

OFFICIAL STATEMENT DATED JANUARY 9, 2002

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the 2002 Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, court decisions and published rulings, and the 2002 Bonds are not "specified private activity bonds" for purposes of the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein.

NEW ISSUE - Book-Entry-Only



RATING: Moody's: "Aaa"
See "FINANCIAL GUARANTY INSURANCE"
and "RATING" herein.

**TEXAS PUBLIC FINANCE AUTHORITY
(Texas Military Facilities Commission)**

\$12,975,000

**Refunding and Armory Improvement Revenue Bonds
Series 2002**

Dated: January 1, 2002

**Due: April 1 and October 1,
as shown on inside cover**

The Texas Public Finance Authority (the "Authority") is issuing its Texas Public Finance Authority (Texas Military Facilities Commission) Refunding and Armory Improvement Revenue Bonds, Series 2002 (the "2002 Bonds"), which are special and limited obligations of the Texas Military Facilities Commission (the "Commission"), formerly known as the Texas National Guard Armory Board, an agency of the State of Texas (the "State"). The 2002 Bonds are issued under the authority of the Constitution and laws of the State, particularly Chapter 1232, Texas Government Code, as amended, Chapter 435, Texas Government Code, as amended, and resolutions adopted by the Commission and the Authority. Proceeds from the sale of the 2002 Bonds will be used to: (i) refund and defease a portion of the Outstanding Parity Bonds issued by or on behalf of the Commission (the "Refunded Bonds"), (ii) construct, remodel, repair and/or equip one or more buildings used or for use as armories, and acquire land as a site for the construction of building(s) to be used as armories, and (iii) pay the costs of issuing the 2002 Bonds, as more fully described herein.

The 2002 Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described herein. Beneficial ownership of the 2002 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the 2002 Bonds will be made to the purchasers thereof.

Principal of, premium, if any, and interest on the 2002 Bonds will be payable by the paying agent/registrant (the "Paying Agent/Registrar"), initially JPMorgan Chase Bank, to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent remittance to the owners of the beneficial interests in the 2002 Bonds. Interest on the 2002 Bonds will accrue from January 1, 2002 and will be payable semi-annually on April 1 and October 1 of each year, commencing April 1, 2002. Principal on the 2002 Bonds will be payable semi-annually on April 1 and October 1, commencing April 1, 2002.

The 2002 Bonds are subject to optional redemption prior to maturity, as more fully described herein. See "THE 2002 BONDS—Optional Redemption."

The 2002 Bonds will be special and limited obligations of the Commission payable solely from Pledged Revenues, as described herein, which will consist primarily of rental payments to the Commission from funds appropriated by the Legislature to the Adjutant General of the State of Texas. **The Legislature has no obligation to make any such appropriation. Neither the State of Texas nor any state agency, political corporation, or political subdivision of the State of Texas will be obligated to pay the principal of, premium, if any, or interest on the 2002 Bonds, except as described herein with respect to payments to be made by the Authority from the revenues pledged for such purpose. Neither the full faith and credit nor the taxing power of the State of Texas or any state agency, political corporation, or political subdivision of the State of Texas (including the Authority) will be pledged to the payment of the principal of, premium, if any, or interest on the 2002 Bonds. The Authority has no taxing power. See "THE 2002 BONDS - Source of Payment/Security for the 2002 Bonds."**

The scheduled payment of principal of and interest on the 2002 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2002 Bonds by Ambac Assurance Corporation (the "Bond Insurer"). See "FINANCIAL GUARANTY INSURANCE" and "RATING" herein.

**MATURITY AND PRICING SCHEDULE
See Inside Cover**

The 2002 Bonds are offered for delivery when, as, and if issued and accepted by the Underwriters, and subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain other legal matters will be passed upon for the Underwriters by their counsel, Vinson & Elkins L.L.P., Houston, Texas. It is expected that the 2002 Bonds will be delivered on or about February 7, 2002 through the facilities of DTC.

COASTAL SECURITIES

U.S. BANCORP PIPER JAFFRAY INC.

ESTRADA HINOJOSA & COMPANY, INC.

MATURITY AND PRICING SCHEDULE

\$12,975,000 Serial Bonds¹

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
04/1/2002	\$355,000	3.000%	1.500%	882756HB8
10/1/2002	350,000	3.000%	1.600%	882756HC6
04/1/2003	350,000	3.000%	1.800%	882756HD4
10/1/2003	530,000	3.000%	1.900%	882756HE2
04/1/2004	215,000	3.000%	2.530%	882756HF9
10/1/2004	575,000	3.000%	2.530%	882756HG7
04/1/2005	400,000	3.000%	3.120%	882756HH5
10/1/2005	775,000	3.000%	3.120%	882756HJ1
04/1/2006	415,000	3.375%	3.480%	882756HK8
10/1/2006	715,000	3.375%	3.480%	882756HL6
04/1/2007	310,000	3.750%	3.830%	882756HM4
10/1/2007	740,000	3.750%	3.830%	882756HN2
04/1/2008	330,000	4.000%	4.030%	882756HP7
10/1/2008	330,000	4.000%	4.030%	882756HQ5
04/1/2009	335,000	4.250%	4.250%	882756HR3
10/1/2009	335,000	4.250%	4.250%	882756HS1
04/1/2010	350,000	4.250%	4.350%	882756HT9
10/1/2010	355,000	4.250%	4.350%	882756HU6
04/1/2011	365,000	4.375%	4.450%	882756HV4
10/1/2011	370,000	4.375%	4.450%	882756HW2
04/1/2012	385,000	4.500%	4.580%	882756HXO
10/1/2012	385,000	4.500%	4.580%	882756HY8
04/1/2013	400,000	4.625%	4.730%	882756HZ5
10/1/2013	405,000	4.625%	4.730%	882756JA8
04/1/2014	415,000	4.750%	4.850%	882756JB6
10/1/2014	420,000	4.750%	4.850%	882756JC4
04/1/2015	140,000	4.875%	4.960%	882756JD2
10/1/2015	145,000	4.875%	4.960%	882756JE0
04/1/2016	140,000	5.000%	5.020%	882756JF7
10/1/2016	145,000	5.000%	5.020%	882756JG5
04/1/2017	150,000	5.000%	5.080%	882756JH3
10/1/2017	155,000	5.000%	5.080%	882756JJ9
04/1/2018	155,000	5.000%	5.130%	882756JK6
10/1/2018	165,000	5.000%	5.130%	882756JL4
04/1/2019	165,000	5.000%	5.180%	882756JM2
10/1/2019	175,000	5.000%	5.180%	882756JN0
04/1/2020	170,000	5.125%	5.200%	882756JP5
10/1/2020	180,000	5.125%	5.200%	882756JQ3
04/1/2021	180,000	5.125%	5.220%	882756JR1

¹ The 2002 Bonds maturing on and after October 1, 2012 are subject to redemption at the option of the Authority acting at the direction of the Commission, prior to maturity, as a whole or from time to time in part, on April 1, 2012 and on any date thereafter at a price of par plus accrued interest to the date fixed for redemption. See "THE 2002 BONDS—Optional Redemption."

STATE OF TEXAS

**Rick Perry
Governor**

**Bill Ratliff
Lieutenant Governor**

**John Cornyn
Attorney General**

**Carole Keeton Rylander
Comptroller of Public Accounts**

TEXAS PUBLIC FINANCE AUTHORITY

Helen Huey

David Kelly

John C. Kerr

Cynthia L. Meyer

H. L. Bert Mijares, Jr.

**Kimberly K. Edwards
Executive Director**

**Judith Porras
General Counsel**

**First Southwest Company
Financial Advisor**

SALE AND DISTRIBUTION OF THE 2002 BONDS

Use of Official Statement

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or amended by the Authority from time to time (collectively, the “Official Statement”), may be treated as an Official Statement with respect to the 2002 Bonds described herein that is deemed final by the Authority as of the date hereof (or of any such supplement or amendment) except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the Authority to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2002 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create the implication that there has been no change in the affairs of the Authority or the State of Texas since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning Ambac Assurance Corporation (the “Bond Insurer”) contained under the caption “FINANCIAL GUARANTY INSURANCE” and in Appendix D “Specimen Financial Guaranty Insurance Policy” herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer, and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the 2002 Bonds, or (iii) the tax exempt status of the interest on the 2002 Bonds.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE 2002 BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

Marketability

IN CONNECTION WITH THE OFFERING OF THE 2002 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2002 BONDS AT A LEVEL ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Authority has no understanding with the Underwriters regarding the reoffering yields or prices of the 2002 Bonds and has no control over the trading of the 2002 Bonds after their sale by the Authority. Information regarding reoffering yields or prices is the responsibility of the Underwriters.

Securities Laws

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the 2002 Bonds to potential investors is made only by means of this entire Official Statement, including the Appendices hereto. No one is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement (including the Appendices). Certain defined terms used in this Summary Statement are defined elsewhere in this Official Statement.

Issuer Texas Public Finance Authority (the “Authority”) on behalf of the Texas Military Facilities Commission, formerly known as the Texas National Guard Armory Board, (the “Commission”).

Offering \$12,975,000 Texas Public Finance Authority (Texas Military Facilities Commission) Refunding and Armory Improvement Revenue Bonds, Series 2002 (the “2002 Bonds”).

Maturity April 1 and October 1 of each of the years and in the principal amounts set forth on the inside cover of this Official Statement. See “THE 2002 BONDS.”

Interest Interest on the 2002 Bonds accrues from January 1, 2002 and is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2002. See “THE 2002 BONDS.”

Redemption The 2002 Bonds maturing on and after October 1, 2012 are subject to redemption prior to maturity at the option of the Authority acting at the direction of the Commission, on any date on or after April 1, 2012 at the redemption price of par plus accrued interest, if any, to the date fixed for redemption. See “THE 2002 BONDS – Optional Redemption.”

**Source of Payment/
Security for the
2002 Bonds**

The 2002 Bonds and the interest thereon, are payable from Pledged Revenues. Pledged Revenues consist of the rents, issues and profits from all Property of the Commission, including, but not limited to (i) rentals, if any, received from use of the Property of the Commission, (ii) to the extent permitted by law, the proceeds of the sale of Property of the Commission, if any, (iii) to the extent permitted by law, any amounts received from the United States Government, if any, (iv) interest and income derived from the deposit and investment of moneys credited to Funds, including the Revenue Fund, the Interest and Sinking Fund, the Construction Fund, and the Reserve Fund, maintained pursuant to the Resolution, and (v) any additional revenues, income, receipts or other resources, including without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which may be pledged to the payment of the Bonds or Additional Bonds, but excluding Other Revenues. The rentals described above are expected to constitute the primary source of Pledged Revenues. Such rentals are derived from funds, if any, appropriated biennially by the State. The 2002 Bonds will constitute special obligations of the Commission and will be on a parity with the outstanding Series 1991 Bonds, Series 1991A Bonds, Series 1992A Bonds, and Series 1994 Bonds (the “Outstanding Parity Bonds”) (collectively, with the 2002 Bonds, the “Bonds”), and are secured by and payable solely from an irrevocable first lien on and pledge of the Pledged Revenues. In addition, the Commission has covenanted to maintain a balance in the Reserve Fund equal to the average annual debt service on all Bonds and Additional Bonds outstanding. The Reserve Fund will be fully funded at the time of the issuance of the 2002 Bonds. See “THE 2002 BONDS - Source of Payment/Security for the 2002 Bonds.” Upon payment or defeasance of the Outstanding Parity Bonds, the 2002 Bonds and any Additional Bonds will not be secured by a Reserve Fund. See “SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution.” Although the Legislature has never failed to appropriate funds for the Authority’s or the Commission’s revenue bonds, **the Legislature has no obligation to**

make the appropriations described above. There is no mortgage or other security interest in any physical facilities.

