State of Texas Debt – An Overview

January 24, 2007

Texas Bond Review Board
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1. Introduction
BRB vs. TPFA

Bond Review Board – Oversight Agency
• Approves state debt issues and lease purchases greater than $250,000 or a term longer than 5 years
• Collects, analyzes and reports information on debt issued by state and local entities – on our website
• Administers the state's Private Activity Bond Allocation Program

Texas Public Finance Authority – Issuing Agency
• Issues bonds and other forms of debt as authorized by the Legislature.
• Currently - 24 state agencies and 3 universities
• Administers the Master Lease Program
Debt Issuance Process

1. Legislative authorization and appropriation
2. Issuer Board approval
3. Bond Review Board approval
4. Bond sale (Negotiated/Competitive)
5. Bond closing – Attorney General approval
6. Ongoing Administration: paying debt service, federal tax law, change in use, arbitrage rebate compliance
Texas Debt Issuers

1. Texas Public Finance Authority (Universities: MSU, SFA & TSU)
2. Texas Department of Transportation
3. Texas Water Development Board
4. Texas Veteran’s Land Board (General Land Office)
5. Texas Department of Housing & Community Affairs
6. Texas State Affordable Housing Corp
7. Texas Higher Education Coordinating Board
8. The University of Texas System
9. The Texas A&M University System
10. Texas State Technical College System
11. Texas State University System
12. The Texas Tech University System
13. Texas Woman’s University
14. University of Houston System
15. The University of North Texas
16. Texas Agriculture Finance Authority (Dept. of Agriculture)
17. Office of Economic Development & Tourism
2. Debt Instruments
Types of State Debt Instruments

- Bonds: Long term (5+ years), fixed interest rate
- Notes: Short Term (<5 years)
- Commercial Paper (<1 year, usually 270 days), variable interest rate
What is a Bond?

A contract between a borrower and a lender, specifying:

- **When** the loan is due ("term" or "maturity") Example: 20 years
- What **interest rate** the borrower will pay Example: 5%
- When the payments will be made
  Example: Monthly, Semi-annually, annually
- What **revenue source** will be **pledged** to make the payments
Bonds

- “Taxable” – Interest earnings are taxable for federal income tax purposes

- “Tax-Exempt” – Interest earnings are exempt from federal income taxes
  - Lower Interest Rate – Investors will accept a lower interest rate than taxable bonds, such as corporate bonds, U.S. Treasury Bonds, because they don’t pay taxes on the interest

  - $1.00 (interest) - $.25 (taxes) = $0.75 (tax-exempt)

- Federal tax law limits issuance, investment and use of proceeds of tax-exempt bonds
Commercial Paper

- Can be secured by the state’s general obligation pledge or by a specified revenue source.

- Maturity ranges from 1 to 270 days.

- As the paper matures, it can be paid off or reissued (“rolled over”) at a new interest rate

- Variable interest rate – usually much lower than long term interest rate
Fixed Rates vs. Variable Rates

Revenue Bond Index vs. BMA Index (as of 12-31-06)
Yield Curve

Daily Treasury Yield Curve Rates (01/03/05)  Daily Treasury Yield Curve Rates (01/19/07)
• **Derivative**: A financial instrument whose characteristics and value depend upon the characteristics and value of an underlying index, typically a commodity, bond, equity or currency. Examples of derivatives include interest rate swaps, futures and options.

• **Swap**: A contract to exchange a stream of payments over time according to specified terms. The most common type is an interest rate swap, in which one party agrees to pay a fixed interest rate in return for receiving a adjustable rate from another party – Synthetic Fixed-Rate Debt

• **Risk vs. Reward**: Higher risk, greater return
Private Activity Bond Program

A private activity bond is a municipal bond which is either used entirely or partially for private purposes and is given federal tax-exempt status. General types of private activity bonds are:

- an exempt facility bond (Ex: airports, pollution control)
- a qualified mortgage bond
- a qualified veterans mortgage bond
- a qualified small issue bond
- a qualified student loan bond
- a qualified redevelopment bond
- a qualified 501(c)(3) bond
PAB - Federal Program

- “State Ceiling” or “Volume Cap” - Each state’s annual limit on the amount of Private Activities financed by tax-exempt bonds

- 2007 Volume Cap $85 per capita = $1.99B for Texas

- 2006 Volume Cap $80 per capita = $1.83B for Texas

- Congress has allocated $15B of PAB authority to be allocated by the U.S. Secretary of Transportation for eligible Highway projects and Rail-Truck Transfer Facilities. TxDOT has received provisional allocation of up to $1.87B for SH121.
How Texas Administers Its PAB

- Texas Legislature determines Texas allocation breakdown
- Bond Review Board (BRB) administers the program
- Reserved by lottery and priority within each calendar year
- Volume cap divided into six sub-ceilings through August 15 (Single Family Housing, State Voted Issues, Qualified Small Issues, Multifamily Housing, Student Loan Bonds and All Other Issues)
- August 15 – August 30: Any remaining cap is redistributed to ALL sub-ceilings with remaining applications
- September 1 – December 1: Remaining allocation distributed by lottery number
3. Types of Texas Debt
General Obligation (GO) Debt

- **Constitutional Pledge**: Legally secured by a constitutional pledge of the first monies coming into the State Treasury that are not constitutionally dedicated for another purpose.

