County MUD 024	101-334-04		Baa1		1	
Water District	Harris County MUD 025	101-201-04	BBB			1	
Water District	Harris County MUD 026	101-209-04	BBB*			1	
Water District	Harris County MUD 043	101-232-04		Baa3		1	
Water District	Harris County MUD 045	101-230-04		Baa1		1	
Water District	Harris County MUD 053	101-230-04		Baa1		1	
Water District	Harris County MUD 055	101-214-04		Baa1		1	
Water District	Harris County MUD 051	101-357-04		Baa3		1	
Water District	Harris County MUD 054	101-239-04	BBB-			1	
Water District	Harris County MUD 054	101-239-04	BBB-			1	
Water District	Harris County MUD 055	101-247-04	BBB-			1	
Water District	Harris County MUD 059	101-210-04		Baa3		1	
Water District	Harris County MUD 071	101-339-04	BBB-			1	
Water District	Harris County MUD 081	101-307-04	BBB-			1	
Water District	Harris County MUD 082	101-306-04	BBB			1	
Water District	Harris County MUD 102	101-229-04	BBB			1	

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 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P	Moody's	Fitch	A- and above	below A-
Water District	Harris County MUD 109	101-220-04		Baa1			0
Water District	Harris County MUD 118	101-240-04		Baa3			0
Water District	Harris County MUD 132	101-216-04		Baa1			0
Water District	Harris County MUD 150	101-248-04		Baa2			0
Water District	Harris County MUD 151	101-257-04					0
Water District	Harris County MUD 152	101-264-04		BBB			0
Water District	Harris County MUD 153	101-370-04		BBB+	Baa2		0
Water District	Harris County MUD 155	101-372-04		BBB-			0
Water District	Harris County MUD 159	101-375-04		Baa3			0
Water District	Harris County MUD 162	101-282-04		BBB			0
Water District	Harris County MUD 163	101-377-04		Baa3			0
Water District	Harris County MUD 166	101-395-04		BBB+			0
Water District	Harris County MUD 186	101-590-04		BBB-			0
Water District	Harris County MUD 200	101-481-04		BBB	Baa3		0
Water District	Harris County MUD 208	101-484-04		BBB			0
Water District	Harris County MUD 222	101-532-04		BBB-			0
Water District	Harris County MUD 230	101-577-04		BBB-			0
Water District	Harris County MUD 238	101-501-04		BBB-			0
Water District	Harris County MUD 264	101-507-04		Baa2			0
Water District	Harris County MUD 322	101-554-04		BBB-			0
Water District	Harris County MUD 354	101-565-04		BBB-			0
Water District	Harris County MUD 355	101-565-04		BBB+			0
Water District	Harris County MUD 390	101-591-04		BBB-	Baa2		0
Water District	Harris County MUD 364	101-604-04		BBB-			0
Water District	Harris County MUD 365	101-597-04		BBB-			0
Water District	Harris County MUD 367	101-588-04		BBB-			0
Water District	Harris County MUD 370	101-608-04		BBB			0
Water District	Harris County MUD 372	101-605-04		BBB+			0
Water District	Harris County UD 06	101-245-05		Baa1			0
Water District	Harris County UD 15	101-212-05		BBB			0
Water District	Harris County WCID - Funder Road	101-239-19		Baa2			0
Water District	Harris County WCID 001	101-240-19		BBB+			0
Water District	Harris County WCID 021	101-202-19		Baa3			0
Water District	Harris County WCID 036	101-203-19		BBB+			0
Water District	Harris County WCID 062	101-217-19		Baa2			0
Water District	Harris County WCID 109	101-225-19		A3		1	0
Water District	Harris County WCID 110	101-226-19		Baa2			0
Water District	Harris County WCID 116	101-231-19		BBB+			0
Water District	Harris County WCID 119	101-232-19		Baa2			0
Water District	Harris County WCID 119	101-235-19		Baa3			0
Water District	Harris County WCID 132	101-248-19		BBB-			0
Water District	Harris County WCID 155	102-000-00		Baa1			0
County	Harrison County	103-902-02		Baa3			0
School District	Hartley ISD	105-906-02		A-	A-	1	0
School District	Hays Cons ISD	105-906-00		BBB-	Aa3	1	0
County	Hays County	189-104-03		BBB	A3	1	0
City	HEATH, CITY OF						

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TALLY SHEET WORKSHEET
 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A-, and above	below A-
Water District	Heatherloch MUD	101-403-04		Baa2			0
City	HEDWIG VILLAGE	101-102-03	AA-	A1		1	0
City	Helotes	015-121-03	BBB+				0
City	HEMPSTEAD, TOWN OF	237-103-03		Baa1			0
County	Henderson County	107-000-00		A2		1	0
School District	Henderson ISD	201-902-02		Baa2			0
City	Henderson, City of	201-104-03		Baa1			0
School District	Hereford ISD	059-901-02	BBB+				0
City	HEWITT, CITY OF	161-111-03		A2		1	0
School District	Hico ISD	097-903-02		Baa3			0
County	Hidalgo County	108-000-00	A	A3	A	1	0
School District	Hidalgo ISD	108-905-02		Baa2			0
School District	Highland Park ISD (Dallas County)	057-811-02		Aaa		1	0
School District	HIGHLAND VILLAGE, CITY OF	051-104-03		A3	A+		0
City	HILL COUNTRY VILLAGE	015-108-03		A3		1	0
County	Hill County	109-000-00	A			1	0
School District	Hillsboro ISD	109-904-02	BBB	Baa1			0
City	HILLSBORO, CITY OF	109-109-03	A-	Baa2		1	0
School District	Hitchcock ISD	084-909-02		Baa2			0
County	Hockley County	110-000-00		A1		1	0
School District	Hondo ISD	163-904-02		Baa1			0
City	HONDO, CITY OF	163-103-03		Baa2			0
County	Hood County	111-000-00	A	A2		1	0
Health/Hospital District	Hood County Hospital District	111-201-11		Baa1			0
City	Hooks, City of	019-102-03	A			1	0
County	Hopkins County	112-000-00		A3		1	0
Water District	Horseshoe Bayou MUD	101-401-04		Baa2			0
School District	Houston ISD	101-812-02	AA	Aa3		1	0
City	HOUSTON, CITY OF	101-124-03	AA-	Aa3	AA	1	0
County	Howard County	114-000-00	A-			1	0
School District	Howe ISD	091-905-02	BBB				0
School District	Hudson ISD	003-902-02	BBB	Baa2			0
City	Hudson, City of	003-104-03	BBB				0
School District	Huffman ISD	101-925-02		Baa1			0
School District	Hull-Daietta ISD	146-905-02	BBB				0
School District	Humble ISD	101-913-02	A+	A1		1	0
City	HUMBLE, CITY OF	101-103-03	A	A3		1	0
County	Hunt County	116-000-00	A	A2		1	0
Health/Hospital District	Hunt Memorial Hospital District	116-201-11	A			1	0
School District	Huntington ISD	003-904-02		Baa3			0
School District	Huntsville ISD	236-902-02	A-	A3		1	0
City	HUNTSVILLE, CITY OF	236-101-03	A	A2		1	0
City	HURST, CITY OF	220-128-03	AA-	Aa3		1	0
School District	Hurst-Euless-Bedford ISD	220-916-02	AA-	A1		1	0
School District	Hutto ISD	246-906-02	BBB				0
City	Hutto, City of	246-105-03	BBB				0

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Government Type	Government Name	ID#	S&P	Moody's	Fitch	A- and above	below A-
School District	Idaho ID	152-910-02		Baa1			0
City	IDAHO, CITY OF	152-101-03		Baa3			0
School District	Industrial ISD	120-905-02	A-	Baa1		1	
School District	Inglas/de ISD	205-903-02		Baa1			0
City	INGLESIDE, CITY OF	205-102-03	BBB+				0
School District	Ingram ISD	133-904-02		Baa2			0
School District	Iowa Park Cons ISD	243-903-02		A3		1	
Walter District	Ivring FCD Section 3	057-203-12		Baa1			0
School District	Irving ISD	057-912-02	AA	Aa3		1	
City	IRVING, CITY OF	057-122-03	AAA	Aaa			
School District	Itasca ISD	109-907-02		Baa3		1	
City	JACINTO CITY, CITY OF	101-105-03		Baa1			0
County	Jack County	119-000-00	BBB				0
Walker District	Jackrabbit Road PUD	101-207-14		Baa2			0
City	JACKSBORO, CITY OF	119-102-03	BBB-				0
School District	Jacksonville ISD	037-904-02		A3		1	
City	JACKSONVILLE, CITY OF	037-105-03		Baa1			0
City	JAMAICA BEACH, VILLAGE OF	064-110-03	BBB+	Baa1			0
School District	Jernell ISD	246-907-02		Baa3			0
County	Jasper County	121-000-00	A3			1	
School District	Jasper ISD	121-904-02		Baa1			0
City	JASPER, CITY OF	121-101-03		Baa3			0
County	Jefferson County	123-000-00	A+	Aa2		1	
School District	Jefferson ISD	155-901-02		Baa2			0
City	JERSEY VILLAGE, CITY OF	101-109-03	A			1	
School District	Jim Hogg County ISD	124-901-02	BBB				0
School District	Joaquin ISD	210-902-02		Baa3			0
School District	Johnson City ISD	016-901-02		Baa2			0
County	Johnson County	227-109-03	A+	A1	A+	1	
City	JONESTOWN, CITY OF	126-905-02	BBB+				0
School District	Joshua ISD	126-108-03		A3		1	
City	JOSHUA, CITY OF	015-916-02	BBB	A1	A+	1	
School District	Judson ISD	061-105-03		Baa1			0
City	Justin	128-901-02	BBB				0
School District	Karnes City ISD	101-914-02	A+			1	
School District	Katy ISD	101-107-03		Baa1			0
City	KATY, CITY OF	129-000-00	A	A2			
County	Kaufman County	129-003-02	A			1	
School District	Kaufman ISD	129-103-03	A-	Baa1			0
City	KAUFMAN, CITY OF	220-907-02		Baa2			0
School District	Keller ISD	220-113-03	A	A3		1	
City	KELLER, CITY OF	128-902-02	BBB				0
School District	Kensley ISD	128-103-03		Baa3			0
City	KENEDY, CITY OF	220-914-02	BBB	Baa1			0
School District	Kennedale ISD	220-114-03		Baa1			0
City	KENNEDALE, CITY OF						0

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LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P	Moody's	Fitch	A- and above	below A-
County	Kent County	132-000-00	A3			1	1
County	Kerr County	133-000-00	A			1	1
School District	Kerrville ISD	133-903-02	A2			1	1
City	KERRVILLE, CITY OF	133-101-03	A2			1	1
School District	Kilgore ISD	092-902-02	A			1	1
City	KILGORE, CITY OF	092-105-03	A3			1	1
School District	Killeen ISD	014-906-02	A			1	1
City	KILLEEN, CITY OF	014-108-03	A+			1	1
School District	Kingsville ISD	137-901-02	AA-			1	1
City	KINGSVILLE, CITY OF	137-101-03	A-			1	1
City	KIRBY, CITY OF	015-110-03				1	1
School District	Krbyville ISD	101-915-02	Baa3			0	0
School District	Klein ISD	121-905-02	Baa3			0	0
Water District	Kleinwood MUD	101-915-02	A-			1	1
School District	Krum ISD	101-217-04	Baa3			0	0
City	KYLE, CITY OF	061-905-02	BBB			0	0
School District	La Feria ISD	105-102-03	BBB+			0	0
City	LA FERIA, CITY OF	031-905-02				0	0
School District	La Grange ISD	075-802-02	Baa3			0	0
School District	La Joya ISD	108-912-02	Baa1			0	0
School District	La Marque ISD	084-904-02	BBB+			0	0
City	LA MARQUE, CITY OF	084-105-03	A-			1	1
School District	La Porte ISD	101-916-02	A2			1	1
City	LA PORTE, CITY OF	101-125-03	AA			1	1
School District	La Vernia ISD	247-903-02	A*			1	1
School District	Lago Vista ISD	227-912-02	Aa3			1	1
City	LAGO VISTA, CITY OF	227-207-04	BBB			0	0
Water District	Laguna Madre WD	031-201-13	BBB+			0	0
School District	Lake Dallas ISD	061-812-02	A-			1	1
City	LAKE DALLAS, CITY OF	061-113-03	BBB+			1	1
Water District	Lake Forest UD	101-226-05	BBB+			0	0
City	LAKE JACKSON, CITY OF	020-112-03	Baa2			1	1
Water District	Lake LBJ MUD	150-202-04	A+			1	1
Water District	Lake MUD	101-405-04	Baa1			0	0
School District	Lake Travis ISD	227-913-02	BBB+			0	0
School District	Lake Worth ISD	220-910-02	AA-			1	1
City	LAKE WORTH, CITY OF	220-116-03	Baa3			0	0
Water District	Lakeview MUD	227-203-04	BBB			1	1
City	LAKEWAY, VILLAGE OF	227-105-03	A2			1	1
School District	Lamar Consolidated ISD	079-901-02	A1			1	1
County	Lamar County	139-000-00	A			1	1
School District	Lamesa ISD	059-906-02	A2			1	1
County	Lampasas County	141-000-00	Baa1			0	0
School District	Lampasas ISD	141-901-02	BBB+			0	0
City	LAMPASAS, CITY OF	141-101-03	BBB+			0	0
School District	Lancaster ISD	057-913-02	Baa3			0	0

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Government Type	Government Name	ID#	S&P	Moody's	Fitch	A-, and above	below A-
City	LANCASTER, CITY OF	057-123-03	A	A2		1	0
Water District	Lanham Creek UD	101-250-05	BBB				
School District	Laredo ISD	240-901-02	A	A3	A	1	
Comm./Jr. College	Laredo JCD	240-201-16	A-	A3		1	
City	LAREDO, CITY OF	240-101-03	A	A2	A+	1	
School District	Lataxa ISD	113-905-02		Baa3			0
School District	Lazbuddie ISD	185-904-02		Baa3			0
City	LEAGUE CITY, CITY OF	084-107-03	A	A3		1	
School District	Leander ISD	246-913-02	A	A3	A+	1	
City	LEANDER, CITY OF	246-109-03	BBB+				0
Comm./Jr. College	Lee College District	101-202-15	A			1	
School District	Lefors ISD	090-902-02		Baa3			0
School District	Leon ISD	145-911-02		Baa1			0
City	LEON VALLEY, CITY OF	015-111-03		A2		1	
School District	Leonard ISD	074-909-02		BBB+			0
School District	Lewisville ISD	061-902-02	AA	Aa3	AA-	1	
City	LEWISVILLE, CITY OF	061-112-03	AA-	Aa3		1	
School District	Lexington ISD	144-902-02		Baa2			0
County	Liberty County	146-000-00	BBB	A1		1	
School District	Liberty Hill ISD	246-908-02		Baa1			0
School District	Liberty ISD	146-906-02	BBB+				0
School District	Liberty-Eyau ISD	019-908-02	BBB+	Baa2			0
School District	Lindale ISD	212-903-02	BBB	Baa2			0
City	LINDALE, CITY OF	212-103-03	BBB+				0
City	LINDEN, CITY OF	034-105-03		Baa3			0
School District	Lipan ISD	111-902-02		Ba1			0
School District	Little Cypress-Mauriceville Cons ISD	181-908-02	BBB+				0
School District	Little Elm ISD	061-914-02	BBB+		A-	1	
City	LITTLE ELM, TOWN OF	061-107-03		Baa2			0
School District	Littletfield ISD	140-904-02		Baa2	BBB+		0
City	LITTLEFIELD, CITY OF	140-105-03	BBB				0
City	Live Oak, City of	015-112-03	A	Baa1		1	
City	Livingston ISD	187-907-02		Baa1			0
School District	LIVINGSTON, CITY OF	187-102-03	BBB	Baa1			0
County	Llano County	150-000-00	A			1	
School District	Llano ISD	150-901-02	BB	A3		1	
School District	Lockhart ISD	028-902-02	A-			1	
City	LOCKHART, CITY OF	028-101-03	BBB	Baa3			0
School District	Lone Oak ISD	116-906-02	BBB+	Baa3			0
School District	Longview ISD	082-903-02		A1		1	
City	LONGVIEW, CITY OF	082-106-03	A+	A1		1	
School District	Lorena ISD	161-907-02	BBB				0
School District	Los Frescos Cons ISD	031-906-02	BBB+	Baa1			0
Water District	Louetta North PUD	101-203-14	BBB+				0
Water District	Louetta Road UD	101-227-05	BBB-				0
School District	Lovelady ISD	043-919-02	A			1	

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Government Type	Government Name	ID#	S&P	Moody's	Fitch	A- and above	below A-
School District	Lubbock County	152-000-00	AA	Aa2		1	
School District	Lubbock ISD	152-901-02	AA	Aa2		1	
City	LUBBOCK, CITY OF	152-104-03	AA	Aa2	AA-	1	
School District	Lubbock-Cooper ISD	152-906-02	A	A3		1	
City	LUCAS, CITY OF	043-118-03	BBB+	Baa1		0	
School District	Lufkin ISD	003-903-02	A1	A1		1	
City	LUFKIN, CITY OF	003-103-03	A+	A2		1	
School District	Luling ISD	028-903-02	BBB+	Baa1		0	
School District	Lumberton ISD	100-907-02		Baa1		0	
Water District	Lumberton MUD	100-201-04		Baa3		0	
School District	Lyle ISD	007-904-02		Baa1		0	
School District	Mabank ISD	129-905-02	BBB+	Baa1		0	
City	MABANK, CITY OF	129-105-03		Baa3		0	
County	Madison County	154-000-00		Baa1		0	
School District	Madisonville Coes ISD	154-901-02		Baa2		0	
City	MADISONVILLE, CITY OF	154-101-03		Baa3		0	
School District	Magnolia ISD	170-909-02		Baa1		0	
Water District	Malcomson Road UD	101-201-05	BBB+	Baa2		0	
School District	Manor ISD	227-907-02	A-	A3		1	
School District	Mansfield ISD	220-908-02	A+	A1	AA-	1	
City	MANSFIELD, CITY OF	220-117-03	A	A1	A+	1	
School District	Marble Falls ISD	027-904-02	BBB	A3	A-	1	
City	MARBLE FALLS, CITY OF	027-103-03	BBB+	Baa2		0	
School District	Marshall ISD	094-904-02		Baa2		0	
School District	Marshall ISD	102-902-02	A-	A2	A3	1	
City	MARSHALL, CITY OF	102-103-03		A3		1	
School District	Mart ISD	161-908-02	BBB	Baa3		0	
School District	Martina Mill ISD	234-905-02		A1		0	
School District	Matagorda County ND 1	158-201-18				1	
Water District	Matagorda County ND 1	205-904-02	BBB+			0	
School District	Mathis ISD	159-000-00	BBB		BBB	0	
County	Maverick County					0	
Water District	Mayde Creek MUD	108-906-02	BBB-	Baa3		0	
School District	Maypearl ISD	070-915-02	A	Baa1		1	
School District	McAllen ISD	101-275-04	BBB-	Baa1		0	
City	MCALLEN, CITY OF	108-109-03	A+	A1		1	
School District	McGregor ISD	161-909-02		Baa1		0	
City	MCGREGOR, CITY OF	161-104-03	BBB-	Baa3		0	
School District	McKinney ISD	043-907-02	A	A1		1	
City	McKINNEY, CITY OF	043-113-03	AA-	Aa3		1	
County	McLennan County	161-000-00		Aa2		1	
Comm. Jr. College	McLennan County JCD	161-201-15	A+	Aa3		1	
Water District	Meadowhill Regional MUD	101-287-04		Baa3		0	
Water District	Meadows at Chandler Creek MUD	246-208-04	BBB			0	
City	Meadows Place, City of	079-114-03	BBB+	Baa2		0	
County	Medina County	163-000-00	BBB+			0	
School District	Medina Valley ISD	163-908-02		Baa1		0	