Rate Covenant

The Resolution, hereinafter defined, authorizing the 2002 Bonds provides that the Commission shall fix, charge and collect rents for the use of the Property of the Commission, in such amounts, without any limitation whatsoever, as will be at least sufficient at all times to provide, together with other Pledged Revenues, the money for making all deposits required to be made to the credit of the Interest and Sinking Fund and any Reserve Fund, respectively, to ensure full and timely payment for all of the Bonds and any Additional Bonds and, together with other moneys available for such purpose, for paying the Operation and Maintenance Expenses, as hereinafter defined. The Resolution further provides that the Commission shall maintain leases with the Adjutant General of the State of Texas or any agency of the federal government for the use of all or part of the Property of the Commission (as hereinafter defined) whereby the lease payments made by the Adjutant General or any agency of the federal government will be sufficient to provide the money for making all deposits required to be made to the credit of the Interest and Sinking Fund and any Reserve Fund in connection with the Bonds and any Additional Bonds, and, together with other moneys available for such purpose, for paying the Operation and Maintenance Expenses. See "SELECTED PROVISIONS OF THE RESOLUTION--Rate Covenant;" and "--Modifications to the Resolution."

Book-Entry-Only System

The 2002 Bonds are initially issuable only to Cede & Co, the nominee of DTC pursuant to a book-entry-only system. No physical delivery of the 2002 Bonds will be made to the Beneficial Owners, as hereinafter defined, of the 2002 Bonds. Principal and interest will be paid to Cede & Co., which will distribute such payments to the participating members of DTC for remittance to the Beneficial Owners of the 2002 Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

Use of Proceeds

The proceeds of the 2002 Bonds will be used to: (i) refund and defease a portion of the Outstanding Parity Bonds issued by or on behalf of the Commission (the "Refunded Bonds"), (ii) construct, remodel, repair, and/or equip one or more buildings used or for use as armories, and acquire land as a site for the construction of building(s) to be used as armories, and (iii) pay the costs of issuing the 2002 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS."

Additional Bonds

Additional parity bonds may be issued, when among other requirements, the existing leases of Properties of the Commission to the State of Texas or to any agency of the federal government, will provide sufficient rental income during the next succeeding fiscal year which, when added to the interest income to be received on the monies (if any) in the Reserve Fund, will be fully sufficient to pay the average annual principal and interest requirements on all then outstanding Bonds and Additional Bonds and the then proposed Additional Bonds, and when such rental and interest income is added to all other revenues for said year, such total revenues are in addition fully sufficient to pay all other expenses of the Commission for that year including but not limited to the cost of operating, maintaining, insuring and repairing said armory facilities and the necessary and proper administrative expenses of the Commission.

Rating

Moody's Investors Service ("Moody's") has assigned a rating to the 2002 Bonds as shown on the cover page hereof, based upon the anticipated issuance of a financial guaranty insurance policy. See "FINANCIAL GUARANTY INSURANCE" and "RATING."

Legality

The issuance of the 2002 Bonds is subject to the approving opinions of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst, & Horton L.L.P., Austin, Texas, Bond Counsel. See "LEGAL MATTERS."

OFFICIAL STATEMENT

relating to

TEXAS PUBLIC FINANCE AUTHORITY (Texas Military Facilities Commission)

\$12,975,000 Refunding and Armory Improvement Revenue Bonds Series 2002

INTRODUCTION

This purpose of this Official Statement (which includes the cover page, Summary Statement, and attached Appendices) is to furnish information concerning the proposed offering of the Texas Public Finance Authority (Texas Military Facilities Commission) Refunding and Armory Improvement Revenue Bonds, Series 2002 (the "2002 Bonds"), which are being issued by the Texas Public Finance Authority (the "Authority") on behalf of the Texas Military Facilities Commission (the "Commission") in the aggregate principal amount set forth above. The 2002 Bonds are authorized to be issued pursuant to: (i) the Constitution and laws of the State of Texas (the "State"), including the Texas Public Finance Authority Act, as amended, Chapter 1232, Texas Government Code, as amended (the "Enabling Act") and Chapter 435, Texas Government Code, as amended (the "Act"), and certain other statutes and (ii) a resolution adopted by the Board of Directors of the Authority on December 18, 2001 (the "Resolution") and a resolution adopted by the Members of the Commission on December 7, 2001 (the "Commission Resolution").

Because the Pledged Revenues, as described herein, which will consist primarily of rental payments to the Commission from funds appropriated by the State Legislature to the Adjutant General of the State of Texas, the information concerning the State that is contained in the Bond Appendix (referenced in Appendix A to this Official Statement) should be reviewed carefully. The summaries of documents contained herein do not purport to be complete and are qualified in their entirety by reference to the respective documents, which are available for inspection at the offices of the Authority, 300 West 15th Street, Suite 411, William P. Clements State Office Building, Austin, Texas 78701.

PLAN OF FINANCE

Use of Proceeds

The 2002 Bonds are being issued to provide sufficient funds to: (i) refund and defease a portion of the Outstanding Parity Bonds issued by or on behalf of the Commission (the "Refunded Bonds") in advance of their maturities; (ii) construct, remodel, repair, and/or equip one or more buildings used or for use as armories, and acquire land as a site for the construction of building(s) to be used as armories, as permitted by the Act; and (iii) pay the costs of issuing the 2002 Bonds. The Refunded Bonds are further described in Schedule I attached hereto.

The Refunded Bonds

The Resolution provides that amounts sufficient to defease the Refunded Bonds will be deposited in an escrow account for the Refunded Bonds (the "Escrow Fund") pursuant to an escrow agreement (the "Escrow Agreement") among the Authority, the Commission and JPMorgan Chase Bank, acting as escrow agent (the "Escrow Agent"). Such moneys will be used to acquire direct obligations of, or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by, the United States of America and may not be called for redemption prior to maturity (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Agent will hold and administer the Escrow Fund and will apply the maturing principal of and interest on the Escrowed Securities and other uninvested funds in the Escrow Fund to the payment of principal of, and redemption premium, if any, and interest on, the Refunded Bonds. At the time of delivery of the 2002 Bonds, Grant Thornton, L.L.P., Certified Public Accountants, will verify to the Authority, the Commission, Bond Counsel, and the Underwriters, the accuracy of the mathematical calculations relating to the sufficiency of the Escrowed

Securities to pay, when due, the principal of, and redemption premium, if any, and interest on, the Refunded Bonds. The maturing principal of and interest on the Escrowed Securities will not be available to pay principal of or interest on the 2002 Bonds. By the deposit of the Escrowed Securities with the Escrow Agent pursuant to the Escrow Agreement, the Authority and the Commission will have effected the defeasance of the Refunded Bonds pursuant to the terms of the resolutions which authorized the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be secured by a lien on and pledge of the Pledged Revenues, hereinafter defined, and will be outstanding under the resolutions authorizing their issuance only for the purpose of receiving payments of the principal thereof premium, if any, and interest thereon solely from the principal of and interest on the Escrowed Securities (and any uninvested funds in the Escrow Fund) held for such purpose by the Escrow Agent. The Commission has covenanted in the Escrow Agreement to make timely deposits in the Escrow Fund, from any funds that are lawfully available therefor, of additional funds in the amounts required to pay the principal of, premium if any, and interest on, the Refunded Bonds should, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payments.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the 2002 Bonds, including accrued interest, will be applied approximately as follows:

<u>Sources</u>	
Par Amount of 2002 Bonds	\$12,975,000
Accrued Interest	51,610
Less: Original Issue Discount	(66,700)
Premium	<u>27,077</u>
Total	<u>\$12,986,987</u>
 <u>Uses</u>	
Construction Fund Deposit	\$4,721,580
Escrow Fund Deposits	8,025,771
Interest and Sinking Fund Deposit	54,046
Costs of Issuance	75,000
Underwriters' Discount	79,009
Bond Insurance Policy Premium	<u>31,581</u>
Total	<u>\$12,986,987</u>

THE AUTHORITY

General

The Authority is a public authority and body politic and corporate created in 1984 by an act of the Legislature. The Authority (formerly known as the Texas Public Building Authority) succeeded to the ownership of all property of, and all lease and rental contracts entered into by, the Texas Public Building Authority, and all of the obligations contracted or assumed by the Texas Public Building Authority became obligations of the Authority.

The Authority is currently governed by a board of directors (the "Authority Board") composed of seven members appointed by the Governor of the State (the "Governor") with the advice and consent of the State Senate. The current members of the Authority Board, the occupation of each member, and the date on which each member's term expires are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Helen Huey	Independent Business Consultant	2005
David Kelly	Real Estate Developer	2007
John C. Kerr	Attorney at Law	2001*
Cynthia L. Meyer	Certified Public Accountant and Business Owner	2003
H.L. Bert Mijares, Jr.	Architect	2005
[Vacant]	--	2003*

* The Board member whose term expires in 2001 serves until a successor is appointed by the Governor of the State with advice and consent of the State Senate. Further, under HB2153, Acts 77th Leg. R.S. (2001), the Board was increased from six to seven members. As of the date hereof, neither the additional member, the member for the existing above noted vacancy, nor a successor to the above noted Board member has been appointed by the Governor.

The Authority employs an Executive Director (the “Executive Director”) who is charged with managing the affairs of the Authority, subject to and under the direction of the Authority Board. The Executive Director is Kimberly K. Edwards. Ms. Edwards has been with the Authority since March 1997.

Pursuant to the Enabling Act and Chapter 1401, Texas Government Code, the Authority issues general obligation and revenue bonds for designated State agencies and administers the Master Lease Purchase Program, a revenue commercial paper program, primarily to finance equipment acquisitions by State agencies. Under these authorities, the Authority has issued revenue bonds on behalf of the Commission, the General Services Commission, the State Preservation Board, the Texas Department of Criminal Justice, the Texas Department of Health, the Texas Parks and Wildlife Department, the Texas State Technical College System, Midwestern State University, Stephen F. Austin University, and Texas Southern University. It has also issued general obligation bonds for the Texas Parks and Wildlife Department, the Texas Department of Criminal Justice, the Texas Department of Mental Health and Mental Retardation, the Texas Department of Public Safety, the Texas Youth Commission, the Texas National Research Laboratory Commission and the Texas Juvenile Probation Commission.

Before the Authority may issue bonds for the acquisition or construction of a building for a State agency, other than an institution of higher education, the Legislature must have authorized 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. The Texas Supreme Court, in *Texas Public Building Authority v. Mattox*, 686 S.W.2d 924 (1985), ruled that revenue bonds issued by the Authority do not constitute debt of the State within the meaning of the State Constitution. As set forth in the Enabling Act, revenue obligations issued thereunder are not a debt of the State or any State agency, political corporation or political subdivision of the State and are not a pledge of the full faith and credit of them.

Sunset Review

In 1977, the State Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code, as amended) which provides that virtually all agencies of the State, including the Authority and the Commission, are subject to periodic review of the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The Authority was reviewed during the 1997 legislative session under the Texas Sunset Act, and the next scheduled review of the Authority is during the legislative session in 2009. The Enabling Act of the Authority, as amended by the 75th Legislature, provides that if the Authority is not continued in existence, the Authority will cease to exist as of September 1, 2009; however, the Texas Sunset Act provides that the Authority will exist until September 1 of the following year (September 1, 2010) in order to conclude its business.

In the event either the Authority or the Commission is abolished pursuant to the Texas Sunset Act, the Governor is required to designate an appropriate state agency to carry out the Authority's or the Commission's covenants contained in the 2002 Bonds and in the documents authorizing the 2002 Bonds. In such event, General Counsel to the Authority believes that (1) the 2002 Bonds would remain valid and binding obligations, subject to all applicable terms and conditions of the laws and proceedings authorizing the 2002 Bonds, and (2) such designated agency would be obligated and authorized to carry out all

such covenants and to provide payment from the sources pledged to the 2002 Bonds in accordance with the terms thereof until the 2002 Bonds are paid in full.