- **Voter Approval**: Must initially be approved by a 2/3 vote of both houses of the legislature and by a majority of the voters; after this approval debt may be issued in installments as determined by the issuing agency or institution.

- General Government functions: prisons, MHMR facilities, parks
Revenue Debt

- Legally secured by a specific revenue source
- Do not require voter approval
- Enterprise Activities: utilities, airports, toll roads, colleges and universities
- Lease Revenue or Annual Appropriation Bonds
Lease Purchases

• Lease purchases are the purchase of an asset over time through lease payments that include principal and interest.

• Lease purchases are typically financed through a private vendor or through one of the state’s pool programs such as TPFA’s Master Lease Purchase Program.

• Examples: State prisons and office buildings have been financed using lease-purchasing from special purpose non-profit finance corporations; equipment, vehicles, energy retrofits, software financed through the TPFA’s Master Lease Program.
Tax and Revenue Anticipation Notes (TRANs)

- Issued by the CPA, Treasury Operations to address the cash flow mismatch between revenues and expenditures in the general revenue fund.

- Repaid by the end of the biennium in which they are used, but are usually repaid by the end of each fiscal year.

- Repaid with tax receipts and other revenues of the General Revenue fund.

- Approved by the Cash Management Committee (Governor, Lt. Governor, CPA. Speaker is a non-voting member).
Debt Issued by Universities

- **Revenue Bonds**: Under Chapter 55 of the Education Code, universities may issue revenue bonds or notes to finance permanent improvements for their institution(s). Most universities have established system-wide revenue financing programs which pledge all system-wide revenue, except legislative appropriations to the repayment of the revenue bonds and notes (“Revenue Financing System”).

- **Tuition Revenue Bonds**: The Legislature may also authorize “tuition revenue bonds”, usually for specific purposes or projects and appropriate general revenue to offset the institution’s debt service; legislative appropriations made directly for debt service would be unconstitutional.

- **PUF/HEAF**: The University of Texas and Texas A&M Systems may issue obligations backed by income from the Permanent University Fund (PUF), in accordance with Texas Constitution, Art. VII, §18. Texas’ other institutions may issue Higher Education Assistance Fund (HEAF) bonds, in accordance with Texas Constitution, Art. VII, §17.
Tuition Revenue Bonds

• In addition to the general authority of Chapter 55 of the Education Code, the Legislature periodically authorizes tuition revenue bonds for specific institutions, for specific projects or purposes.

• "Tuition revenue bonds" are revenue bonds issued by the institution, equally secured by and payable from the same pledge for the institution's other revenue bonds. However, historically the Legislature has appropriated general revenue to the institution to offset all or a portion of the debt service on the bonds.

• Tuition revenue bond issues must be approved by the Bond Review Board, and the projects may have to be approved or reviewed by the Higher Education Coordinating Board.
4. General Revenue Impact

Self-Supporting vs. Not Self-Supporting
Self-Supporting

- Self-supporting debt is designed to be repaid with revenues other than state general revenues. Self-supporting debt can be either general obligation debt or revenue debt.

- GO: Water Development Board debt repaid from loans made to communities for water and wastewater projects.

- Revenue: State Highway Fund debt, Housing and Community Affairs debt
Not Self-Supporting

• Not self-supporting debt is intended to be repaid with state general revenues. Not self-supporting debt can be either general obligation debt or revenue debt.

• GO: HEAF Bonds; TPFA Bonds, Water Development Bonds

• Revenue: TPFA Bonds, TPFA MLPP, Texas Military Facilities Commission Bonds
5. Texas State Debt
Constitutional Debt Limit

- The Texas Constitution prohibits the issuance of additional state debt if the percentage of debt service payable by general revenue in any fiscal year exceeds 5% of the average of unrestricted general revenue for the past three years.

- For FY2006, this percentage was 1.33% of issued debt and 1.87%, including authorized but unissued debt.
# Constitutional Debt Limit

Debt service payable by GR as a % of the previous three years of unrestricted GR average.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Issued Debt</th>
<th>Issued + Authorized but Unissued</th>
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<tr>
<td>2006</td>
<td>1.33%</td>
<td>1.87%</td>
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<tr>
<td>2005</td>
<td>1.51%</td>
<td>2.21%</td>
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<td>2004</td>
<td>1.51%</td>
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<td>1996</td>
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<tr>
<td>1995</td>
<td>1.80%</td>
<td>3.10%</td>
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<tr>
<td>1994</td>
<td>1.90%</td>
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Texas Debt Outstanding as of August 31, 2006* (billions)

<table>
<thead>
<tr>
<th></th>
<th>Self-Supporting</th>
<th>Not Self-Supporting</th>
<th>Total</th>
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<tr>
<td>General Obligation</td>
<td>$5,181</td>
<td>$2,353</td>
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<tr>
<td>Revenue**</td>
<td>$15,185</td>
<td>$623</td>
<td>$15,808</td>
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<td>Total</td>
<td>$20,366</td>
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<td>$23,342</td>
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*Includes commercial paper and variable rate notes; however does not include TRANs (short-term debt issued by the CPA, Treasury Operations for cash management purposes).