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School District	MELISSA, ISD	043-908-02		Baa2			0
City	MELISSA, CITY OF	043-116-03	BBB	Baa2			0
Water District	Memorial MUD	101-406-04	BBB				0
Water District	Memorial Villages WA	101-203-21		Aa3		1	
School District	Mercedes ISD	108-907-02		Baa2			0
City	MERCEDES, CITY OF	108-110-03	BBB+		BBB+		0
School District	Mendian ISD	018-902-02		Baa3			0
School District	Merbel ISD	221-904-02		Baa3			0
School District	Mesquite ISD	057-914-02	AA	Aa3	AA	1	
City	MESQUITE, CITY OF	057-124-03		Aa3			0
School District	Midland ISD	165-901-02	AA-	Aa3		1	
City	MIDLAND, CITY OF	165-101-03	AA	Aa3		1	
School District	Midlothian ISD	070-908-02		A3	A-	1	
Water District	Midlothian WD	070-201-20		Baa1			0
City	MIDLOTHIAN, CITY OF	070-908-02		Baa1			0
School District	Midway ISD (McLennan County)	161-903-02		A1		1	
School District	Mildred ISD	175-910-02		Baa1			0
School District	Milford ISD	070-909-02		Baa3			0
City	MILFORD, CITY OF	070-106-03	BBB				0
School District	Miller Grove ISD	112-907-02	BBB				0
Water District	Mills Road MUD	101-263-04	BBB				0
City	MINEOLA, CITY OF	250-103-03	BBB	Baa2			0
School District	Mineral Wells ISD	162-903-02		Baa2			0
City	MINERAL WELLS, CITY OF	162-105-03	A-	Baa2	A	1	
Water District	Mission Bend MUD 1	101-459-04		Baa1			0
Water District	Mission Bend MUD 2	101-407-04	BBB-	BBB-			0
School District	Mission Com ISD	108-909-02	A-	Baa1		1	
City	MISSION, CITY OF	108-111-03	A3				0
City	MISSOURI, CITY, CITY OF	078-102-03	A	A1		1	
Health/Hospital District	Mitchel County Hospital District	168-202-11	BBB				0
City	MONT BELVIEU, CITY OF	036-102-03					0
County	Montague County	169-000-00	A-				0
County	Montgomery County	170-000-00	A+	A1		1	
Water District	Montgomery County MUD 07	170-210-04	A+	Baa2		1	
Water District	Montgomery County MUD 09	170-223-04	BBB	Baa3			0
Water District	Montgomery County MUD 18	170-248-04	BBB+		BBB		0
Water District	Montgomery County MUD 36	170-207-04		Baa1			0
Water District	Montgomery County MUD 40	170-231-04	A-			1	
Water District	Montgomery County MUD 46	170-233-04					0
Water District	Montgomery County MUD 47	170-245-04	A-			1	
Water District	Montgomery County MUD 60	170-238-04	BBB+				0
Water District	Montgomery County MUD 3	170-208-05		Baa3			0
Water District	Montgomery County WCID 1	170-201-19		Baa3			0
School District	Montgomery ISD	170-903-02	A-	A2		1	
County	Moore County	171-000-00	A-			1	
Health/Hospital District	Moore County Hospital District	171-201-11	A+	A1		1	

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Water District	Merton Road MUD	101-408-04	BBB-				0
School District	Moulton ISD	143-902-02		Baa3			0
School District	Mount Pleasant ISD	225-902-02		A3		1	
City	MOUNT PLEASANT, CITY OF	225-103-03		Baa1			0
City	MOUNT VERNON, CITY OF	080-101-03		Baa3			0
School District	Muenster ISD	049-902-02	BBB+				0
Health/Hospital District	Murphy Area Hospital District	039-201-11		Baa1			0
City	MURPHY, CITY OF	043-108-03	A+	BBB		1	
County	Nacogdoches County	174-000-00	A	Baa1		1	
Health/Hospital District	Nacogdoches County Hospital District	174-201-11	A-	Baa1		1	
School District	Nacogdoches ISD	174-904-02	A-	A2		1	
City	NACOGDOCHES, CITY OF	174-103-03	A	A2		1	
School District	Nash, City of	019-104-03		Baa3			0
County	Natalia ISD	153-903-02	BBB+				0
School District	Navarro County	175-000-00		A3		1	
School District	Navarro ISD	094-903-02		Baa1			0
School District	Navasota ISD	093-904-02		Baa2			0
City	NAVASOTA, CITY OF	093-101-03		Baa3			0
School District	Nederland ISD	123-905-02		A2		1	
City	NEDERLAND, CITY OF	123-108-03	A	A2		1	
School District	Needville ISD	079-908-02		A3		1	
School District	New Boston ISD	019-905-02		Baa1			0
City	NEW BOSTON, CITY OF	019-105-03	BBB+				0
School District	New Braunfels ISD	046-901-02	A+	A1		1	
City	NEW BRAUNFELS, CITY OF	046-101-03		A1		1	
School District	New Caney ISD	170-908-02	A-	A3		1	
Water District	New Caney MUD	170-240-04		Baa3			0
School District	Newton ISD	176-902-02		Baa3			0
School District	Normangee ISD	145-906-02		Baa3			0
Water District	North Austin MUD 1	248-213-04		Baa2			0
School District	North East ISD	015-910-02	AA-	Aa3		1	
School District	North Forest ISD	101-909-02	BBB-	Ba2			0
Comm./Jr. College	North Harris Montgomery CCD	101-201-15	AA	Aa2		1	
School District	North Lamar ISD	139-911-02		BBB-			0
Water District	North Mission Glen MUD	079-253-04	BBB				0
City	NORTH RICHLAND HILLS, CITY OF	220-118-03	AA-	Aa3		1	
Water District	Northampton MUD	101-409-04		Baa1			0
Comm./Jr. College	Northeast Texas CCD	032-201-15	X			1	
Water District	Northgate Crossing MUD 1	101-549-04			CCC		0
Water District	Northgate Crossing MUD 2	101-547-04			CCC		0
School District	Northside ISD (Bexar County)	015-915-02	A+	Aa3		1	
Water District	Northtown MUD	227-225-04	BBB				0
Water District	Northwest Austin MUD 1	227-238-04	BBB+	Baa1			0
Water District	Northwest Harris County MUD 05	101-235-04		Baa2			0
Water District	Northwest Harris County MUD 20	101-434-04	BBB				0
Water District	Northwest Harris County MUD 22	101-436-04	BBB				0

Report prepared by: Texas Bond Review Board

TALLY SHEET WORKSHEET
 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
 AS OF 8/31/03

Government Type	Government Name	ID#	SGP ²	Moody's	Fitch	A. and above	below A.
Water District	Northwest Harris County MUD 29	101-513-04	BBB				0
Water District	Northwest Harris County MUD 30	101-598-04	BBB-				0
School District	Northwest ISD	061-911-02	BBB+	A3	AA-	1	0
Water District	Northwest Park MUD	101-459-04	BBB+				0
Water District	Nottingham Country MUD	101-469-04	BBB+	Baa1			0
School District	Nuances Canyon Cons ISD	069-902-02	BBB+	Baa3			0
County	Nuances County	178-000-00	AA	Aa3		1	0
Health/Hospital District	Nuances County Hospital District	178-201-11	AA	A1		1	0
City	OAK POINT, CITY OF	061-119-03	BBB				0
City	OAK RIDGE NORTH, CITY OF	170-107-03	BBB				0
City	ODEM, CITY OF	205-104-03	BBB				0
School District	Odem-Egroy ISD	205-905-02	BBB	Baa3			0
City	ODESSA, CITY OF	068-102-03	AA-	A1		1	0
School District	O'Donnell ISD	153-903-02	BBB	Baa3			0
School District	Ollon ISD	140-905-02	BBB	Baa3			0
School District	Omaha ISD	187-910-02	BBB	Baa2			0
County	Orange County	181-000-00	A	A2		1	0
Water District	Orange County WCID 1	181-201-19	BBB+	Baa3			0
School District	Orange Grove ISD	125-903-02	BBB	Baa2			0
City	ORANGE, CITY OF	161-104-03	A	A2		1	0
School District	Orangetown ISD	161-905-02	BBB	Baa2			0
School District	Ore City ISD	230-903-02	BBB	Baa2			0
City	OVERTON, CITY OF	201-102-03	BBB	Baa2			0
City	Civilta, City of	070-111-03	BBB	BBB			0
School District	Paducah ISD	051-901-02	BBB	Baa1			0
City	PALACIOS, CITY OF	158-102-03	BBB	Baa1			0
School District	Palestine ISD	001-907-02	BBB	Baa1			0
City	PALESTINE, CITY OF	001-103-03	A-	Baa1		1	0
School District	Palmer ISD	070-910-02	A-	Baa3		1	0
Water District	Palmer Plantation MUD 2	078-290-04	BBB	Baa1			0
County	Palo Pinto County	182-000-00	BBB	Baa1			0
School District	Pampa ISD	090-904-02	A	A3		1	0
City	PANHANDLE, CITY OF	090-103-03	A	Baa1		1	0
City	Panhandle, City of	033-102-03	BBB+	Baa1			0
City	PANTEGO, TOWN OF	220-119-03	BBB+	Baa1			0
School District	Paradise ISD	249-906-02	BBB	Baa3			0
School District	Paris ISD	139-909-02	BBB	A3	A-	1	0
School District	Paris JCD	139-201-15	A-	A3		1	0
City	PARIS, CITY OF	139-103-03	A-	A2		1	0
County	Parmer County	184-000-00	A+			1	0
School District	Pasadena ISD	101-917-02	A+	Aa3		1	0
City	PASADENA, CITY OF	101-126-03	A+	A1		1	0
Water District	Paseo de la Realca MUD 3	031-204-04	BBB-				0
School District	Peatland ISD	020-908-02	A-			1	0
City	PEARLAND, CITY OF	020-105-03	A+	A1		1	0
School District	Pearshall ISD	082-903-02	BBB	Baa2			0

TALLY SHEET WORKSHEET
LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A-, and above	below A-
School District	Pestler ISD	164-908-02		Baa3			0
Water District	Pecan Grove MUD	079-211-04		Baa1			0
City	PECOS, TOWN OF	185-102-03		Baa1			0
County	Pecos County	186-000-00	A	A1		1	
City	PERRYTON, CITY OF	179-101-03		A3		1	
School District	Petersburg ISD	065-904-02	BBB	Baa3			0
School District	Pewitt ISD	172-905-02		Baa2			0
School District	Pluggerville ISD	227-804-02	A+	A1		1	
City	PFLUGERVILLE, CITY OF	227-102-03		A3		1	
City	PHARR, CITY OF	108-112-03	A	Baa2	A	1	
School District	Pharr-San Juan-Alamo ISD	108-909-02	A-	Baa1		1	
School District	Pilot Point ISD	061-903-02		Baa2			0
City	PILOT POINT, CITY OF	061-108-03		Baa2			0
School District	Pine Tree ISD	092-904-02	A3	A3		1	
City	PINEY POINT VILLAGE, CITY OF	101-111-03		Aa3		1	
School District	Pittsburg ISD	032-902-02		Baa2			0
City	PLAINVIEW, CITY OF	095-105-03		A2		1	
School District	Plano ISD	043-910-02	AA	Aa2		1	
City	PLANO, CITY OF	043-114-03	AAA	Aaa	AAA	1	
Water District	Plantation MUD	079-208-04		Baa2			0
School District	Pleasant Grove ISD	019-912-02		Baa1			0
School District	Pleasanton ISD	007-905-02	A-	Baa1		1	
City	PLEASANTON, CITY OF	007-104-03		Baa1			0
School District	Point Isabel ISD	031-509-02	BBB	Baa3			0
County	Polk County	187-000-00	BBB	Baa3			0
School District	Ponder ISD	061-906-02		Baa1			0
Water District	Ponderosa Forest LID	101-232-05		Baa1			0
Water District	Port Aransas ISD	178-908-02	BBB+	Baa1			0
School District	PORT ARTHUR, CITY OF	123-107-03	A	A2		1	
City	PORT LAVACA, CITY OF	028-103-03	BBB+	Baa1			0
City	PORT NECHES, CITY OF	123-108-03	A-	A3		1	
School District	Port of Beaumont ISD	123-908-02	A	A1		1	
Water District	Port of Beaumont ND	123-201-18		A2	A	1	
Water District	Port of Houston Authority	101-204-18	AA+	Aa1	AA+	1	
Water District	Port of Port Arthur ND	123-202-18		A2		1	
Water District	Porter MUD	170-228-04		Baa3			0
City	PORTLAND, CITY OF	205-105-03	A-	Baa1		1	
Water District	Post Wood MUD	101-441-04	BBB				0
City	Post, City of	085-101-03	BBB				0
County	Potter County	189-000-00	AA-	Aa3		1	
School District	Pottsboro ISD	091-913-02	BBB+	Baa1	BBB+		0
School District	Prattland ISD	139-912-02	BBB				0
County	Presidio County	189-000-00	BBB-				0
School District	Presidio ISD	189-902-02		Baa3			0
Water District	Prestonwood Forest LID	101-235-05		Baa1	BBB+		0
City	Princeton, City of	043-109-03	BBB				0

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 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
School District	Progreso ISD	108-910-02	BBB	Baa3	BBB		0
School District	Prosper ISD	043-912-02	BBB	Baa2	BBB+		0
City	Prosper, City of	043-110-03		Baa2			0
Water District	Quail Valley IUD	079-201-05	A-	Baa1		1	0
School District	Quannah ISD	089-903-02		Baa2			0
City	QUANNAH, CITY OF	089-102-03		Baa1			0
School District	Queen City ISD	034-907-02		Baa1			0
School District	Quinlan ISD	116-908-02		Baa1			0
School District	Rains ISD	190-903-02	BBB+	Baa1			0
Water District	Ranch at Cypress Creek MUD 1	246-218-04	BBB+	Baa1			0
County	Randall County	191-000-00	BBB+	Aa3		1	0
City	RANSOM CANYON, CITY OF	152-106-03	BBB+	Baa3			0
Water District	Rayford Road MUD	170-235-04	BBB	Baa3			0
School District	Raymondville ISD	245-903-02	BBB	Baa3			0
County	Reagan County	182-000-00	BBB				0
School District	Red Oak ISD	070-911-02		A3		1	0
City	RED OAK, CITY OF	070-106-03		Baa1			0
County	Red River County	194-000-00		Baa2			0
School District	Redwater ISD	019-906-02		Baa2			0
Water District	Reid Road MUD 1	101-222-04	BBB+				0
Water District	Renn Road MUD	101-443-04	BBB-				0
School District	Rice Cons ISD	045-903-02		Baa1			0
School District	Rios ISD	175-911-02		Ba1			0
School District	Richardson ISD	067-916-02	AA	Aa1		1	0
City	RICHARDSON, CITY OF	067-125-03	AA+	Aa1		1	0
City	RICHLAND HILLS, CITY OF	220-120-03		A3		1	0
City	RICHMOND, CITY OF	079-104-03	A-	A3		1	0
City	RICHWOOD, CITY OF	020-106-03		Baa3	A-		0
School District	Rio Grande City ISD	214-901-02	BBB+	Baa3		1	0
School District	Rio Hondo ISD	031-911-02	BBB	Baa3			0
School District	Rio Vista ISD	129-907-02	BBB	Baa1			0
School District	River Place MUD	227-217-04	BBB+	Baa1			0
Water District	River Plantation MUD	170-215-04	BBB+	Baa1			0
Water District	River Road ISD	188-902-02		Baa1			0
City	ROANOK, CITY OF	081-109-03	A-	A3		1	0
School District	Robinson ISD	181-922-02	BBB+	Baa2			0
City	ROBINSON, CITY OF	161-004-03	BBB+	Baa3	BBB+		0
School District	Robstown ISD	178-909-02	BBB+	Baa3			0
School District	Robstown, City of	004-101-03	A	A3		1	0
County	Rockwall County	199-000-00		A1			0
School District	Rockwall ISD	199-901-02	BBB+	Baa3	BBB+		0
City	ROCKWALL, CITY OF	199-102-03	A1			1	0
School District	Rogers ISD	014-907-02	BBB	Baa1			0
School District	Roma ISD	214-903-02	BBB	Baa1			0
School District	Rosecoe ISD	177-901-02		Baa3			0
City	ROSEBUD, CITY OF	073-102-03		Ba1			0

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 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
City	ROSENBERG, CITY OF	079-107-03	A	A2		1	
School District	Round Rock ISD	246-909-02	AA-	Aa2		1	
City	ROUND ROCK, CITY OF	246-105-03	AA-	Aa3		1	
City	ROWLETT, CITY OF	057-110-03	A+	A1		1	
School District	Royal ISD	237-905-02	A-			1	
School District	Royse City ISD	199-902-02	BBB			1	0
City	ROYSE CITY, CITY OF	199-103-03		Baa3		0	0
County	Runnells County	200-000-00		Baa2	BBB+	0	0
School District	Rusk ISD	037-907-02		A3		1	0
City	RUSK, CITY OF	037-103-03		Baa2		1	0
School District	S. and S. Cons ISD	091-914-02		Baa1		1	0
School District	Sabine Pass ISD	123-913-02		Baa3		1	0
Water P	Sabine Pass Port Authority	123-204-18		Baa3		1	0
Water P	SACHSE, TOWN OF	057-111-03		A3		1	0
City	Sage Meadow UD	101-253-06		Baa2		1	0
City	SAGINAW, CITY OF	220-121-03		A3		1	0
School District	Salado ISD	014-908-02		Baa2		1	0
School District	San Angelo ISD	226-903-02		A+		1	0
City	SAN ANGELO CITY OF	226-101-03		AA-	A1	1	0
School District	San Antonio ISD	015-907-02		AA-	A1	1	0
Water District	San Antonio River Authority	015-000-27		AA	Aa2	1	0
City	SAN ANTONIO, CITY OF	015-118-03		AA+	Aa2	1	0
City	SAN AUGUSTINE, CITY OF	203-102-03		Baa3		1	0
School District	San Benito Cons ISD	031-912-02		BBB+	Baa2	0	0
City	SAN BENITO, CITY OF	031-109-03		BBB+		0	0
School District	San Elizario ISD	071-904-02		Ba2		0	0
School District	San Felipe-Del Rio Cons ISD	233-901-02		BBB	Baa2	0	0
Comm./Jr. College	San Jacinto JCD	101-203-15		AA	Aa3	1	0
City	SAN JUAN, CITY OF	108-116-03		Baa3		0	0
School District	San Marcos Cons ISD	105-902-02		A-	A3	1	0
City	SAN MARCOS, CITY OF	105-103-03		A+	A1	1	0
County	San Patricio County	205-000-00		A2		1	0
School District	Sanford ISD	117-903-02		Baa1		0	0
School District	Sanger ISD	061-908-02		Baa1		0	0
City	Sanger, City of	061-110-03		Baa2		0	0
School District	Santa Fe ISD	084-909-02		Baa1	A-	1	0
School District	Sante Fe ISD	182-904-02		Baa1		1	0
City	SCHERTZ, CITY OF	064-102-03		A2		1	0
School District	Schertz-Chebe-U City ISD	064-902-02		A+	A+	1	0
County	Scurry County	208-000-00		A		1	0
School District	Scurry-Rosser ISD	129-910-02		Baa3		0	0
City	SEABROOK, CITY OF	101-112-03		A	A3	1	0
City	SEAGOVILLE, CITY OF	067-112-03		Baa2		1	0
School District	Sealy ISD	008-902-02		A-	Baa1	1	0
City	SEALY, CITY OF	008-103-03		BBB+	Baa1	1	0
School District	Sequim ISD	094-901-02		A3		1	0