Additional Authorized Revenue Bond Projects

The State Legislature has authorized the Authority to issue general obligation and revenue bonds for a number of additional projects for other state agencies and institutions of higher education and may authorize further projects in future legislative sessions. See the Bond Appendix referenced in Appendix A hereto. The State agency responsible for the project to be financed is also responsible for initiating the project and requesting financing. The Authority cannot determine in advance when a client agency will be ready to begin an authorized project, nor can the Authority determine which, if any, additional projects will be authorized by the Legislature.

Relationship With Other State Agencies

Under the Enabling Act, the Authority's power is limited to financing projects and does not affect the power of the Commission or any other agency or institution of the State to carry out its statutory authority, including its authority to construct buildings. The Enabling Act directs state agencies and institutions to carry out their authority regarding projects financed by the Authority as if the projects were financed by legislative appropriation. Accordingly, the Authority will not be responsible for supervising the construction and maintenance of any projects.

The Authority is directed by law to deposit the proceeds of the sale of its bonds in the State Treasury for the account of the state agency at whose request those bonds were issued. Once the funds are so deposited and the State Comptroller of Public Accounts (the "Comptroller") has certified that funds are available, and after payment of costs of issuance of such bonds as specified by the Authority, the appropriate state agency may begin the project for which the bonds were issued. The owners of the Authority's bonds have no rights to the project funds so held in the State Treasury.

Payments on the 2002 Bonds are expected to be made from money appropriated by the Legislature or other available money transferred to the Interest and Sinking Fund. See "THE 2002 BONDS - Source of Payment/Security for the 2002 Bonds."

With certain exceptions, bonds issued by state agencies and institutions of higher education, including bonds issued by the Authority, must be approved by the Texas Bond Review Board prior to their issuance. The Texas Bond Review Board is composed of the Governor, the Lieutenant Governor, the Speaker of the House of Representatives and the Comptroller. The Governor is the Chairman of the Texas Bond Review Board. Each member of the Texas Bond Review Board may, and frequently does, act through a designee. The 2002 Bonds received the final approval of the Texas Bond Review Board on November 27, 2001.

THE TEXAS MILITARY FACILITIES COMMISSION

General

The Commission (formerly the Texas National Guard Armory Board) is an agency of the State established pursuant to Chapter 435 of the Texas Government Code, as amended (the "Act"). Under the Act, the Commission is the exclusive authority for the construction, repair, and maintenance of Texas National Guard armories, facilities, and improvements owned by the state located on Commission property. The Commission is a public authority and a body politic and corporate, and has all the powers necessary for acquisition, construction, rental, control, maintenance, operation, and disposition of Texas National Guard or Texas State Guard facilities and real property, including all property and equipment necessary or useful in connection with such facilities. Under the Act, the Commission is authorized to request that the Authority issue bonds on its behalf to acquire one or more building sites or buildings or to construct, remodel, repair, or equip one or more buildings, or to refund any of the outstanding bonds issued by the Commission or by the Authority on behalf of the Commission. Provided however, that no such bonds may be issued without the approval of the Attorney General of the State.

The Texas National Guard is headquartered in Austin, Texas at Camp Mabry and encompasses both Army National Guard and Air National Guard Units. The Army National Guard is currently composed of the State Area Command (STARC), the 71st Troop Command, and the 49th Armored Division. The Air National Guard is presently composed of a

Tactical Airlift Wing, a Fighter Interceptor Group, a Tactical Fighter Group, two Combat Communication Squadrons, a Combat Communication Group and an Air Defense Squadron. Currently there are a total of 248 active units (198 Army and 50 Air Force) with a combined authorized strength of 21,665. The Commission currently has a total of 39 employees, including John A. Wells, Executive Director of the Commission, and Lydia Cruz, Deputy Director of the Commission.

Members of the Commission

The Act provides that the Commission shall be composed of: (i) one actively serving senior officer of the Texas National Guard, appointed by the Governor of the State with the advice and consent of the State Senate from a list submitted by the adjutant general; and (ii) five members of the general public, appointed by the Governor with the advice and consent of the State Senate, and who are not actively serving in the Texas National Guard while serving as members of the Commission, and two of whom must have experience in architecture, civil engineering, or construction management. Commission members' terms are for six years. The current members of the Commission and the date on which each member's term expires are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Residence</u>	<u>Term Expires</u>
R. Gary McClure (Chairman)	Construction Company, President	San Angelo	2003
C. Tammy Linbeck Casey (Treasurer)	Attorney	Houston	2003
Delores Ann Harper	Real Estate Broker	San Antonio	2007
Sandra Paret	Architect	Dallas	2005
Jorge Perez	Engineer	McAllen	2005
BG Michael Taylor	Human Resources Director	Lufkin	2007

Properties of the Commission

The Commission maintains and operates 318 buildings located in 79 Texas cities for the use of its various units. These facilities include 89 armories, various other support facilities and approximately 14,754 acres of land. The Commission has 32 long-term leasehold agreements with various cities and counties which provide for the use of land, or land and facilities, to maintain National Guard Units. In addition to a number of smaller tracts, the Commission also owns the following major tracts of land outright without reversionary rights:

Camp Maxey (Lamar County)	6,419.07 acres
Camp Bowie (Brown County)	4,894.64 acres
Camp Barkley (Taylor County)	993.40 acres

The Commission has historically issued revenue bonds to provide part or all of the State's share of armory construction in a continuing program under which the State provides 25% of the costs and the federal government provides 75% of the costs.

Commission Continuance Subject to Sunset Review

The Commission is subject to review under the Texas Sunset Act (Chapter 325 of the Texas Government Code, as amended), which provides that virtually all agencies of the State, including the Authority and the Commission, are subject to periodic review of the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The Commission was last reviewed during the 1999 legislative session, and its next scheduled review is during the legislative session in 2009. If the Commission were to be abolished under the Sunset Act, the Governor would be required to designate an appropriate state agency to carry out the Commission's covenants contained in the 2002 Bonds and in the documents authorizing the 2002 Bonds. In such event, General Counsel to the Commission believes that (1) the 2002 Bonds would remain valid and binding obligations, subject to all applicable terms and conditions of the laws and proceedings authorizing the 2002 Bonds, and (2) such designated agency would be obligated and authorized to carry out all such covenants and to provide payment from the sources pledged to the 2002 Bonds in accordance with the terms thereof until the 2002 Bonds are paid in full.

Financial Support

The Commission's two major sources of support are the following:

1. State General Revenue Appropriations: The Commission makes biennial requests for maintenance and operating expenses including salaries, travel, utilities, and certain capital outlays.

2. State Adjutant General Rentals: As provided under the Act, the Commission leases armories to the State through the Adjutant General at rentals which are calculated to be sufficient to pay debt service on the bonds issued by or on behalf of the Commission, as well as to pay for operation and maintenance of the properties and other necessary expenses. Such rentals are subject to biennial appropriation by the State Legislature, and while it is expected that such appropriations will be made, the State Legislature has no legal obligation to do so.

The State of Texas 77th Legislature, Regular Session, approved biennial appropriations to be made to the Adjutant General for armory rentals in the amount of \$4,582,065 for fiscal year 2002 and \$4,806,663 for fiscal year 2003.

In addition to the two major sources of financial support listed above, the Commission obtains additional revenues from grass leases on acreage, gravel and water sales, interest on deposits, miscellaneous other rental income, and from time to time the sale of surplus Commission property. Most such sales involve small items or properties and result in only nominal revenues.

THE 2002 BONDS

Description of the 2002 Bonds

The 2002 Bonds will be issued in book entry form pursuant to the book-entry-only system described below. Beneficial Owners of 2002 Bonds will not receive physical delivery of the bond certificates. The 2002 Bonds will be issuable in fully registered form (without coupons) and purchases of 2002 Bonds are required to be in the denomination of \$5,000 or any integral multiple thereof. The 2002 Bonds will bear interest at the rates shown on the inside cover page of this Official Statement, calculated on the basis of a 360-day year composed of 12 months of 30 days each. The 2002 Bonds will mature in the principal amounts and on the dates shown on the inside cover page of this Official Statement. The 2002 Bonds will be dated and will bear interest from January 1, 2002. Interest on the 2002 Bonds will be payable semi-annually on each April 1 and October 1 (each an "Interest Payment Date"), commencing April 1, 2002. A debt service schedule for the 2002 Bonds is included in Appendix B hereto.

Optional Redemption

The 2002 Bonds maturing on and after October 1, 2012 are subject to redemption, at the option of the Authority acting at the direction of the Commission, prior to maturity, in whole or from time to time in part, on April 1, 2012 and on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption. If less than all of the 2002 Bonds are redeemed at any time, the maturities to be redeemed shall be selected and designated by the Commission and the Commission shall direct the Paying Agent/Registrar to select by lot, 2002 Bonds, or the portions thereof within such maturities and in such principal amounts for redemption (provided that a portion of a 2002 Bond may be redeemed only in an integral multiple of \$5,000); provided, however, that during any period in which ownership of the 2002 Bonds is determined only by a book entry at a securities depository for the 2002 Bonds, if fewer than all of the 2002 Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular 2002 Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements among the Authority and the securities depository.

Notice of Redemption

Not less than thirty (30) days prior to a redemption date for any 2002 Bond, a written notice of redemption is required to be sent to the registered owner of each 2002 Bond or a portion thereof being called for redemption by sending such notice to the address of each such registered owner appearing on the registration books of the Paying Agent/Register at the close of business on the Business Day next proceeding the date of such distribution.

Such notice shall contain a description of the 2002 Bonds to be redeemed, the date of issue, the interest rate, the maturity date, the CUSIP number, the certificate numbers, the amounts called of each certificate, the publications and mailing date for the notice, the date of redemption, the redemption price, the name of the Paying Agent/Registrar, and the address at which the 2002 Bonds may be redeemed including the contact person and telephone number. So long as the 2002 Bonds remain Book-Entry-Only Bonds, the Authority shall only be required to send such notice of redemption to the Securities Depository (or its nominee), initially, DTC. Any notice of redemption so sent as provided in this provision will be conclusively presumed to have been duly given, whether or not the Bond Owner receives such notice by the date fixed for redemption, and due provisions shall be made with the Paying Agent/Registrar for payment of the redemption price of the 2002 Bonds or portions thereof to be redeemed. When 2002 Bonds have been called for redemption, in whole or in part, and notice of redemption has been given as herein provided, the 2002 Bonds or portions thereof so redeemed shall no longer be regarded as outstanding, except for the purpose of receiving payment solely from the funds so provided for redemption, and interest that would otherwise accrue after the redemption date on any 2002 Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

The 2002 Bonds may be redeemed only in principal amounts of \$5,000 or integral multiples thereof. If a 2002 Bond subject to redemption is in a denomination larger than \$5,000, a portion of such 2002 Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of 2002 Bonds for redemption, the Paying Agent/Registrar shall treat each 2002 Bond as representing that number of 2002 Bonds of \$5,000 denomination that is obtained by dividing the principal amount by \$5,000. Upon surrender of any 2002 Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver for exchange therefor a 2002 Bond or 2002 Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Source of Payment/Security for the 2002 Bonds

The Bonds (including the 2002 Bonds), hereinbelow defined, and any Additional Bonds, and the interest thereon, are payable from and secured by an irrevocable first lien on and pledge of, the Pledged Revenues. Pursuant to the Resolution, Pledged Revenues consist of the rents, issues and profits from all Property of the Commission, including, but not limited to (i) rentals, if any, received from use of the Property of the Commission, (ii) to the extent permitted by law, the proceeds of the sale of Property of the Commission, if any, (iii) to the extent permitted by law, any amounts received from the United States Government, if any, (iv) interest and income derived from the deposit and investment of moneys credited to the Funds (including the Revenue Fund, Interest and Sinking Fund, Construction Fund, and Reserve Fund) maintained pursuant to the Resolution, and (v) any additional revenues, income, receipts or other resources, including without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which may be pledged to the payment of the Bonds or Additional Bonds, but excluding Other Revenues. The rentals described above are expected to constitute the primary source of Pledged Revenues. Such rentals are derived from funds, if any, appropriated biennially by the State, as described below.