**Includes $5.8 billion of Tuition Revenue Bonds
Historical State Debt
As of 8/31/06 (billions)
College & University Debt Service
as of 08-31-06 (millions)
6. Credit and Debt Affordability
Texas’ Credit Ratings

Texas’ current ratings are:

- Moody’s: Aa1
- Standard and Poor’s: AA
- Fitch: AA+

Rating agencies consider the following four factors in determining a state’s credit rating:

- Economy
- Financial condition
- Debt burden
- General management practices
## STATE GENERAL OBLIGATION BOND RATINGS

### August 2006

<table>
<thead>
<tr>
<th>Tier Ranking</th>
<th>State</th>
<th>Moody's Investors Service</th>
<th>Standard &amp; Poor's</th>
<th>Fitch Ratings</th>
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<td>Louisiana</td>
<td>A2</td>
<td>A+</td>
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</table>

* State does not carry a G.O. rating

Note: States not listed do not carry a G.O. rating

**Sources:** Moody's Investors Service, Standard & Poor's, and Fitch Ratings.
# Texas’ Debt Burden

## Total State and Local Debt Outstanding: Ten Most Populous States

<table>
<thead>
<tr>
<th>State</th>
<th>Population (thousands)</th>
<th>Per Capita Rank</th>
<th>Total State and Local Debt</th>
<th>State Debt</th>
<th>Local Debt</th>
<th>Total State and Local Debt</th>
<th>State Debt</th>
<th>Local Debt</th>
<th>Total State and Local Debt</th>
<th>State Debt</th>
<th>Local Debt</th>
<th>Total State and Local Debt</th>
<th>State Debt</th>
<th>Local Debt</th>
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<tbody>
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<td>New York</td>
<td>19,281</td>
<td>1</td>
<td>$219,358</td>
<td>1</td>
<td>$95,710</td>
<td>43.6%</td>
<td>43.6%</td>
<td>$4,964</td>
<td>15.7%</td>
<td>15.7%</td>
<td>$6,413</td>
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<tr>
<td>Illinois</td>
<td>12,712</td>
<td>2</td>
<td>102,304</td>
<td>3</td>
<td>48,726</td>
<td>47.6%</td>
<td>29.0%</td>
<td>$3,833</td>
<td>23.7%</td>
<td>23.7%</td>
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<td>Pennsylvania</td>
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<td>27.0%</td>
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<td>California</td>
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<td>38.5%</td>
<td>38.5%</td>
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<td><strong>Mean</strong></td>
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<td><strong>$115,737</strong></td>
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<td><strong>$41,068</strong></td>
<td><strong>35.1%</strong></td>
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<td><strong>$2,540</strong></td>
<td><strong>23.7%</strong></td>
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<td><strong>$4,415</strong></td>
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Note: Detail may not add to total due to rounding.

Source: U.S. Census Bureau, State and Local Government Finances by Level of Government and by State, 2003-2004, the most recent data available.
Texas Local Government Debt
(as of 8/31/2005)

$119.4 billion total outstanding debt

($45.4 billion)
Cities, Towns, Villages
38%

($38.1 billion)
Public School Districts
32%

($8.2 billion)
Counties
7%

($1.9 billion)
Community and Junior Colleges
2%

($1.4 billion)
Health & Hospital Districts
1%

($20.5 billion)
Water Districts & Authorities
17%

($3.9 billion)
Other Special Districts & Authorities
3%

($8.2 billion)
Public School Districts
32%

($38.1 billion)
Public School Districts
32%

($1.9 billion)
Community and Junior Colleges
2%
Independent School Districts

State supports School District debt through:

- Permanent School Fund (PSF) – guarantees repayment of debt service

- Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) Programs - appropriate General Revenue to school districts to offset portion of debt service
Debt Affordability Study (DAS)

- Joint project between BRB, LBB, and TPFA

- Purpose is to provide information on the state’s debt burden and debt capacity

- Uses an Excel-based model to calculate five key debt ratios

- Focus of DAS is not self-supporting debt

- Debt capacity is defined as annual debt service

- Publication is scheduled for early February
Debt Affordability Study (DAS)

- Ratio 1 – Debt Service as a Percent of Unrestricted Revenues
- Ratio 2 – Not Self-supporting Debt to Personal Income
- Ratio 3 – Not Self-supporting Debt per Capita
- Ratio 4 – Rate of Debt Retirement
- Ratio 5 – Not Self-supporting Debt Service as a Percent of Budgeted General Revenue
7. Question and Answer
8. Bond Sale Mechanics
Debt Issuance Process

1. Legislative authorization and appropriation
2. Issuer Board approval
3. Bond Review Board approval
4. Bond sale (Negotiated/Competitive)
5. Bond closing – Attorney General approval
6. Ongoing Administration: paying debt service, federal tax law, change in use, arbitrage rebate compliance
Finance Team

• Financial Advisor
• Bond Counsel/Disclosure Counsel
• Underwriter
• Commercial Paper Transactions:
  Dealer
  Paying Agent
  Liquidity Provider
Method of Sale

- Negotiated
- Competitive
Negotiated

• Underwriter selected through RFP process

• Underwriter and underwriter’s counsel work with FA and Bond Counsel to structure transaction, prepare offering documents