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 LOCAL GOVERNMENT RATINGS (TAX BACKED OR GO)
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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
City	SEGUIN, CITY OF	094-103-03	A	Baa1	A+	1	0
City	SELMA, CITY OF	015-120-03	BBB+				0
School District	Seymour ISD	012-901-02	X				0
School District	Shallowater ISD	152-909-02		Baa3			0
School District	Sharyland ISD	108-911-02		Baa2			0
City	SHAVANO PARK, TOWN OF	015-114-03		Baa1			0
School District	Sheldon ISD	101-924-02	A	A3		1	
City	Shenandoah, City of	170-108-03	A-	A1		1	
School District	Shepherd ISD	204-904-02		Baa2		1	0
School District	Sherman ISD	091-906-02	A+	Baa2		1	0
City	SHERMAN, CITY OF	061-112-03	A	A3		1	
Water District	Siemma Plantation MUD 2	079-294-04	BBB-			1	0
School District	Silabee ISD	100-904-02		Baa1		0	0
City	SILBEE, CITY OF	100-103-03	BBB+	Baa2		0	0
School District	Sinton ISD	205-906-02	A			1	
City	SINTON, CITY OF	205-106-03		Baa2		0	0
County	Smith County	212-000-00	AA	A-3		1	
School District	Smithville ISD	011-904-02		Baa2		0	0
City	Snyder, City of	208-101-03	A-			1	
School District	Socorro ISD	071-608-02	A-	Baa1	A	1	
City	SOCORRO, CITY OF	015-909-02		Baa2		0	0
School District	Somerset ISD	015-909-02		Baa2		0	0
School District	Somerville ISD	028-902-02	BBB			0	0
City	Sonora ISD	218-901-02		Baa1		0	0
City	SOUTH HOUSTON, CITY OF	101-114-03	BBB-			0	0
City	SOUTH PADRE ISLAND, TOWN OF	031-112-03	BBB+			1	
School District	South San Antonio ISD	015-908-02	A	A3		1	
Water District	South Shore Harbour MUD 2	084-210-04	BBB-	Baa1	A-	0	0
Water District	South Shore Harbour MUD 3	084-211-04		Baa1		0	0
Water District	South Shore Harbour MUD 5	084-212-04		Baa3		0	0
Comm./Jr. College	South Texas CCD	108-201-15	A	A2		1	
Water District	South Texas WA	178-201-21		A2		1	0
Water District	Southern Montgomery County MUD	170-218-04	BBB+			0	0
City	SOUTHLAKE, CITY OF	220-122-03	BBB+		AA-	1	
Comm./Jr. College	Southmost Union JCD (Texas Southmost College)	031-201-15	A			1	
School District	Southside ISD	015-912-02	BBB+	Baa2		0	0
School District	Southwest ISD	015-912-02	BBB+	Baa1		0	0
City	SPEARMAN, CITY OF	098-102-03		Baa2		0	0
Water District	Spencer Road PUD	101-214-14	A-			1	
School District	Spring Branch ISD	101-920-02	AA	Aa2		1	0
Water District	Spring Creek Forest PUD	101-215-14		Baa1		0	0
School District	Spring Hill ISD	092-907-02		Baa2		0	0
School District	Spring ISD	101-919-02	A	A2		1	
City	Spring Valley	101-116-03	AA-			1	
School District	Springtown ISD	164-902-02	BBB	Baa2		0	0
City	SPRINGTOWN, CITY OF	184-101-03		Baa3		0	0

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Government Type	Government Name	ID#
Water District	Springwood MUD	246-204
School District	Stafford MSD	079-910
City	STAFFORD, CITY OF	079-105
Water District	Stanley Lake MUD	170-202
School District	Stephenville ISD	072-903
City	STEPHENVILLE, CITY OF	072-102
City	Stinebaugh, City of	117-102
School District	Stratford ISD	211-902
City	SUGAR LAND, CITY OF	079-106
School District	Sulphur Bluff ISD	112-910
School District	Sulphur Springs ISD	112-901
City	SULPHUR SPRINGS, CITY OF	112-102
City	SUNNYVALE, TOWN OF	057-112
City	SUNSET VALLEY, CITY OF	227-10F
School District	Sweetney ISD	020-90F
School District	Sweetwater ISD	177-90J
City	SWEE TWATER, CITY OF	177-10J
Water District	Tanglewood Forest MUD	227-244
School District	Tankington ISD	148-90J
County	Tarrant County	220-00J
Health/Hospital District	Tarrant County Hospital District	220-20J
Comm./Jr. College	Tarrant County Junior College District	220-20J
Water District	Taylor Road MUD	101-45
County	Taylor County	221-00J
School District	Taylor ISD	246-91
City	TAYLOR LAKE VILLAGE, CITY OF	101-11
City	TAYLOR, CITY OF	246-10
School District	Teague ISD	081-90
School District	Temple ISD	014-90
Comm./Jr. College	Temple JCD	014-20
City	TEMPLE, CITY OF	014-1C
School District	Temaha ISD	210-9C
County	Terrell County	222-0C
City	TERRELL HILLS	015-11
School District	Terrell ISD	129-9C
City	TERRELL, CITY OF	129-1C
School District	Texas ISD	019-9C
City	TEXARKANA, CITY OF	019-1C
School District	Texas City ISD	064-9C
City	Texas City, City of	064-11
City	THE COLONY, CITY OF	061-11
School District	Thomdale ISD	169-9C
School District	Three Rivers ISD	149-9C
Water District	Timber Lane UD	101-2
School District	Timpan ISD	210-9
Water District	Titus County FWSD 1	

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Government Type	Government Name	ID#	S&P*	Moody's	Fitch	A- and above	below A-
School District	Tolar ISD	111-903-02		Baa3			0
County	Tom Green County	226-000-00	A	A2	A	1	0
School District	Tomball ISD	101-921-02	A	A1		1	0
City	TOMBALL, CITY OF	101-118-03	A	A2		1	0
School District	Tomillo ISD	071-908-02	BBB	Ba1		0	0
Water District	Trail of the Lakes MUD	101-451-04	BBB-			0	0
County	Travis County	227-000-00	AAA	Aaa		1	0
Health/Hospital District	Travis County Emergency SD 02	227-202-40		A3		1	0
Water District	Travis County MUD 3	227-237-04	BBB+			0	0
Water District	Travis County MUD 4	227-238-04	BBB-	Baa3		0	0
Water District	Travis County WCID 10	227-203-19	BBB	A2		1	0
Water District	Travis County WCID 17(B) Steiner Ranch	227-214-19	BBB			0	0
Water District	Travis County WCID 20	227-211-19	A-	Baa1		1	0
School District	Trinity Bay CD	036-201-23		A3		1	0
Water District	Trinity ISD	228-903-02		Baa2		0	0
Water District	Trophy Club MUD 1	061-206-04		Baa2		0	0
Water District	Trophy Club MUD 2	061-203-04				0	0
City	Trophy Club, City of	061-120-03				1	0
School District	Troup ISD	212-904-02	Baa3			0	0
School District	Troy ISD	014-910-02		Baa2		0	0
City	TULIA	219-103-03		BBB+		0	0
School District	Tuloso-Midway ISD	178-912-02	A	A2		1	0
School District	Tyler ISD	212-905-02	AA	A1		1	0
City	TYLER, CITY OF	212-107-03	AA	Aa3		1	0
School District	Union Grove ISD	230-909-02	Baa3			0	0
School District	United ISD	240-903-02	A	Baa1		1	0
City	UNIVERSAL CITY, CITY OF	015-115-03	A-	Baa1		1	0
School District	Uvalde Cores ISD	232-903-02		Baa1	A-	1	0
City	UVALDE, CITY OF	232-102-03	BBB	Baa2		0	0
School District	Valley Mills ISD	018-904-02		Baa3		0	0
Water District	Valley MUD 2	031-201-04	BBB+	Baa1		0	0
School District	Valley View ISD (Cooke County)	048-903-02	BBB+			0	0
School District	Valley View ISD (Hidalgo County)	108-918-02		Baa2		0	0
Water District	Valwood Improvement Authority	057-201-26	A-	A2		1	0
School District	Van Alstyne ISD	091-908-02		Baa2		0	0
City	Van Alstyne, City of	091-108-03		Baa2		0	0
School District	Van ISD	234-908-02		Baa2		0	0
School District	Van Vleet ISD	158-906-02		Baa2		0	0
County	Van Zandt County	234-000-00		Baa1		0	0
Water District	Varner Creek UD	020-201-05		Baa2		0	0
School District	Venus ISD	126-908-02		Baa3		0	0
School District	Vernon ISD	244-903-02	BBB+			0	0
County	Victoria County	235-000-00	A+	A3		1	0
Water District	Victoria County ND	235-201-18	A1	A1	AA-	1	0
School District	Victoria ISD	235-902-02	A+	A1		1	0
Comm./Jr. College	Victoria JCD	235-201-15	A+	A2		1	0

Report prepared by: Texas Bond Review Board

TALLY SHEET WORKSHEET
 LOCAL GOVERNMENT RATINGS (TAX BACK)
 AS OF 8/31/03

Government Type	Government	ID#
City	VICTORIA, C	235-10
School District	Vidor ISD	181-90
School District	Waco ISD	161-91
City	WACO, CITY	161-1C
County	Walker Coun	236-0C
School District	Wall ISD	226-9K
School District	Waller ISD	237-9I
City	WALLER, CI	237-1I
City	WATAUGA,	220-1I
School District	Waxahachie	070-9
City	WAXAHACH-OF	070-1
School District	Weatherford	184-9
City	WEATHERFTY OF	184-1
County	Webb Count	240-0
City	Webster, Cit	101-1
School District	Weimar ISD	045-9
School District	Weslaco ISD	109-6
City	WESLACO, I	108-1
Water District	West Harris/AUD 10	101-4
Water District	West Harris/AUD 11	101-2
Water District	West Harris/AUD 14	101-4
School District	West ISD	161-3
School District	West Orange/ons ISD	181-4
School District	West Osage	178-1
City	WEST UNIF PLACE, CITY OF	101-
City	West, City r	161-
Water District	Westador A	101-
School District	Westhoff IS	062-
Water District	Westlake W	101-
City	Westlake, C	220-
Water District	Weston ML	101-
County	Wharton C	241-
School District	Wharton IS	241-
City	WHARTON/F	241-
School District	White Oak	092-
City	White Oak	092-
School District	White Settlement	220
City	WHITE SENT, CITY OF	220
School District	Whitehouse	212
City	Whitehouse	212
School District	Whitesboro	091
School District	Whitewright	091
School District	Whitney IS	109
County	Wichita C,	243
School District	Wichita F,	243
City	WICHITA, CITY OF	243

TALLY SHEET WORKSHE
 LOCAL GOVERNMENT RATINGS (TAX E
 AS OF 8/31/03

Government Type	Government Name
ISSUER NO LONGER SHOWING UNDERLYING RATINGS AS OF 8/31/03	
Comm.L. College	El Paso CCD
County	Clay County
County	Comanche County
City	BALLINGER, CITY OF
City	FORT STOCKTON, CITY C
City	GALENA PARK, CITY OF
City	GRANITE SHOALS, CITY F
City	MALAKOFF, CITY OF
City	NASSAU BAY, CITY OF
City	PEARSALL, CITY OF
City	SLATON, CITY OF
City	UNIVERSITY PARK, CITYF
Health/hospital District	Hunt Memorial Hospital Dist
School district	Coldspring-Oakhurst Consid
School district	Darbury ISD
School district	Farmindal ISD
School district	Jim Hogg County ISD
School district	Luling ISD
School district	Mineola ISD
School district	Mount Vernon ISD
School district	Palacios ISD
School district	Perryton ISD
School district	Walnut Springs ISD
School district	Wrensboro ISD
Water district	Fort Bend County MUD 0'
Water district	Harris County MUD 159
Water district	Harris County MUD 175
Water district	Harris County MUD 223
Water district	Harris County MUD 254
Water district	Harris County WCID 050
Water district	Inletwood MUD
Water district	Northwest Park MUD
Water district	Nueces County WCID 4
Water district	Park Ten MUD
Water district	Port of Corpus Christi Auority
Water district	Thunderbird UD
Water district	Trinity RA
Water district	Wells Branch MUD
Water district	Williamson-Travis Counis WCID 1B (see Ranch at Cypress Creek MUD -

Appendix K

Outstanding Tax Increment Financing (TIF) Bonds as of September 8, 2004

TIF Name	Project Name	Zone Created	Participating County	Participating ISD	Participating Water District	Bonded Indebtness	Cobination Tax & TIF	Principal O/S	Interest O/S
Arlington		11/3/1998	Tarrant	Arlington				\$ -	\$ -
Beaumont - #01		1982	Jefferson	Beaumont			Yes	\$ -	\$ -
Bryan - #10		3/28/2000	Brazos					\$ 2,310,000.00	\$ 1,478,500.00
Burleson		2001	Tarrant					\$ -	\$ -
College Station - #01		1/14/2002	Brazos	College Station		Yes		\$ 2,300,000.00	\$ 340,148.00
College Station - #04		1/14/2002	Brazos	College Station		Yes		\$ 4,890,000.00	\$ 2,102,101.00
College Station - #15		1/14/2002	Brazos	College Station		Yes		\$ 7,965,000.00	\$ 4,304,021.25
Colleyville								\$ -	\$ -
Comroe - #02		12/13/2001						\$ -	\$ -
Comroe - #03		12/13/2001						\$ -	\$ -
Corsicana - #01		8/21/2001	Navarro			Yes		\$ -	\$ -
Dallas - #01		12/14/1988	Dallas	Dallas				\$ -	\$ -
Dallas - #02		11/11/1992	Dallas	Dallas		Yes		\$ 10,090,000.00	\$ 2,778,870.00
Dallas - #03		11/11/1992	Dallas	Dallas				\$ -	\$ -
Dallas - #04		12/9/1992	Dallas	Dallas				\$ -	\$ -
Dallas - #05		6/26/1996	Dallas	Dallas				\$ -	\$ -
Dallas - #06		5/27/1998	Dallas	Dallas				\$ -	\$ -
Dallas - #07		10/28/1998	Dallas	Dallas				\$ -	\$ -
Fort Worth - #02		12/19/1995	Denton	Northwest				\$ -	\$ -
Fort Worth - #03		12/19/1995	Tarrant	Fort Worth				\$ -	\$ -
Fort Worth - #04		11/25/1997	Tarrant	Fort Worth				\$ -	\$ -
Fort Worth - #05		12/20/2000		Fort Worth				\$ -	\$ -
Fort Worth - #06		11/12/2002						\$ -	\$ -
Galveston - #11		10/18/2001						\$ -	\$ -
Galveston - #12		12/13/2001						\$ -	\$ -
Galveston - #13		12/27/2001						\$ -	\$ -
Georgetown		12/19/2003						\$ -	\$ -
Glen Rose - #01		Dec-98	Somerville					\$ -	\$ -
Grand Prairie								\$ 20,700,000.00	\$ 18,975,755.28
Grapevine						Yes		\$ 31,580,000.00	\$ 29,235,443.75
Hitchcock - #01		2/24/2000				Yes		\$ -	\$ -
Houston - #01	Lamar Terrace	12/12/1990	Harris	Houston		Yes		\$ 3,170,000.00	\$ 1,554,011.25
Houston - #02	Midtown	12/14/1994	Harris	Houston		Yes		\$ 38,345,000.00	\$ 23,528,838.00
Houston - #03		12/13/1995	Harris	Houston		Yes		\$ 12,785,000.00	\$ 7,783,907.04
Houston - #04		9/25/1996	Harris	Houston				\$ -	\$ -
Houston - #05		12/18/1996	Harris	Houston				\$ -	\$ -

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Outstanding Tax Increment Financing (TIF) Bonds as of Septen

TIF Name	Project Name	Zone Created	Participating County	Participating ISD	Participating Water District	Bonded Indebtness	Cc T
Houston - #06		1/15/1997	Harris	Houston		Yes	
Houston - #07		5/7/1997	Harris	Houston		Yes	
Houston - #08		12/10/1997	Harris	Houston			
Houston - #09		12/17/1997	Harris	Houston			
Houston - #10		12/17/1997	Harris	Humble			
Houston - #11	Greenspoint	8/28/1998	Harris	Aldine		Yes	
Houston - #12		12/22/1998	Harris	Houston			
Houston - #13		6/9/1999	Harris	Houston			
Houston - #14		7/7/1999	Harris	Houston			
Houston - #15		7/7/1999	Harris	Houston		Yes	
Houston - #16	Uptown	7/21/1999	Harris	Houston			
Houston - #17		7/21/1999	Harris	Houston			
Houston - #18		7/21/1999	Harris	Houston			
Houston - #19		7/21/1999	Harris	Houston			
Houston - #20	Southwest	12/15/1999	Harris	Houston		Yes	
Irving - #01		1/24/2002	Harris	Houston			
Katy #01	Development Authority		Fort Bend	Irving, Carrollton-Farmers Branch		Yes	
Keller #01	Town Center	Dec-98	Tarrant	Katy ISD		Yes	
League City - #01		11/11/1997		Keller		Yes	
League City - #02		4/27/1999					
League City - #03		2/2/2000					
Lewisville - #01	Castle Hills P9	12/10/2001	Denton				
Lindale - #01		7/16/1996		Lindale			
Lubbock						Yes	
Midland - #01	Downtown	3/20/2001	Midland				
Midlothian #02		2/1/1999	Ellis		Midlothian ISD Midlothian Wateris	Yes	
North Padre Island	Development Corporation		Nueces			Yes	
Plano - #01		11/28/1998				Per Resol	
Plano - #02		4/26/1999					
Rowlett - #01		12/17/2002					
San Antonio - #02		12/17/1998	Bexar	Edgewood			
San Antonio - #04		12/17/1998	Bexar	San Antonio, East Central			
San Antonio - #05		8/19/1999	Bexar	Edgewood			
San Antonio - #06		8/19/1999	Bexar	Edgewood			
San Antonio - #07		12/9/1999	Bexar				
San Antonio - #09		12/9/1999	Bexar				
San Antonio - #10		12/14/2000	Bexar			Yes	

Outstanding Tax Increment Financing (TIF) Bonds as of September 8, 2004

TIF Name	Project Name	Zone Created	Participating County	Participating ISD	Participating Water District	Bonded Indebtness	Cobination Tax & TIF	Principal O/S	Interest O/S
San Antonio - #11		12/14/2000	Bexar					\$ -	\$ -
San Antonio - #12		12/13/2001	Bexar					\$ -	\$ -
San Antonio - #13		12/13/2001	Bexar					\$ -	\$ -
San Antonio - #14		6/13/2002	Bexar					\$ -	\$ -
San Antonio - #15		6/13/2002	Bexar					\$ -	\$ -
Sherman - #01		12/9/2002				Message		\$ -	\$ -
Southlake #01		6/24/1997	Tarrant	Carroll				19,268,526.35	8,836,376.56
Sugar Land - #01		12/1/1998						\$ -	\$ -
Sugar Land - #02		7/27/1999						\$ -	\$ -
Temple - #01		1982	Bell	Temple, Troy		Yes		\$ 11,740,000.00	4,755,425.00
Tyler - #01		12/23/1998	Smith	Tyler		Yes		\$ -	\$ -
Waco - #01		1982	McLennan	Waco				\$ -	\$ -
Waco - #02	McLennan	1983	McLennan	Waco		Yes		\$ 22,550,000.00	11,000,000.00
Waco - #03		1988	McLennan	Waco				\$ -	\$ -
Waxahachie - #01		12/16/2002						\$ -	\$ -
Wichita Falls		3/18/1986	Wichita	Wichita Falls				\$ -	\$ -
Grand Total (Principal & Interest) Tax Increment Financing (TIF) Debt								\$383,917,526.35	\$262,991,922.31
								\$646,909,448.66	

Report on
Endowment Funds

EXECUTIVE SUMMARY

The State of Texas has two major endowment funds for the support of public education - the Permanent School Fund and the Permanent University Fund. The management strategies for these funds are dramatically different. While the Permanent School Fund is highly indexed, the Permanent University Fund is actively and aggressively managed. Distributions from both funds are based upon total return to the fund, but the constitutional restrictions on distribution decisions differ. Both funds adhere to a principal of intergenerational equity, but each fund effectively defines this concept uniquely.

While the State Board of Education makes decisions about investment strategies and distribution rates, the amount of money available for distribution is impacted by another significant factor. The School Land Board makes independent decisions about the management of state lands and the assets available to it for investment in real property.

One of the major concerns regarding the use of monies from the Permanent University Fund is the lack of ability to isolate the excellence these funds are intended to support. Additionally, the maintenance of large fund balances simultaneous to significant tuition increases at both University of Texas and Texas A&M University Systems raises questions about the priorities of the systems.

The lack of cohesive investment strategy and policy considerations among these endowment funds and the state's other major investment funds leads to questions regarding the wisdom of allowing individual boards and governing bodies to make such significant investment decisions without the overall guidance of the legislative body.

Summary of Recommendations to the 79th Legislature

Recommendations Related to the Permanent School Fund

1. The Legislature should regularly review the impact of endowment fund decisions made by various boards, including state policy goals and money management and make recommendations.
2. The Legislature should provide guidance on investment policy and broad policy goals for the state and make recommendations of how best to achieve these goals.