The 2002 Bonds will be issued on a parity with the previously issued outstanding Series 1991 Bonds, Series 1991A Bonds, Series 1992A Bonds, and Series 1994 Bonds, (the "Outstanding Parity Bonds") (collectively, with the 2002 Bonds, the "Bonds"), and are secured by and payable solely from the Pledged Revenues. Upon payment or defeasance of the Outstanding Parity Bonds, the 2002 Bonds and any Additional Bonds, will not be secured by a Reserve Fund. See "SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution."

The Bonds (including the 2002 Bonds) and any Additional Bonds constitute special obligations of the Commission, payable solely from the Pledged Revenues, and such obligations do not constitute an indebtedness of the State of Texas. The holders of the Bonds (including the 2002 Bonds) and Additional Bonds shall never have the right to demand payment thereof out of funds raised or to be raised by taxation. The only liability of the State, through the Adjutant General's Department, results from the obligation to make rental payments to the Commission from funds, if any, appropriated to the Adjutant General's Department for such purpose by the State Legislature. Each biennium, the State Legislature determines the amount, if any, to appropriate for rental by the Adjutant General and others for use of the armories. Under the State Constitution, an appropriation may not be made for more than one biennium.

There is no mortgage or other security interest in any physical facilities.

While it is expected that the State Legislature will make appropriations for rental payments for each fiscal year or biennium in an amount sufficient for debt service on the Bonds (including the 2002 Bonds) and any Additional

Bonds, the State Legislature has no legal obligation to do so, and the owners of the 2002 Bonds will have no right to compel the State Legislature to make such appropriations.

The Commission has been appropriated amounts for rental payments sufficient to pay debt service on the Bonds (including the 2002 Bonds) in the current biennium and will request appropriations sufficient to pay debt service in future years. Because the rental payments will ultimately be made from funds appropriated by the State Legislature to the Commission, prospective purchasers of the 2002 Bonds are encouraged to review the Bond Appendix referenced in Appendix A to this Official Statement (which contains certain information regarding the financial condition of the State) as though the State were the source of revenues for debt service payments on the 2002 Bonds, even though the State will not be obligated to pay the 2002 Bonds. The financial condition of the State has a bearing upon whether the Legislature will be willing to appropriate funds to make lease payments and whether the State will be able to satisfy obligations for rent payments if funds are appropriated.

Remedies

The Resolution does not establish specific events of default with respect to the Bonds nor does it provide for acceleration of the maturities of the Bonds or any other specific remedy in the event of a default in payment or upon the failure of the Authority or the Commission to observe any covenant under the Resolution or the Commission Resolution. Although a registered owner of Bonds could presumably obtain a judgment against the Authority to observe any covenant under the Resolution or against the Commission to observe any covenant under the Commission Resolution if a default occurred in the payment of the principal or interest on the Bonds, such judgment could not be satisfied by execution against any property of the Authority or the Commission other than the Pledged Revenues. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Authority and/or the Commission to observe or perform any of its obligations under the Resolution and the Commission Resolution, respectively. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Although the Resolution provides for the appointment of a trustee, it provides no specific remedies to be taken by the trustee in the event of a default by the Authority or the Commission in the payment of principal and/or interest on the Bonds, or upon the failure of the Authority or the Commission to perform in accordance with the terms of the Resolution, the Commission Resolution, or upon any other condition. Furthermore, the Authority and the Commission are eligible to seek relief from their creditors under the U.S. Bankruptcy Code. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act initially as securities depository for the 2002 Bonds. The 2002 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) (or such other name as may be requested by an authorized representative of DTC). One fully registered certificate will be issued for each stated maturity of the 2002 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the 2002 Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Bonds, except in the event that use of the book-entry system for the 2002 Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of 2002 Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the 2002 Bonds may wish to take certain steps to ensure the transmission to them of notices of significant events with respect to the 2002 Bonds, such as redemptions, defaults, and proposed amendments to the Transaction Documents. Beneficial Owners of 2002 Bonds may wish to ascertain that the nominee holding the 2002 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices will be sent to DTC. If less than all of the 2002 Bonds within a stated maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such stated maturity to be redeemed.

Neither DTC nor Cede & Co. (or other DTC nominee) will consent or vote with respect to the 2002 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2002 Bonds will be made to DTC, or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon receipt of funds and corresponding detail information from the Authority or Paying Agent/Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar, the Underwriters or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC, (or such nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent/Registrar, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Bonds at any time by giving reasonable notice to the Authority or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, 2002 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2002 Bonds will be printed and delivered in accordance with the Resolution.

In reading this Official Statement it should be understood that while the 2002 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the 2002 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Authority or the Underwriters.

SELECTED PROVISIONS OF THE RESOLUTION

Definitions

Definitions of certain terms in the Resolution are substantially as follows:

The term “Act” shall mean Chapter 435, Texas Government Code, as amended.

The term “Additional Bonds” shall mean the additional parity revenue bonds permitted to be authorized in the Resolution.

The term “Bonds” shall mean the Series 1991 Bonds, the Series 1991A Bonds, the Series 1992A Bonds, the Series 1994 Bonds, and the Series 2002 Bonds.

The term “Construction Fund” shall mean the Texas Military Facilities Commission Series 2002 Bond Construction Fund established by the Resolution.

The term “Interest and Sinking Fund” shall mean the Texas Military Facilities Commission Revenue Bonds Interest and Sinking Fund established by the 1979 Resolution.

The term “1979 Resolution” shall mean the resolution adopted by the Texas National Guard Armory Board on August 25, 1979, authorizing the issuance of Texas National Guard Armory Board Refunding and Improvement Revenue Bonds, Series 1979.

The term “Operation and Maintenance Expenses” shall mean all actual operation and maintenance expenses incurred by the Commission in any particular fiscal year or period to which said term is applicable or charges made therefor during such fiscal year, including amounts reasonably required to be set aside in the Revenue Fund as reserves for items of Operation and Maintenance Expenses, the payment of which is not then immediately required. Such Operation and Maintenance Expenses include, but are not limited to, expenses for ordinary maintenance, repairs, renewals and replacements of the Property of the Commission, salaries and wages, employees’ health, hospitalization, pension and retirement expenses, fees for services, materials and supplies, rents, administrative and general expenses, insurance expenses, legal, engineering, accounting and financial advisory fees and expenses and costs of other consulting and technical services not funded from proceeds of bonds, taxes, payments in lieu of taxes and other governmental charges, fuel costs, including the acquisition and transportation of any and all fuels, cost of purchase of power and transmission service, and any other current expenses or obligations required to be paid by the Commission and the fees and expenses of fiduciaries. Such Operation and Maintenance Expenses do not include depreciation or amortization.

The term “Other Revenues” shall mean all income of the Commission, excluding Pledged Revenues, and including, but not limited to, State appropriations to the Commission for Operation and Maintenance Expenses and any revenues received by the Commission under any Federal Maintenance Contract or other contract or deed limiting to specific purposes the use of revenue derived from property so held.

The term “Outstanding Parity Bonds” shall mean the Series 1991 Bonds, the Series 1991A Bonds, the Series 1992A Bonds, and the Series 1994 Bonds.

The term “Paying Agent/Registrar” shall initially mean JPMorgan Chase Bank, or its successor or successors.

The term “Permitted Investments” shall mean those investments authorized by the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, as amended, and the Commission’s Investment Policy to the extent authorized by Texas law.

The term “Pledged Revenues” shall mean, collectively, the rents, issues and profits from all Property of the Commission, including, but not limited to (1) rentals received from use of the Property of the Commission, (2) to the extent permitted by law, the proceeds of the sale of Property of the Commission, (3) to the extent permitted by law, any amounts received from the United States Government, (4) all interest and income derived from the deposit and investment of moneys credited to the Funds maintained pursuant to the Resolution, and (5) any additional revenues, income, receipts or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter may be pledged to the payment of the 2002 Bonds or the Additional Bonds, but excluding Other Revenues.

The term “Pricing Certificate” shall mean the Pricing Certificate of the Pricing Committee to be executed and delivered pursuant to Section 2 of the Resolution in connection with the Series 2002 Bonds.

The “Pricing Committee” is composed of three members of the Authority Board, namely Helen Huey, H.L. Bert Mijares, Jr., and Cynthia L. Meyer.

The term “Property of the Commission” shall mean all properties, both real and personal, under the care of or owned or operated by the Commission, including but not limited to armories.

The term “Rebate Fund” shall mean the fund by that name established by the Resolution.

The term “Refunded Bonds” shall mean those bonds to be refunded and defeased with proceeds from the Series 2002 Bonds as set forth in the Pricing Certificate.

The term “Reserve Fund” shall mean the Texas National Guard Armory Board Revenue Bonds Reserve Fund established by the 1979 Resolution.

The term “Resolution” shall mean the resolution of the Authority authorizing the issuance of the Series 2002 Bonds.

The term “Revenue Fund” shall mean the Revenue Fund established by the 1979 Resolution.

The term “Series 1991 Bonds” shall mean the Texas National Guard Armory Board Armory Improvement Revenue Bonds, Series 1991, dated July 1, 1991, authorized by resolution of the Commission on July 16, 1991.

The term “Series 1991-A Bonds” shall mean the Texas National Guard Armory Board Armory Improvement Revenue Bonds, Series 1991-A, dated November 1, 1991, authorized by resolution of the Commission on November 6, 1991.

The term “Series 1992-A Bonds” shall mean the Texas Public Finance Authority (Texas National Guard Armory Board) Armory Improvement Revenue Bonds, Series 1992-A, dated December 1, 1992, authorized by resolutions of the Authority and the Commission on December 15, 1992.

The term “Series 1994 Bonds” shall mean the Texas Public Finance Authority (Texas National Guard Armory Board) Refunding and Armory Improvement Revenue Bonds, Series 1994, dated May 1, 1994, authorized by resolutions of the Authority on May 18, 1994 and the Board on May 6, 1994.

Flow of Funds

(a) All collections of the Pledged Revenues and all Other Revenues shall be deposited or credited as received in the Revenue Fund. All moneys deposited in or credited to the Revenue Fund with the exception of direct State appropriations for Operation and Maintenance Expenses, shall be maintained and held by JPMorgan Chase Bank, as Trustee (the “Trustee”).

(b) The Commission shall transfer from the Pledged Revenues in the Revenue Fund and deposit to the credit of the Interest and Sinking Fund (to secure and be used to pay debt service on the Bonds) on or before March 25, 2002 and semiannually thereafter on or before each September 25 and March 25, the following amounts:

(1) An amount which will be sufficient, together with other moneys then on hand therein and available for such purpose, to pay the interest scheduled to come due on the Bonds on the next succeeding Interest Payment Date; and

(2) An amount which will be sufficient, together with other moneys then on hand therein and available for such purpose, to pay the principal scheduled to mature and come due on the Bonds on the next succeeding Interest Payment Date.

(c) If the Reserve Fund shall at the end of any fiscal year contain money and investments in value less than the average annual principal and interest requirements on the Bonds (including the 2002 Bonds) and Additional Bonds theretofore issued, the Commission shall transfer from the Revenue Fund and deposit to the credit of the Reserve Fund an amount which will restore the amount of money and investments in the Reserve Fund to said aggregate amount. The amounts of such transfers shall be calculated to restore 20% of each such deficiency in each following fiscal year.

(d) All moneys remaining in the Revenue Fund and not required for the transfers therefrom provided for in (b) and (c), above, shall be used to the extent required for the payment of Operation and Maintenance Expenses.

See “SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution” for changes to the flow of funds upon the payment or defeasance of the Outstanding Parity Bonds.