• Price (interest rate) and other terms of the bonds negotiated with Underwriter on sale date

• More flexibility in timing of sale, structure of bonds, and composition of underwriting syndicate
Competitive

- Underwriter determined through competitive bid for the purchase of the bonds, i.e. lowest True Interest Cost

- Financial Advisor and Bond Counsel structure transaction and bond documents

- Sale date and bond structure must be determined in advance

- The bidder (underwriter) determines structure of underwriting syndicate – not the issuer
Factors to consider

Negotiated
- Complex financial or legal structure
- Market timing important to structure (e.g., refunding)
- Bonds require intensive pre-marketing effort

Competitive
- Straightforward structure
- Well known credit and security pledge
- Size will attract bidders
Bond Sale Process

Negotiated
• Staff, FA, and possibly Board members negotiate interest rates, coupon structure, call features and takedowns; monitor order flow and underwriting efforts of syndicate members
• may attend pricing at Underwriter’s offices

Competitive
• Bids are submitted and verified by staff and Financial Advisors
• Board Awards sale of bonds to lowest bidder at Open meeting
Ongoing Administration

- Pay debt service on time
- Monitor expenditure of bond proceeds
- Comply with federal tax law (use of facility, investment of bond proceeds)
- Arbitrage rebate compliance
- Legislative appropriations for debt service, if required
Select Texas Debt Issuers

- Texas Transportation Commission
- The Texas A&M University System
- Texas Water Development Board
- Texas Department of Housing and Community Affairs
- Texas Public Finance Authority
TxDOT Debt Programs

Dorn E. Smith, MPA
Debt Management
Finance Division
Essentiality of Transportation Projects

- $86 billion of unfunded transportation needs over the next 25 years.
- The Commission’s goals are to improve mobility, safety and air quality and promote economic growth.
- Texas economy is experiencing substantial growth.
- Population expected to grow approximately 25% over next 25 years.
- Commission support for local and regional solutions and new sources of revenue for funding shortfall.
Project Funding Methods

Project Costs

State Highway Fund
Cash
Pay-as-you-go

1. Mobility Fund Proceeds
Pay Directly or Reimburse SHF
Est. capacity - $6.2 Bln

2. SHF Bond Proceeds
Reimburse SHF Capacity - $3 Bln

Commercial Paper
Cash Management Authorized Capacity - $500 Mln

Revenues:
- State motor fuel tax
- State motor vehicle registration
- Other state revenues sources
- Federal reimbursements

Revenues:
- Driver license fees
- Driver record information fees
- Motor vehicle inspection fees
- Certificate of title fee
Texas Mobility Fund

Fund Established in 2001

- 30-Year maximum maturity
- 1.10 Minimum Coverage (GO backstop)-option
- Comptroller Certified projection of revenue sufficiency

Revenues Identified in 2003

- Driver’s Responsibility Act & Statewide Traffic Fines for FY 2004-2005 (initially)
- Vehicle Inspection Fees beginning in FY 2006
- Driver Record Information Fee Beginning in FY 2007
- Drivers License Fee Beginning in FY 2008
- Certificate of Title fee beginning in FY 2009
Texas Mobility Fund

- Expected to support over $6.2 Billion of bond capacity. $2.9 billion currently outstanding.

- Commission Adopted a Strategic Plan
  - $400M allocated for development costs
  - 2/3 of remainder to the 8 metro areas (Austin, Corpus Christi, DFW, El Paso, Houston-Beaumont, Lubbock, Pharr, and San Antonio)
    - Use proceeds to leverage other funding sources to accelerate mobility projects
  - 1/3 of remainder for mobility projects in small urban areas and statewide connectivity.
Summary

Mobility Fund

- Commission approved its Strategic Plan in 2004 as required by statute.
- Current Mobility Fund general account balance is $982 million.
- Major sources of Dedicated Revenues began phasing in on September 1, 2005.

Strong Security for TxFMF bonds

- State of Texas full faith and credit pledge.
- Legislatively dedicated revenues, with Constitutional hold harmless provision in the event of substitution of revenues.
- Dedicated revenues demonstrate historical growth and stability.
- Minimum 1.10x coverage on TxFMF revenues alone after full implementation of program capacity.
Uses of the Mobility Fund

Texas Mobility Fund

- Publicly Owned Toll Roads
- Other Public Transportation Projects
- State Highways
  - Construction/Reconstruction
  - Acquisition
  - Expansion
  - Design
  - Acquisition of Right-of-Way
Texas Mobility Fund

Major Revenue Sources
- Motor Vehicle Inspection Fees
- Driver Record Information Fee
- Driver's License Fees
- Certificate of Title Fees

Miscellaneous Revenues
- United We Stand License Fees
- Commercial Vehicle Safety Fines
- Investment Earnings and Interest
- Surplus Revenues from RMAs (1,2)
- Surplus DRP (3)
- Revenues in Excess of $250 million (1)

(1) None expected
(2) RMA = Regional Mobility Authority
(3) DRP = Driver Responsibility Program
State Highway Fund Bonds

- **Authority granted in 2003**
  - 20-Year maximum maturity
  - Annual Debt Service no more than 10% of revenue
  - Lifetime cap of $3 Billion in bonds issued
  - $1.6 billion outstanding

- **Future revenues pledged**
  - State gas tax, vehicle registration fees, federal highway funds, etc.
Constitutional amendment to permit issuance of SHF bonds approved by voters in 2003 (Section 49(n) of the Texas Constitution).