Recommendations Related to the Permanent University Fund

3. The Legislature should review the appropriateness of maintaining large fund balances to obtain a preferred bond rating and make recommendations concerning methods to maintain bond rating without large fund balances.
4. The Legislature should direct some alternative uses of bonding capacity, including, but not limited to the performance of maintenance in order to avoid automatic tuition increases.
5. The Legislature should review the sufficiency of the University of Texas System accountability report and commissioned efficiency study.
6. The Legislature should consider the use of an independent consulting agency or board to help universities achieve efficiencies and to guide the decisions regarding the distribution of large amounts of unobligated money.
7. The Legislature should require the University of Texas and Texas A&M University Systems to provide a detailed report of the excellence programs supported by the Available University Fund funding.
8. The Legislature should determine the feasibility of expanding the University of Texas Investment Management Company management strategies to the Employees Retirement System, the Teachers Retirement System, and the Permanent School Fund, and if favorable, make recommendations on how best to accomplish this.
9. The Legislature should review the growth in the management group at the University of Texas Investment Management Company and make recommendations.

PROCEDURAL BACKGROUND

The Senate Finance Committee (the Committee) met on March 30, 2004 in a public hearing in Austin, Texas to discuss and review Endowment Funds and to consider invited testimony provided by the University of Texas System, The University of Texas Investment Company, the Texas A&M University System, the Texas Prairie View A&M University, the Texas Permanent School Fund, the Texas Office of the Attorney General, the Texas General Land Office, the Texas Treasury Safekeeping Trust Company, the Texas Education Agency, and the Texas Legislative Budget Board. The Committee solicited public testimony on the interim charge in a public hearing in Austin, Texas, on July 20, 2004; however, none was provided.

The Committee extends its thanks to those who participated in the hearing, and assisted with or made presentations before the Committee.

PERMANENT SCHOOL FUND

Background

The Permanent School Fund (PSF) was created in 1854 expressly to support and maintain an efficient system of public free schools.¹ The State Board of Education (SBOE) is charged with the responsibility of managing the fund. Contributions into the fund consist of proceeds from the sale of PSF land and royalty and other earnings generated by PSF land. These contributions are added to the fund monthly.² Investment income from the fund plus 25 percent of motor fuel tax revenues are transferred each month to the Available School Fund (ASF) to be distributed to local public school districts based on the average daily attendance of public school

¹ Texas Education Agency, *Review of the Texas Permanent School Fund 1994-2003*, presented to the Senate Finance Committee, March 30, 2004. [Hereinafter "Review"].

² *Ibid.*

students.³ As the value of PSF has grown over time to reach \$19.5 billion as of September 30, 2004, the annual distribution from the PSF to the ASF has also increased from \$738 million in 1994 to \$897 million⁴ in 2003 (\$227.83 and \$226.61 per student, respectively - see Appendix A). House Joint Resolution 68 (passed by the 78th Legislature, Regular Session, and approved by the voters in September 2003) changed the formula that determines the distribution to the ASF.⁵ Prior to fiscal year (FY) 2004, the distribution was solely based on dividend and interest income. With this constitutional change, the distribution is intended to keep pace with inflation and student population growth and to reflect the rate of total return on all investment assets of the PSF.⁶ The formula is based on several projected factors and is calculated to help the SBOE determine a reasonable range of possible distribution rates (see Appendix B p. 43). The SBOE retains the responsibility to choose a distribution rate within a range that is capped by constitutional provisions. The 2004-05 biennial distribution rate was set at 4.5 percent of the average market value of the fund during the 16 quarters preceding the 78th Legislative Session.⁷

Analysis

House Bill 3558, 77th Legislature, Regular Session, directed the General Land Office (GLO) to invest a portion of the PSF portfolio in real property. For a summary of the contributions from the GLO to the PSF see Appendix C. The objective of the GLO is to maximize returns, while consideration of policy issues, economic development and other state

³ Legislative Budget Board, *2003 Annual Report On Major State Investment Funds*, April 2004, p. 21. [Hereinafter "LBB Report"].

⁴ *Review*

⁵ *Ibid*

⁶ *Ibid*

⁷ *Ibid.*

concerns is of secondary importance.⁸ The use of a one-dimensional evaluation of a project's investment worthiness raises issues about how one agency of state government operates without regard for the needs, policies, concerns of other parts of government. For example, in carrying out its mandate, the GLO has bought and sold land with other state agencies. While a land transaction of this sort may benefit one agency, it raises an issue of cycling tax money from one agency to another. What the GLO may treat as "income" for the fund does not consider the effect on the state, as a whole. Another specific example of potential conflict is the seemingly disjointed approach to water policy by the GLO and the Texas Senate's Select Committee on Water Policy.

The SBOE manages the PSF utilizing four guiding principles: "generating income for the benefit of the public free schools of Texas, the growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas School children."⁹ The GLO contributions in the past 10 years declined from a high of \$292 million in 2001 to a low of \$5 million in 2002, but have more recently begun to increase to \$104 million in 2003 and \$142 million in 2004 (see Appendix C, page 37). The marked decline is attributed to the redirection of land income into another special fund which GLO has access to for up to two years to invest in real property (per HB 3588, 77th (R)).¹⁰ The decline is really more of a temporary lag in deposits, not a true decline. Because GLO contributions as a percentage of the PSF total assets are an important variable in determining PSF distributions, the GLO contributions are closely monitored. A chart and table of the dollar amount contributions as a percent of the PSF market value is attached as Appendix C, page 36.

⁸ Testimony of Commissioner Jerry Patterson, before the Senate Finance Committee, March 30, 2004.

⁹ *Review*, p. 5.

¹⁰ *Ibid.*

For the 2006-07 biennium, Callan Associates, the SBOE's external investment consultant recommended a rate of 3.75 percent to 4.5 percent for the biennium based on an intergenerational equity analysis, using projected variables. In the midst of the discussion, GLO Commissioner Patterson presented the SBOE with a letter agreeing to a one-time payment of \$165 million in FY 2005 from the School Land Sales escrow account to the PSF on top of the minimum distribution of \$78 million in FY 2005, 2006, 2007. In light of the new information, SBOE's consultant confirmed that such deposits impacted the formula in such a way as to make a 4.5% distribution rate prudent. However, at the November 2004 SBOE meeting, the board voted to adopt a 4.0% distribution rate. Overall, the deposits to the ASF for the 2006-2007 biennium compared to the 2004-05 base will be approximately \$267 million less because of this decision.¹¹

In February 2004, the SBOE voted to change the PSF asset allocation from 55 percent equities and 45 percent fixed income to 75 percent equities and 25 percent fixed income. Despite the change in asset allocation, the PSF continues to be impacted by the requirement to produce the biennial revenue estimate (BRE) income.¹² Although this revised asset allocation is expected to increase the annual return from 7.26 percent to 8.02 percent, this distribution is dissimilar to that of other funds of equal size.¹³

RECOMMENDATIONS

1. The Legislature should regularly review the impact of endowment fund decisions made by various boards, including state policy goals and money management and make recommendations.
2. The Legislature should provide guidance on investment policy and broad policy goals for the state and make recommendations how best to achieve these goals.

¹¹ *Ibid.*, p. 29.

¹² *Ibid.*, p. 16.

¹³ *Ibid.*, p. 26.

PERMANENT UNIVERSITY FUND

Background

The Permanent University Fund (PUF) was created in 1876 by the set-aside of one million acres in West Texas to support most institutions in the University of Texas System (UT System) and the Texas A&M University System (TAMU System). The fund was specifically intended to serve as " the means to create and maintain a degree of excellence at the respective institutions and agencies of higher education."¹⁴ The UT System receives two-thirds of the distribution, and TAMU System receives one-third. Fiduciary responsibility for managing the PUF's lands and investment is borne by the UT System Board of Regents.¹⁵ The investment manager for the PUF is The University of Texas Investment Management Company (UTIMCO).¹⁶

The UTIMCO Board of Directors includes three members of the UT System Board, the Chancellor of the UT System, and five outside investment professionals, which currently includes a TAMU System Regent.¹⁷ For all funds managed by UTIMCO, the common objective is to add value to the original investment.¹⁸ The primary investment objective is to preserve the purchasing power of fund assets and annual distributions.¹⁹

Investment income from the PUF, as well as all surface lease income is deposited to the Available University Fund (AUF) for the benefit of the eligible institutions.²⁰ The Texas Constitution designates that distributions from the PUF are based upon total return and caps

¹⁴ Texas Education Code, Section 62.002.

¹⁵ LBB Report, p.25.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ UTIMCO website, <http://www.utimco.org/scripts/internet/index.asp> accessed September 15, 2004.

¹⁹ *Ibid.*

²⁰ LBB Review, p. 25.

distributions in an attempt to preserve the corpus of the fund.²¹ The only exception for exceeding the cap is in the case that the distribution is not sufficient to meet the annual debt service requirements on the PUF bonds and notes, in which case the distribution may be increased.²²

As of June 30, 2004, the market value and book value of the PUF is \$8.1 billion and \$7.7 billion, respectively.²³ The current payout rate is 4.75 percent of the prior 12 quarters' average net asset value of the PUF.²⁴ A chart depicting the growth of the fund can be found on page V-52 of the Appendix. In FY 2003, \$363.0 million was deposited to the AUF to be divided among UT and TAMU Systems.²⁵

UT System

The UT System received \$244.6 million from the AUF for FY 2004.²⁶ The UT System has designated AUF monies for four primary expenditure categories: (1) to pay interest and principal due on PUF bonds (\$78.2 million), (2) to provide for the expenses of the UT System Administration (\$27.9 million), (3) to provide for academic excellence funds for UT Austin (\$108.3 million), and (4) to fund special UT System initiatives (\$4.46 million).²⁷ This leaves a carry forward of \$25.6 million for future debt service. At the end of FY 2003, there was an \$81 million UT System AUF balance and a \$56 million balance at the end of FY 2004.²⁸ According

²¹ The University of Texas System Available University Fund, Report to the Legislature and Governor Pursuant to Rider N. 4 to Available University Fund Appropriations HB 1, 78th Legislature, Regular Session, Page III-68, December 2003, p.5. [Hereinafter "UT Report"].

²² *Ibid.*

²³ The UTIMCO, June 30, 2004, Semi-Annual Report on the PUF, <http://www.utimco.com/Funds/Endowment/PUF/pufsemiannual200406.pdf>, p. 1.

²⁴ *Ibid.*

²⁵ LBB Report, p. 25.

²⁶ Testimony of Chancellor Mark Yudof.

²⁷ *Ibid.*

²⁸ *Ibid.*

to testimony before the Senate Finance Committee, the large balances are necessary to maintain an AAA bond rating. The UT System Board of Regents' policy is to have a \$30 million minimum balance.²⁹

Some committee members expressed concern about UT and TAMU's decision to maintain such large balances while simultaneously increasing tuition paid by students. The Committee also discussed the inability to isolate the impact of AUF expenditures on improving excellence. Given the statutory intent for the funds, members expressed their desire that AUF monies being spent in a targeted manner, not simply as another method of finance source that is lost in the overall budget.

TAMU System

The Texas A&M System utilizes the AUF monies for two primary purposes: (1) to pay interest and principal due on PUF debt, and (2) to provide operating and excellence funds for Texas A&M University, Prairie View A&M University, and the TAMU System administrative and general offices.³⁰ In FY 2004, the total AUF available to the TAMU System was approximately \$120 million.³¹ The bond service debt was \$25 million in FY 2004, which was unusually low due to refinancing (compare to FY 2003 debt service of \$41 million).³² Tarleton State University, Agriculture and Engineering Agencies received \$7.2 million to purchase

²⁹ *Ibid.*

³⁰ The Texas A&M University System Available University Fund Report, Report to the Legislature and Governor Pursuant to Rider N. 4 to Available University Fund Appropriations HB 1, 78th Legislature, Regular Session, Page III-68, no date, p.1. [Hereinafter "A&M Report"].

³¹ Testimony of Benton Cocanougher, David Prior, Dan Williams before the Senate Finance Committee, March 30, 2004. [Hereinafter "TAMU Testimony"]

³² *Ibid.*

various needed equipment.³³ Texas A&M University, Prairie View and the TAMU System received \$87 million for operation and excellence programs. At the end of FY 2003, the cash balance of the AUF reserve including receivables was \$75.1 million with \$25.4 million set aside for increased debt service needs for FY 2004.³⁴ In addition to the reserve fund balance, an additional \$411,913 has been set aside for emergency needs by the TAMU System offices.³⁵ Ending fund balances for Texas A&M University and Prairie View are \$21.1 million and \$10.1 million respectively.³⁶ The Prairie View ending fund balance includes \$3.6 million set aside for the Endowed Scholars Matching Fund.³⁷

The University of Texas Investment Management Company

The PUF value peaked in 2000 at \$8.4 billion and has returned to \$8.1 billion as of June 30, 2004.³⁸ Distributions are determined by the UT System Board of Regents and limited by constitutional restrictions. The Texas Constitution clarifies that the PUF is intended to provide a "stable and predictable stream" of income that also maintains the purchasing power of the fund over time. A hard cap of seven percent of the average net fair market value of the PUF is modified by a cap based on the purchasing power over a rolling 10-year period. Exceptions are only made as needed to pay the principal and interest due on PUF debt. The management expenses are paid out of the PUF.³⁹

³³ *Ibid.*

³⁴ A&M Report, p. 2.

³⁵ *Ibid.*

³⁶ *Ibid.*

³⁷ *Ibid.*

³⁸ The UTIMCO, June 30, 2004, Semi-Annual Report on the PUF, <http://www.utimco.com/Funds/Endowment/PUF/pufsemiannual200406.pdf>, p. 1. The University of Texas Investment Management Company, Presentation to Senate Finance Committee, March 30, 2004, p. 4. [Hereinafter "UTIMCO Presentation"]

³⁹ Texas Constitution, Art. VII. sec. 18(e)

UTIMCO has an annual target rate of \$200 million value added in endowment funds.⁴⁰ In other words, over and above whatever revenue the fund would generate if it were indexed or passively managed, UTIMCO seeks to generate an additional \$200 million each year to the fund by of its investment strategies. The value added by UTIMCO should be compared to the annual management expenses, which were \$25.6 million and \$35.0 million in FY 2003 and FY 2004, respectively (see Appendix E, page 78). In the past two years, UTIMCO has exceeded its target by adding a total of \$1,064.8 billion.⁴¹ According to the testimony, if ERS, TRS, and the PSF had the benefit of UTIMCO management strategy, the cumulative value of these three funds would have increased \$12.6 billion from March 1, 1996 to December 31, 2003 (see Appendix D, page 65).

UTIMCO contends that the success of the fund is due to the diversification of allocations also leading to a lower risk level (see Appendix D, page 68). The trends in asset allocation at the twenty largest endowment funds across the nation mirror UTIMCO's strategies (see Appendix D-70). These trends demonstrate a decrease in public equities with an increase in hedge funds.

As the management strategies have become more sophisticated, UTIMCO has modified its management structure to facilitate greater specialization (see Appendix D, page 74). According to UTIMCO, utilizing a "specialist structure" leads to better mitigation of risk.⁴² Ultimately, the future performance of the fund will have to justify the significant growth in the number of managers (from 23 people in FY 01 to 37 people in FY 04) and the relatively high management expenses of the fund, compared to the other major state endowment funds.

⁴⁰ UTIMCO Presentation, p. 7.

⁴¹ *Ibid.*

⁴² UTIMCO Testimony.

UTIMCO reported that a Princeton survey determined these management expenses to be on the low side compared to other similar funds.⁴³

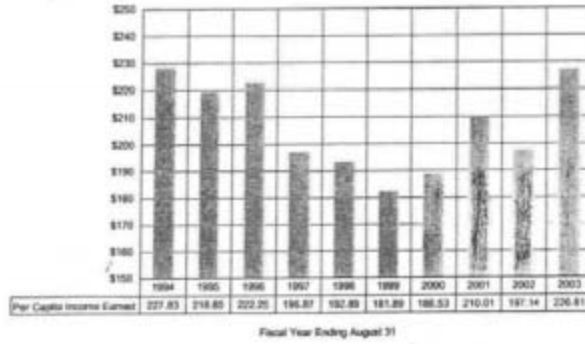
RECOMMENDATIONS

1. The Legislature should review the appropriateness of maintaining large fund balances to obtain a preferred bond rating and make recommendations concerning methods to maintain bond rating without large fund balances.
2. The Legislature should direct some alternative uses of bonding capacity, including, but not limited to the performance of maintenance in order to avoid automatic tuition increases.
3. The Legislature should review the sufficiency of the University of Texas System accountability report and commissioned efficiency study.
4. The Legislature should consider the use of an independent consulting agency or board to help universities achieve efficiencies and to guide the decisions regarding the distribution of large amounts of unobligated money.
5. The Legislature should require the University of Texas and Texas A&M University Systems to provide a detailed report of the excellence programs supported by AUF funding.
6. The Legislature should determine the feasibility of expanding the University of Texas Investment Management Company (UTIMCO) management strategies to the Employees Retirement System, the Teachers Retirement System, and the Permanent School Fund, and if favorable, make recommendations on how best to accomplish this.
7. The Legislature should review the growth in the management group at the University of Texas Investment Management Company and make recommendations.

⁴³ *ibid.*

Appendix A

PERMANENT SCHOOL FUND
FIGURE 14
Per Capita Income Earned Ten Year History



Source: Texas Permanent School Fund Annual Report, August 2003

Appendix B

Review of the Texas Permanent School Fund

1994 - 2003

March 30, 2004



HISTORICAL BACKGROUND

Texas Permanent School Fund

Permanent School Fund

As a result of receiving \$10 million from the U.S. Government in exchange for giving up claims to western lands claimed by the former Republic of Texas, Texas was able to retire the public debt of the Republic. Two million dollars was left over which the School Law of 1854 used to create a special fund, which today is known as the Texas Permanent School Fund.

Permanent School Fund

- The Permanent School Fund (PSF) was created expressly for the benefit of Texas Public Schools.
- The Texas Constitution assigns control of financial assets to the State Board of Education, while administrative duties related to the fund reside with the Commissioner of Education and the Texas Education Agency staff.
- Texas law assigns control of the Fund's land and mineral rights to the three-member School Land Board.

Permanent School Fund

- ◆ The purpose of the Texas Permanent School Fund (PSF), as defined by the Texas Constitution, shall be to support and maintain an efficient system of public free schools. The State Board of Education (SBOE) views the PSF as a perpetual institution. Consistent with its perpetual nature, the PSF shall be an endowment fund with a long-term investment horizon. The SBOE shall strive to manage the PSF consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas School children.

Source: Texas Administrative Code.

MARKET VALUE

Texas Permanent School Fund

Permanent School Fund

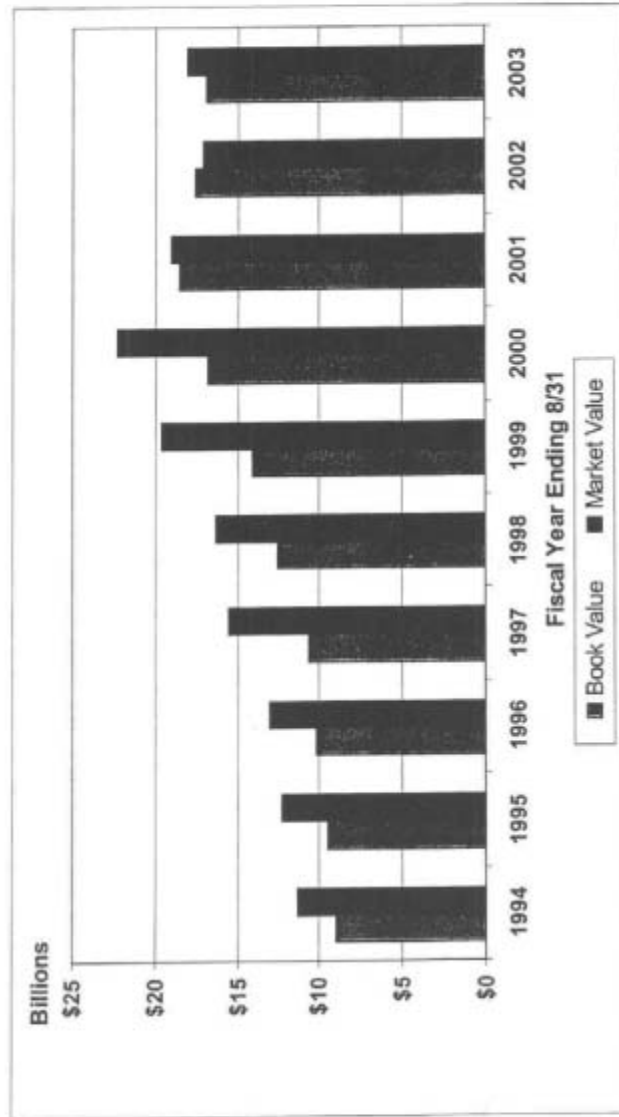
- The Market Value of the Permanent School Fund (PSF) has grown from \$11.3 billion in 1994 to over \$18.0 billion in 2003.
- Net Realized Gains/Losses over this period totaled \$6.8 billion.
- GLO Contributions over this period totaled \$1.6 billion.

Combined GLO – PSF Trust Assets 8/31/2003 (\$ millions)

Category	Market		All Assets
	Value	Category	
Cash	\$251.00	9.86%	1.22%
Investments in Land & Minerals	\$2,295.00	90.14%	11.15%
GLO – Total	\$2,546.00	100.00%	12.37%
Cash & Equivalents	\$270.00	1.50%	1.31%
Equities	\$10,586.00	58.69%	51.43%
Fixed Income	\$7,182.00	39.81%	34.89%
PSF – Total	\$13,037.00	100.00%	87.63%
Grand Total	\$20,582.96		100.00%

Does not tie to the PSF Annual Report because GLO land is reported at historical cost and also includes Securities Lending assets.

Permanent School Fund Portfolio Values FY 1994 -2003



CONTRIBUTIONS FROM
THE GENERAL LAND
OFFICE

Texas Permanent School Fund

Permanent School Fund

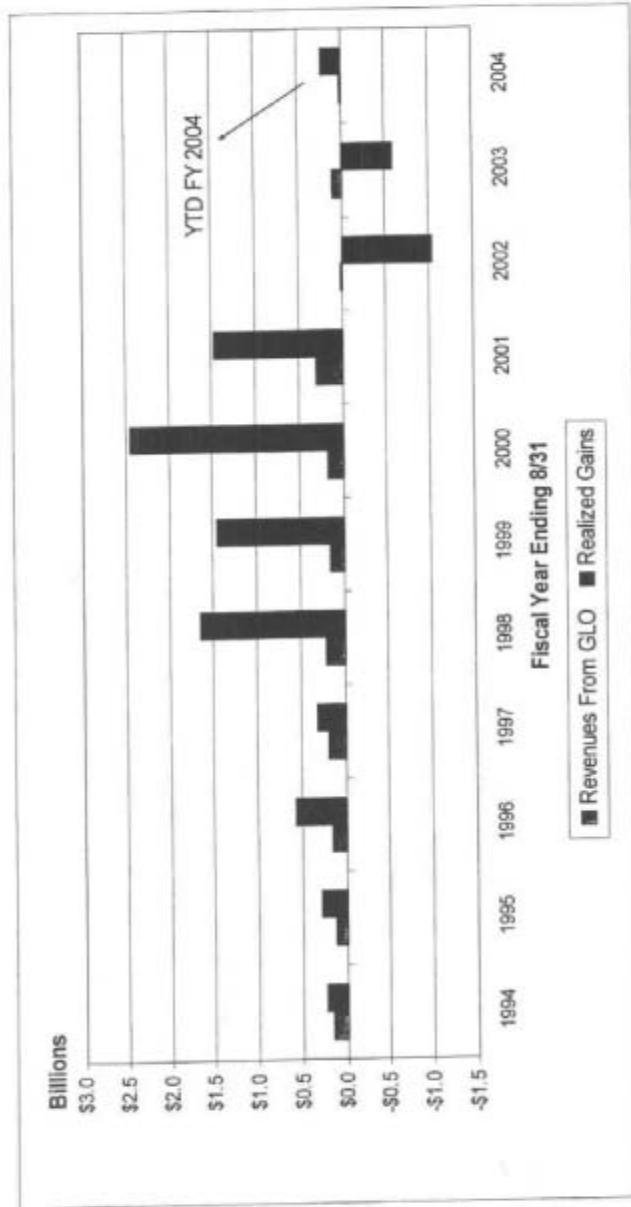
- ◆ General Land Office Contributions have declined during the last 10 years. They fell from a high of \$292 million in 2001 to a low of \$5 million in 2002. Contributions from the GLO have declined substantially due to the 77th Legislature amending the Natural Resources Code to allow the GLO to deposit some or all proceeds of future mineral leases and royalties into a special fund at the State Treasury.
- ◆ Total GLO contributions during the last ten years was \$1.6 billion – down from \$2.1 billion during the previous ten years.
- ◆ As GLO contributions have declined, growth in the PSF has become more dependent upon gains from financial assets.

Permanent School Fund

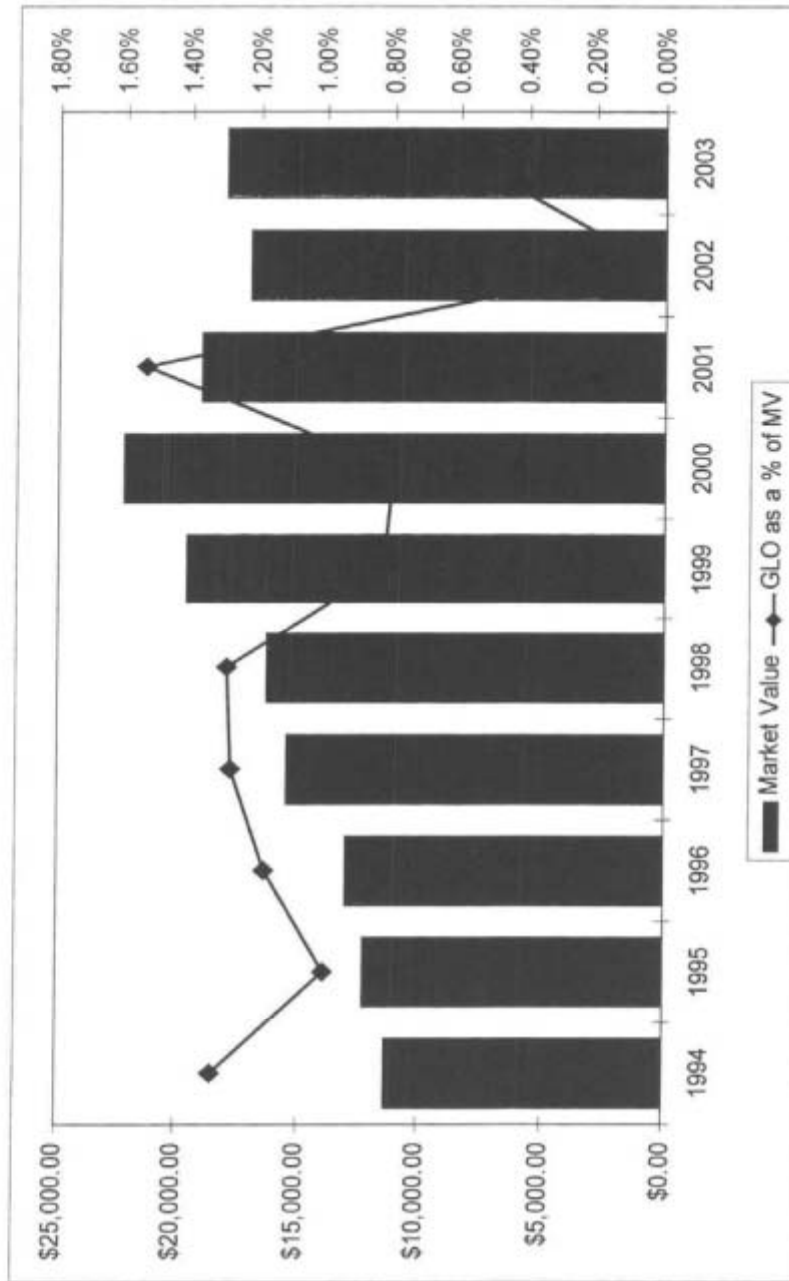
- ◆ The bulk of gains realized in the last ten years have been attributed to the ownership of equities rather than fixed income.
- ◆ Total gains from the sale of equities during the last ten years was \$6.8 billion.
- ◆ During the same period, gains on the sale of fixed income securities totaled only \$67 million.
- ◆ However, interest income from bonds accounted for 75% - 78% of the income distributed to the Available School Fund (ASF).

Permanent School Fund

Sources of Revenue FY 1994 - 2003



Permanent School Fund GLO Contributions as a Percent of PSF Assets



ASSET ALLOCATION

Texas Permanent School Fund

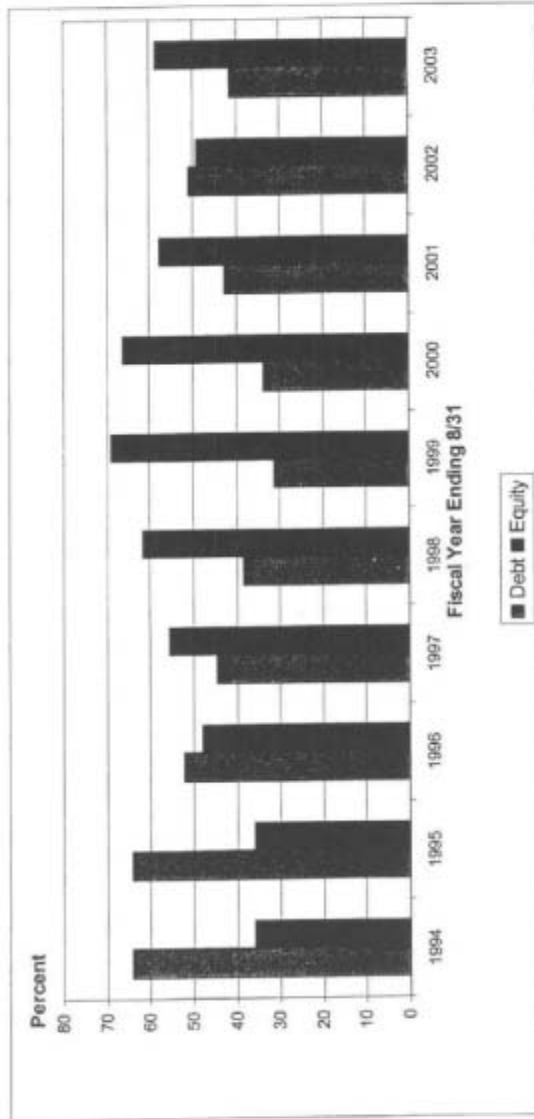
Permanent School Fund

- Since 1994 the asset allocation of the fund has been impacted by the requirement to produce the Biennial Revenue Estimate (BRE) income.
- In 2003 the target allocation was 55% equities and 45% fixed income including a 5% allocation to high-yield bonds.
- In September 2003, Texans voted on an amendment to the state constitution changing the spending formula of the fund.

Permanent School Fund

- During the past 12 months the SBOE:
 - Terminated 39 Active External Managers.
 - Indexed the Equity Portfolios.
 - Reduced External Management Fees by \$17 million per annum.
 - Approved changing the custody and securities lending agent which will reduce operating costs.
 - Revised the asset allocation to increase the annual expected return to 8.02% from 7.26%.

Permanent School Fund Asset Allocation 1994 – 2003 Market Values



Permanent School Fund

- In February 2004, the State Board of Education voted to change the asset allocation of the Fund to improve the returns over the long-term.
- The target allocation reduced fixed income to 25% and increased equities to 75%.
- Still, the Fund's asset allocation is dissimilar to that of other funds of equal size.

PSF Asset Mix

Portfolio Component	Actual Allocation 12/31/2003	12/31/2003 Target	Current Target
Large Cap Dom Equity	41%	32%	45%
Small/Mid Cap Dom Equity	9%	8%	10%
International Equity	16%	15%	20%
Domestic Fixed Income	32%	40%	25%
High-yield Fixed Income	0%	5%	0%
Cash Equivalents	2%	0%	0%
Totals	100%	100%	100%
Expected Return	7.60%	7.26%	8.02%

20

Permanent School Fund

Portfolio Component	12/31/2002		Current	
	%	Style	%	Style
Large Cap Equities	29.47	Active/ Passive	41.2	Passive
Small/Mid Cap Equities	6.63	Active	11.5	Passive
International Equities	14.03	Active	15.9	Passive
High-Grade Fixed Income	44.52	Active	31.4	Active
High-Yield Fixed Income	5.35	Active	0.0	
Funds Managed Internally	61.58		84.1	
Funds Managed Externally	38.42		15.9	

Peer Comparison

2002 NACUBO Endowment Study

(Peer funds invest 32.5% in alternative investments)

Average Asset Class Composition of Total Investment Pool Assets

Investment Pool Assets	Fixed Income	Equity	Real Estate	Private Equity	Commodities	Natural Resources	Other		
Less than \$25 Million	55.4	31.0	2.2	4.8	1.3	0.2	0.1	2.0	2.9
\$25 Million to \$50 Million	59.8	28.7	2.4	3.9	3.2	0.3	0.3	0.1	1.3
\$51 Million to \$100 Million	60.8	27.5	2.6	3.5	4.1	0.2	0.2	0.1	0.9
\$101 Million to \$500 Million	56.9	25.3	2.8	2.8	6.7	1.7	1.5	1.6	0.7
\$501 Million to \$1 Billion	56.4	19.5	3.9	1.3	11.4	3.5	2.4	0.8	0.8
Greater than \$1 Billion	45.1	20.5	4.3	1.9	17.8	4.3	3.9	1.7	0.5
Dollar-Weighted Average	50.2	23.4	4.5	1.3	11.3	3.2	3.3	2.0	0.9
Equal-Weighted Average	57.4	26.9	2.7	3.9	5.1	0.9	1.1	0.4	1.6

644 institutions provided investment pool data. Table data are equal-weighted unless noted otherwise.

PSF DISTRIBUTION

Texas Permanent School Fund

Permanent School Fund

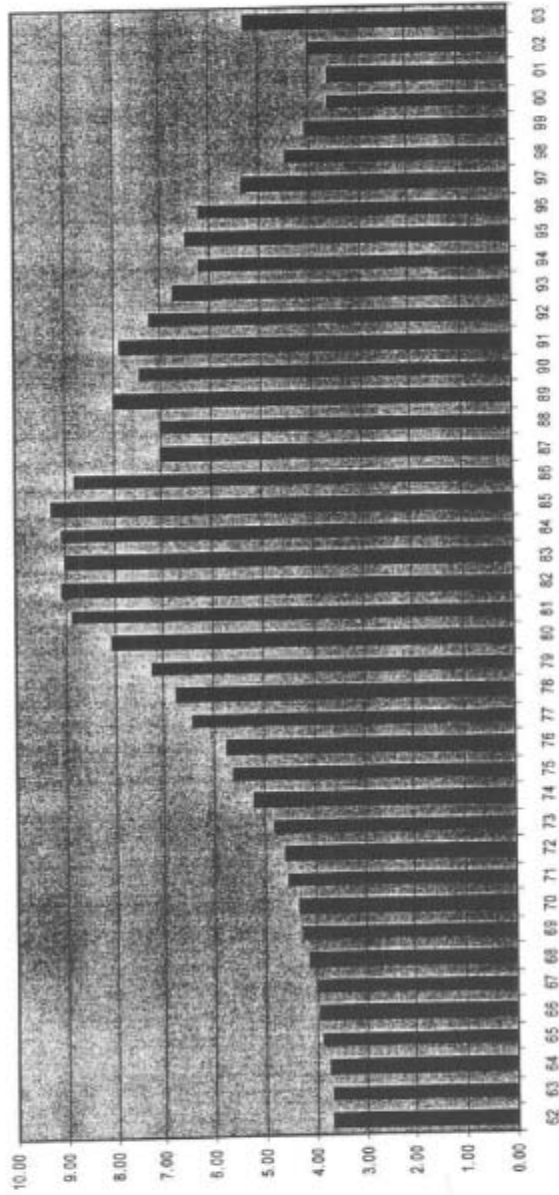
- The current spending formula is based on total return and calculated on the average market value of the Fund during the 16 quarters preceding the legislative session.
- The State Board of Education will determine the appropriate spending rate based on 2/3 vote. If the SBOE does not adopt a rate as provided by the Texas Constitution, the legislature would determine the spending rate.
- This rate should achieve the Fund's overriding goal of providing income distributions that continue to grow at a rate that will keep pace with inflation and growth in the student population, while preserving the real value of the Fund.

Permanent School Fund

- The annual income from the PSF to the Available School Fund has grown from \$738 million in 1994 to \$897 million in 2003.
- Contributions to the Available School Fund in 2003 include a one time increase due to a change in accrual accounting.
- Based on average daily attendance, the 1994 per capita income earned for the ASF was \$228. In 2003 this amount was \$227.
- Based on the new spending formula, the Fund will distribute \$880 million during both fiscal year 2004 and 2005 – these numbers equate to 4.5% of the average market value of the Fund during the 16 quarters preceding the 78th Legislative Session.

Permanent School Fund

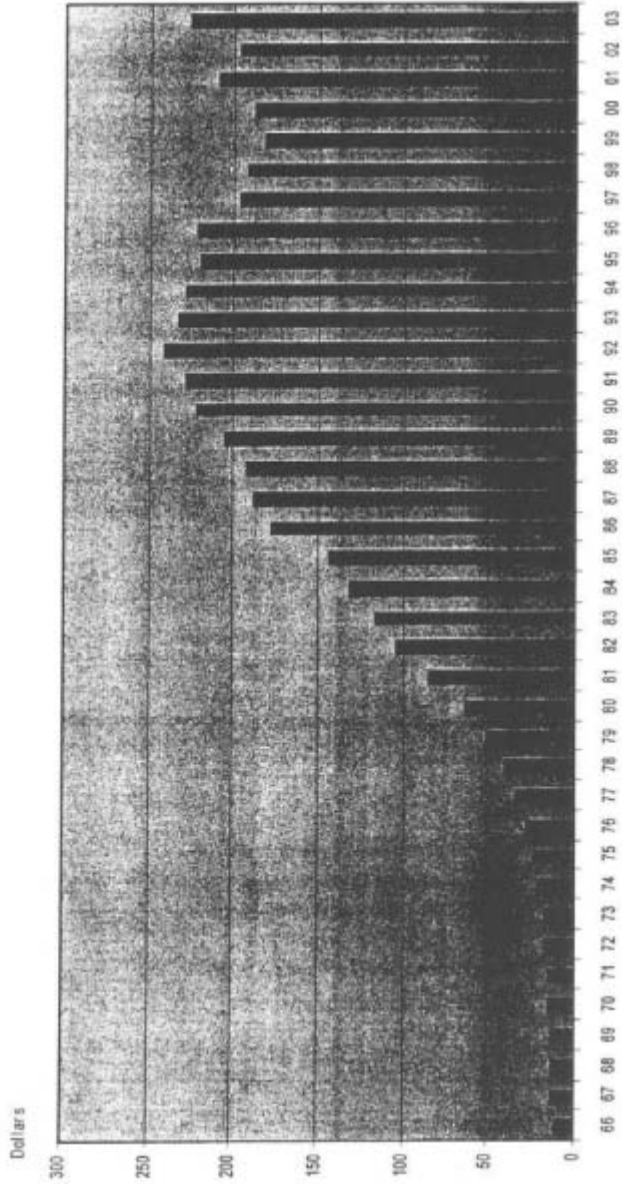
Distributions to the ASF as a Percentage of End of Fiscal Year Values



Footnote: Before 1985 bonds were valued at cost. Since 1985 all assets valued at market value.