Deficiencies and Excess Revenues

If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Interest and Sinking Fund, then such deficiency shall be made up as soon as possible from the next available Pledged Revenues, or from any other sources available for such purpose.

Subject to making all deposits to the credit of the Interest and Sinking Fund, the Reserve Fund and payment of Operation and Maintenance Expenses, as required by any resolution authorizing the issuance of the Bonds or Additional Bonds, the surplus Pledged Revenues may be used by the Commission for any lawful purpose.

Transfer to Paying Agent Registrar

On or before the first day of each April 1 and of each October 1 while any of the Bonds and Additional Bonds, if any, are outstanding and unpaid, there shall be made available to the Paying Agent/Registrar therefor, out of the Interest and Sinking Fund, money sufficient to pay such interest on and such principal of the Bonds and Additional Bonds, if any, as will accrue or mature on such April 1 and October 1. The Paying Agent/Registrar shall totally destroy all paid Bonds and Additional Bonds, if any, and the coupons appertaining thereto, if any, and shall furnish the Commission with an appropriate certificate of destruction.

The Reserve Fund shall be used as needed, from time to time, to pay the principal of and interest due on the 2002 Bonds, when and to the extent the amount in the Interest and Sinking Fund is otherwise insufficient for such purpose.

See “SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution” for changes related to this information upon the payment or defeasance of the Outstanding Parity Bonds.

Further Payments

Whenever the total amount in the Interest and Sinking Fund and the Reserve Fund shall be equivalent to (1) the aggregate principal amount of Bonds and Additional Bonds, if any, outstanding, plus (2) the aggregate amount of all unpaid interest that has come due or will come due on or before the final maturity date of the Bonds and Additional Bonds, then no further payment need be made into the Interest and Sinking Fund. In determining the amount of Bonds or Additional Bonds outstanding, there shall be subtracted the amount of any Bonds or Additional Bonds for which funds shall have been deposited with the Paying Agent/Registrar sufficient for their redemption.

Investments

Money in the Revenue Fund, Interest and Sinking Fund, and Reserve Fund may, at the option of the Commission be invested in (i) direct obligations of the United States of America, (ii) obligations which, in the opinion of the Attorney General of the United States, are general obligations of the United States and backed by its full faith and credit; and (iii) to the extent such are Permitted Investments, all obligations guaranteed by the United States of America, evidences of indebtedness of the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, or Federal National Mortgage Association or certificates of deposits of banks secured by pledged securities of the types above described; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any fund will be available at the proper time or times. Such investments shall be valued in terms of current market value as of the last day of each fiscal year. Interest and income derived from such deposits and investments shall be credited to the fund from which the deposits or investments were made; provided, however, that all interest and income derived from investment of the Reserve Fund, if the Reserve Fund then contains the amount required to be on deposit therein, shall be deposited to the Interest and Sinking Fund as received. Such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds or Additional Bonds.

Money in the Construction Fund and the Rebate Fund may, at the option of the Commission, be invested in Permitted Investments as are authorized by applicable law.

All money in the Revenue Fund, Interest and Sinking Fund, Construction Fund, and Reserve Fund, to the extent not invested, shall be secured in the manner prescribed by law for securing funds of the Commission, in principal amounts at all times not less than the amount of money credited to such funds, respectively.

See “SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution” for changes to this information upon the payment or defeasance of the Outstanding Parity Bonds.

Rate Covenant

The Commission shall fix, charge and collect rents for the use of the Property of the Commission, in such amounts, without any limitation whatsoever, as will be at least sufficient at all times to provide, together with other Pledged Revenues, the money for making all deposits required to be made to the credit of the Interest and Sinking Fund and any Reserve Fund in connection with the Bonds (including the 2002 Bonds) and any Additional Bonds and, together with other moneys available for such purpose, for paying the Operation and Maintenance Expenses. Further, the Commission shall maintain leases with the Adjutant General of the State or any agency of the Federal Government for the use of all or part of the Property of the Commission whereby the lease payments therefrom will be sufficient to provide the money for making all deposits required to be made to the credit of the Interest and Sinking Fund and any Reserve Fund in connection with the Bonds and any Additional Bonds and, together with other moneys available for such purpose, for paying the Operation and Maintenance Expenses.

See “SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution” for changes to this information upon the payment or defeasance of the Outstanding Parity Bonds.

Additional Bonds

The Authority, on behalf, and at the direction, of the Commission, shall have the right and power at any time and from time to time, and in one or more series or issues, to authorize, issue and deliver additional parity revenue bonds (herein called “Additional Bonds”) in any amounts, for any lawful purpose. Such Additional Bonds, if and when authorized, issued and delivered in accordance with the Resolution, shall be secured and payable equally and ratably on a parity with the Bonds and all other outstanding Additional Bonds, by an irrevocable first lien on and pledge of the Pledged Revenues.

Additional Bonds Provisions

Each resolution under which Additional Bonds are issued shall provide that the Interest and Sinking Fund shall secure and be used to pay all Additional Bonds as well as the Bonds. However, each resolution under which Additional Bonds are

issued shall specifically provide and require that, in addition to the amounts required by the provisions of all resolutions authorizing the Bonds and the provisions of any other resolution or resolutions authorizing Additional Bonds to be deposited to the credit of the Interest and Sinking Fund, the Commission shall transfer from the Pledged Revenues and deposit to the credit of the Interest and Sinking Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due, and that the Commission shall transfer from said Pledged Revenues and deposit to the credit of the Reserve Fund at least such amounts as will, together with any other amounts already required to be deposited in the Reserve Fund in connection with the Bonds and any other outstanding Additional Bonds, be sufficient to cause the Reserve Fund to accumulate and contain within a period not to exceed five fiscal years after the date of said Additional Bonds then being issued, a total amount of money and investments at least equal in market value to the average annual principal and interest requirements of such proposed Additional Bonds, the Bonds and any then outstanding Additional Bonds.

The principal of all Additional Bonds must be scheduled to be paid or mature on April 1 and October 1 of the years in which such principal is scheduled to be paid or mature, and all interest thereon must be payable on April 1 and October 1.

See “SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution” for changes to this information upon the payment or defeasance of the Outstanding Parity Bonds.

Additional Bonds Requirements

Additional Bonds shall be issued only in accordance with the resolutions authorizing the Bonds and Additional Bonds then outstanding but notwithstanding any provisions of such resolutions to the contrary, no installment, series or issue of Additional Bonds shall be issued or delivered unless:

(a) the Chairman of the Commission and the Treasurer sign a written certificate to the effect that the Commission is not in default as to any covenant, condition or obligation in connection with all outstanding Bonds and Additional Bonds, and the resolutions authorizing same, and that the Interest and Sinking Fund and the Reserve Fund contain the amount then required to be therein;

(b) a Certified Public Accountant or the State Auditor signs a written certificate to the effect that, during either the fiscal year, or the twelve calendar month period, next preceding the date of execution of such certificate, the Pledged Revenues actually received were sufficient to pay principal and interest requirements of all Bonds and Additional Bonds then outstanding and, together with Other Revenues, were sufficient to pay Operation and Maintenance Expenses; and

(c) the senior financial officer of the Commission signs a written certificate to the effect that the then existing leases of the Property of the Commission to the State of Texas or to an agency of the Federal Government will provide sufficient rental income during the next succeeding fiscal year, which, when added to the interest income to be received on the moneys in the Reserve Fund, will be fully sufficient to pay the average annual principal and interest requirements on all then outstanding Bonds and Additional Bonds and the then proposed Additional Bonds, and when such rental income and interest income is added to all other revenues for the said year, such total revenues are in addition fully sufficient to pay all other expenses of the Commission for that year, including but not limited to the cost of operating, maintaining, insuring and repairing the Property of the Commission and the necessary and proper administrative expenses of the Commission.

See “SELECTED PROVISIONS OF THE RESOLUTION—Modifications to the Resolution” for changes to this information upon the payment or defeasance of the Outstanding Parity Bonds.

General Covenants

Pursuant to the Resolution and the Commission Resolution, the Commission has covenanted that, so long as any of the Bonds or Additional Bonds remaining outstanding, the Commission shall:

(a) duly and punctually pay or cause to be paid (out of the special funds provided under the Resolution for such purpose) the principal of every Bond and Additional Bond, and the interest thereon, at the dates and places and in the manner mentioned in such Bonds, Additional Bonds and in the coupons, if any, thereto appertaining, according to the true intent and meaning thereof, and faithfully do and perform and at all times fully observe any and all covenants, undertakings, stipulations and provisions contained in the Resolution or in any Bond or Additional Bond;

(b) notify the Authority in writing, within 30 days of the due date of the next debt service payment on any of the Bonds or Additional Bonds, of the amount then on deposit in all funds of the Commission relating to said Bonds and Additional Bonds;

(c) continuously operate all Property of the Commission in an efficient and economical manner and keep all such property in thorough repair and maintained in a high state of operating efficiency;

(d) not at any time create or allow to accrue or to exist any lien upon the Property of the Commission, or any part thereof, or the Pledged Revenues; not allow the lien of the Resolution to be impaired in any way as a result of any action or nonaction on the part of the Commission or its officers, or any employee thereof, and have upon acquisition and/or construction thereof, and will, subject to the provisions of the Resolution, continuously preserve title to the Property of the Commission and every part thereof, subject to the right of the Commission to sell such Property of the Commission, as provided in the Resolution;

(e) not make or permit any sale or disposition of the Property of the Commission, or any part thereof, unless any building or property be declared by the Commission to be surplus to and in excess of the needs of the Commission, the Texas National Guard, and the Texas State Guard, provided that, if declared surplus, the Commission shall have the right to sell such building or property and shall apply the proceeds of the sale thereof to any one or more of the following purposes: (1) the acquisition or construction of any additional Property of the Commission, or (2) the purchase or redemption of Bonds or Additional Bonds;

(f) promptly pay or cause to be paid, but only out of the Revenue Fund, as permitted by the Resolution, all lawful taxes, assessments or other governmental charges at any time levied, assessed or charged upon or against the Property of the Commission, or any part thereof, the rents, issues and profits of which are pledged as security for the Bonds issued under the Resolution; provided, however, that no such tax or assessment shall be required to be paid so long as the validity of the same shall in good faith be contested;

(g) at all times keep insured its plants, structures, buildings, machinery, equipment and apparatus in an aggregate amount not less than the sum of the principal amount of Bonds and Additional Bonds outstanding, plus interest thereon to the next redemption date, plus the applicable call premium, if any, in a responsible company or companies, against destruction or damage by fire, lightning, explosion, strikes, riots, civil commotions, malicious damage, tornado or other accidents or casualties against which insurance is usually carried for buildings used for purposes of public assembly and, in addition, use and occupancy insurance in an amount equal to the Bonds and Additional Bonds, and the interest thereon, maturing or coming due within the next succeeding twelve months; provided, however, that at any time while any contractor engaged in constructing any building shall be fully responsible therefor, the Commission shall not be required to keep such building so insured. In the event of any loss or damage, the Commission shall repair or reconstruct the damaged portion of the property and shall apply the proceeds of the insurance policies covering such loss solely for that purpose. The Commission shall (except as provided in the Resolution relative to the election of the Commission not to rebuild) begin such work of repair or reconstruction promptly after such loss or damage shall occur and shall continue and properly complete the same as expeditiously as possible and shall pay or cause to be paid all costs and expenses in connection therewith so that the same shall be so completed and the property and the proceeds of such insurance shall be free and clear of all mechanics' and other liens and claims. The proceeds of all such policies paid to the Trustee shall be held by it as additional security under the Resolution until paid out by it as therein provided. If the Commission shall be unable, within a period of twelve months subsequent to the occurrence of such loss or damage, to determine that the total of moneys representing proceeds of insurance and other funds available are sufficient to complete any proposed repair, reconstruction or replacement of lost or damaged Property of the Commission, the Commission shall, at the expiration of such period, or if the Commission sooner shall have determined that it is not feasible, economical or desirable that such building or destroyed property be repaired or reconstructed, the Commission shall apply such proceeds to the acquisition or construction of other property of the Commission. The Commission shall maintain at the principal office of the Commission a detailed statement of the policies of insurance effected by the Commission then outstanding and in force;

(h) maintain and preserve all Property of the Commission in a state of good repair; and

(i) at all times maintain and cause to exist leases to the State of Texas through the Adjutant General of all buildings and equipment therein, used for armory purposes, and that if the State shall fail or refuse to pay the rent, or the Legislature

shall fail or refuse to make necessary appropriations to pay the rent, or the State shall fail or refuse to lease any such armory building or buildings and equipment therein, or refuse to renew any existing lease of the same at the rentals provided to be paid, then the Commission shall lease or sublease such armory building or buildings and the equipment therein, and the site therefor to any person or entity for the highest and best rentals obtainable therefor; provided, however, any such lease or sublease so made during the term of any existing agreement between the Commission and the United States Government shall be so conditioned that the use thereof by any such lessee or sublessee will not interfere with its use for the administration and training of units of the Reserve Forces of the United States, or in time of war, or national emergency, of other units of the Armed Forces of the United States, or any other use by the Federal Government.