Section 222.003 of the Transportation Code provides restrictive legal parameters for issuance:

- $3 billion total issuance:
  - $600 million of total to be spent on safety projects
  - No more than $1 billion to be issued each year
- Proceeds may not be spent on the Trans Texas Corridor.

Proceeds to be used for highway improvement and safety projects.

Pledged Revenues include both state and federal funds deposited to the SHF.

Exceptionally high minimum debt service coverage of 27.86x for $3 billion program

- 14.13x minimum coverage on state revenues
- 13.73x minimum coverage on federal revenues

No effect on the State’s GO capacity.

Rated ‘AAA’ by Standard & Poor’s and ‘Aa1’ by Moody’s
Key Legal Provisions

- **Pledged Revenues**
  - State taxes and fees
  - Federal reimbursements

- Debt service payments deposited with paying agent 3 business days prior to debt service payment.

- Funds for debt service are constitutionally appropriated.

- Additional bonds test of 4.0x (statutory limitation of 10.0x).

- No debt service reserve fund.

- Obligations of the SHF bond program are senior to other obligations of the SHF.
Lien Structure for SHF Obligations

- STATE HIGHWAY FUND
  - SENIOR OBLIGATIONS
    - First Tier Obligations
      - Series 2006 Bonds
    - Second Tier Obligations
      - e.g. Credit Agreements
  - SUBORDINATE COMMITMENTS
    - Short-Term Obligations
      - HTRANs
    - Any Other Lawful Purpose
      - Pass-Through Tolls
      - Toll Equity
Other Programs

- **Commercial Paper Program**
  - BRB approved the program up to $350 million in 2005.
  - Expanded to $500 million 2006.
  - During September and October 2005, the Department issued $300 million to manage cash flows while the federal reauthorization bill and subsequent appropriations were being undertaken.
  - Outstanding balance is currently $63.3 million.

- **2002 CTTS**
  - 2002 Project of Central Texas Turnpike System.
  - 65 miles of toll roads in Austin/Round Rock area.
  - $2.2 Billion in Debt issued by Texas Turnpike Authority (TxDOT).
  - $700 million in TxDOT Funding (Toll Equity)
Debt Programs

Maria L. Robinson
Director of Treasury Services
The Texas A&M University System

9 Universities
- Texas A&M University
  - TAMU at Galveston
- Prairie View A&M
- Tarleton State University
- TAMU – Corpus Christi
- TAMU – Kingsville
- Texas A&M International
- West Texas A&M Univ.
- TAMU – Texarkana
- TAMU – Commerce

7 State Agencies
- Texas Agricultural Experiment Station
- Texas Cooperative Extension
- Texas Forest Service
- Texas Engr. Experiment Station
- Texas Engr. Extension Service
- Texas Transportation Institute
- Texas Veterinary Medical Diagnostic Laboratory
- Health Science Center
Debt Programs for the A&M System

- Higher Education Fund
- Permanent University Fund
- Revenue Financing System
Higher Education Fund

- A&M System Members receiving Higher Education Fund appropriations

- 50% of appropriation can be used for debt service

- Appropriation amounts adjusted every 5 years

- Term of debt limited to 10 years

- No HEF debt has been issued by the A&M System
Permanent University Fund (PUF)

- Distributions benefit UT and A&M Systems
  - 2/3 of distribution to UT System
  - 1/3 of distribution to A&M System

- A&M System Members eligible for PUF benefit
  - Texas A&M University (including Galveston branch), Prairie View A&M University, Tarleton State University, Health Science Center, Agencies, System Office

- Distributions used to support excellence and operations

- Distributions used for debt service

- Debt Rating: Aaa, AAA, AAA
Types of PUF Debt

- Subordinate Lien Notes (Commercial Paper)
  - $125 million authorization
  - Issued in commercial paper mode
  - Used during construction
  - Used for equipment financing
  - Only interest is due
  - Can pay principal also

- Debt service paid from distributions from the Permanent University Fund
Types of PUF Debt

- Long-Term Bonds
  - Convert notes (commercial paper) to long-term debt
  - Projects that are substantially complete
  - Periods when interest rates are attractive
  - Pay principal and interest

- Debt service paid by distributions from the Permanent University Fund
Revenue Financing System

General Pledge:
All legally available revenues of the A&M System

Tuition
Fees
Stadium Revenues
Housing Revenues
Sales and Services
Utility Revenues
Other unrestricted revenues
Revenue Financing System

- All A&M System Members are eligible for borrowing under the Revenue Financing System

- Debt Ratings: Aa1, AA+, AA+

- Each project must support itself

- Financing application is required
  - Term of borrowing
  - Revenue stream for repayment of debt
  - 115% coverage

- Annual certification
Access to RFS Funds

- Projects must have proper approvals prior to accessing funding under the Revenue Financing System
  - Board of Regents
  - Texas Higher Education Coordinating Board
  - Bond Review Board (Tuition Revenue Bond projects)

- Project costs incurred prior to the approvals are funded by the institution and will be reimbursed upon receipt of the necessary approvals
Revenue Financing System
Tuition Revenue Bonds

- State Legislature authorizes an amount of bonds that higher education institutions can issue

- State Legislature has authorized over $4.4 billion of tuition revenue bond projects with just over $1 billion authorized for the A&M System

- The A&M System issues its tuition revenue bonds under the Revenue Financing System debt program
As part of the appropriations bill each biennium, the State appropriates general revenue for the reimbursement of debt service on the tuition revenue bonds that were authorized.

Debt service is paid from A&M System funds and reimbursed by the State.
Types of Revenue Financing System Debt

- Commercial Paper
  - Short-term debt used during construction
  - $200 million authorization
  - Only interest is due
  - Can pay principal also
Types of Revenue Financing System Debt

- Long-Term Bonds
  - Convert commercial paper to long-term debt
  - Projects that are substantially complete
  - Periods when interest rates are attractive
  - Pay principal and interest

- Debt service allocated to each individual project
Texas Department of Housing and Community Affairs
TDHCA Single Family Mortgage Revenue Bond Program

- Matt Pogor - Director of Bond Finance
- Heather Hodnett - Bond Finance Associate
- Ed Morris - Bond Finance Analyst

Web Sites:
- Bond Finance
  - www.tdhca.state.tx.us/hf_bond_finance.htm
TDHCA Single Family Mortgage Revenue Bond Program

- Finances below-market interest mortgage loans to benefit extremely low to moderate income households, primarily through the Texas First-Time Homebuyer Program and the Mortgage Credit Certificate Program

- For 2007, TDHCA's single family PAB authority equals roughly $186 million
Economics of TDHCA Single Family Programs

Overview of MRB Economics

- Mortgage rate must be:
  - High enough to pay debt service, recover upfront costs and cover ongoing costs
  - Low enough to achieve program goals (below market rate mortgages)
  - Within 112.5 basis points of bond yield
Underwriting of TDHCA Single Family Program Conforming Loans

- TDHCA’s MRB loans are pooled into Mortgage Backed Securities

- Ginnie Mae, Fannie Mae, and Freddie Mac issue the Mortgage Backed Securities

- All borrowers and loans must “conform” to Ginnie Mae, Fannie Mae, and Freddie Mac mortgage loan underwriting criteria

- Ginnie Mae, Fannie Mae, and Freddie Mac guarantee payment of principle and interest of mortgage loans “conforming” to their underwriting criteria
Marketing and Lender Relations

- TDHCA maintains relationships with over 53 nationally recognized mortgage banks and mortgage brokers.

- The Single Family Finance Production Division manages these relationships and other marketing efforts related to single family bonds.

- The Bond Finance and Single Family Divisions jointly monitor mortgage originations; Bond Finance at least monthly and Single Family at least daily.
TDHCA Annual Comparison of Average Monthly Loan Purchases

First Time Homebuyer Program

- 2004: $17,094,955
- 2005: $18,079,231
- 2006: $23,707,602
### TDHCA Active Mortgage Pipeline Report

**As of December 31, 2006**

<table>
<thead>
<tr>
<th>Program</th>
<th>62A</th>
<th>66</th>
<th>68</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indenture</td>
<td>Single Family</td>
<td>Single Family</td>
<td>Single Family</td>
<td>Total</td>
</tr>
<tr>
<td>Series</td>
<td>2005 A</td>
<td>2006 ABCDE</td>
<td>2006 FGH</td>
<td></td>
</tr>
<tr>
<td>Underwriter</td>
<td>Bear Stearns</td>
<td>Citigroup</td>
<td>UBS</td>
<td></td>
</tr>
</tbody>
</table>

| Total Lendable Funds | $101,764,092 | $238,697,801 | $132,030,000 | $472,491,893 |
| Purchased By Master Servicer | $94,482,137 | $132,742,956 | $6,640,395 | $233,865,488 |
| Committed (In Pipeline but not yet Purchased) | $7,790,421 | $82,061,690 | $55,953,425 | $145,805,536 |
| Total Lendable Proceeds Remaining | $ - | $23,893,155 | $69,436,180 | $93,329,335 |

| Bond Closing Date | 4/20/05 | 6/28/06 | 11/15/06 | |
| Program Start Date | 4/21/05 | 6/12/06 | 11/16/06 | |

| Mortgage Loan Rate - Unassisted | 4.99% | 5.625% | 5.650% | |
| Mortgage Loan Rate - Assisted | 6.125% | 6.200% | |
| Rita Gulf Opportunity (GO) Zone | 5.875% | 5.990% | |
TDHCA Mortgage Revenue Bonds
Outstanding
As of December 31, 2006
# Indenture Credit Ratings as of December 31, 2006

<table>
<thead>
<tr>
<th>Ratio Analysis:</th>
<th>Single Family Program Funds</th>
<th>Residential Mortgage Revenue Bond Funds</th>
<th>Collateralized Home Mortgage Revenue Funds</th>
<th>Multi-Family Program Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indenture</td>
<td>Variable Rate Bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Ratings:</td>
<td>Senior</td>
<td>Junior</td>
<td>AAA * A+ A-1+ AAA AAA AAA Various</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lien</td>
<td>Lien</td>
<td>Aa1 Aa2 VMIG 1 Aaa Not Rated Various</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Standard and Poor's</td>
<td>Moody's</td>
<td>Fitch's</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AAA *</td>
<td>A+</td>
<td>Aa1</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>A+</td>
<td>A-1+</td>
<td>Aa2 **</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>A-1+</td>
<td>AAA</td>
<td>VMIG 1</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>AAA</td>
<td>AAA</td>
<td>Aaa</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>AAA</td>
<td>Not Rated</td>
<td>Not Rated</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Various</td>
<td>Various</td>
<td>Various</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Standard and Poor's updated the rating of the Senior Lien Indenture in May 2006 from A+ to AAA.

**Moody's updated the rating of the Junior Lien Indenture in April 2000 from A1 to Aa2.
TDHCA Multifamily Activity
TDHCA Bond Staff

- Robbye Meyer 475-2213
  (Director, Multifamily Finance Production)

- Teresa Morales 475-3344
  (Multifamily Bond Administrator)

- Shannon Roth 475-3929
  (Multifamily Housing Specialist)

- Sharon Gamble 475-4610
  (Multifamily Housing Specialist)

Web address: www.tdhca.state.tx.us/multifamily/bond/
Private Activity Bond Program

- Total State Authority ~$1.99 billion for 2007
- Multifamily Sub-ceiling ~$440 million
- TDHCA Set-aside ~$87.9 million
Private Activity Bond Program

- State and Local Issuers of Bonds
  - TDHCA
  - Texas State Affordable Housing Corporation
  - Local Issuers
Multifamily Bond Transactions

- **Purpose:**
  - Rental Housing Developments - includes both new construction and acquisition/rehabilitation developments

- **Types of Multifamily transactions:**
  - Public Offering / Credit Enhanced
    - Underwriters include: Merchant Capital, Capmark, National Alliance Securities
    - 2005 – 40% of TDHCA transactions were publicly offered
    - 2006 – 70% of TDHCA transactions were publicly offered
  - Private Placement
    - Placement Agents include: MMA, US Bank, Charter Mac, JPMorgan, Bank of America
    - 2005 – 60% of TDHCA transactions were privately placed
    - 2006 – 30% of TDHCA transactions were privately placed
  - Fixed Rate / Variable Rate
  - TDHCA coordinates with all the parties for each individual transaction: Borrower, construction lender, permanent lender, equity provider, legal counsels, trustees, financial advisors, underwriters and rating agencies.
Multifamily Bond Application Process

- Developer submits pre-application to TDHCA
- TDHCA evaluates pre-application for feasibility. Pre-applications are scored and ranked.
- TDHCA Board authorizes Inducement Resolution
- Submit ranked list to the Bond Review Board
- Reservation of Allocation is received
- Developer files 4% Housing Tax Credit application
- Site inspection is completed
- Public hearing is held on each bond transaction. All public comment is summarized and presented to the TDHCA Board.
Multifamily Bond Application Process

- Underwriting for feasibility is completed
- Information is prepared and presented to the TDHCA Board for decision
- Submit Notice of Intent to Issue bonds to the Bond Review Board
- Verify the required due diligence for closing has been received (i.e. final zoning, survey, permits)
- If approved, the Bonds are closed
Private Activity Bond Program

- TDHCA submitted 17 applications for the 2006 program year and closed 13 transactions for a total of $155,405,000.

- TDHCA currently has 19 applications for the 2007 program year for a total of $130,800,000.

- TDHCA accepts applications on a monthly basis.
Who is TPFA?

1. State agency created in 1983 by the Texas Legislature

2. Seven-member board of directors appointed by the Governor; 15 member staff

3. Mission: Provide capital financing to other state agencies, as directed by the Legislature. Capital financing used to:
   • construct, acquire, or renovate facilities and equipment;
   • make loans or grants;
   • provide capital funding for programs such as unemployment compensation, workers compensation, and other insurance programs.
1. Issue general obligation and revenue bonds for state agencies and universities

2. Administer the state’s Master Lease Purchase Program: used by State agencies and universities to finance equipment acquisitions (Examples: computer hardware and software, vehicles, telecommunication systems, energy performance contracts and retrofit projects)

3. The Legislature must authorize the specific project for which bonds are to be issued and either the estimated cost of the project or the maximum amount of debt that can be issued for a project or program
TPFA Client Agencies

1. Texas Building and Procurement Commission
2. Texas Department of Criminal Justice
3. Texas Youth Commission
4. Texas Parks and Wildlife Department
5. Department of State Health Services
6. Department of Aging and Disability Services (DADS)
7. Human Services Commission (TIERs Project)
8. State Preservation Board
9. Texas Historical Commission
10. Texas School for the Blind and Visually Impaired
11. Texas School for the Deaf
12. Texas Department of Public Safety
13. Texas Military Facilities Commission
14. Adjutant General
15. Department of Agriculture
16. Texas Workforce Commission
17. Texas Military Preparedness Commission
18. Office of the Governor/Texas Dept. of Transportation – Colonias Roadways
19. Midwestern State University
20. Stephen F. Austin State University
21. Texas Southern University
22. TPFA Charter School Finance Corporation
23. Texas State Technical College System*
24. Texas Juvenile Probation Commission*
25. Texas National Research Laboratory Commission (Superconducting Super Collider)*
26. Texas Education Agency*
27. Texas Department of Insurance* * Inactive
# TPFA Debt Outstanding

As of 12/31/06

<table>
<thead>
<tr>
<th></th>
<th>Fixed Rate</th>
<th>Variable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation</td>
<td>$1,724,093,748</td>
<td>$67,000,000</td>
<td>$1,791,093,748</td>
</tr>
<tr>
<td>Lease Revenue</td>
<td>$438,129,454</td>
<td>$0</td>
<td>$438,129,454</td>
</tr>
<tr>
<td>Master Lease</td>
<td>$0</td>
<td>$113,259,000</td>
<td>$113,259,000</td>
</tr>
<tr>
<td>Subtotal: General Revenue</td>
<td>$2,162,223,202</td>
<td>$180,259,000</td>
<td>$2,342,482,202</td>
</tr>
<tr>
<td>University</td>
<td>$265,456,581</td>
<td>$0</td>
<td>$265,456,581</td>
</tr>
<tr>
<td>TWC</td>
<td>$327,560,000</td>
<td>$205,000,000</td>
<td>$532,560,000</td>
</tr>
<tr>
<td>Total</td>
<td>$2,755,239,783</td>
<td>$385,259,000</td>
<td>$3,140,498,783</td>
</tr>
</tbody>
</table>
Types of Financing

- General Obligation Bonds
- Revenue Bonds
- Lease Purchase
- Refunding Bonds
TPFA GO Bonds

- TPFA uses a combination of fixed and variable rate debt for its GO programs

- Commercial Paper sometimes used during construction and to provide variable rate exposure

- Long term fixed rate bonds issued to “fix out” commercial paper, provide additional CP capacity or lock in low long term interest rates

- Currently: $1.7 billion fixed, $67 million variable
## Current TPFA GO Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Purpose</th>
<th>Approved or Appropriated</th>
<th>Issued</th>
<th>Unissued/Unappropriated</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>Repair, Construction, and Equipment for specified State Agencies</td>
<td>$601,027,715 Appropriated through FY 07;</td>
<td>$398,574,002</td>
<td>$168,739,327 Unissued; $282,686,671 Unappropriated</td>
</tr>
<tr>
<td>$850,000,000 Art. III, Sec 50-f</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colonias Roadway Grants</td>
<td>Grants to specified Border Counties for County Roads</td>
<td>$175,000,000</td>
<td>$65,000,000</td>
<td>$110,000,000</td>
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<tr>
<td>$175,000,000 Art. III, Sec 49-1</td>
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<td></td>
<td></td>
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<tr>
<td>Texas Military Value Revolving Loan Fund</td>
<td>Loans to Defense Communities affected by BRAC</td>
<td>$50,000,000</td>
<td>$0</td>
<td>$250,000,000</td>
</tr>
<tr>
<td>$250,000,000 Art. III, Sec 49-n</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
General Government GO Agencies

- Texas Building and Procurement Commission,
- Texas Youth Commission,
- Texas Dept. of Criminal Justice
- Dept. of State Health Services
- Dept. of Aging and Disability Services
- Parks and Wildlife Dept.
- Texas School for the Deaf,
- Dept. of Agriculture,
- Dept. of Public Safety
- State Preservation Board,
- Texas Historical Commission,
- Texas School for the Blind and Visually Impaired
- Adjutant General's Dept.
Revenue Bonds

- Legally secured by a specific revenue source
- Do not require voter approval
- Enterprise Activities: utilities, airports, toll roads, colleges and universities
- Lease Revenue or Annual Appropriation Bonds
Examples of TPFA Revenue Bonds

- University Revenue Financing Systems
- Texas Workforce Commission Obligation Assessment Revenue Bonds
- Lease Revenue Bonds
  - Building and Procurement Commission
  - Preservation Board
  - Parks and Wildlife
  - Health Department
  - Military Facilities Commission
TPFA Lease Revenue Bonds

TPFA

Investors

Client Agency

Legislature

Debt Service

BOND

LEASE

Lease Payments

Lease Payments
TPFA Lease Revenue Bonds

- TPFA issues bonds
- TPFA provides bond proceeds to client agency to construct or acquire the facility
- TPFA takes title to the facility
- TPFA leases the facility to another state agency
- Legislature appropriates lease payments to the other state agency each biennium (no legal obligation to do so)
- State agency makes lease payments to TPFA
- TPFA uses lease payments to pay debt service on the bonds.
Master Lease Purchase Program

- Lease revenue financing program established in 1992, primarily to finance capital equipment acquisitions by state agencies.

- May be used to finance other types of projects that have been specifically authorized by the Legislature and approved by the TPFA Board.

- Financing vehicle is a tax-exempt revenue commercial paper program (Currently $113,259,000 outstanding).
Master Lease History

As of 12/31/06

Value of Leases Processed
Number of Leases Processed
The Master Lease Process

1. Agency Procures Project
2. TPFA pays Vendor, takes title to Project and leases it to Agency
3. Agency makes Lease Payments to TPFA (GR appropriation)
4. TPFA pays Debt Service

Vendor

Agency

TPFA

CP Dealer/ Paying agent

Commercial Paper

Title

Lease

$