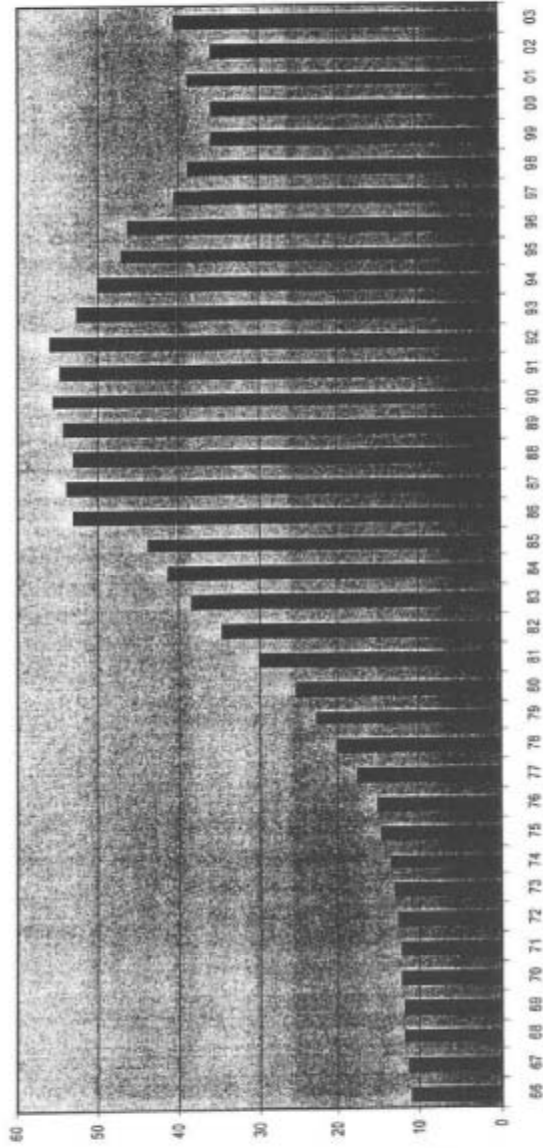
Permanent School Fund

Per Capita Spending



Permanent School Fund

Per Capita Spending Adjusted for Inflation



Spending in 1966 dollars.

Example of the Spending Formula to achieve Intergenerational Equity

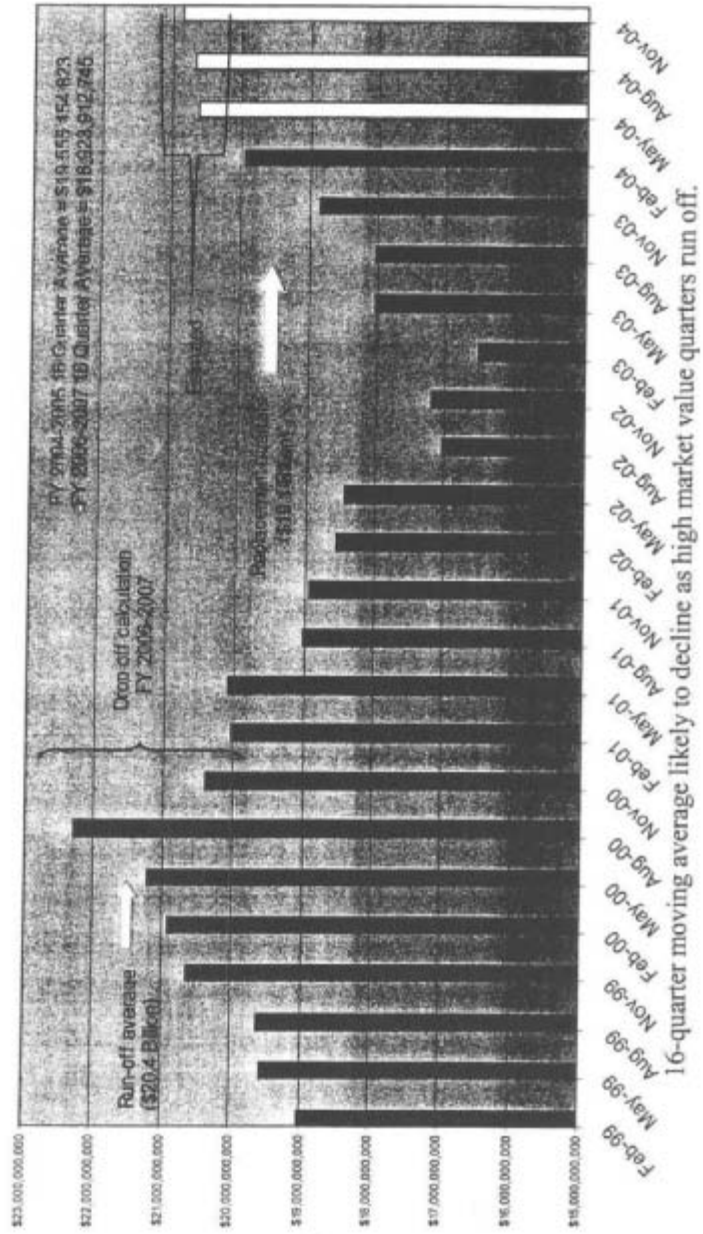
Expected Total Return (+)	8.02%
Rate of Inflation (minus) (-)	2.60%
Student Growth (ADA) (-)	2.40% / 1.40%
GLO Contributions (+)	0.03% / 0.58%
Administrative Expenses (-)	0.10%
Spending Range (=)	2.95% / 4.50%
Real Growth Rate of Endowment	0.00%

Source: Callan Associates (adjusted for ranges).

Spending applied to 16 quarter moving average. Assumes 75% equities, 25% bonds.

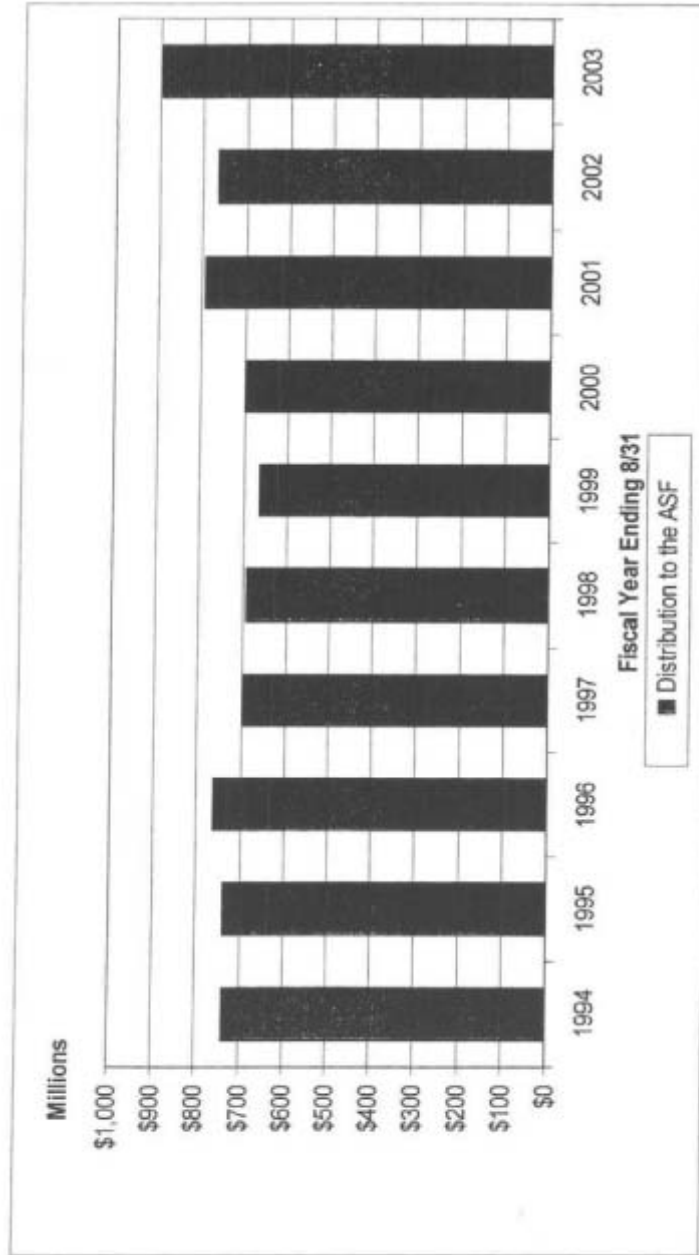
Permanent School Fund

Quarterly Market Values



Permanent School Fund

Distributions to the Available School Fund 1994 - 2003



2003 distribution includes accrued interest income of \$127 million.

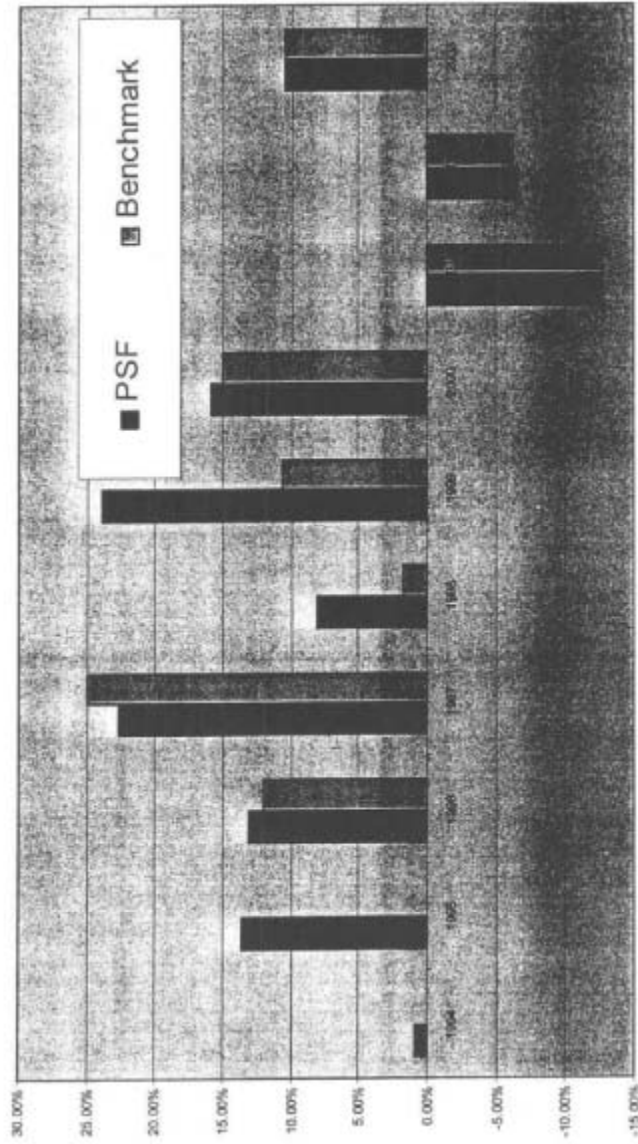
TOTAL RETURN

Texas Permanent School Fund

Permanent School Fund

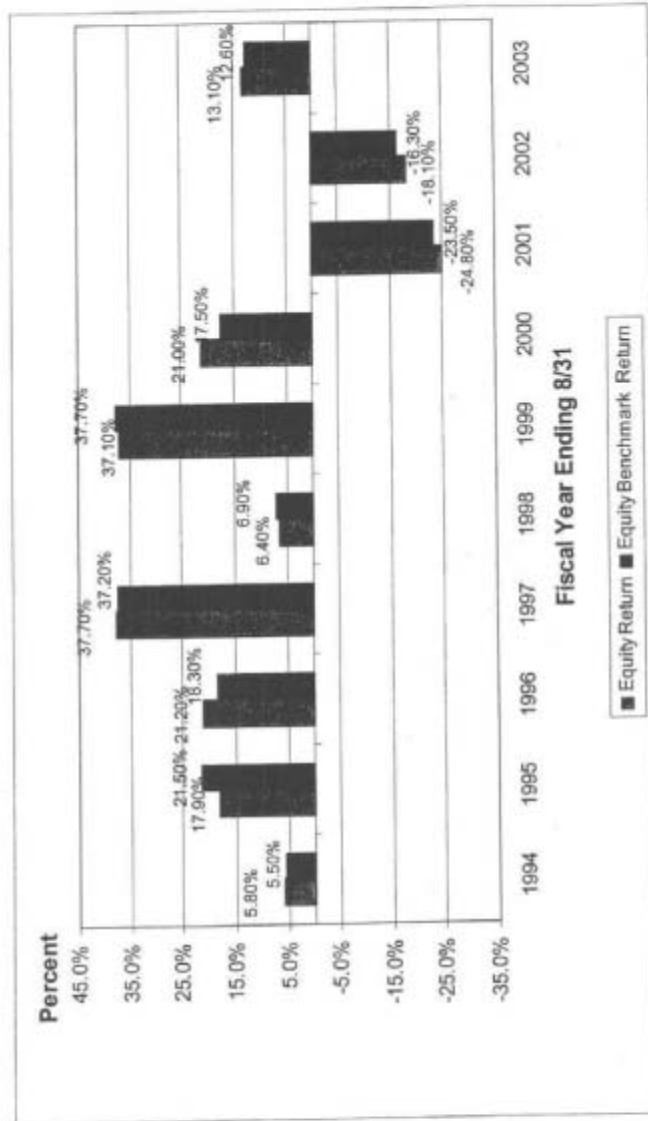
- During the five year period ending August 31, 2003, the PSF total return was 5.35% compared to 4.98% for the Fund's Target Policy Benchmark.
- The five year ending August 31, 2003 annualized rate of return for the PSF domestic equity portfolio has been 3.05% compared to 2.48% for the S&P 500.
- The five year ending August 31, 2003 annualized rate of return for the PSF high-grade fixed income portfolio was 6.92% compared to 6.56% for the Lehman Brothers Aggregate Index.

Permanent School Fund Total Fund Return

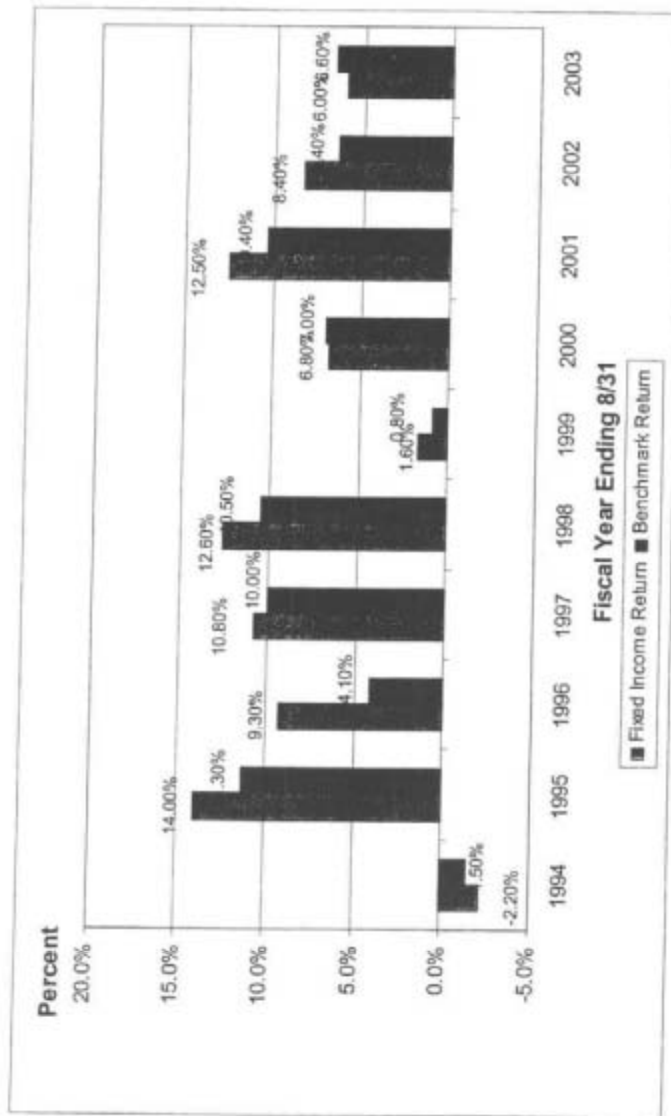


Fiscal Years Ending 8/31

Permanent School Fund Total Return – Equity Portfolio



Permanent School Fund Total Return – Fixed Income



Permanent School Fund

- The PSF has had only two negative annual returns during the past 10 years.
- 2001 and 2002 marked the worst years in the equity markets in more than a decade.
- Despite this, the Fund outperformed its Target Policy Benchmark during the past five years – 5.35% versus 4.98% annualized.

BOND GUARANTEE PROGRAM

Texas Permanent School Fund

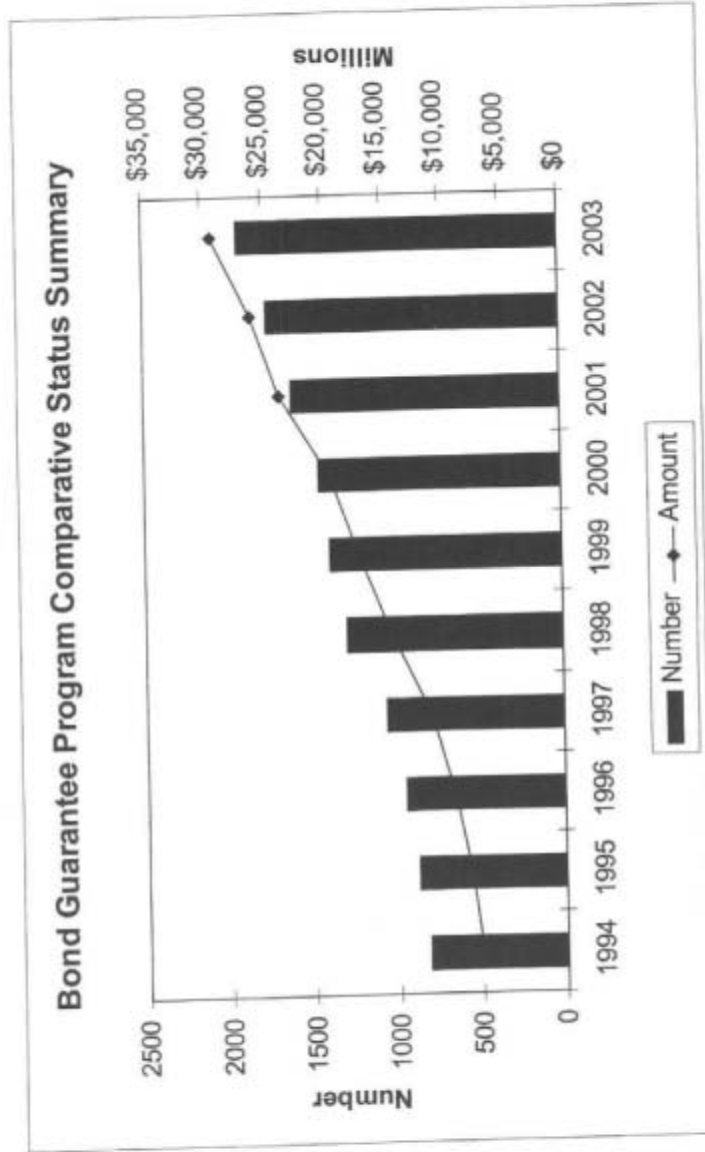
Permanent School Fund

- Since inception the Bond Guarantee program has guaranteed 2,590 school district bond issues for a total of \$41.85 billion.
- At the end of fiscal year 2003 there were 1,929 issues outstanding.
- The Bond Guarantee Program allows School Districts to issue debt at lower interest rates due to the assigned of a triple-A rating by major bond rating firms on the debt.