Modifications to the Resolution

The Resolution further contains modifications that will become effective only after all Outstanding Parity Bonds are fully paid or defeased ("Post Issuance Modifications"). These Post Issuance Modifications include the following provisions:

(1) The Reserve Fund shall no longer be required and any monies and investments released therefrom may be used to pay debt service on the 2002 Bonds and any Additional Bonds or as otherwise authorized by law. Any agreement, covenant or provision of the Resolution relating to a reserve fund will not be applicable and shall be disregarded.

(2) Additional Bonds may bear interest and be scheduled to be paid or mature on any date.

(3) Subordinate obligations may be issued that are secured by a subordinate lien on all or any part of the Pledged Revenues.

(4) Money in the Revenue Fund and the Interest and Sinking Fund may be invested in Permitted Investments authorized under the Public Funds Investment Act, as amended, and the Commission Investment Policy to the extent authorized by Texas law.

Bond Insurance

The Authority has agreed that, in the event the principal and interest due on the 2002 Bonds is paid by the Bond Insurer pursuant to the Financial Guaranty Insurance Policy, the assignment and pledge of all funds and all covenants, agreements and other obligations of the Authority to the owners of the 2002 Bonds will continue to exist and the Bond Insurer will be subrogated to the rights of such owners; and furthermore, the Authority has agreed that:

Consent of the Bond Insurer Where Bond Owner Consent Required. The Bond Insurer will be deemed to be the owner of the 2002 Bonds or any Additional Bonds insured by the Bond Insurer at all times for the purpose of the execution and delivery of any amendment, change or modification of the Resolution, or the initiation by the owners of the 2002 Bonds or any Additional Bonds of any action to be taken under the Resolution at the 2002 Bond owners' or Additional Bond owners' request, which under the Resolution requires the written approval or consent of or can be initiated by the owners of a majority in aggregate principal amount of the 2002 Bonds and any Additional Bonds at the time outstanding.

Consent of the Bond Insurer Upon Default. Anything in the Resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of default, the Bond Insurer will be entitled to control and direct on behalf of the owners of the insured 2002 Bonds or any Additional Bonds insured by the Bond Insurer the enforcement of all rights and remedies granted to the owners of the 2002 Bonds or any Additional Bonds under the Resolution.

Defeasance. In the event that the principal and redemption price, if applicable, and interest due on any 2002 Bonds or Additional Bonds insured by the Bond Insurer is paid by the Bond Insurer pursuant to the Financial Guaranty Insurance Policy, the 2002 Bonds or any Additional Bonds will remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority and all covenants, agreements and other obligations of the Authority to the owners of such 2002 Bonds or any Additional Bonds will continue to exist and run to the benefit of the Bond Insurer, and the Bond Insurer will be subrogated to the rights of such owners.

Consent of the Bond Insurer. Any provision of the Resolution expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer without the prior written consent of the Bond Insurer.

The Bond Insurer as Third Party Beneficiary. To the extent that the Resolution confers upon, or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Resolution, the Bond Insurer is recognized as a third party beneficiary under the Resolution and may enforce any such right, remedy or claim conferred, given or granted thereunder.

Commission Resolution

Pursuant to a resolution adopted by the Members of the Commission dated December 7, 2001 (the "Commission Resolution"), the Commission has approved the issuance of the 2002 Bonds and the terms, covenants and provisions set forth in the Resolution. The Commission has also agreed, pursuant to the Commission Resolution, to pay, discharge, and perform all obligations imposed on it by the Resolution.

BOND FUND BALANCES

As of November 30, 2001, the balances in the various funds created for the benefit of the outstanding Bonds were as follows:

Revenue Fund	\$4,529,221.13
Interest and Sinking Fund	\$0
Reserve Fund	\$1,428,436.14
Construction Fund	\$1,595,598.00

ADEQUACY OF PLEDGED REVENUES

Principal and Interest Requirements in Fiscal Year 2002 on all Bonds	\$4,276,883.00
Maximum Annual Principal and Interest Requirement in Fiscal Year 2003 on all Bonds	\$4,350,275.00
Revenue Fund Balance, as of November 30, 2001	\$4,529,221.13
Interest and Sinking Fund Balance, as of November 30, 2001	\$0
Estimated Fiscal Year 2002 Armory Rentals from Adjutant General	\$4,582,065.00
Estimated Interest in Fiscal Year 2002 on Reserve Fund	\$35,000.00

SUMMARY STATEMENT OF COMMISSION BUDGET

	Fiscal Year Ending <u>8/31/02</u>	Fiscal Year Ending <u>8/31/03</u>
<u>Revenues</u>		
State Appropriations:		
Direct for Maintenance and Operations	\$2,126,287	\$1,391,223
Additional Appropriations—Salaries	37,124	
Indirect from Adjutant General for Armory Rentals	4,582,065	4,806,663
Other Sources	2,529,466	2,121,036
Interest Income Earned on Reserve Fund Investments	<u>35,000</u>	<u>25,000</u>
 Total Revenues	 <u>\$9,309,942</u>	 <u>\$8,343,922</u>
<u>Expenditures</u>		
Maintenance and Operations	\$4,906,877	\$3,716,259
Debt Service	<u>4,403,065</u>	<u>4,627,663</u>
 Total Expenditures	 <u>\$9,309,942</u>	 <u>\$8,343,922</u>

REVENUES AND EXPENDITURES

Summary statements of the Commission's Revenues and Expenditures, excluding capital funds, are shown below for the past five fiscal years from the Annual Reports of the Commission.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>Revenues</u>					
State Appropriations					
Direct for Maintenance and Operations	\$ 775,558	\$ 788,058	\$ 788,058	\$2,043,087	\$1,246,431
Additional Appropriations-Benefits	211,973	248,364	227,970	292,029	253,046
Indirect from Adjutant General for Armory Rentals	4,170,691	4,300,318	4,310,402	4,314,390	4,316,191
Other Revenues	1,097,898	925,436	871,164	1,087,939	1,883,636
Interest Income Earned on Reserve Fund Investments	<u>104,223</u>	<u>109,057</u>	<u>95,191</u>	<u>89,327</u>	<u>124,823</u>
 Total Revenues	 <u>\$6,360,343</u>	 <u>\$6,371,233</u>	 <u>\$6,292,785</u>	 <u>\$7,826,772</u>	 <u>\$7,824,127</u>
<u>Expenditures</u>					
Maintenance and Operations	\$2,524,836	\$2,787,306	\$2,396,084	\$2,925,937	\$4,883,821
Debt Service	<u>4,004,691</u>	<u>3,992,147</u>	<u>4,002,266</u>	<u>4,006,393</u>	<u>4,008,719</u>
 Total Expenditures	 <u>\$6,529,527</u>	 <u>\$6,779,453</u>	 <u>\$6,398,350</u>	 <u>\$6,932,330</u>	 <u>\$8,892,540</u>
 Excess Revenues Over Expenditures*	 <u>\$ (169,184)</u>	 <u>\$ (408,220)</u>	 <u>\$ (105,565)</u>	 <u>\$ 894,442</u>	 <u>\$(1,068,413)</u>

*The excess expenditures were paid from fund balances available from prior years.

TEXAS MILITARY FACILITIES COMMISSION CONDENSED BALANCE SHEETS

	Fiscal Year Ended 8/31/97	Fiscal Year Ended 8/31/98	Fiscal Year Ended 8/31/99	Fiscal Year Ended 8/31/00	Fiscal Year Ended 8/31/01
ASSETS					
<u>Current Assets</u>					
Cash in Bank	\$1,288,735	333,869	638,991	499,569	347,910
Legislative Appropriations	945,932	1,164,010	935,456	3,803,297	2,416,388
Short Term Investments	6,260,792	6,723,143	6,154,203	5,993,049	5,310,571
Receivables	220,924	39,555	345,897	82,306	253,100
Inventories/Prepays	374,729	492,987	474,389	422,573	459,651
Total Currents Assets	9,091,112	8,753,564	8,548,936	10,800,794	8,787,620
<u>Fixed Assets</u>					
Land	2,318,556	1,266,265	2,214,805	2,212,742	2,208,742
Buildings	116,177,259	117,718,225	118,892,496	120,872,042	118,942,847
Facilities & Other	6,825,578	7,041,953	6,812,798	7,120,135	7,182,033
Improvements/Infrastructure					
Furniture, Equipment, Vehicles & Other Assets	391,420	485,112	672,621	564,140	590,922
Construction In Progress	5,678,593		1,529,928		2,354,175
Total Fixed Assets	131,391,406	126,511,555	130,122,648	130,769,059	131,278,719
<u>Other Debits</u>					
Amt.s Avail. in Debt Service Funds to Pay Revenue Bonds	2,151,297	2,047,338	1,916,341	1,785,245	1,614,534
Amount to be Provided for Payment of Revenue Bonds	24,558,703	22,157,662	19,623,659	16,929,755	14,110,466
Amounts to be Provided for Payment of Other Obligations	133,882	129,538	142,222	119,755	126,647
Total Other Debits	26,843,882	24,334,538	21,682,222	18,834,755	15,851,647
Total Assets	\$167,326,400	159,599,657	160,353,806	160,404,608	155,917,986
LIABILITIES					
<u>Current Liabilities</u>					
Accounts Payable	\$613,779	251,334	648,194	563,681	529,125
Deferred Revenue	259,718	155,370	172,353	57,114	114,126
Total Current Liabilities	873,497	406,704	820,547	620,795	643,251
<u>Long Term Debt</u>					
Bonds Outstanding	26,710,000	24,205,000	21,540,000	18,715,000	15,725,000
Compensable Leave	133,882	129,538	142,222	119,755	126,648
Total Long Term Debt	26,843,882	24,334,538	21,682,222	18,834,755	15,851,648
<u>Fund Balances</u>					
Reserved for:					
Encumbrances	39,513		811,796	1,183,638	117,317
Imprest Accounts	14,660	11,869	9,041	8,661	8,619
Eagle Mountain Lake	135,876	140,512	146,214	146,392	152,620
Inventories	374,729	492,987	474,389	422,573	459,651
Unreserved :					
Designated For Debt Service	2,151,297	2,047,337	1,916,342	1,785,245	1,614,534
Other	827,418	1,045,432	3,547,866	4,238,425	3,769,156
Undesignated	4,674,122	4,608,723	822,741	2,395,065	2,022,471
Investment in Fixed Assets	131,391,406	126,511,555	130,122,648	130,769,059	131,278,719
Total Fund Balances	139,609,021	134,858,415	137,851,037	140,949,058	139,423,087
Total Liabilities & Fund Balances	\$167,326,400	159,599,657	160,353,806	160,404,608	155,917,986

FINANCIAL GUARANTY INSURANCE

The following information has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to Appendix D for a specimen of the Bond Insurer's policy.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the 2002 Bonds effective as of the date of issuance of the 2002 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the 2002 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the 2002 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2002 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2002 Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2002 Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2002 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee/Paying Agent/Bond Registrar has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2002 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2002 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation (“Ambac Assurance” or the “Bond Insurer”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$4,988,000,000 (unaudited) and statutory capital of approximately \$2,963,000,000 (unaudited) as of September 30, 2001. Statutory capital consists of Ambac Assurance’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the 2002 Bonds. No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the Lessee.

