State of Texas Debt – An Overview

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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

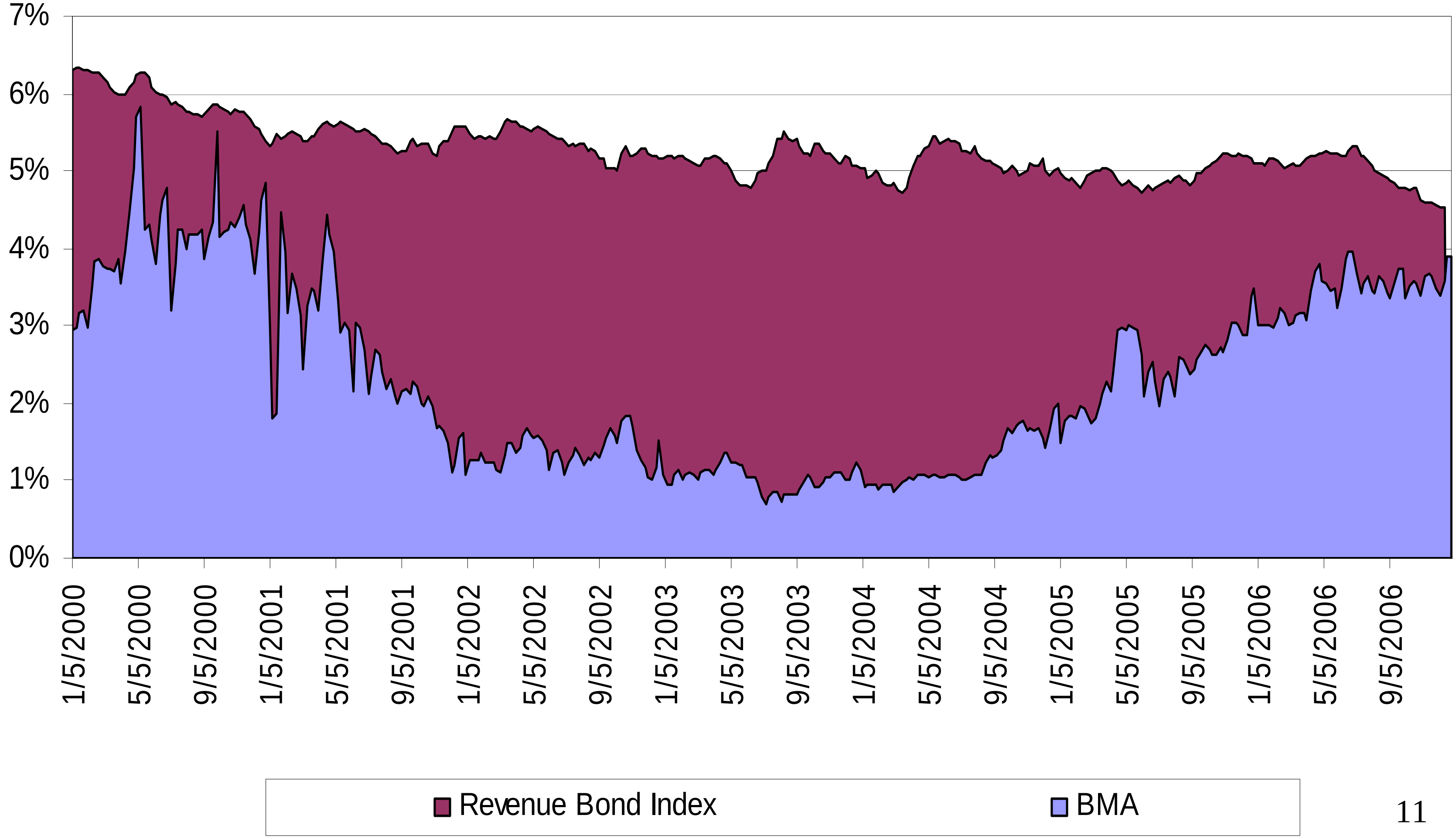
- **“Taxable” – Interest earnings are taxable for federal income tax purposes**
- **“Tax-Exempt” – Interest earnings are exempt from federal income taxes**
  - Lower Interest Rate – Investors will accept a lower interest rate than taxable bonds, such as corporate bonds, U.S. Treasury Bonds, because they 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

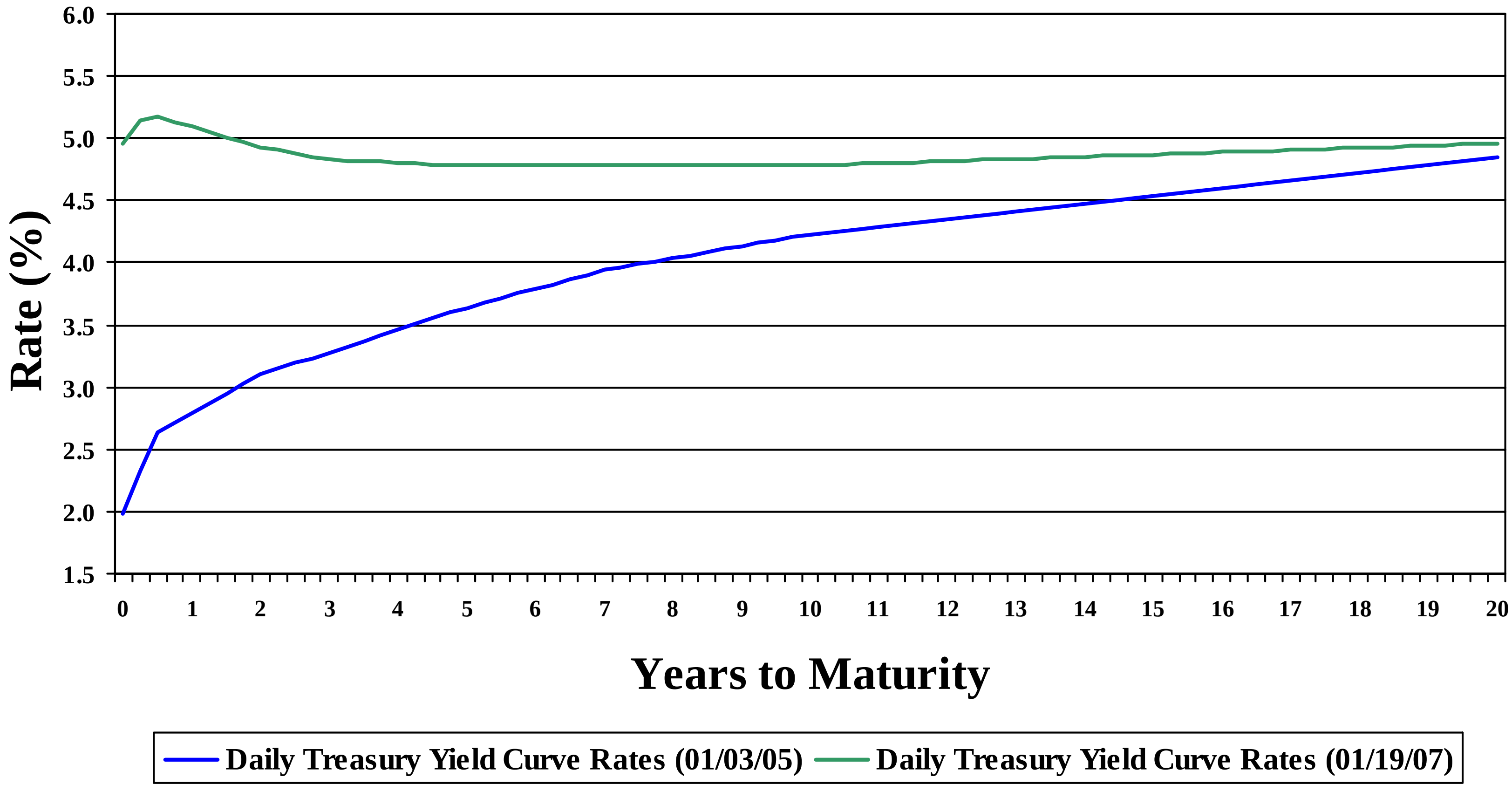
- Can be secured by the state's general obligation pledge or by a specified revenue source.
- Maturity ranges from 1 to 270 days.
- As the paper matures, it can be paid off or reissued ("rolled over") at a new interest rate
- Variable interest rate – usually much lower than long term interest rate

Fixed Rates vs. Variable Rates

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



Yield Curve


6.0
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
Rate (%)
0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
Years to Maturity
Daily Treasury Yield Curve Rates (01/03/05)
Daily Treasury Yield Curve Rates (01/19/07)

Swaps & Derivatives

- **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 off-set 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.		
Fiscal Year	**Issued Debt**	**Issued + Authorized but Unissued**
2006	1.33%	1.87%
2005	1.51%	2.21%
2004	1.51%	2.31%
2003	1.51%	2.37%
2002	1.42%	2.22%
2001	1.47%	1.91%
2000	1.51%	2.03%
1999	1.58%	2.20%
1998	1.60%	2.40%
1997	1.80%	2.60%
1996	1.90%	2.70%
1995	1.80%	3.10%
1994	1.90%	3.20%

State Debt Outstanding

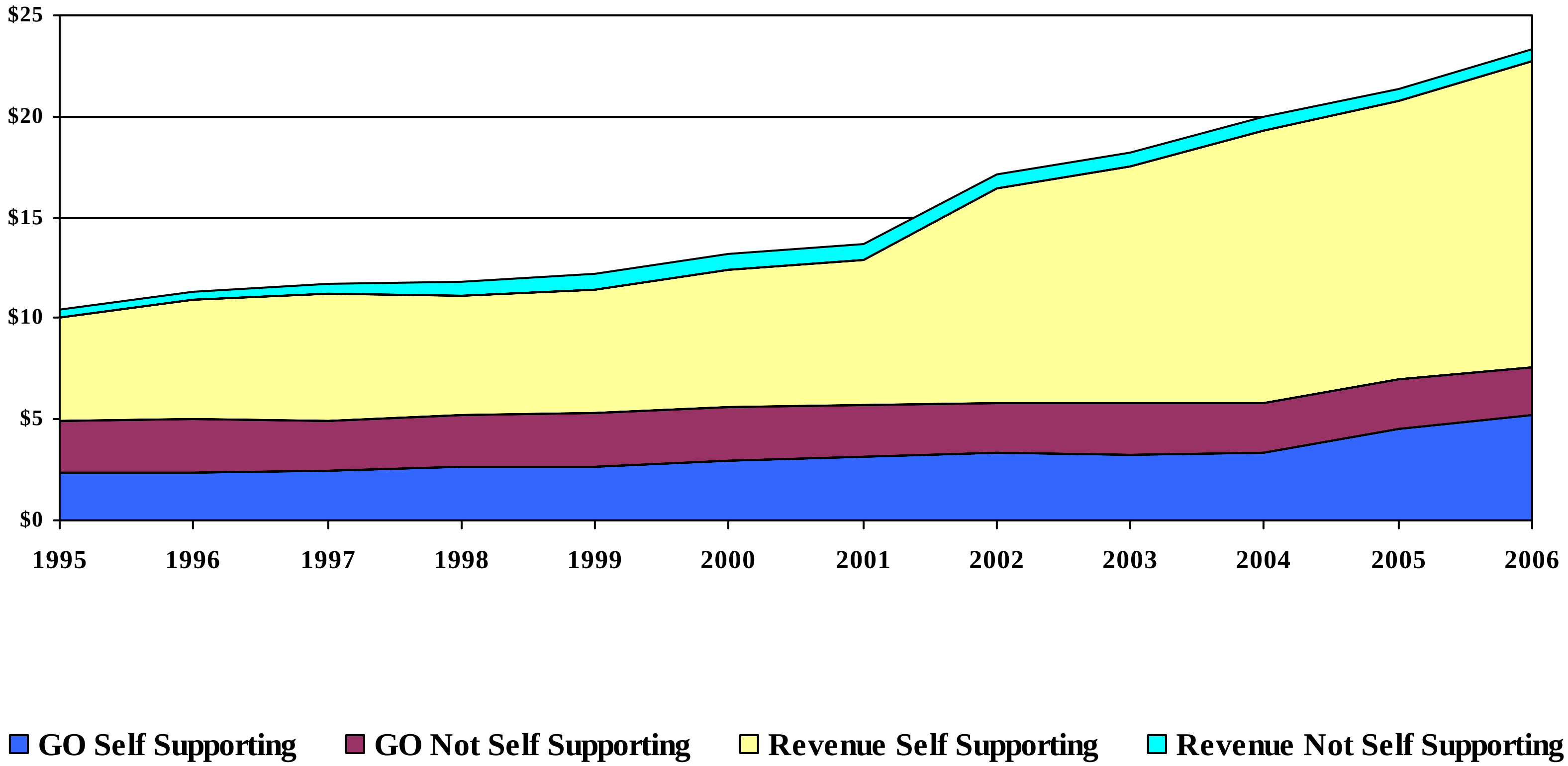
Texas Debt Outstanding as of August 31, 2006* (billions)			
	Self-Supporting	Not Self- Supporting	Total
General Obligation	$5,181	$2,353	$7,534
Revenue**	$15,185	$623	$15,808
Total	$20,366	$2,976	$23,342

*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

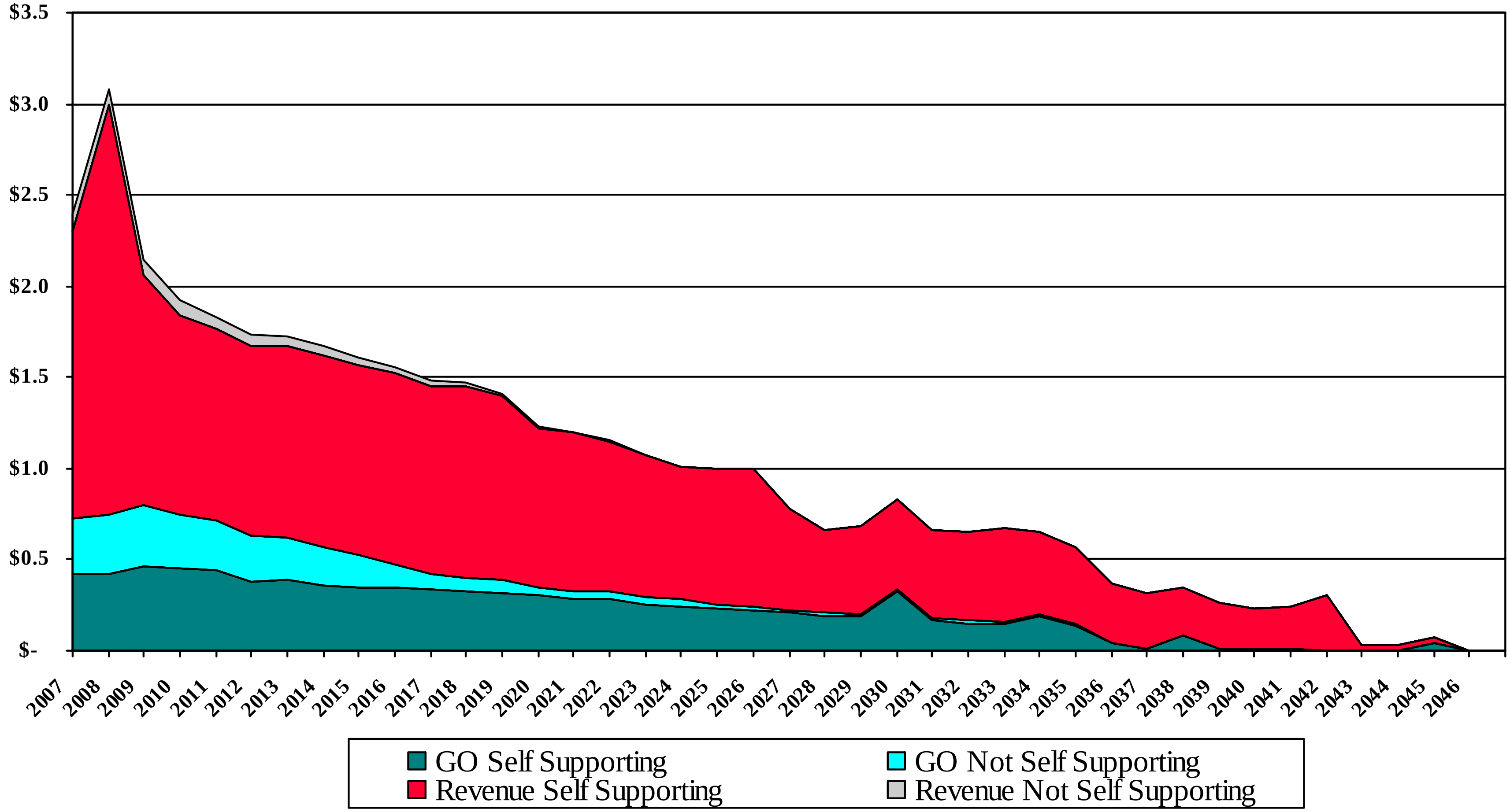
Historical State Debt

As of 8/31/06 (billions)



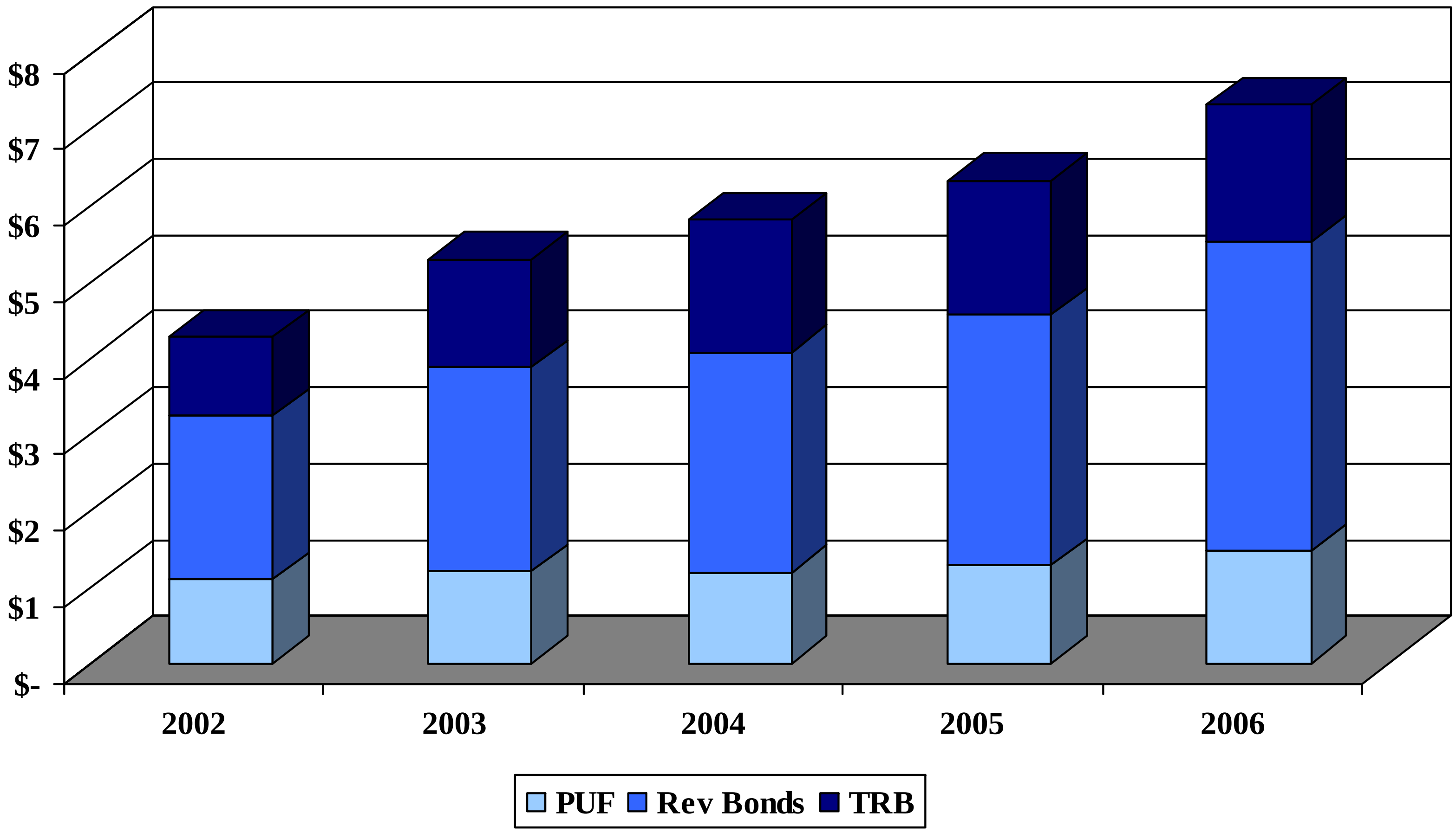
Texas Debt Service

as of 8/31/06 (billions)



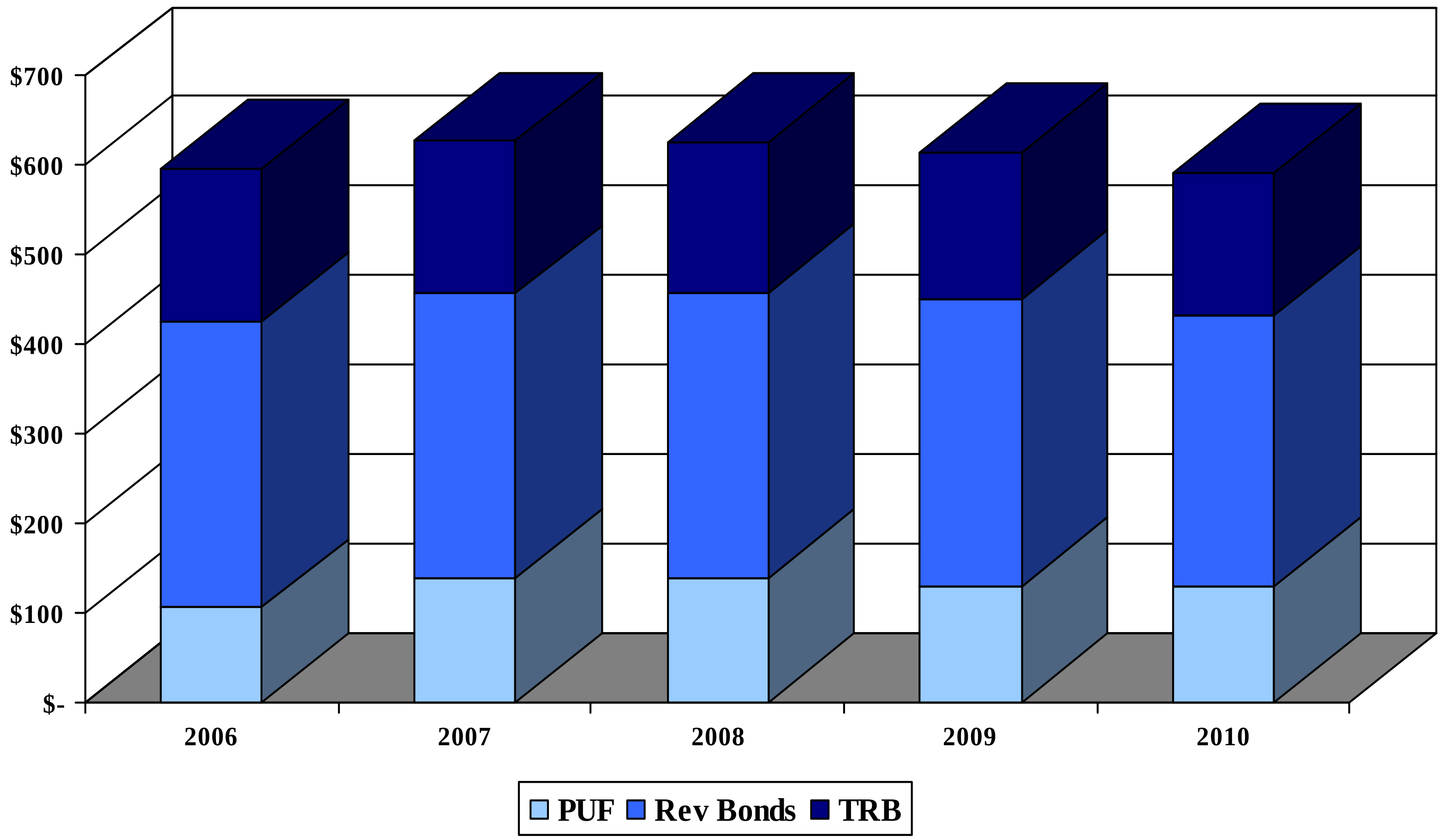
College & University Debt Outstanding

As of 08-31-06 (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

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

* State does not carry a G.O. rating
Note: States not listed do no carry a G.O. rating
Sources: Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings.

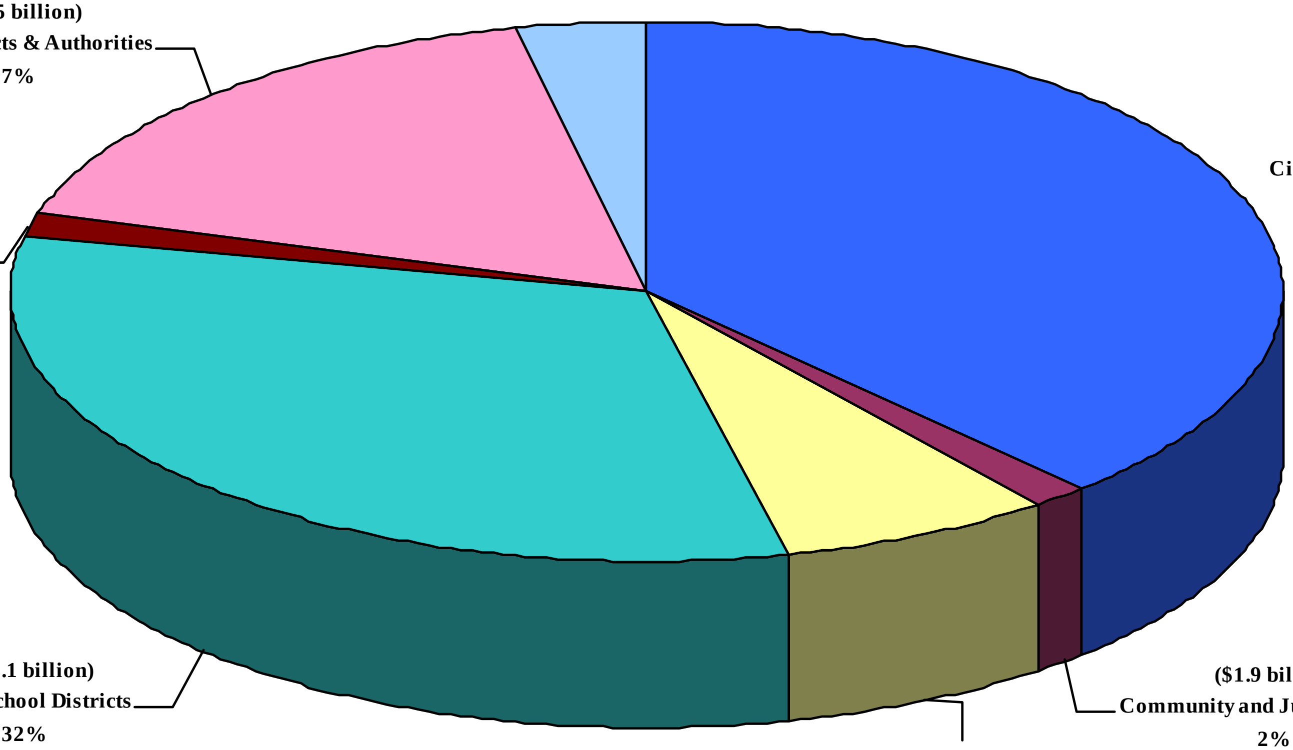
Texas' Debt Burden

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

Note: Detail may not add to total due to rounding.
Source: U.S. Census Bureau, *State and Local Government Finances by Level of Government and by State: 2003-2004,* the most recent data available.

Texas Local Government Debt

(as of 8/31/2005)



$119.4 billion total outstanding debt

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

BREAK

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

Texas Transportation Commission

TEXAS

the new state of transportation

TxDOT Debt Programs

Dorn E. Smith, MPA
Debt Management
Finance Division

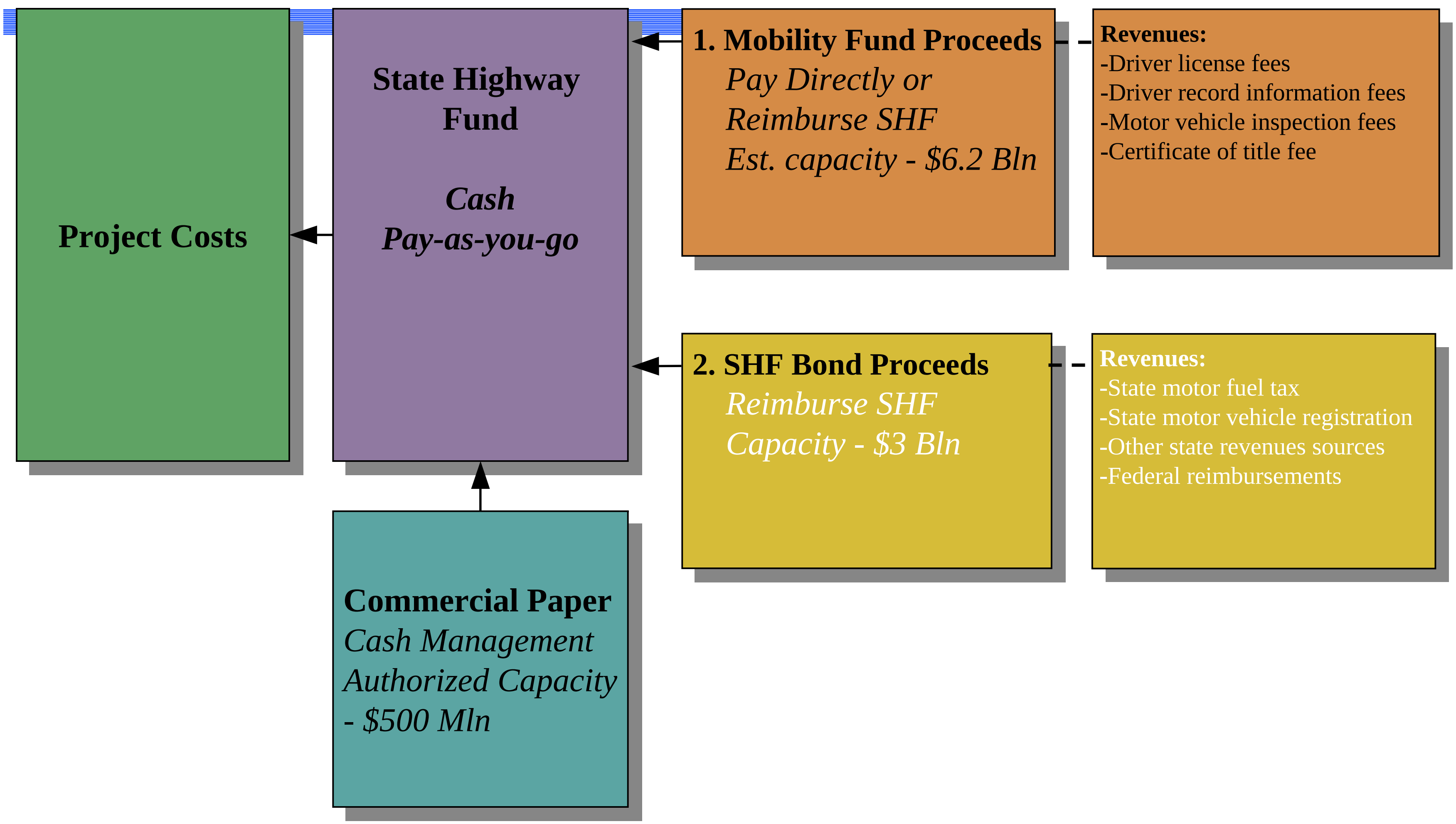
Texas Department of Transportation

Introduction

➢ 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



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.

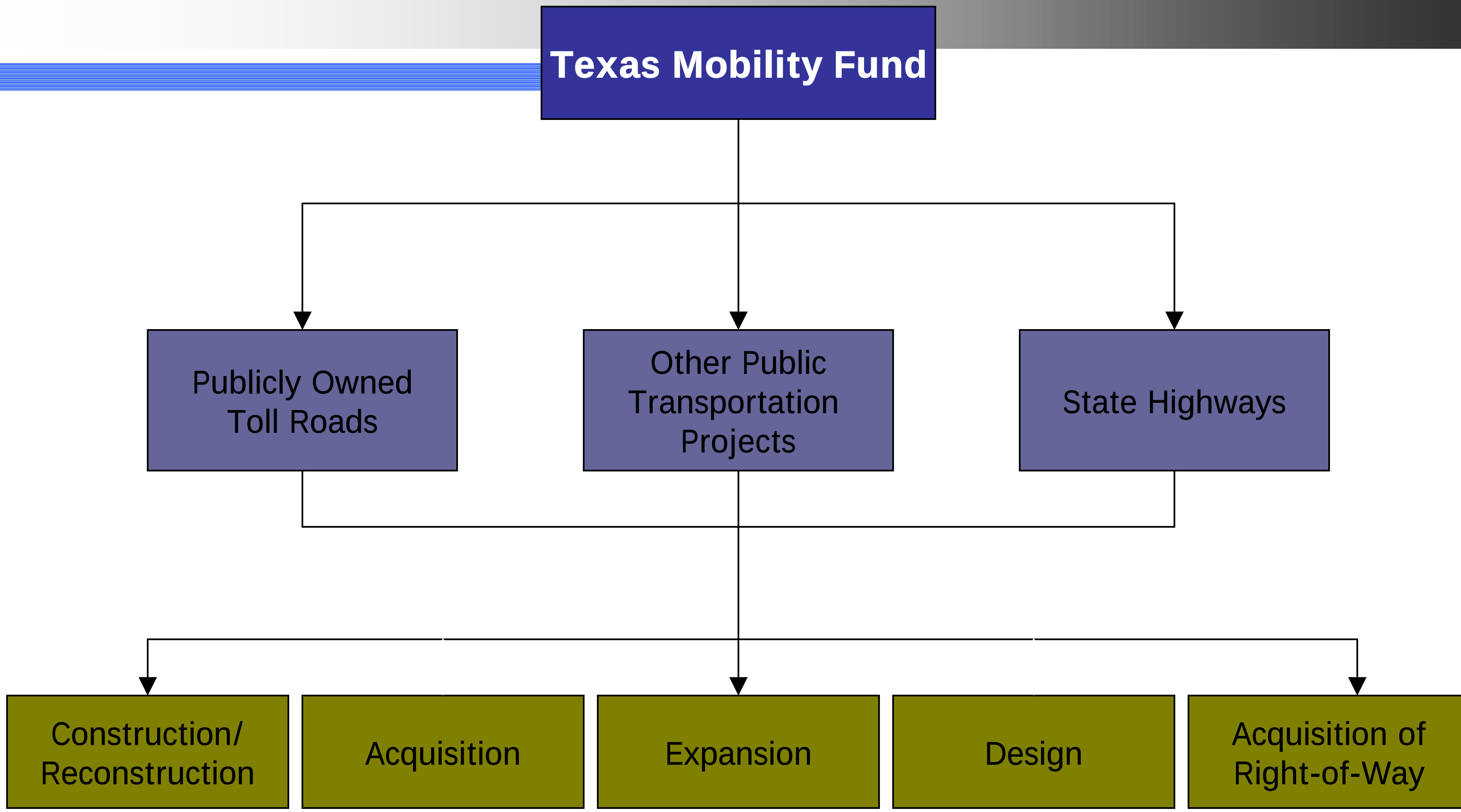
- Commission Adopted a Strategic Plan
  - $400M allocated for development costs
  - 2/3 of remainder to the 8 metro areas (Austin, Corpus Christi, DFW, El Paso, Houston-Beaumont, Lubbock, Pharr, and San Antonio)
    - Use proceeds to leverage other funding sources to accelerate mobility projects
  -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

Summary

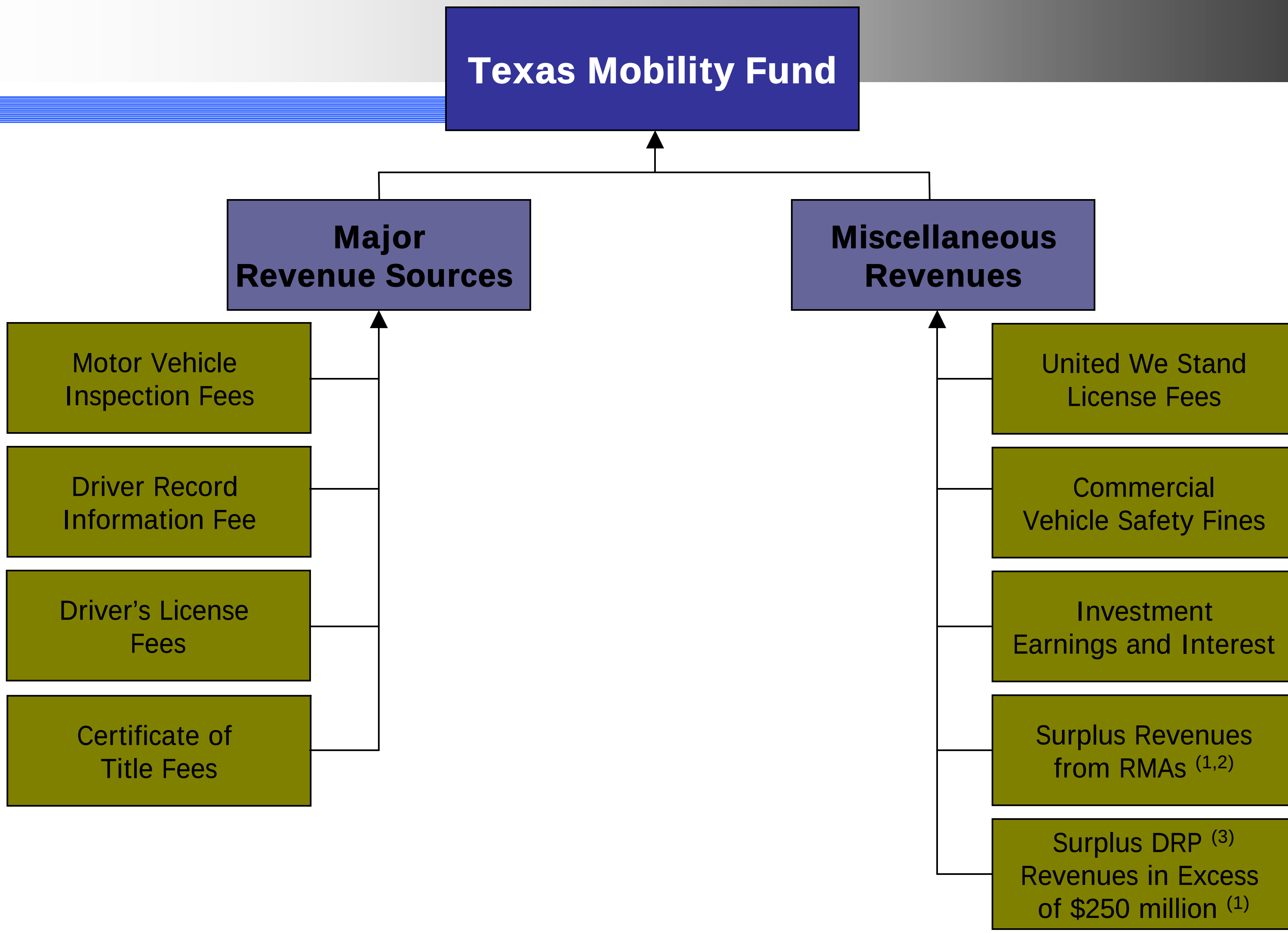
- **Mobility Fund**
  - Commission approved its Strategic Plan in 2004 as required by statute.
  - Current Mobility Fund general account balance is $982 million.
  - Major sources of Dedicated Revenues began phasing in on September 1, 2005.

- **Strong Security for TxMF 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 TxMF revenues alone after full implementation of program capacity.

Uses of the Mobility Fund



Dedicated Revenues



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.

Overview of SHF Bond Program

- 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

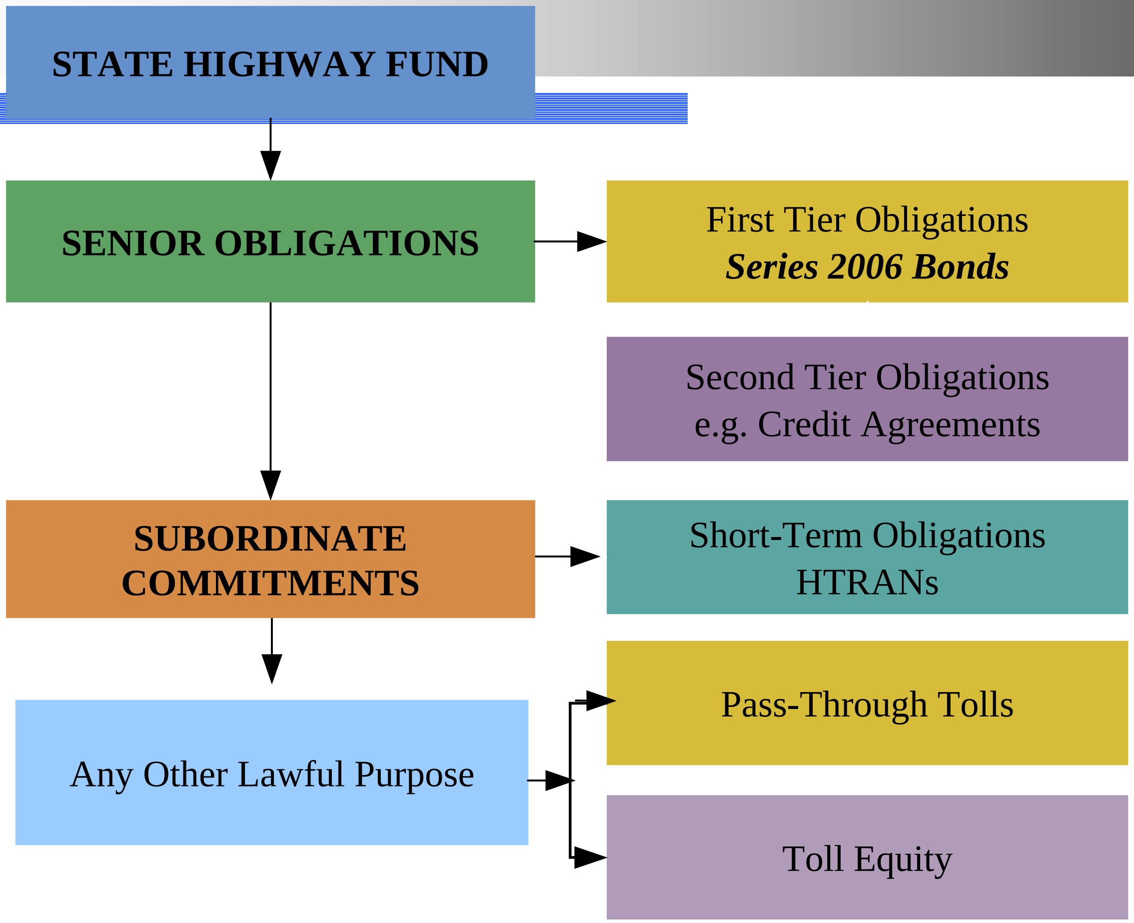
No effect on the State’s GO capacity.

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



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)

The Texas A&M University System

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**
  - **Texas A&M International, Texas A&M – Corpus Christi, Texas A&M – Kingsville, Texas A&M – Texarkana, Texas A&M – Commerce, West Texas A&M**
- **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

Tuition

Fees

Stadium Revenues

Housing Revenues

Sales and Services

Utility Revenues

Other unrestricted revenues

General Pledge:

All legally available revenues of the A&M System

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**

Revenue Financing System
Tuition Revenue Bonds Debt Service

- **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 Water Development Board

Texas Department of Housing and Community Affairs

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

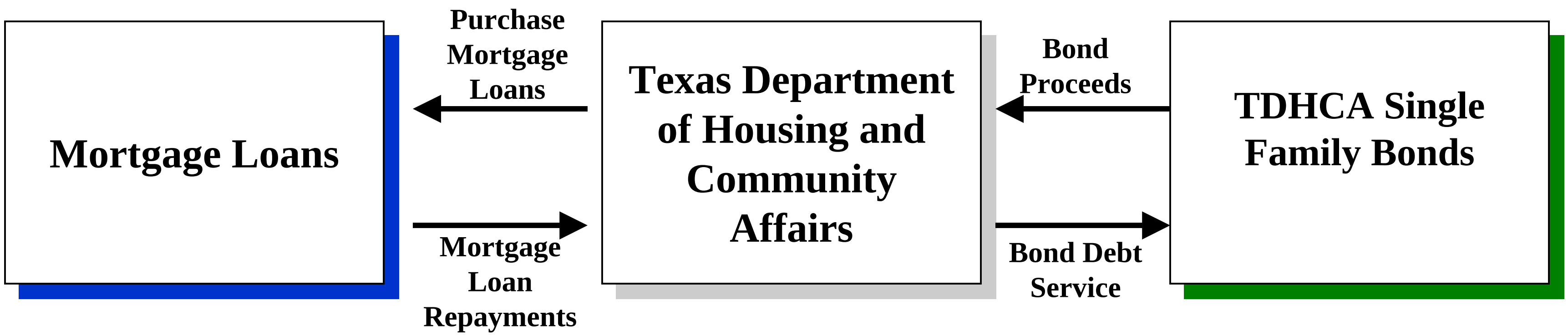
TDHCA Single Family Mortgage Revenue Bond Program

- **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

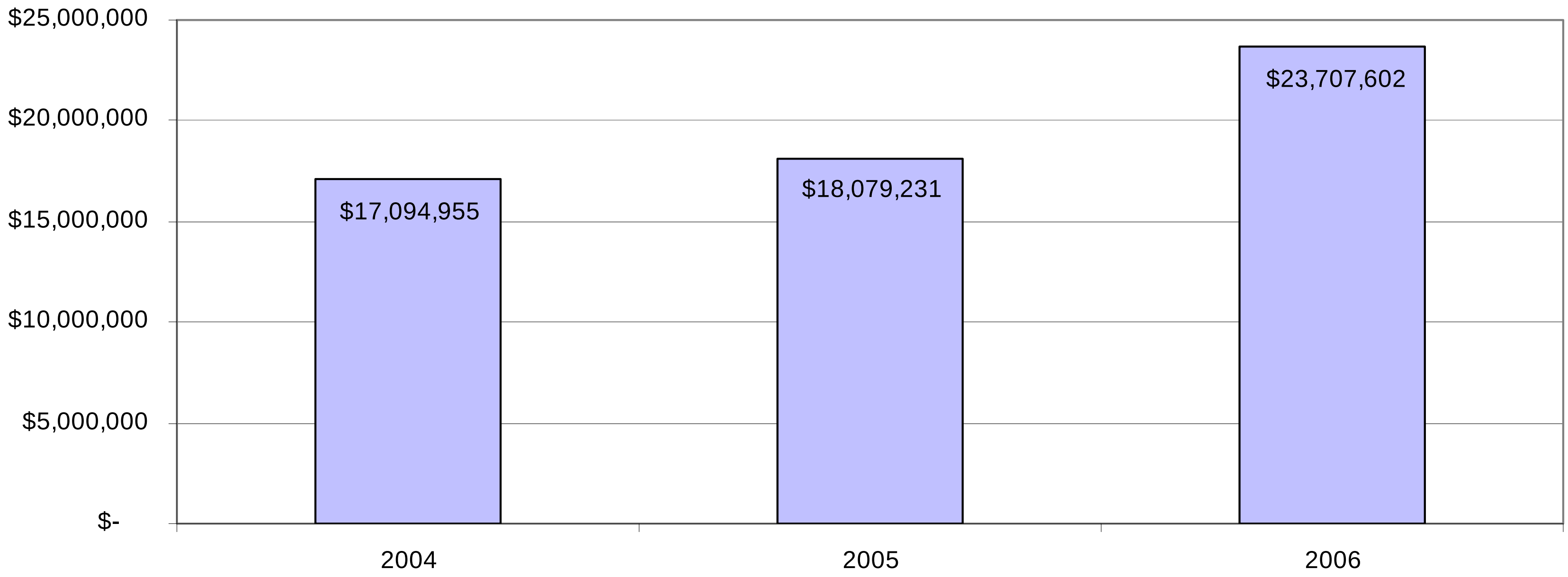
- **TDHCA maintains relationships with over 53 nationally recognized mortgage banks and mortgage brokers**

- **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



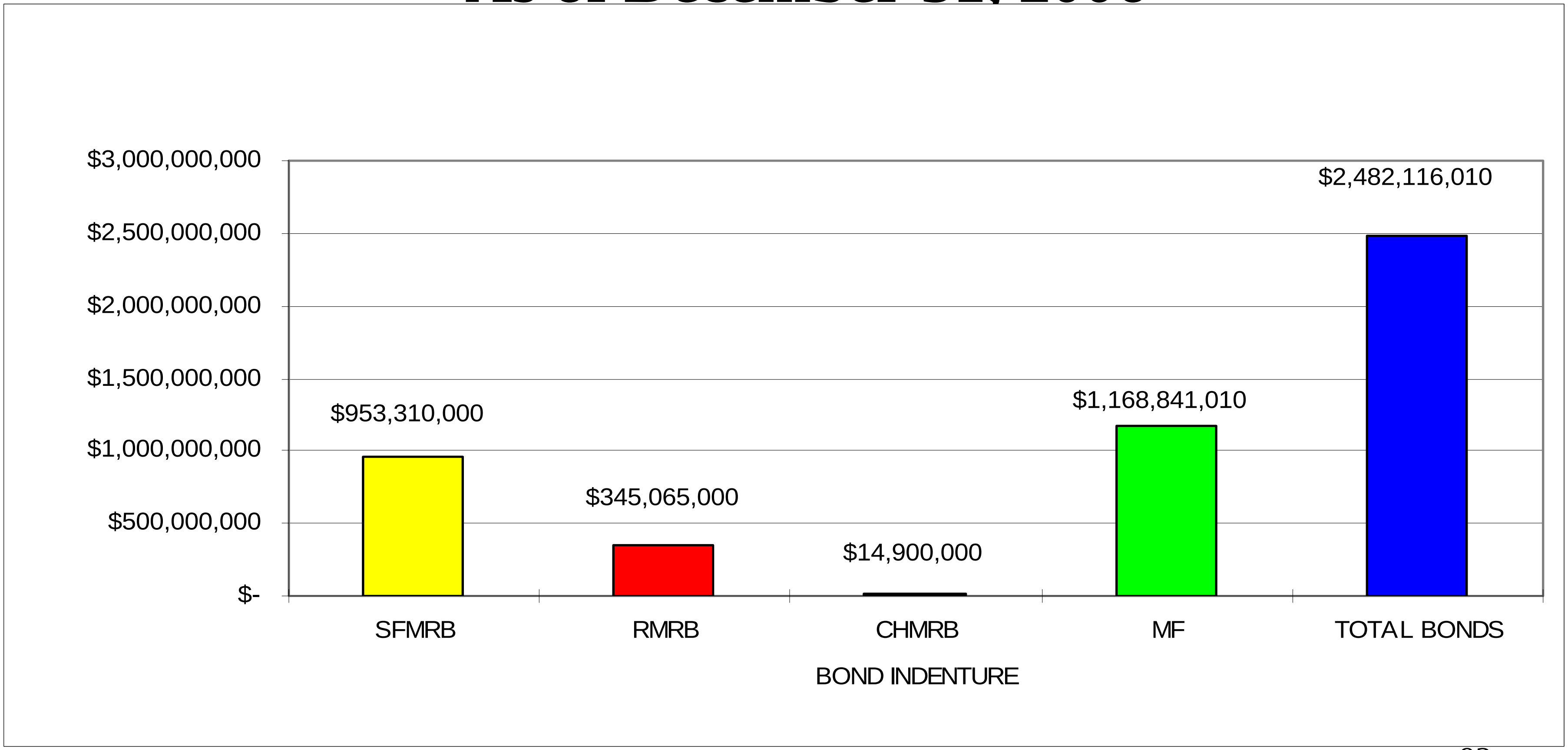
TDHCA Active Mortgage Pipeline Report

As of December 31, 2006

Program	62A	66	68	Total
Indenture	Single Family	Single Family	Single Family	
Series	2005 A	2006 ABCDE	2006 FGH	
Underwriter	Bear Stearns	Citigroup	UBS	
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

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

*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.

Texas Public Finance Authority

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.**

What does TPFA do?

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

	Fixed Rate	Variable	Total
General Obligation	**$1,724,093,748**	**$67,000,000**	**$1,791,093,748**
Lease Revenue	**$438,129,454**	**$0**	**$438,129,454**
Master Lease	**$0**	**$113,259,000**	**$113,259,000**
Subtotal: General Revenue	**$2,162,223,202**	**$180,259,000**	**$2,342,482,202**
University	**$265,456,581**	**$0**	**$265,456,581**
TWC	**$327,560,000**	**$205,000,000**	**$532,560,000**
Total	**$2,755,239,783**	**$385,259,000**	**$3,140,498,783**

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

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

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.

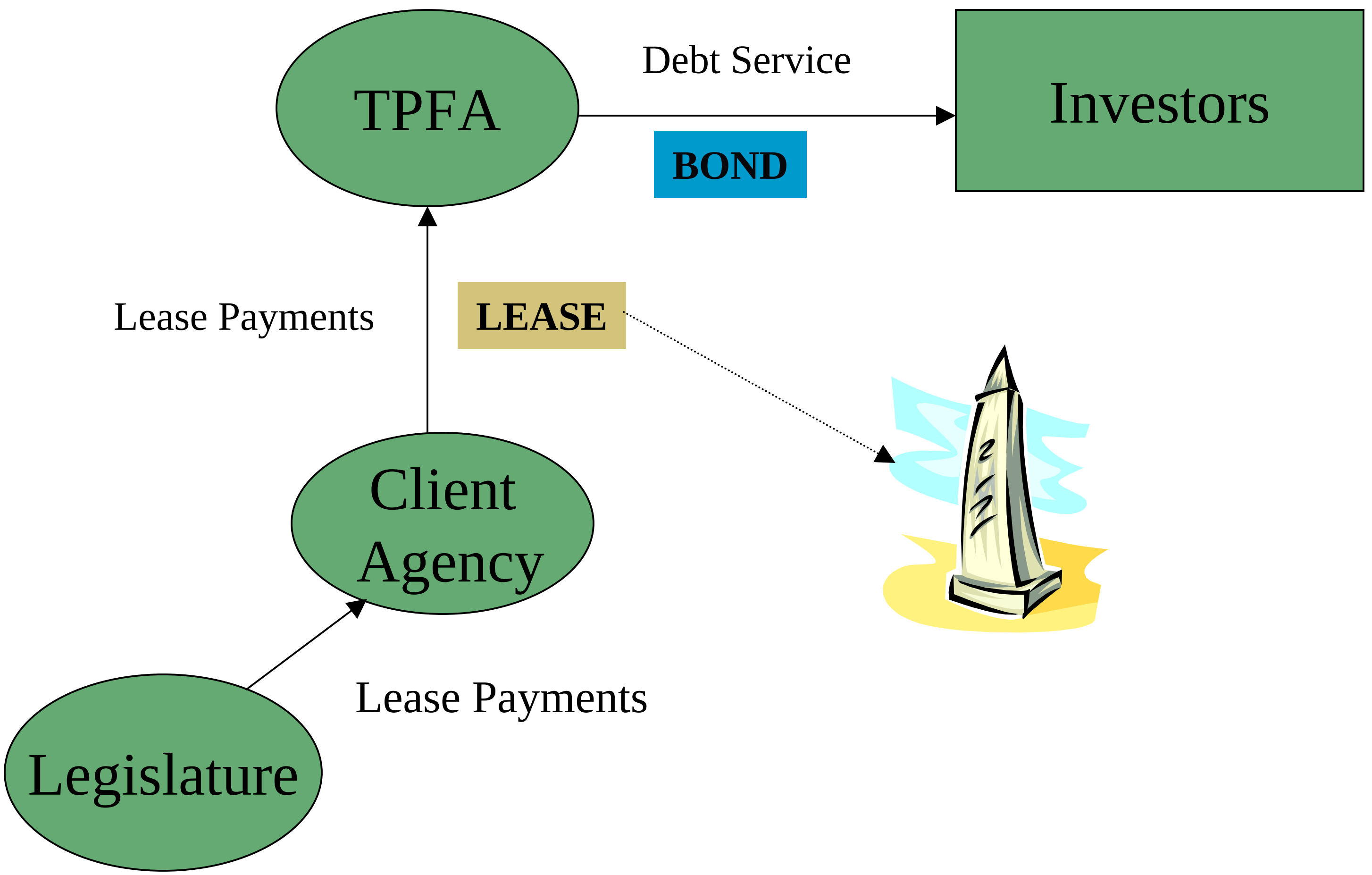
Revenue Bonds

- **Legally secured by a specific revenue source**
- **Do <u>not</u> 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 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 <u>each biennium</u> (no legal obligation to do so)**
- **State agency makes lease payments to TPFA**
- **TPFA uses lease payments to pay debt service on the bonds.**

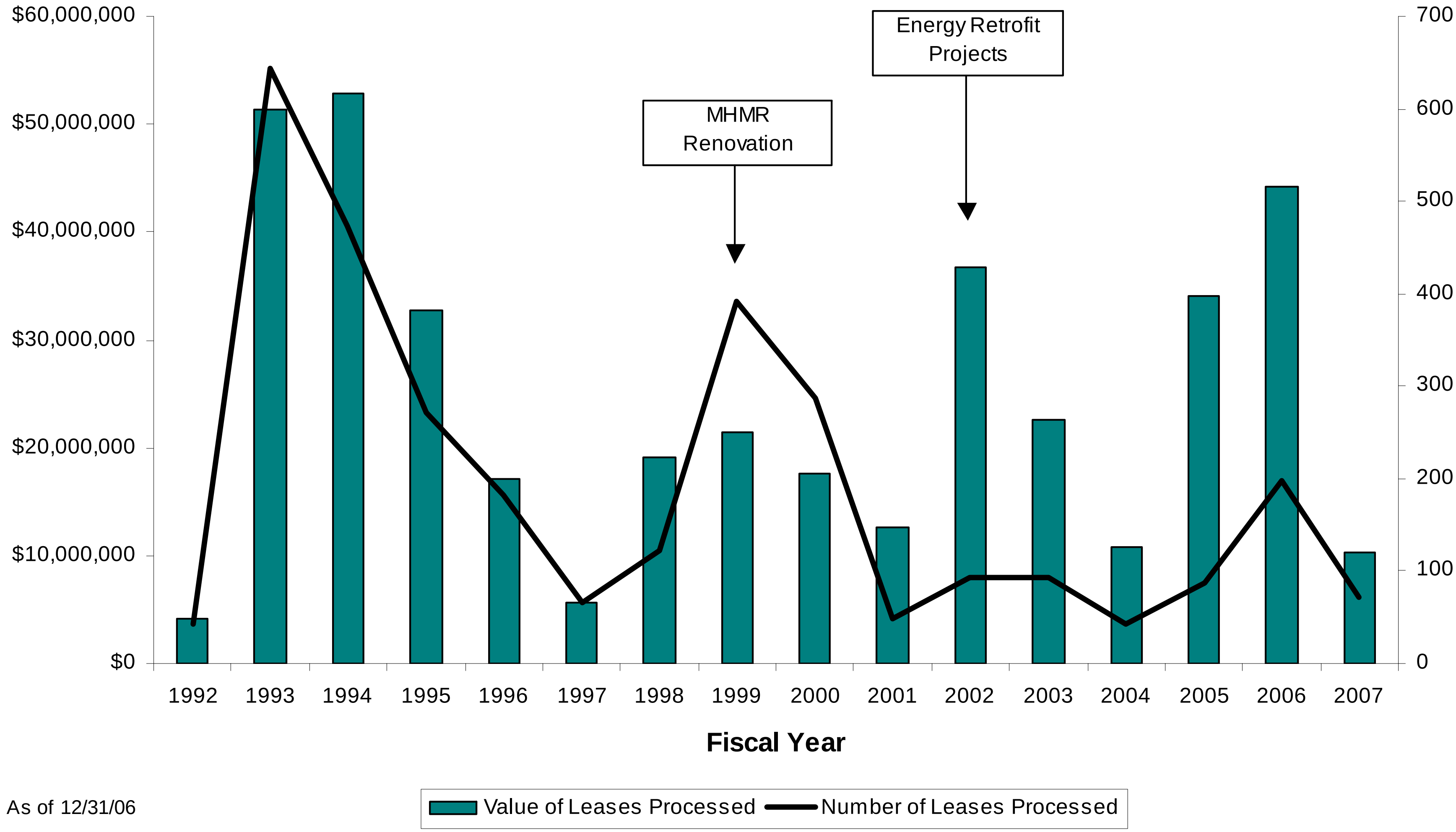
Master Lease Purchase Program

- **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).**

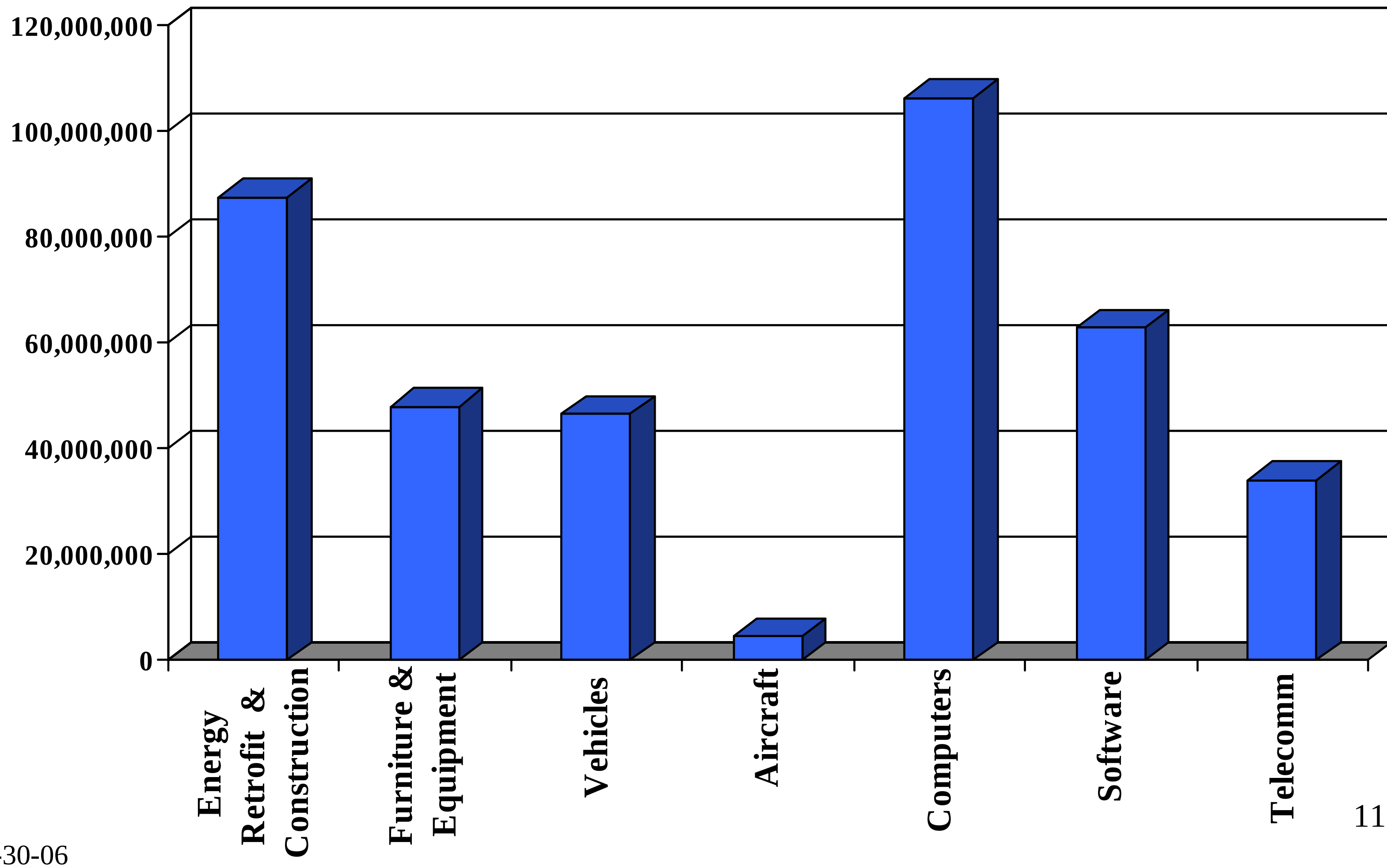
Master Lease History



As of 12/31/06

Master Lease History

Project Type



As of 11-30-06

The Master Lease Process