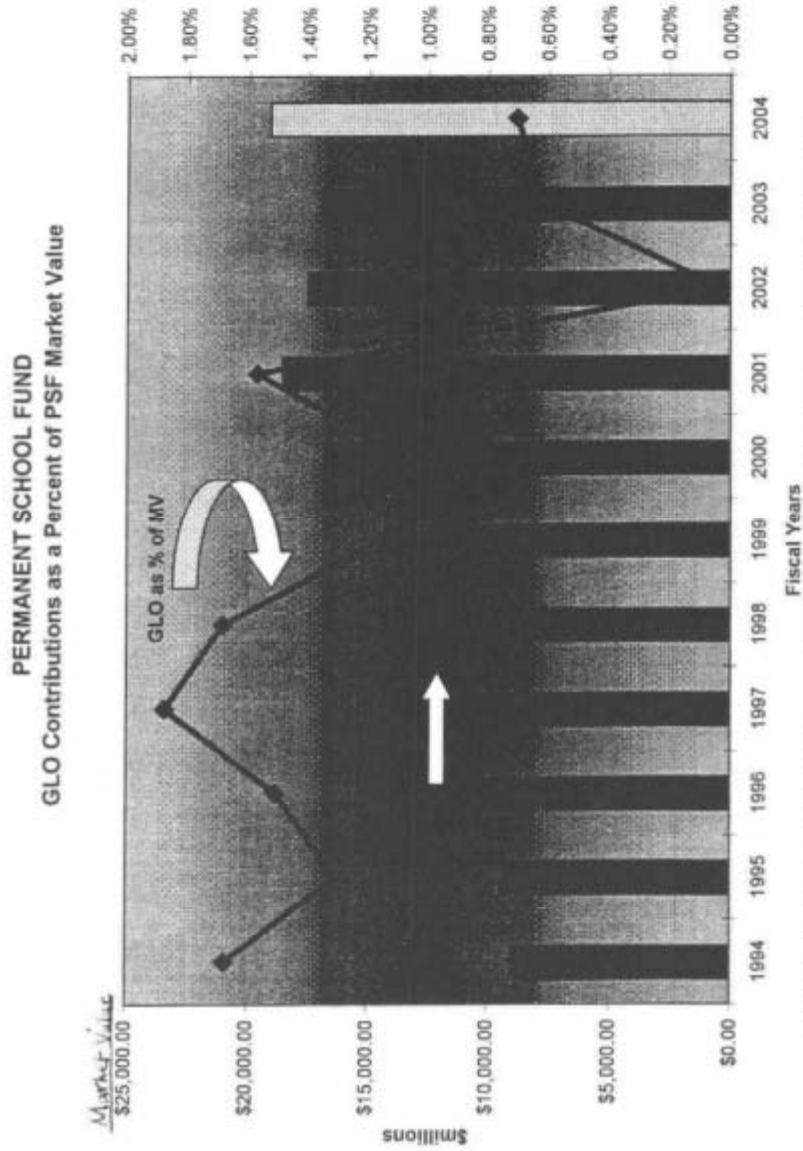
Permanent School Fund

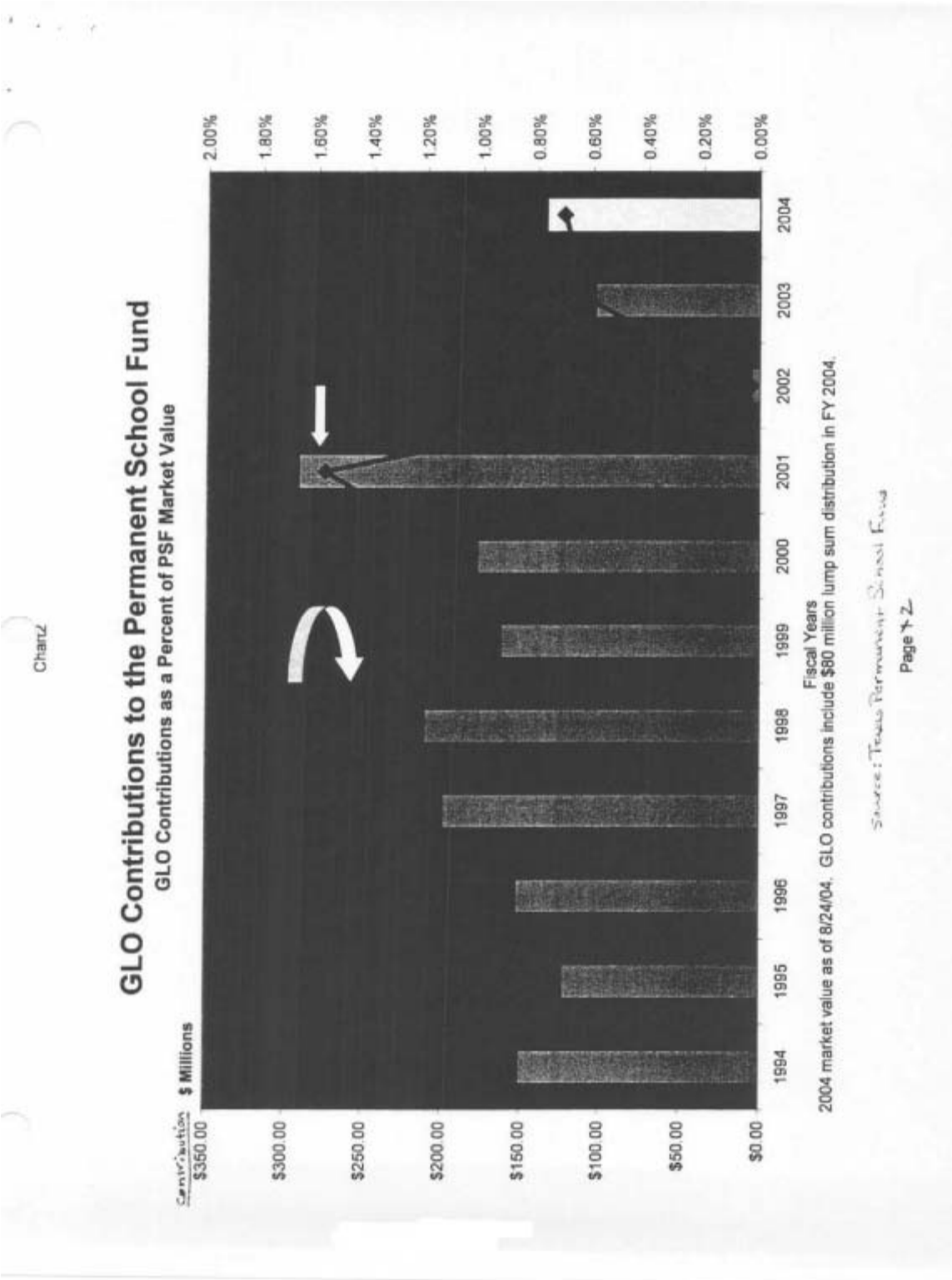
- ◆ The guarantee capacity of the Fund is limited in two ways:
 - Imposed by state law, two and a half times the lower of cost or fair value of the Fund's assets. Fund assets includes real estate owned by the Fund.
 - Imposed by the IRS, limits the amount guaranteed to 250% of the lower of historical cost or current fair market value of the Fund adjusted by a factor that allocates the historical cost or current fair market value between the value of the Fund as it existed on May 15, 1989 and the subsequent additions to the Fund.

Texas Permanent School Fund



Appendix C





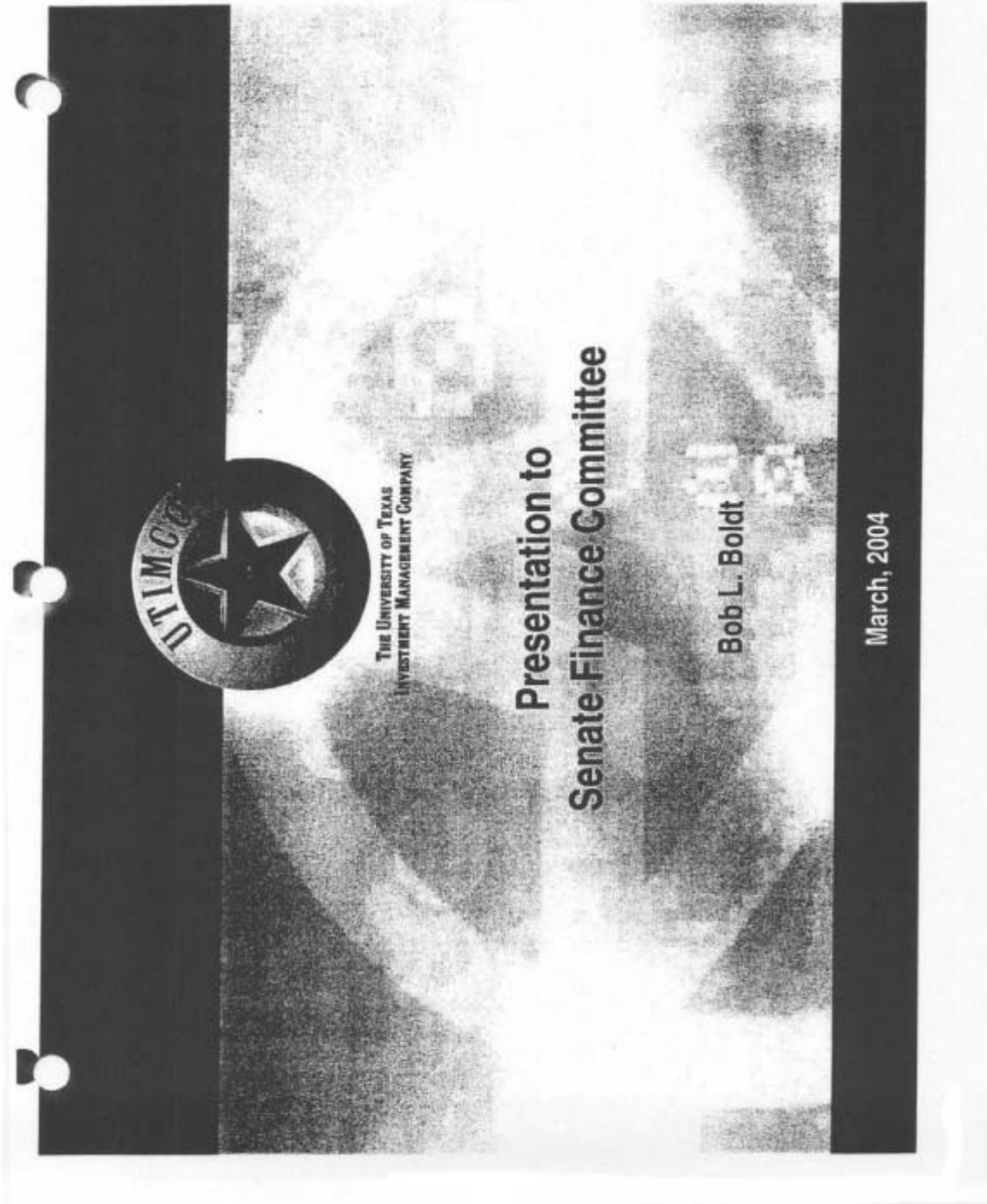
GLO Contributions to the PSF

Yearly Contributions

1994	\$150,859,436
1995	\$122,810,155
1996	\$152,713,061
1997	\$199,064,883
1998	\$211,139,545
1999	\$163,176,906
2000	\$178,298,087
2001	\$291,880,880
2002	\$5,207,665
2003	\$104,481,824
2004	\$142,264,843

Source: General Land Office

Appendix D



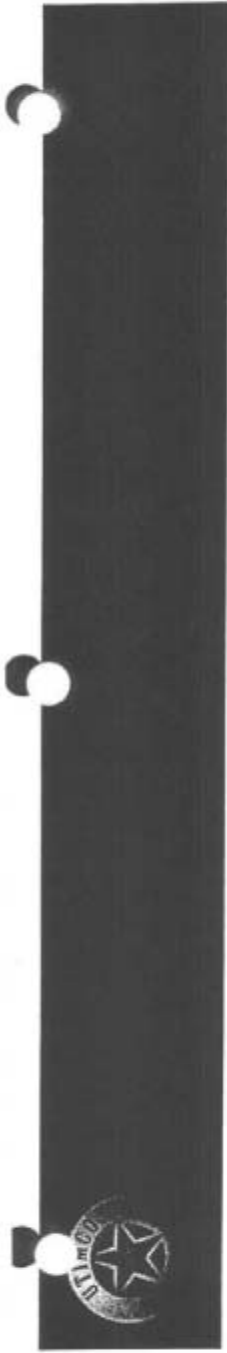


Requested Information

- ◆ Historical Values and Investment Performance of the Permanent University Fund
- ◆ Trends in PUF Management and Large Endowment Fund Management
- ◆ UTIMCO Management Strategies

March, 2004

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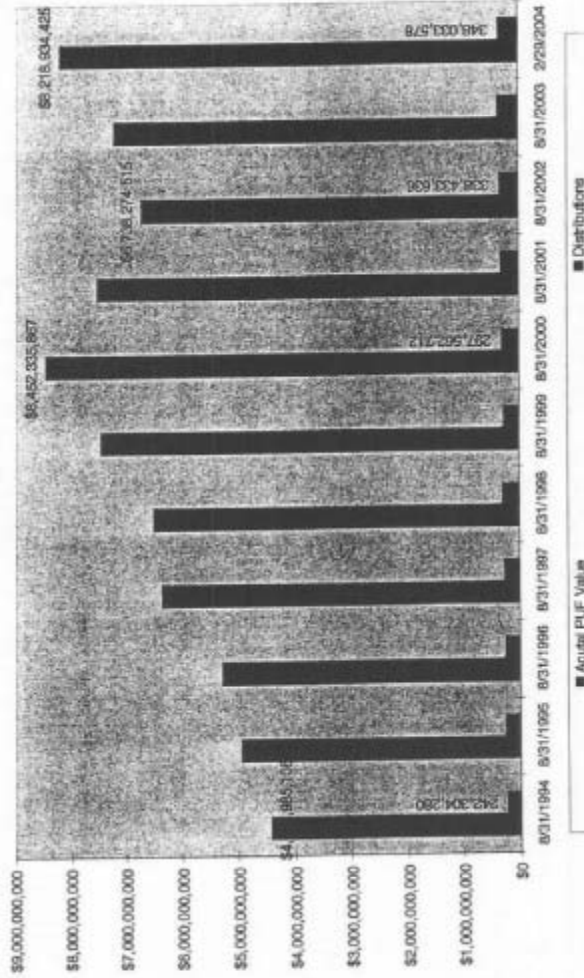


Permanent University Fund
Historical Values and Investment Performance

PUF Values and Distributions 1994 to Today

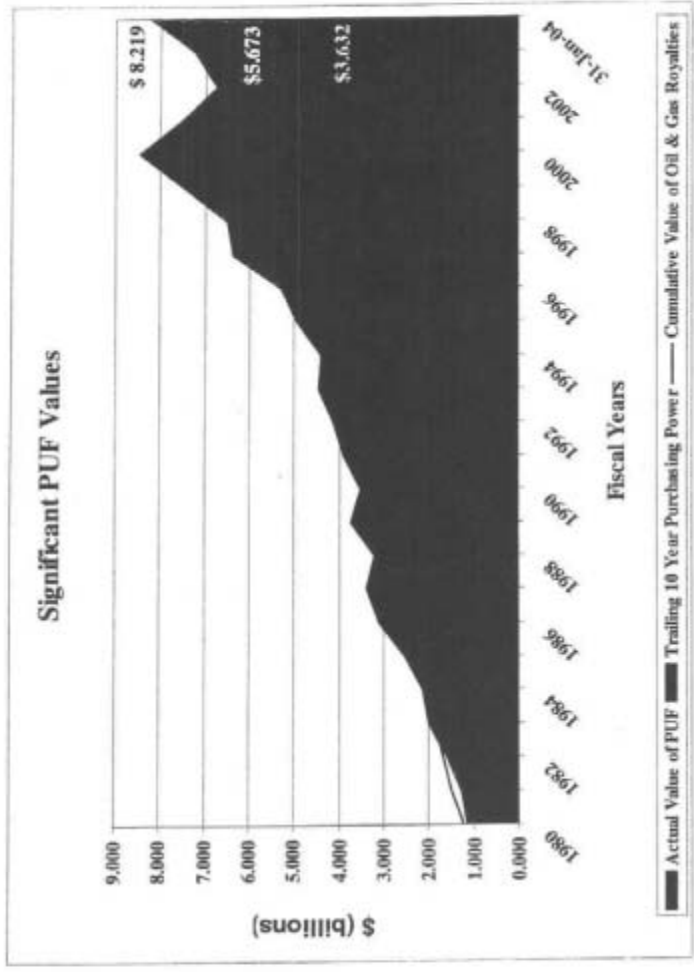


Permanent University Fund
Values and Distributions
1994 through 2004



March, 2004

 **PUF Values Relative to Constitutional Limits**



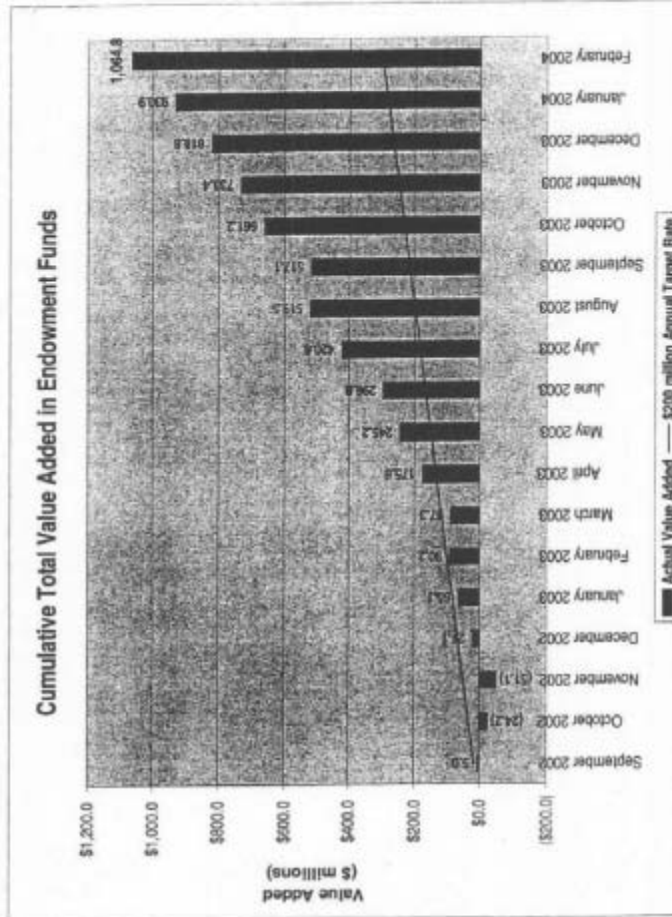


Historical PUF Returns

**Permanent University Fund
Performance Summary
February 29, 2004**

Total Returns (%) (After all fees and expenses for PUF)	Performance Results for Periods Ending February 29, 2004 (Returns for Periods Longer Than One Year are Annualized)									
	One Month	Three Months	Six Months	Fiscal Year to Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years
Permanent University Fund	2.49	8.34	15.49	15.49	31.74	10.44	5.29	3.88	6.05	9.74
Policy Portfolio	1.43	5.71	10.86	10.86	21.58	6.18	1.70	2.87	5.16	10.50
Value-Added	1.06	2.63	4.63	4.63	10.16	4.26	3.59	1.01	0.89	(0.76)

UTIMCO Has Added Significant Value in Recent Fiscal Years



March, 2004



PUF Performance Relative to Other Texas Institutional Funds

Relative Performance of Major Texas Institutional Funds	Total Returns for Periods Ending December 31, 2003			
	1 Year	3 Years	5 Years	10 Years
Permanent University Fund	24.49%	2.60%	4.57%	9.29%
General Endowment Fund	25.40	3.16	6.22	10.04
Employee Retirement System	20.26	1.88	3.15	8.06
Teachers' Retirement System	23.34	2.01	3.44	9.41
Permanent School Fund	20.86	1.69	3.62	9.38



Peer Relative Performance Has Improved Substantially

Permanent University Fund vs.
Billion \$ Endowment Funds

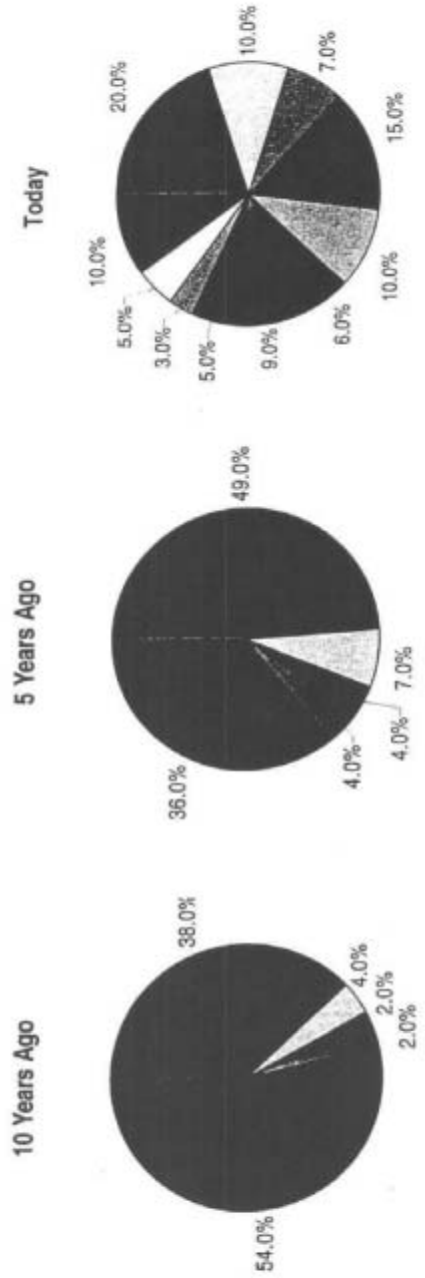
Periods Ended September 30,	One Quarter Percentile Rank	One Year Percentile Rank	Three Year Percentile Rank	Five Year Percentile Rank	Ten Year Percentile Rank
2003	6	25	43	92	97
2002		60	83	92	
2001		46	98	89	
2000		89	89	91	
1999		92	83	78	

These percentile ranks indicate the relative performance of the PUF compared to the endowments larger than \$1 billion in total assets in the Cambridge Universe. The number of endowments in the \$1 billion plus category has varied over the ten year period, but currently numbers 39 endowments. The ranks are calculated so that a percentile rank of 1 is best, and a rank of 100 is the worst.



Trends in
PUF Management and Large Endowment Fund Management

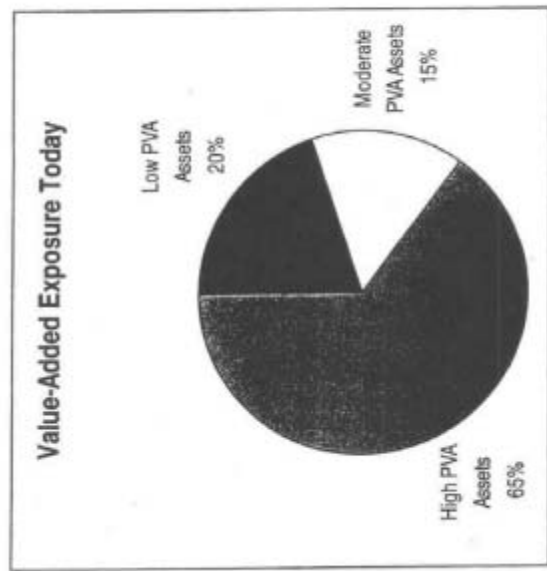
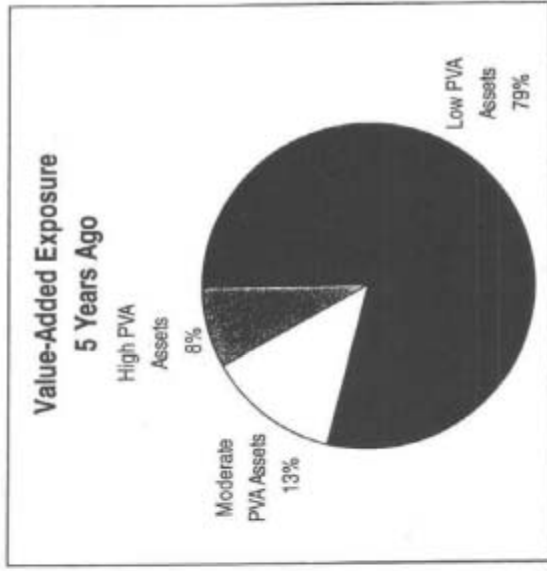
Changes in PUF Policy Asset Allocations



- US Equities
- Emerging International Equities
- Absolute Return Hedge Funds
- Venture Capital
- Private Equity
- Real Estate
- Commodities
- Fixed Income
- Developed International Equities
- Emerging International Equities
- Directional Hedge Funds
- Real Estate
- TIPS
- Cash

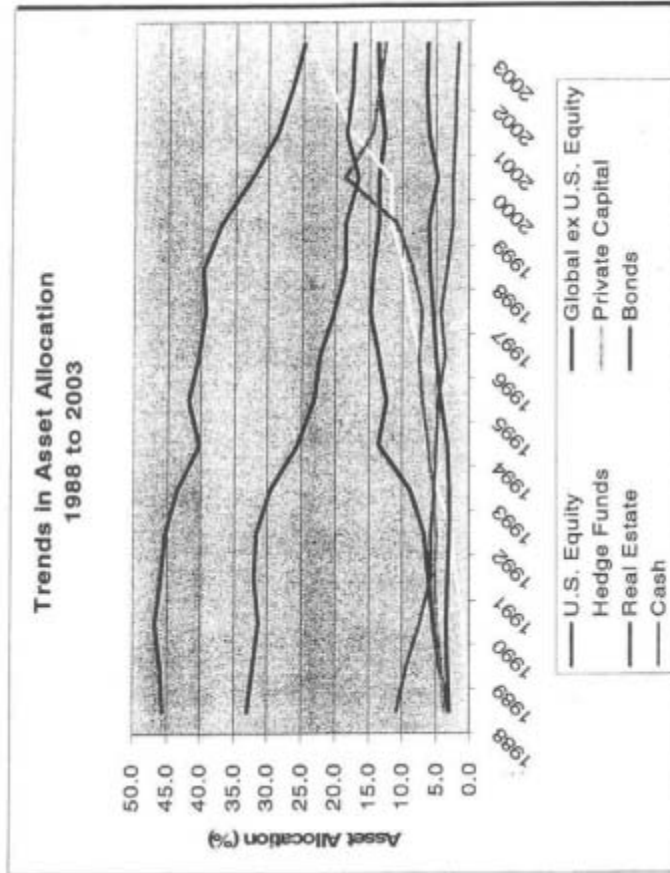
PUF Asset Mix by PVA Category

- Potential Value Added, or PVA, is a measure of the opportunity for above market level returns from active management in a particular asset category. PVA varies substantially across asset categories.

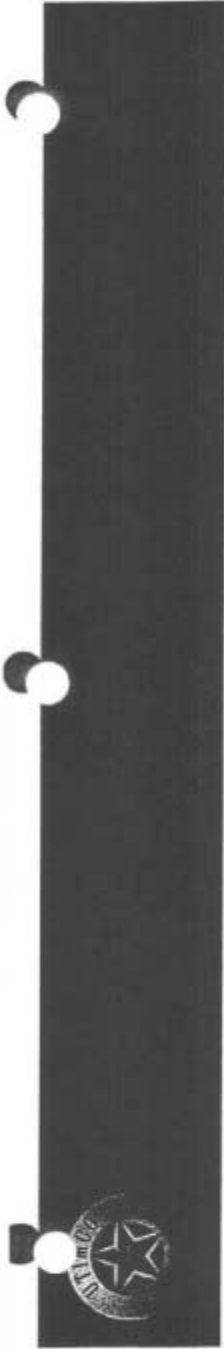




Trends in Asset Allocation at the 20 Largest Endowments

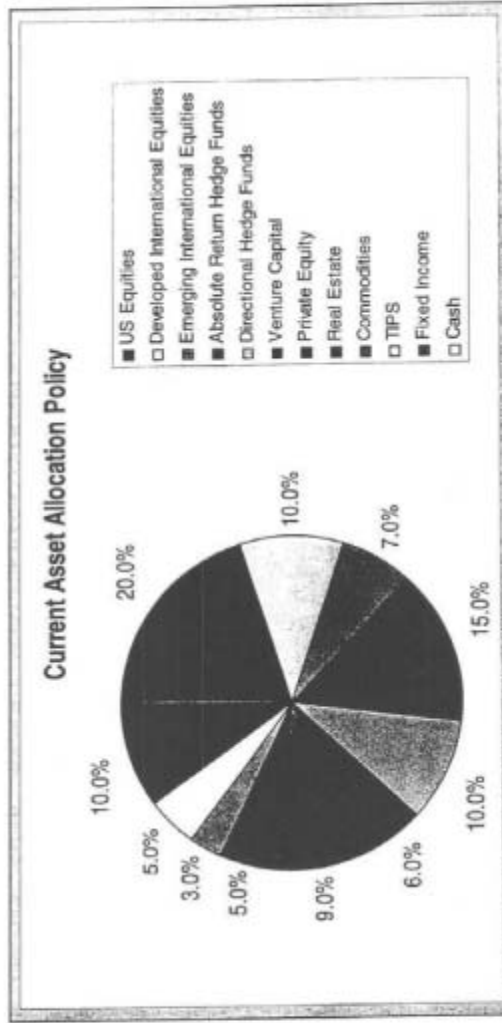


March, 2004

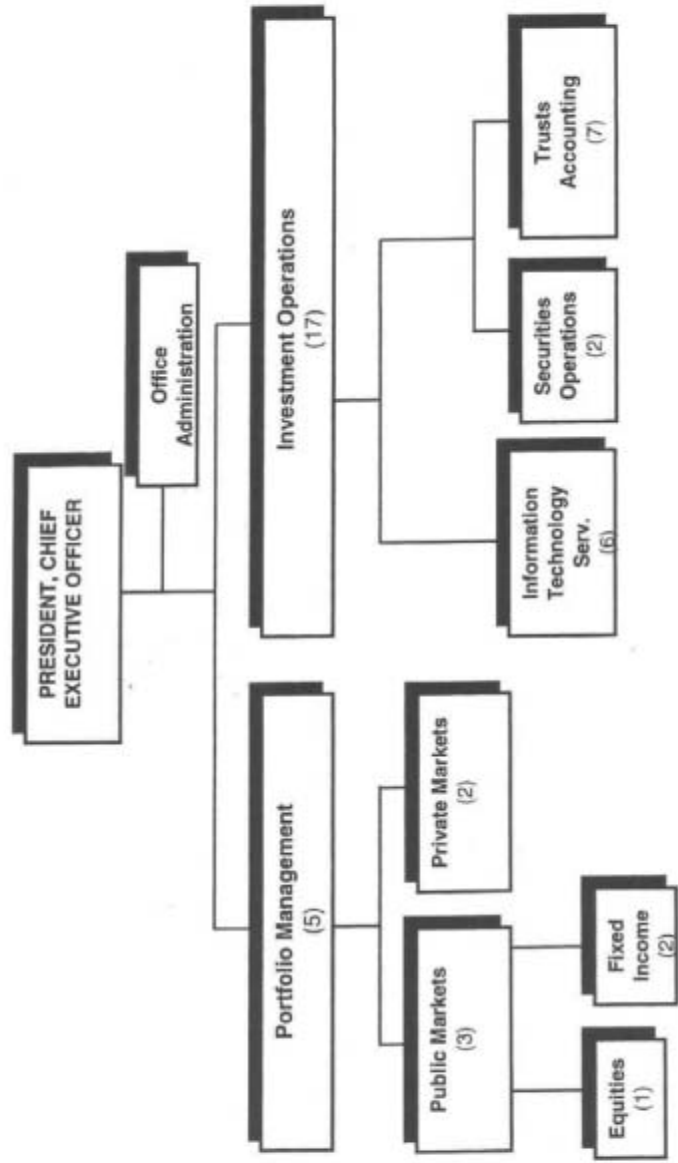


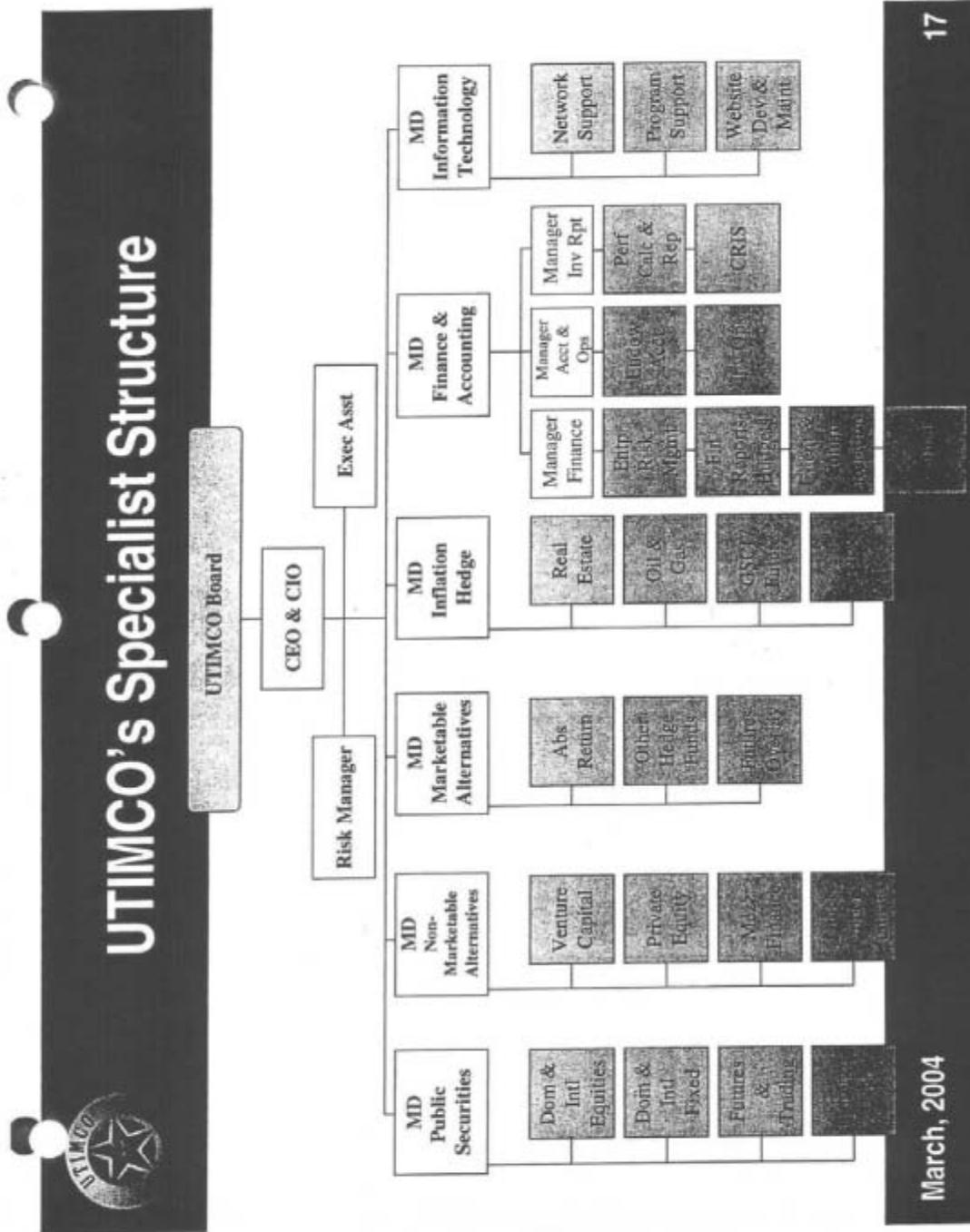
UTIMCO Management Strategies

UT System Endowment Funds Rich Asset Mix Requires a Specialized Management Structure



 **UTIMCO at Year End 2001**







Qualifications of UTIMCO Investment Staff

- ◆ UTIMCO Staff Totals 37
 - 15 Investment Professionals
 - 17 Accounting, Administration, and Operations Professionals

- ◆ Investment Professionals Have:
 - 137 Years of Investment Experience
 - 10 Graduate Degrees
 - 14 Professional Designations (CFA, CPA, CFP, etc)



UTIMCO Fiscal Year 2004 Fees

UTIMCO Fee and Direct Budgeted Investment Expenses Annual Fee and Allocation Schedule For the fiscal year ending August 31, 2004

Proposed Budget	Fund Name						Separate Funds	Total
	PUF	PHF	LTF	GEF	SITF	STF		
Market Value 2/29/04 (\$ millions)	8,218.9	840.0	3,404.5	PHF LTF 4,244.6	1,106.2	2,231.3	184.9	15,985.9
UTIMCO Services(1)	5,360,677	621,626	2,990,223		539,348			9,511,773
Direct Expenses of the Fund								
External Management Fees	6,234,803	0	3,250,296			N/A (2)		9,525,099
External Management Fees - Performance Based	5,389,717	0	3,023,924					8,423,640
Other Direct Costs	1,769,946	23,313	56,463	1,440,046	124,202		0	3,414,000
Total Direct Expenses of the Fund	13,404,465	23,313	56,463	7,754,266	124,202		0	21,362,739
TOTAL	18,765,143	644,839	3,046,716	7,754,266	663,550	N/A (2)	0	30,874,512
Percentage of Market Value								
UTIMCO Services	0.065%	0.074%	0.088%	0.000%	0.048%	0.000%	0.000%	0.060%
Direct Expenses of the Fund	0.163%	0.003%	0.002%	0.183%	0.011%	0.000%	0.000%	0.134%
TOTAL	0.228%	0.077%	0.089%	0.183%	0.060%	0.000%	0.000%	0.193%

(1) Allocation Ratio: PUF-56%, Health Fund-7%, LTF-32%, SITF-5%

(2) Income is net of fees

(Amounts may not foot due to rounding adjustments)



UTIMCO Strategic Objectives

- ◆ Earn \$200 million in Value-Added Per Year,
- ◆ Be Recognized as One of the Five Best Managed Endowments in the United States,
- ◆ Earn High Satisfaction Ratings From Our Clients for:
 - Investment Skill
 - Innovation
 - Communication

Appendix E

Historical Presentation of Operating Expenses
UT System Investment Funds
1994 thru 2004

For the Fiscal Year Ended:	UTIMCO Services	Direct Fund Expenses	Total Expenses	Assets Managed	Expenses As a Percentage of Assets Managed
August 31, 2004	\$ 8,628,770	\$ 26,396,745	\$ 35,025,515	\$16.3 Billion	0.217%
August 31, 2003	\$ 7,606,088	\$ 18,052,086	\$ 25,658,174	\$14.8 Billion	0.174%
August 31, 2002	\$ 4,966,657	\$ 21,934,325	\$ 26,800,982	\$13.3 Billion	0.202%
August 31, 2001	\$ 4,508,611	\$ 17,253,152	\$ 21,761,763	\$14.2 Billion	0.154%
August 31, 2000	\$ 4,656,180	\$ 17,553,678	\$ 22,209,856	\$15.5 Billion	0.143%
August 31, 1999	\$ 5,079,734	\$ 8,201,570	\$ 13,281,304	\$13.6 Billion	0.097%
August 31, 1998	\$ 2,929,793	\$ 5,920,230	\$ 8,850,023	\$11.3 Billion	0.089%
August 31, 1997	\$ 4,671,095	\$ 6,214,424	\$ 10,885,519	\$10.8 Billion	0.100%
August 31, 1996	\$ 3,701,917	\$ 3,794,117	\$ 7,496,034	\$9.0 Billion	0.083%
August 31, 1995	\$ 1,941,627	\$ 3,781,918	\$ 5,723,545	\$8.4 Billion	0.068%
August 31, 1994	\$ 2,419,332	\$ 3,108,204	\$ 5,527,536	\$7.4 Billion	0.074%

¹ Note that UTIMCO was created in March 1996. The expenses presented are for the 10 months ended December 1996.

² Note that the fiscal year end of UTIMCO was changed at this time from a calendar year to a fiscal year. The expenses presented are for the eight months ending August 31, 1997.

³ Note that the information presented for the fiscal years ending August 31, 1994 and 1995 were related to the operations of the UT System Office of Asset Management, the UT System department managing the UT Investment Funds prior to the creation of UTIMCO in March 1996.

*** The expenses presented above reflect the operating expenses as reflected in the Annual Audited Financial Statements for UTIMCO. A broader presentation and analysis of Investment Management Expenses is being prepared, but is not yet completed.

The UTIMCO related budget for management of the endowment and operating funds is comprised of two distinct elements. "UTIMCO Services" provide for all expenses directly associated with UTIMCO operations including staff compensation and benefits, general operating expenses such as travel and computer equipment, office lease expenses, and professional fees including general legal and accounting expenses. The "Direct Fund Expenses" provide for all expenses directly related to the external management of assets of the endowment and operating funds. These expenses include external management fees, custodian fees, analytical resources expenses, general consulting expenses, and individual investment related legal and accounting expenses.