Ambac Assurance makes no representation regarding the 2002 Bonds or the advisability of investing in the 2002 Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading “FINANCIAL GUARANTY INSURANCE” and under Appendix D “Specimen Financial Guaranty Insurance Policy.”

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “Commission”). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission’s regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the “NYSE”) at 20 Broad Street, New York, New York 10005. The Company’s Common Stock is listed on the NYSE.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company’s Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;
- 2) The Company’s Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;
- 3) The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001;
- 4) The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001;
- 5) The Company’s Current Report on Form 8-K dated July 18, 2001 and filed on July 23, 2001;

- 6) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2001 and filed on August 10, 2001;
- 7) The Company's Current Report on Form 8-K dated and filed on September 17, 2001;
- 8) The Company's Current Report on Form 8-K dated and filed on September 19, 2001;
- 9) The Company's Current Report on Form 8-K dated and filed on October 22, 2001; and
- 10) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2001 and filed on November 14, 2001.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

RATING

Moody's Investor's Service has assigned a rating of "Aaa" to the 2002 Bonds, with the expectation that a financial guaranty insurance policy insuring timely payment of principal and interest on the 2002 Bonds will be issued by Ambac Assurance Corporation. The 2002 Bonds have an underlying rating of "Aa2" from Moody's Investor's Service. An explanation of the significance of the rating may be obtained from the rating agency. The rating reflects only the view of such organization at the time the rating was given, and the Authority and the Commission make no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the 2002 Bonds.

TAX MATTERS

Opinion

On the date of initial delivery of the 2002 Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the 2002 Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the 2002 Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the 2002 Bonds. See Appendix C – Form of Bond Counsel Opinion.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the Commission and the Authority, including information and representations contained in the Authority's and the Commission's federal tax certificate and the verification report of Grant Thornton, L.L.P., and (b) covenants of the Authority and the Commission contained in the Resolution and bond documents relating to certain matters, including arbitrage and the use of the proceeds of the 2002 Bonds and the property financed or refinanced therewith. Although it is expected that the 2002 Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the 2002 Bonds could be affected by future events. However, future events beyond the control of the Authority or the Commission, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the 2002 Bonds to become taxable retroactively to the date of issuance.

Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no

assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the 2002 Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the 2002 Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Authority and the Commission as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment Of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the 2002 Bonds (the "Original Issue Discount Bond") may be less than the principal amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the 2002 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the 2002 Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE 2002 BONDS.

Interest on the 2002 Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the 2002 Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the 2002 Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the 2002 Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local, and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the 2002 Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

THE 2002 BONDS AS LEGAL INVESTMENTS IN TEXAS

Chapter 1201, Texas Government Code (formerly, Article 717k-6, Texas Revised Civil Statutes, as amended) provides that obligations, such as the 2002 Bonds, are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of municipalities and other political subdivisions or public agencies of the State. The 2002 Bonds are also eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are lawful and sufficient security for those deposits to the extent of their market value. For political subdivisions in the State that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the 2002 Bonds may need to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATING" herein.

The Authority has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the 2002 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the 2002 Bonds for such purposes. The Authority has

made no review of laws in other states to determine whether the 2002 Bonds are legal investments for various institutions in those states.

LITIGATION

There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Authority, threatened) that affects the obligation of the Authority to deliver the 2002 Bonds or the validity of the 2002 Bonds. There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Attorney General of the State, threatened) against or affecting the State or any of its agencies or instrumentalities (nor to the best of his knowledge is there any basis therefor) that (1) affects the existence of the Authority, the Commission, or the right of the present directors and officers of the Authority or the Commission to hold their offices, (2) affects the validity or enforceability of the provisions pursuant to which the 2002 Bonds are being issued, and (3) would have a material adverse effect upon the power of the Authority or the Commission to issue the 2002 Bonds. See the Bond Appendix referenced in Appendix A to this Official Statement concerning legal proceedings to which the State is a party relating to its operations and governmental functions but unrelated to the 2002 Bonds or the security for the 2002 Bonds.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Authority

General. Pursuant to the Resolution, the Authority has made the following agreement for the benefit of the holders and beneficial owners of the 2002 Bonds. The Authority is required to observe the agreement for so long as it remains obligated to advance funds to pay any 2002 Bonds. Under the agreement, the Authority will be obligated to provide certain updated financial information and operating data annually and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports. Pursuant to the Resolution, the Authority will provide annually to each NRMSIR and SID, within 120 days after August 31 of each year, beginning in 2002, the quantitative financial information and operating data with respect to the Commission of the general type included in this Official Statement under the headings “THE TEXAS MILITARY FACILITIES COMMISSION,” “BOND FUND BALANCES,” “ADEQUACY OF PLEDGED REVENUES,” “SUMMARY STATEMENT OF COMMISSION BUDGET,” “REVENUES AND EXPENDITURES,” AND “TEXAS MILITARY FACILITIES COMMISSION CONDENSED BALANCE SHEETS.” Such information and operating data may be provided in full text or may be incorporated by specific reference to certain other publicly available documents, as permitted by SEC Rule 15c2-12. Pursuant to the Commission Resolution, the Commission has agreed to provide to the Authority the information described in this paragraph no later than 90 days after August 31 of each year.

Material Event Notices. In the Resolution, the Authority has covenanted to provide notice of any of the following events with respect to the 2002 Bonds, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinion or events affecting the tax-exempt status of the 2002 Bonds; (7) modifications to rights of holders of the 2002 Bonds; (8) 2002 Bond calls; (9) defeasance; (10) release, substitution, or sale of property securing repayment of the 2002 Bonds; and (11) rating changes. In addition, the Authority will provide timely notice of (1) any failure by the Comptroller to provide information, data or financial statements in accordance with its agreement described below under “-Continuing Disclosure Undertaking of the Comptroller-Annual Reports” and (2) any failure by the Commission to provide financial information and operating data in accordance with its agreement described above under “Continuing Disclosure Undertaking of the Authority—Annual Reports.” The Authority will provide each notice described in this paragraph to any state information depository (“SID”) and to either each nationally recognized municipal securities information repository (“NRMSIR”) or the Municipal Securities Rulemaking Board (“MSRB”).

In the Commission Resolution, the Commission has agreed to notify the Authority immediately upon the occurrence of any of the eleven events enumerated in the preceding paragraph with respect to the 2002 Bonds, if such event is material within the meaning of federal securities laws.

Continuing Disclosure Undertaking of the Comptroller

General. The Comptroller currently provides and intends to continue to provide current information concerning the financial condition of State government, and the Comptroller has agreed for the benefit of the owners of the 2002 Bonds to provide certain updated information and notices while the 2002 Bonds remain outstanding. The Authority and the legal and beneficial owners of the 2002 Bonds are third-party beneficiaries of the Comptroller's agreement. The Comptroller is required to observe its agreement for so long as the 2002 Bonds may be paid from money drawn on the State's General Revenue Fund. Under the agreement, the Comptroller will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

In addition to the information that the Comptroller has agreed to provide annually as described below, the Comptroller currently prepares an updated disclosure appendix quarterly for use in State agency securities offerings. The Bond Appendix dated November 2001 (the "Bond Appendix") is incorporated herein as described in Appendix A to this Official Statement. The Bond Appendix sets forth certain information regarding the State, including its government, finances, economic profile, and other matters. The Comptroller intends to continue to prepare or supplement such an appendix quarterly and to provide each such update or supplement to the information vendors to whom the Comptroller must provide annual information in accordance with the Comptroller's disclosure agreement. Quarterly updates to Bond Appendix will be available at <http://www.window.state.tx.us/treasops/bondapp.html> each calendar quarter. In addition, the Comptroller publishes, and intends to continue to publish, a monthly publication, *Fiscal Notes*, which includes key economic indicators for the State's economy as well as monthly statements of cash condition, revenues and expenses for State government funds on a combined basis. Bondholders may subscribe to *Fiscal Notes* by writing to *Fiscal Notes*, Comptroller of Public Accounts, P.O. Box 13528, Austin, Texas 78711-3528. Information about State government may also be obtained from the Comptroller by calling 1-800-227-8392.

Annual Reports. The Comptroller will provide, within 195 days after the end of each fiscal year of the State, certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the State of the general type included in Bond Appendix in Tables A-1 through A-14 and A-31 (however, only actual tax collections and revenues in Table A-10 will be updated) and under the headings "EDUCATION" and "RETIREMENT SYSTEMS." The Comptroller will update and provide this information within 195 days after the end of each fiscal year ending in or after 2002. The Comptroller will provide the updated information to each NRMSIR and to any SID that is designated by the State and approved by the staff of the Securities and Exchange Commission ("SEC").

The Comptroller may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information provided by the Comptroller will be provided on a cash basis and will not be audited, but the Comptroller will provide audited financial statements of the State prepared in accordance with generally accepted accounting principles for governmental entities when the State Auditor completes its statutorily required audit of such financial statements. The accounting principles pursuant to which such financial statements must be prepared may be changed from time to time to comply with State law.

The State's current fiscal year end is August 31. Accordingly, it must provide updated information by March 13 in each year (or March 12 in a leap year) unless the State changes its fiscal year. If the State changes its fiscal year, the Comptroller will notify each NRMSIR and any SID of the change.

Material Event Notices. The Comptroller will also provide timely notice of any failure to provide information, data or financial statements in accordance with its agreement described above under "Continuing Disclosure Undertaking of the Comptroller--Annual Reports." Each notice described in this paragraph will be provided to any SID and to either each NRMSIR or the MSRB.

Availability of Information from NRMSIRs and SID

The Authority and the Comptroller have agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of 2002 Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State as a SID and recognized by the SEC as a qualified SID. The address of the Municipal Advisory Council is 600 W. Eighth Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The Authority, the Commission, and the Comptroller have agreed to update information and to provide notices of material events only as described above. Neither the Authority, the Commission, nor the Comptroller has agreed to provide other information that may be relevant or material to a complete presentation of the Authority's, the Commission's or the State's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. Neither the Authority, the Commission, nor the Comptroller makes any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the 2002 Bonds at any future date. Each disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of such person's continuing disclosure agreement or from any statement made pursuant to such person's agreement, although holders of 2002 Bonds may seek a writ of mandamus to compel the Authority, the Commission, and the Comptroller to comply with their agreements.

The Authority, the Commission and the Comptroller may amend their continuing disclosure agreements to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Authority, the Commission or the State if the agreement, as amended, would have permitted an underwriter to purchase or sell 2002 Bonds in the offering described herein in compliance with SEC Rule 15c2-12 and either the holders of a majority in aggregate principal amount of the outstanding 2002 Bonds consent or any person unaffiliated with the Authority, the Commission, the Comptroller and the State (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the 2002 Bonds. If the Authority, the Commission, or the Comptroller so amends such person's agreement, such person must include with the next financial information and operating data provided in accordance with such person's agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

Neither the Authority, the Commission, nor the Comptroller has failed to comply in any material respect with any continuing disclosure agreement made by such person in accordance with SEC Rule 15c2-12.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2002 Bonds from the Authority. The purchase price for the 2002 Bonds is \$12,856,366.80 (representing the original aggregate par amount of the 2002 Bonds of \$12,975,000, plus a premium of \$27,076.70, less an original issue discount of \$66,700.40, less an underwriting discount of \$79,009.50), plus accrued interest on the 2002 Bonds from their dated date to the date of delivery. The Underwriters will be obligated to purchase all of the 2002 Bonds if any 2002 Bonds are purchased. The 2002 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing 2002 Bonds into investment trusts) at prices lower than the public offering prices of such 2002 Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

THE FINANCIAL ADVISOR

First Southwest Company (the "Financial Advisor") has acted as financial advisor to the Authority in connection with the issuance and sale of the 2002 Bonds. The Financial Advisor's fees for services rendered with respect to the sale of the 2002 Bonds is contingent upon the issuance and delivery of the 2002 Bonds. The Financial Advisor has reviewed the information in this Official Statement but does not guarantee its accuracy or completeness (except for the information concerning the Financial Advisor). Investors should not draw any conclusions as to the suitability of the 2002 Bonds from, or base any investment decisions upon, the fact that the Financial Advisor has advised the Authority.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters and reviewed by the Authority relating to (a) computation of anticipated receipts of principal and interest on the escrowed securities and the anticipated payments of principal and interest to redeem the Refunded Bonds and (b) computation of the yields on the 2002 Bonds and the escrowed securities were examined by Grant Thornton, L.L.P., Certified Public Accountants (the "Verification Agent"). Such computations were based solely on assumptions and information supplied by the Underwriters and reviewed by the Authority. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events. Such verification will be relied on by Bond Counsel in rendering their opinion with respect to the tax exemption of interest on the 2002 Bonds and with respect to defeasance of the Refunded Bonds, if any. The report of examination prepared by the Verification Agent will provide that Verification Agent has no obligation to update the report because of events occurring, or data or information coming to its attention subsequent to the date of the report.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the 2002 Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a) (2); and the 2002 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the 2002 Bonds been qualified under the securities acts of any jurisdiction. The Authority assumes no responsibility for qualification of the 2002 Bonds under the securities laws of any jurisdiction in which the 2002 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 2002 Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2002 Bonds by the Authority are subject to the unqualified approving opinions of the Attorney General of the State and the approval of certain legal matters by McCall, Parkhurst, & Horton L.L.P., Bond Counsel. The compensation paid to Bond Counsel for services rendered in connection with the issuance of the 2002 Bonds is contingent on the delivery of the 2002 Bonds. Bond Counsel's approving opinion will be rendered in substantially the form attached to this Official Statement as Appendix C.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that in its capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, "PLAN OF FINANCE," "THE 2002 BONDS," "SELECTED PROVISIONS OF THE RESOLUTION," "TAX MATTERS," "THE 2002 BONDS AS LEGAL INVESTMENTS IN TEXAS," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" to verify that the information relating to the 2002 Bonds and the Resolution contained under such captions in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate.

Certain legal matters will be passed upon for the Underwriters by their counsel, Vinson & Elkins L.L.P., Houston, Texas.

The various legal opinions to be delivered concurrently with the delivery of the 2002 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided to the reader by the Authority that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the Authority's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements. It is important to note that the Authority's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Authority. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

References in this Official Statement to particular laws do not purport to be a complete statement or to describe all of the provisions thereof and in each case are qualified by reference to the entire law, a copy of which will be furnished by the Authority on request.

The attached Appendices are integral parts of this Official Statement and should be read together with all of the foregoing statements.

This Official Statement has been approved by the Authority and the Commission.

SCHEDULE 1

DESCRIPTION OF THE REFUNDED BONDS

The following series of Bonds (collectively, the "Refunded Bonds") are to be refunded and redeemed in the amounts and on the dates set forth below, at a price indicated, plus interest accrued to the redemption date:

Texas National Guard Armory Board Improvement Revenue Bonds, Series 1991

<u>Bond</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Serial	10/01/2002	6.600%	\$155,000.00	03/12/2002	100.00
Serial	04/01/2003	6.700%	<u>160,000.00</u>	03/12/2002	100.00
			\$315,000.00		

Texas National Guard Armory Board Improvement Revenue Bonds, Series 1991A

<u>Bond</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Serial	10/01/2002	6.100%	\$50,000.00	03/12/2002	100.00
Serial	04/01/2003	6.200%	50,000.00	03/12/2002	100.00
Serial	10/01/2003	6.200%	65,000.00	03/12/2002	100.00
Serial	04/01/2004	6.250%	75,000.00	03/12/2002	100.00
Serial	10/01/2004	6.250%	85,000.00	03/12/2002	100.00
Serial	04/01/2005	6.250%	90,000.00	03/12/2002	100.00
Serial	10/01/2005	6.250%	95,000.00	03/12/2002	100.00
Serial	04/01/2006	6.250%	<u>105,000.00</u>	03/12/2002	100.00
			\$615,000.00		

Texas National Guard Armory Board Improvement Revenue Bonds, Series 1992A

<u>Bond</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Serial	10/01/2003	5.600%	\$325,000.00	04/01/2003	100.00
Serial	10/01/2004	5.700%	350,000.00	04/01/2003	100.00
Serial	10/01/2005	5.750%	370,000.00	04/01/2003	100.00
Serial	10/01/2006	5.900%	395,000.00	04/01/2003	100.00
Serial	10/01/2007	5.900%	<u>425,000.00</u>	04/01/2003	100.00
			\$1,865,000.00		

Texas National Guard Armory Board Refunding and Improvement Revenue Bonds, Series 1994

<u>Bond</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Serial	04/01/2005	5.600%	\$175,000.00	10/01/2004	100.00
Serial	10/01/2005	5.600%	180,000.00	10/01/2004	100.00
2008 Term	10/01/2008	6.000%	1,195,000.00	10/01/2004	100.00
2014 Term	10/01/2014	6.000%	<u>3,125,000.00</u>	10/01/2004	100.00
			\$4,675,000.00		

TOTAL			\$7,470,000.00		
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APPENDIX A

THE STATE OF TEXAS

The Comptroller prepares a quarterly disclosure appendix (the “Bond Appendix”) which sets forth certain information regarding the State, including its government, finances, economic profile, and other matters. The Bond Appendix dated November 2001 is on file with each NRMSIR and the Texas SID. The Bond Appendix may be obtained from the Comptroller’s website at:
<http://www.window.state.tx.us/treasops/bondapp.html>.

APPENDIX B

DEBT SERVICE REQUIREMENTS

Combined Outstanding Debt Service Requirements

FY Ending 31-Aug	Outstanding Debt Service Requirements	Refunded Debt Service Requirement	Series 2002 Bonds			Combined Debt Service Requirement
			Principal	Interest	Debt Service	
2002	4,015,926	223,070	355,000	129,027	484,027	4,276,883
2003	4,004,569	854,500	700,000	500,206	1,200,206	4,350,275
2004	1,941,265	872,925	745,000	476,506	1,221,506	2,289,846
2005	1,816,641	1,079,491	975,000	453,481	1,428,481	2,165,631
2006	1,826,409	1,267,789	1,190,000	421,231	1,611,231	2,169,851
2007	1,059,128	1,059,128	1,025,000	383,534	1,408,534	1,408,534
2008	1,066,538	1,066,538	1,070,000	345,969	1,415,969	1,415,969
2009	628,950	628,950	665,000	312,294	977,294	977,294
2010	627,550	627,550	685,000	284,338	969,338	969,338
2011	629,500	629,500	720,000	254,800	974,800	974,800
2012	629,650	629,650	755,000	223,194	978,194	978,194
2013	628,000	628,000	785,000	189,113	974,113	974,113
2014	624,550	624,550	820,000	152,584	972,584	972,584
2015	314,150	314,150	560,000	113,531	673,531	673,531
2016			285,000	93,197	378,197	378,197
2017			295,000	79,038	374,038	374,038
2018			310,000	64,038	374,038	374,038
2019			330,000	48,288	378,288	378,288
2020			345,000	31,538	376,538	376,538
2021			360,000	13,838	373,838	373,838
	\$19,812,825	\$10,505,790	\$12,975,000	\$4,569,742	\$17,544,742	\$26,851,777

(1) Principal payments on 4/1 and 10/1.

APPENDIX C
FORM OF BOND COUNSEL OPINION

LAW OFFICES

McCALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD
NINTH FLOOR
DALLAS, TEXAS 75201-6587
TELEPHONE: 214 754-9200
FACSIMILE: 214 754-9250

600 CONGRESS AVENUE
1250 ONE AMERICAN CENTER
AUSTIN, TEXAS 78701-3248
TELEPHONE: 512 478-3805
FACSIMILE: 512 472-0871

700 N. ST. MARY'S STREET
1225 ONE RIVERWALK PLACE
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE: 210 225-2800
FACSIMILE: 210 225-2984

[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Series 2002 Bonds, assuming no material changes in facts or law.]

\$12,975,000
TEXAS PUBLIC FINANCE AUTHORITY
(TEXAS MILITARY FACILITIES COMMISSION)
REFUNDING AND ARMORY IMPROVEMENT REVENUE BONDS
SERIES 2002

AS BOND COUNSEL FOR THE TEXAS PUBLIC FINANCE AUTHORITY (the "Authority") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds and with the Resolution hereinafter defined. The Board of Directors of the Authority and the Texas Military Facilities Commission (the "Commission"), respectively, authorized the issuance of the Bonds pursuant to separate resolutions (collectively, the "Resolution").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Authority, and other documents authorizing and relating to the issuance of said Bonds, including one of the executed certificates (Bond Numbered R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered, all in accordance with law, and that the Bonds constitute valid and legally binding special obligations of the Commission; and that the Bonds, together with other outstanding obligations of the Commission and Authority, on behalf of the Commission, are payable solely from "Pledged Revenues." The Resolution authorizing the issuance of said Bonds defines the terms "Pledged Revenues" to mean collectively, the rents, issues and profits from all Property of the Commission, including, but not limited to, income, including (1) rentals received from use of the Property of the Commission, (2) to the extent permitted by law, the proceeds of the sale of Property of the Commission, (3) to the extent permitted by law, any amounts received from the United States Government, (4) all interest and income derived from the deposit and investment of moneys credited to the Funds maintained pursuant to the Resolution, and (5) any additional revenues, income, receipts

or other resources, including without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter may be pledged to the payment of the Bonds or the Additional Bonds, but excluding Other Revenues; the term "Property of the Board" to mean all properties, both real and personal, under the care of or owned or operated by the Commission, including but not limited to armories; and the term "Other Revenues" to mean all income of the Commission, excluding Pledged Revenues, and including, but not limited to, appropriations of the State to the Commission for Operation and Maintenance Expenses and any revenues received by the Armory Board under any Federal Maintenance Contract or other contract or deed limiting to specific purposes the use of revenue derived from property so held. All such revenue bonds are secured ratably by such pledge of revenues in such manner that no one bond shall have priority of lien over any other bond so secured. The opinion hereinbefore expressed is qualified to the extent that the obligations of the Authority and the Commission, and the enforceability thereof, are subject to applicable bankruptcy, reorganization or similar laws relating to or affecting creditors' rights generally.

THE REGISTERED OWNERS of the Bonds do not have the right to require the payment thereof out of any funds raised or to be raised by taxation.

UNDER THE CONDITIONS and to the extent provided in the Resolution, the Authority has reserved the right to issue additional parity first lien revenue bonds, each to be secured and payable in the same manner as, and on a parity with, the Bonds and all then outstanding bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on and assume compliance by the Authority and Commission with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds and the verification report of Grant Thornton LLP. We call your attention to the fact that failure by the Authority and Commission to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by Section 55 of the Code, (b) subject to the branch profits tax imposed on foreign corporations by Section 884 of the Code and (c) included in the passive investment income of the subchapter S corporation and subject to the tax imposed by Section 1375 of the Code.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Authority, and, in that capacity, we have been engaged by the Authority for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Commission, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Authority and Commission. Our role in connection with the Authority's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

APPENDIX D

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee