

OFFICIAL STATEMENT

In the opinion of Vinson & Elkins L.L.P. and Delgado, Acosta, Braden & Jones P.C., Co-Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "TAX EXEMPTION" herein for a discussion of the opinion of Co-Bond Counsel, including a description of alternative minimum tax consequences for corporations.

NEW ISSUE - Book-Entry-Only



**Ratings: Moody's: "Aa1"
Standard & Poor's: "AA"
Fitch: "AA+"**

\$369,715,000

**TEXAS PUBLIC FINANCE AUTHORITY
State of Texas
General Obligation Refunding Bonds
Series 2002**

Dated: January 15, 2002

Due: October 1, as shown on inside cover

The Texas Public Finance Authority State of Texas General Obligation Refunding Bonds, Series 2002 (the "Bonds") are general obligations of the State of Texas being issued by the Texas Public Finance Authority (the "Authority"). See "THE BONDS - Sources of Payment of the Bonds" herein.

The Bonds are being issued for the purpose of (i) refunding all of the Authority's outstanding tax-exempt General Obligation Commercial Paper Notes, Series 1993A, and (ii) paying the costs of issuance of the Bonds. See "PLAN OF FINANCE" herein.

Interest on the Bonds will accrue from January 15, 2002 and will be payable on April 1 and October 1 of each year, commencing October 1, 2002, calculated on the basis of a 360-day year composed of 12 months of 30 days each. The Bonds will be issued only as fully registered bonds in the denomination of \$5,000 or an integral multiple thereof. The Bonds are initially issuable only to Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-system described herein. Such book-entry-system may be discontinued under certain conditions as described herein under "BOOK-ENTRY-ONLY SYSTEM." So long as the book-entry-system is in effect, beneficial ownership of any stated maturity of Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. So long as DTC is the securities depository for the Bonds, no physical delivery of the Bonds will be made to the purchaser of the beneficial interest therein. Principal of and interest on the Bonds, will be payable to Cede & Co., or such other nominee as may be designated by DTC, which is required to make distributions of the payments to the participating members of DTC for subsequent remittance to the beneficial owners. See "THE BONDS" and "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS - Optional Redemption" herein.

The Bonds are general obligations of, and are secured by the full faith and credit of, the State of Texas. See "THE BONDS-Source of Payment of the Bonds" herein. For general information regarding the State of Texas, including information concerning outstanding general obligation bonds of the State of Texas, see Appendix A hereto.

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE

The 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 Vinson & Elkins L.L.P., Houston, Texas and Delgado, Acosta, Braden & Jones P.C., El Paso, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas and Renee Higginbotham-Brooks, Esq., Fort Worth, Texas. It is expected that the Bonds will be delivered on or about February 13, 2002, through the facilities of The Depository Trust Company.

BEAR, STEARNS & CO. INC.

BANC ONE CAPITAL MARKETS, INC.

MORGAN STANLEY

A.G. Edwards & Sons, Inc.

Morgan Keegan & Company

Ramirez & Co., Inc.

Siebert Brandford Shank & Co., LLC

SBK-Brooks Investment Corp.

UBS PaineWebber Inc.

January 24, 2002

MATURITY SCHEDULE

<u>Cusip</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
882720TR6	10/01/2002	\$7,405,000	3.000%	NRO
882720TS4	10/01/2003	7,595,000	5.000%	NRO
882720TT2	10/01/2004	630,000	2.250%	2.250%
882720TU9	10/01/2004	7,445,000	4.000%	2.250%
882720TV7	10/01/2005	350,000	3.000%	2.870%
882720TW5	10/01/2005	24,410,000	5.000%	2.870%
882720TX3	10/01/2006	1,065,000	3.200%	3.210%
882720TY1	10/01/2006	23,695,000	5.000%	3.210%
882720TZ8	10/01/2007	1,190,000	3.500%	3.540%
882720UA1	10/01/2007	23,570,000	5.250%	3.540%
882720UB9	10/01/2008	1,100,000	3.750%	3.770%
882720UC7	10/01/2008	23,660,000	5.250%	3.770%
882720UD5	10/01/2009	920,000	4.000%	4.000%
882720UE3	10/01/2009	23,840,000	5.500%	4.000%
882720UF0	10/01/2010	1,240,000	4.000%	4.160%
882720UG8	10/01/2010	23,520,000	5.500%	4.160%
882720UH6	10/01/2011	24,760,000	5.250%	4.270%
882720UJ2	10/01/2012	24,760,000	5.500%	4.360%
882720UK9	10/01/2013	24,760,000	5.375%	4.480%
882720UL7	10/01/2014	24,760,000	5.375%	4.590%
882720UM5	10/01/2015	24,760,000	4.750%	4.760%
882720UN3	10/01/2016	24,760,000	4.750%	4.860%
882720UP8	10/01/2017	24,760,000	5.000%	4.980%
882720UQ6	10/01/2018	24,760,000	5.000%	5.050%

(plus accrued interest from January 15, 2002)

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 BONDS

Use of Official Statement

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 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.

Certain information set forth in this Official Statement has been furnished by the Authority, and other sources which are believed to be reliable, but such information is not to be construed as a representation by the Underwriters.

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.

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 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 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 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 Bonds and has no control over the trading of the Bonds after their sale by the Authority. Information regarding reoffering yields or prices is the responsibility of the Underwriters.

Securities Laws

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND THE STATE OF TEXAS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Authority assumes no responsibility for registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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OFFICIAL STATEMENT

relating to

\$369,715,000

TEXAS PUBLIC FINANCE AUTHORITY

**State of Texas
General Obligation Refunding Bonds
Series 2002**

INTRODUCTION

The purpose of this Official Statement (which includes the cover page, inside cover page and attached Appendices) is to furnish information concerning the offering of \$369,715,000 aggregate principal amount of Texas Public Finance Authority State of Texas General Obligation Refunding Bonds, Series 2002 (the “Bonds”), which are being issued by the Authority pursuant to Article III, Section 49-h of the Texas Constitution, (the “Constitutional Provision”); the Texas Public Finance Authority Act, specifically Chapter 1232, Texas Government Code, as amended (the “Enabling Act”); Chapter 1401, Texas Government Code, as amended; Chapter 1207, Texas Government Code, as amended; and Chapter 1371, Texas Government Code, as amended (the Constitutional Provision, Enabling Act, and other statutes together constituting the “Authorizing Law”), and pursuant to a Resolution adopted by the Board of Directors of the Authority on January 24, 2002.

The proceeds of the Bonds will be used to (i) currently refund the Authority’s outstanding Tax-Exempt General Obligation Commercial Paper Notes, Series 1993A (the “Refunded Notes”), and (ii) pay the costs of the issuance of the Bonds. The Refunded Notes are currently outstanding in the aggregate principal amount of \$387,700,000. See Schedule I for a list of the Refunded Notes. Also see “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

PLAN OF FINANCE

Description of Refunded Notes

A portion of the proceeds of the Bonds will be used to currently refund a portion of the Refunded Notes and retire a portion of the Refunded Notes coming due on the date of delivery of the Bonds. The remainder of the proceeds of the Bonds will be used to pay the costs of issuance of the Bonds.

Payment of Refunded Notes

A portion of the Refunded Notes and interest due thereon, are to be paid on the scheduled interest payment dates and the maturity or redemption dates of such notes from funds to be deposited pursuant to an Escrow Agreement for the Refunded Notes (the “Escrow Agreement”), between the Authority and the Comptroller, acting by and on behalf of, the Texas Treasury Safekeeping Trust Company (the “Escrow Agent”). A portion of the proceeds of the sale of the Bonds will be deposited with the Escrow Agent in an amount necessary to accomplish the discharge and final payment of a portion of the Refunded Notes. Such funds will be held by the Escrow Agent in a separate special escrow account (the “Escrow Fund”) and used to purchase direct obligations of the United States of America (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on such portion of the Refunded Notes.

The Arbitrage Group, Inc. will verify at the time of delivery of the Bonds to the initial purchaser the arithmetical accuracy of the schedules that demonstrate the Escrowed Securities purchased with the proceeds of the

Bonds will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on such Refunded Notes. Such maturing principal of and interest on the Escrowed Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds. See “VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS.”

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the Authority will have entered into firm banking and financial arrangements for the discharge and final payment of the Refunded Notes in accordance with applicable law. Co-Bond Counsel will render an opinion to the effect that, as a result of such firm banking and financial arrangements, such Refunded Notes will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in said Escrow Agreement.

The Authority has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, of any additional amounts required to pay the principal of and interest on such Refunded Notes if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources

Par Amount of the Bonds	\$369,715,000
Accrued Interest	1,459,810
Original Issue Discount	468,968
Original Issue Premium	<u>20,844,738</u>
Total	\$391,550,580

Uses

Payment of Refunded Notes due at closing	\$155,000,000
Deposit to Escrow Fund for Refunded Notes	233,193,496
Deposit to Interest and Sinking Fund	1,460,102
Underwriters’ Discount	1,721,982
Cost of Issuance	<u>175,000</u>
Total	\$391,550,580

THE AUTHORITY

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 office held by each member, 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 (February 1)</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 (including certain institutions of higher education) 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 Texas Parks and Wildlife Department, the General Services Commission, the State Preservation Board, the Texas Department of Criminal Justice, the Texas Department of Health, the Texas Military Facilities Commission (formerly, the National Guard Armory Board), 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, 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 Texas 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, 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.

Other State General Obligation Bonds

Various State entities, including the Authority, have issued general obligation bonds of the State; in some instances, such State entities have authority to issue additional general obligation bonds. See Appendix A hereto. Article VII, Section 19 of the Texas Constitution extends the State’s full faith and credit to the Texas Tomorrow

Fund and establishes the fund as a constitutionally protected fund. The Texas Tomorrow Fund is dedicated to the prepayment of higher education tuition and fees.

Relationship With Other State Agencies

Under the Enabling Act, the Authority's power is limited to financing projects and does not affect the power 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 project.

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 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. See "THE BONDS - Source of Payment of the Bonds" and "Flow of Funds."

Payments on the Bonds will be made from money appropriated by the Legislature. See "THE BONDS - Source of Payment of the 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 of Public Accounts. 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 Bonds were approved by the Texas Bond Review Board on November 27, 2001.

THE BONDS

Description of the Bonds

The Bonds will be issued in book-entry form pursuant to the book-entry-only system described below. Beneficial owners of Bonds will not receive physical delivery of the bond certificates. The Bonds will be issuable in fully registered form and purchases of Bonds are required to be in the denomination of \$5,000 or any integral multiple thereof. The 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. Interest on the Bonds will be payable semiannually on each April 1 and October 1 (each an "Interest Payment Date"), commencing October 1, 2002. The Bonds are stated to mature in the principal amounts and on the dates shown in the inside cover page of this Official Statement. The Bonds will be dated and will bear interest from the dated date set forth on the cover page. A debt service schedule for the Bonds appears as Appendix B to this Official Statement.

Optional Redemption

The Bonds maturing in the years 2013 through 2018, inclusive, are subject to redemption, at the option of the Authority, in whole or in part, in such manner as the Authority may select, on October 1, 2012 or on any date thereafter, at a redemption price equal to par plus accrued interest to the date fixed for redemption.

Notice of Redemption

Not less than thirty (30) nor more than forty-five (45) days prior to a redemption date for the Bonds, a notice of redemption will be sent in the name of the Authority to each Bond Owner of a Bond to be redeemed in whole or in part at the address of such Bond Owner appearing on the Register at the close of business on the Business Day next preceding the date of mailing. Such notices shall state the redemption date, the redemption price, the place at which Bonds are to be surrendered for payment and, if less than all the outstanding Bonds are to be redeemed, the numbers of such Bonds or portions thereof to be redeemed. So long as the Bonds remain in book-

entry form, 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 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 Bonds or portions thereof to be redeemed. When Bonds have been called for redemption, in whole or in part, and notice of redemption has been given, the 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 Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

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

Constitutional Appropriation for Bonds. The Bonds are general obligations of the State, issued under the applicable Authorizing Law. The following excerpt from the Constitutional Provision (Article III, Section 49-h, Texas Constitution) is applicable to the Bonds:

While any of the bonds or interest on the bonds is outstanding and unpaid, there is appropriated out of the first money coming into the treasury in each fiscal year, not otherwise appropriated by this constitution, the amount sufficient to pay the principal of and interest on the bonds that mature or become due during the fiscal year, less any amount in any sinking fund at the end of the preceding fiscal year that is pledged to payment of the bonds or interest.

Flow of Funds

Under the terms of the Bond Resolution, the Authority will create: (i) an Interest and Sinking Fund, (ii) a Cost of Issuance Fund; and (iii) a Rebate Fund (if such fund is determined to be necessary). The Escrow Fund will be created pursuant to the Escrow Agreement.

Pursuant to the Bond Resolution, the Authority will deposit into the Interest and Sinking Fund an amount that is sufficient (together with any other funds on deposit therein) to provide for the timely payment of the Bond Obligations, from funds that are available for such purpose under the Constitutional Provision, not later than the second Business Day preceding each date on which any such Bond Obligations come due and otherwise in accordance with the Funds Management Agreement. The Authority may make any such deposit on an earlier date so long as such date is not earlier than the 50th day before the date that the Bond Obligations for which such deposit is made come due. If, on any date that funds in the Interest and Sinking Fund are required (pursuant to the Bond Resolution and Funds Management Agreement) to be withdrawn for the payment of Bond Obligations, such Interest and Sinking Fund does not contain sufficient funds for such purpose, an amount of immediately available funds sufficient (together with the funds then on deposit in such Interest and Sinking Fund) to pay such Bond Obligations shall be transmitted to the appropriate payee(s) for such purpose from funds made available under the Constitutional Provision, at such time as will cause such Bond Obligations to be timely paid.

The costs of issuance of the Bonds will be paid from the Cost of Issuance Fund as soon as practicable after the delivery of the Bonds.

All money required to be deposited into the Escrow Fund will be, on the day of initial delivery, immediately paid to the Escrow Agent for the account of the Authority pursuant to the Escrow Agreement. The Authority anticipates that the money initially deposited into the Escrow Fund and invested in Escrowed Securities

(as defined in the Escrow Agreement) will be sufficient to pay the interest on the Refunded Notes, as it accrues and becomes payable, and the principal of the Refunded Notes, on their maturity.

The Rebate Fund is to be established for purposes of complying with provisions of the Code that require the Authority to pay over to the federal government any excess earnings (generally, the portion of investment income attributable to a yield on investments that is higher than the yield on the Bonds) received from investment of the proceeds of the Bonds, and certain money held in connection with the Bonds. The Rebate Fund will be established only if it is necessary in accordance with the provisions of the Bond Resolution. The Rebate Fund would be for the sole benefit of the United States of America and would not be subject to the claim of any Bond Owner. From time to time the Authority would transfer to the Rebate Fund the amounts to be paid to the federal government pursuant to the Code.

Money held in the Funds pursuant to the Funds Management Agreement may be invested (and reinvested) by the Comptroller in any investment authorized by law for State money.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act initially as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each maturity of the 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry-system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 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 Bonds may wish to take certain steps to ensure that they receive notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Transaction Documents. Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payment dates. 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, 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 is the responsibility of the Authority, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

In reading this Official Statement it should be understood that while the Bonds are in book-entry-only form, 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 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 Bond 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.

DESCRIPTION OF THE TRANSACTION DOCUMENTS

Selected Definitions

The following terms that appear as capitalized terms in this Official Statement shall have the following meanings, unless the context otherwise requires. A reference to any of these terms in the singular number shall include the plural and vice versa.

Bond Enhancement Agreement - means any loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase, purchase or sale agreement, interest rate swap agreement or commitment or other agreement authorized by the Authority in connection with the authorization, issuance, sale, resale, security, exchange, payment, purchase, remarketing or redemption of such Bonds, interest on the Bonds, or both, or as otherwise authorized by Chapter 1371, Texas Government Code, as amended.

Bond Obligations - the principal, premium, if any, and interest payment obligations of the Authority on any of the Bonds.

Bond Owner - the Person who is the registered owner of any Bond, as such ownership appears in the registration records for the Bonds.

Business Day - any day that is a day on which the Comptroller is open for business and:

- (1) while the Authority is the Paying Agent/Registrar, on which the Authority is open for business at its principal business office; or
- (2) while a person other than the Authority is the Paying Agent/Registrar, on which financial institutions in the city where the principal office for payment of the Paying Agent/Registrar is located are not authorized by law or executive order to close.

Closing - the delivery by the Authority of the Bonds to or upon the order of the Purchasers thereof in exchange for payment therefor.

Code - the Internal Revenue Code of 1986, as amended, together with all published regulations promulgated thereunder and revenue rulings issued with respect thereto by the United States Department of the Treasury or the Internal Revenue Service on or before the date of Closing.

Comptroller - the Comptroller of Public Accounts for the State of Texas.

Cost of Issuance Fund - the "Texas Public Finance Authority State of Texas General Obligation Refunding Bonds, Series 2002 Cost of Issuance Fund" created pursuant to the Bond Resolution.

Eligible Investments - any securities or obligations in which the Comptroller is authorized by State law to invest the money on deposit in the Funds.

Escrow Agent - the Comptroller acting by and on behalf of Texas Treasury Safekeeping Trust Company, as escrow agent under the Escrow Agreement, and any successor thereto as therein permitted.

Escrow Agreement - the escrow agreement (including any amendments thereto) between the Authority and the Escrow Agent providing, for the payment for the Refunded Notes of money sufficient to pay debt service thereon.

Escrow Fund - the "Texas Public Finance Authority State of Texas General Obligation Refunding Bonds, Series 2002 Escrow Fund" established under the Escrow Agreement.

Event of Taxability - any act or omission that could cause any amount payable with respect to any of the Bonds, which is treated as interest under the Code, not to be excludable under section 103(a) of the Code from the gross income of the owner of the Bond.

Executive Director - the Executive Director of the Authority, or any member of the staff of the Authority authorized by the Board to perform the duties of the Executive Director.

Fund - any of the Funds.

Funds - collectively, the Interest and Sinking Fund, the Cost of Issuance Fund and the Rebate Fund, if any.

Funds Management Agreement - the funds management agreement (including any amendments thereto) between the Authority and the Comptroller providing, for the administration of the proceeds of the Bonds, and the availability of State money for the payment of the Bond Obligations.

Government Obligations - any of the following:

- (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States;
- (2) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent;
- (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and
- (4) such other investments now or hereafter authorized by Chapter 1207, Texas Government Code or any successor thereto, for the investment of escrow deposits.

Interest and Sinking Fund – the “Texas Public Finance Authority State of Texas General Obligation Refunding Bonds, Series 2002 Interest and Sinking Fund” created pursuant to the Bond Resolution.

Interest Payment Date - April 1 and October 1 of each year commencing October 1, 2002.

Issuance Cost Amount - the amount of proceeds of the Bonds expected to be expended for payment of Cost of Issuance, which amount is not to exceed the amount approved by the Texas Bond Review Board.

Paying Agent/Registrar - initially, the Authority, or any financial institution appointed by the Authority in accordance with the Bond Resolution as the paying agent/registrar for the Bonds.

Purchase Contract - the bond purchase agreement among the Authority and the representatives of the Purchasers pursuant to which the Bonds are sold to the Purchasers.

Purchasers or Underwriters - the Persons who initially purchase the Bonds from the Authority.

Record Date - the 15th day of the month immediately preceding each Interest Payment Date.

Refunded Notes – The obligations so defined in Schedule I attached to this Official Statement.

Register - the official registration records for the Bonds maintained by the registrar for such Bonds pursuant to the Bond Resolution.

Securities Depository - initially DTC, or any Person acting as a securities depository for book-entry-only Bonds.

State - the State of Texas.

Sufficient Assets - with respect to the Bond Obligations for any Bond or Bonds, any combination of the following:

- (1) an amount of money sufficient, without investment, to pay such Bond Obligations when due;
- (2) Government Obligations that:
 - (a) are not redeemable prior to maturity; and
 - (b) mature as to principal and interest in such amounts and at such times as will provide, without reinvestment, money sufficient to pay such Bond Obligations when due.

Transaction Documents - collectively, the Bond Resolution, the Escrow Agreement, the Funds Management Agreement, the Purchase Contract, and the Bonds.

The Bond Resolution

The Bonds will be issued pursuant to the Bond Resolution and the following is a summary of certain provisions of the Bond Resolution, adopted by the Board on January 24, 2002. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Bond Resolution. Copies of the Bond Resolution are available for examination at the offices of the Authority.

Ownership. A Bond Owner is deemed to be the absolute owner of such Bond Owner's Bond(s) for all purposes of determining the obligations of the Authority with respect to such Bond(s) and the Authority is not bound to recognize the interest (beneficial or otherwise) of any Person, notwithstanding any notice to the Authority of such Person's interest. While the Bonds are in book-entry form, the Securities Depository or its nominee will be treated as the Bond Owner for all purposes under the Bond Resolution and any transfer, exchange or replacement of a Bond shall occur on the books and records of such Securities Depository. All required notices to Bond Owners will be given to the Securities Depository.

Transfer, Exchange, and Replacement of Bonds. In the event the book-entry-only system is discontinued, the transfer of a Bond will be made upon surrender of the Bond by the Bond Owner (or the Bond Owner's duly authorized attorney) to the Paying Agent/Registrar together with an endorsement or other evidence of transfer satisfactory to the Authority and the Paying Agent/Registrar. The Paying Agent/Registrar will authenticate and deliver to the transferee a new Bond (or Bonds) of the same series, tenor, aggregate principal amount of the Bonds and interest rate as the surrendered Bond. A transfer will be made without charge, except that any tax or other governmental charge imposed with respect to the transfer will be paid by the transferring Bond Owner.

A Bond may be exchanged by the Bond Owner for a new Bond or Bonds (each in an authorized denomination) of the same series, tenor, aggregate principal amount and interest rate of the Bonds upon surrender to the Paying Agent/Registrar by the Bond Owner (or the Owner's duly authorized attorney) of the Bond(s) as to which the exchange is desired. The Paying Agent/Registrar will authenticate and deliver to the surrendering Bond Owner the new Bond(s) in exchange for the surrendered Bond(s). The out-of-pocket expenses incurred by the Authority and the Paying Agent/Registrar in connection with making an exchange of Bonds and any tax or other governmental charge imposed with respect to the exchange will be paid by the Bond Owner.

The Paying Agent/Registrar is not required to transfer or exchange any Bond: (1) between a Record Date and the Interest Payment Date, (2) during the 30-day period preceding the maturity date of the Bond, or (3) which has been selected for redemption in whole or in part.

At the request of the Bond Owner of a mutilated, lost, stolen or destroyed Bond, the Bond will be replaced if, in the case of a mutilated Bond, the Bond Owner (or its duly authorized attorney) surrenders the mutilated Bond to the Paying Agent/Registrar, or in the case of a lost, stolen, or destroyed Bond, the Bond Owner (1) furnishes the Authority and the Paying Agent/Registrar with evidence satisfactory to the Authority and the Paying Agent/Registrar that the loss, theft, or destruction has occurred, (2) provides indemnity or security satisfactory to the Authority and the Paying Agent/Registrar to save the Paying Agent/Registrar and the Authority harmless from any loss or damage with respect thereto, and (3) satisfies such other requirements as may reasonably be imposed by the Authority and the Paying Agent/Registrar. If a mutilated, lost, stolen, or destroyed Bond has matured or will mature

within the 30-day period following the Bond Owner's request for a replacement Bond, the Bond (at the Authority's direction) may be paid instead of delivering a replacement Bond. The out-of-pocket expenses incurred by the Authority and the Paying Agent/Registrar in connection with replacement of a Bond and any tax or other governmental charge imposed with respect to the replacement will be paid by the Bond Owner.

Unclaimed Payments. Any funds held for the payment of Bond Obligations due on any Bond, which funds are unclaimed by the Bond Owner, shall be set aside in an escrow fund, uninvested, and held for the exclusive benefit of the Bond Owner, without liability for any interest thereon. Any such funds remaining unclaimed for three years after such Bond Obligations became due (or such other period as specified by applicable law) shall be transferred to the Authority, which shall dispose of such funds pursuant to Title 6 of the Texas Property Code or other applicable law. After such disposal, all liability of the Authority and the Paying Agent/Registrar for the payment of such funds shall cease. The Authority and the Paying Agent/Registrar will comply with the reporting requirements of Chapter 74 of the Texas Property Code, as amended, or other applicable law with respect to such unclaimed money.

Tax-Exempt Status. The Authority has covenanted in the Bond Resolution that it will not take any action that could cause the interest on the Bonds to become includable in the gross income of the Bond Owners thereof for federal income tax purposes.

Noncompliance with the provisions of the Transaction Documents relating to the tax-exempt status of the Bonds under the Code will only be permitted to the extent that, in the opinion of nationally recognized bond counsel, such noncompliance will not adversely affect the excludability of interest on the Bonds from the gross income of the Bond Owners thereof for federal income tax purposes.

Amendment. Except as provided below, the Bond Resolution may not be amended without the consent of the Bond Owners of at least a majority in aggregate principal amount of the outstanding Bonds affected by such amendment. The consent of the Bond Owners of all outstanding Bonds is required for any proposed amendment to the Bond Resolution that would:

- (1) permit a preference or priority of any Bond over another Bond; or
- (2) reduce the percentage of Bond Owners that is required to consent to an amendment of the Bond Resolution.

The consent of the Bond Owner of each affected outstanding Bond is required for any proposed amendment to the Bond Resolution that would:

- (1) change the time of any regularly scheduled payment of Bond Obligations, the principal amount of any Bond, the interest rate on any Bond, the currency in which Bond Obligations are required to be paid, or any of the other terms of the Bond Resolution governing the time, place, or manner of payment of Bond Obligations;
- (2) impair the security for any Bond; or
- (3) result in a reduction of any then existing rating on the Bonds.

Except as provided above, no Bond Owner consent is required for an amendment to the Bond Resolution if the amendment, in the opinion of nationally recognized bond counsel will not constitute an Event of Taxability and, if the amendment, in the opinion of nationally recognized bond counsel or on the written advice of the Attorney General of Texas, will not adversely affect the rights of any Bond Owner under the Transaction Documents.

Defeasance. The Authority may provide for the irrevocable deposit into the Interest and Sinking Fund or in escrow with the Paying Agent/Registrar of an amount of money sufficient, without investment, or "Government Obligations" (as defined in the Bond Resolution, which may include direct obligations of, or obligations fully guaranteed by, the United States of America) not redeemable prior to maturity and maturing as to principal and interest in such amounts and at such times as will provide (without reinvestment) money sufficient to pay the Bond

Obligations when due and all other amounts due under the Bond Resolution. Upon such a deposit, the benefits of the Bond Resolution and the covenants of the Authority including the Authority's obligation to pay debt service on the Bonds will be deemed discharged.

No Individual Liability. No obligation imposed under the Bond Resolution, the Bonds, or any document executed by the Authority, or the Comptroller in connection therewith shall be deemed to be the obligation, in an individual capacity, of any director, officer, employee, or agent of the Authority, or the Comptroller, and no such director, officer, employee, or agent or any individual executing the Bonds or any such other document on behalf of any such entity shall be subject to any personal liability with respect thereto.

Bond Enhancement Agreement. Pursuant to the Bond Resolution, to the extent permitted by law and by adoption of a resolution, the Board of the Authority may approve the material terms of one or more Bond Enhancement Agreements for the Bonds subsequent to the authorization and issuance of the Bonds. The Board of the Authority has authorized the Executive Director to act on behalf of the Authority from time to time in negotiating and approving the details of any Bond Enhancement Agreements. The execution and delivery of any Bond Enhancement Agreement is subject to the approval of the Attorney General of Texas. Bond Owner consent is not necessary for the Authority to adopt a Bond Enhancement Agreement.

Subject to certain restrictions, Bond Owner consent is not required for an amendment to the Bond Resolution if the amendment, in the opinion of nationally recognized bond counsel, will not constitute an Event of Taxability and, in the opinion of nationally recognized bond counsel or the written advice of the Attorney General of the State of Texas, will not adversely affect the rights of any Bond Owner under the Transaction Documents, including without limitation, amendments, changes or modifications to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange or similar types of agreements with respect to the Bonds.

The Escrow Agreement

The following is a summary of certain provisions of the Escrow Agreement. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Escrow Agreement. Copies of the Escrow Agreement are available for examination at the offices of the Authority.

The Escrow Agreement is an agreement by and between the Authority and the Comptroller acting by and on behalf of the Texas Treasury Safekeeping Trust Company, as escrow agent whereby certain proceeds of the Bonds and a beginning cash balance will be deposited in the Escrow Fund (as defined in the Escrow Agreement) and invested in Escrowed Securities (as defined in the Escrow Agreement). Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund as a special trust and irrevocable escrow fund, (b) shall be applied in strict conformity with the terms of the Escrow Agreement, and (c) shall be applied to the extent needed to pay the principal of and interest on the Refunded Notes as the same comes due.

In the Escrow Agreement, the Authority represents that the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide moneys for transfer for each place of payment for the Refunded Notes at the times and in the amounts required by each place of payment for such Refunded Notes. The Authority has also represented in the Escrow Agreement to timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional moneys in the amounts required to make such payments.

The Funds Management Agreement

The following is a summary of certain provisions of the Funds Management Agreement providing for the administration of the proceeds of the Bonds and availability of funds for the payment thereof. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Funds Management Agreement. Copies of the Funds Management Agreement are available for examination at the offices of the Authority.

Establishment of Funds. The Authority is required to establish and maintain funds for the application of money with respect to the Bonds. See “THE BONDS - Flow of Funds.”

Deposit of Purchase Price. The Funds Management Agreement provides that the Purchase Price of the Bonds shall be deposited as follows: (a) any amount received as accrued interest on the Bonds, as well as any contingency amount, shall be deposited into the Interest and Sinking Fund; (b) the cost of issuance shall be deposited into the Cost of Issuance Fund; and (c) an amount necessary to defease the Refunded Notes shall immediately be paid to the Escrow Agent for deposit to the Escrow Fund for the account of the Authority pursuant to the Escrow Agreement.

Investment Losses. Any losses from investment of any Fund shall be charged on a pro rata basis among the Funds subject to the Funds Management Agreement and other sources of money from which such investment was made. The Comptroller will not be held liable for any losses resulting from investments made in accordance with the Funds Management Agreement.

Maintaining Tax-Exempt Status. The Comptroller shall take such action with respect to the Funds (including, without limitation, restricting the yield on investments of any Fund) as is requested by the Executive Director as being necessary to comply with Section 148 of the Code or to mitigate the effect of a violation thereof.

RATINGS

Moody’s Investors Service, Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, and Fitch, Inc. have assigned their municipal bond ratings of “Aa1”, “AA” and “AA+” respectively to the Bonds. An explanation of the significance of the ratings may be obtained from the respective rating agency. The ratings reflect only the views of such organizations at the time the ratings were given, and the Authority makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all of such companies, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

TAX EXEMPTION

In the opinion of Vinson & Elkins L.L.P. and Delgado, Acosta, Braden & Jones P.C., Co-Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) certain “original issue discount” on those Bonds maturing in the years 2006, 2007, 2008 and 2010 that bear interest at the rates of 3.20%, 3.50%, 3.75% and 4.00%, respectively, and all of the Bonds maturing on 2015, 2016 and 2018 (the “Discount Bonds”) is excludable from gross income for federal income tax purposes under existing law as described more fully in “TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS” and (iii) the Bonds are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the Authority file an information report with the Internal Revenue Service. The Authority has covenanted in the Transaction Documents that it will comply with these requirements.

Co-Bond Counsel’s opinion will assume continuing compliance with the covenants of the Transaction Documents pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Authority, the Authority’s Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the Authority, the Authority’s Financial Advisor and the Underwriters, respectively, which Co-Bond Counsel has not

independently verified. Co-Bond Counsel will further rely on the report of Arbitrage Group, Inc. regarding the mathematical accuracy of certain computations. If the Authority should fail to comply with the covenants in the Transaction Documents or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation’s “adjusted current earnings,” ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Except as stated above and as stated below in “TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS,” Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Co-Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel’s knowledge of facts as of the date thereof. Co-Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel’s opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather, such opinions represent Co-Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Authority as the taxpayer and the Bond Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS

The initial public offering price to be paid for the Discount Bonds is less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. Original issue discount may also result from the payment of accrued interest by the initial purchasers of the Bonds having an initial interest payment period of longer than six months. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes on the same terms and conditions as those for other

interest on the Bonds described above under “TAX EXEMPTION”. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during its taxable year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

TAX ACCOUNTING TREATMENT OF PREMIUM BONDS

The initial public offering price to be paid for certain Bonds is greater than the stated redemption price on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

THE BONDS AS LEGAL INVESTMENTS IN TEXAS

Chapter 1201, Texas Government Code provides that obligations, such as the 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 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 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 “RATINGS” 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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The Authority has made no review of laws in other states to determine whether the 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 Bonds or the validity of the Bonds.

The State is a party to various legal proceedings relating to its operation and government functions, but unrelated to the Bonds or the security for the Bonds. See Appendix A to this Official Statement. At the time of payment for and delivery of the Bonds, the Attorney General of the State of Texas will render an opinion to the effect that there is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best of his knowledge 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 or the right of the present directors and officers of the Authority to hold their offices, (2) affects the validity or enforceability of the provisions pursuant to which the Bonds are being issued, and (3) would have a material adverse effect upon the power of the Authority to issue the Bonds.

GENERAL INFORMATION REGARDING THE STATE OF TEXAS

The Comptroller prepares a quarterly appendix (the “Bond Appendix”) which sets forth certain information regarding the State including its government, finances, economic profile, and other matters. This Bond Appendix is dated November 2001 and is incorporated herein as described in Appendix A. It is anticipated that the Bond Appendix dated February 2002 will be available by February 5, 2002. See “CONTINUING DISCLOSURE OF INFORMATION – Continuing Disclosure Undertaking of the Comptroller – *General*.” With respect to evaluating the ability of the State to make timely payment of debt service on the Bonds based on the information contained in the Bond Appendix, no representation is made that such information contains all factors material to such an evaluation or that any specific information should be accorded any particular significance.

The Texas 2000 Comprehensive Annual Financial Report for the year ended August 31, 2000 (the “2000 CAFR”) is currently on file with each nationally recognized municipal securities information repository (“NRMSIR”). The 2000 CAFR is incorporated by reference and made a part of this Official Statement as if set forth herein.

Article III, Section 49-j of the Texas Constitution prohibits the Texas Legislature from authorizing additional state debt payable from general revenues, including authorized but unissued bonds and lease purchase contracts in excess of \$250,000, if the resulting annual debt service exceeds 5% of an amount equal to the average amount of general revenue for the three immediately preceding years, excluding revenues constitutionally dedicated for purposes other than payment of debt service. See Appendix A.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Authority

Material Event Notices. In the Bond Resolution, the Authority has covenanted to provide notice of any of the following events with respect to the 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 opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and

(11) rating changes. In addition, the Authority will provide timely notice of 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*.” 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”).

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 holders of the Bonds to provide certain updated information and notices while the Bonds remain outstanding. The Authority and the legal and beneficial owners of the Bonds are third-party beneficiaries of the Comptroller’s agreement. The Comptroller is required to observe its agreement for so long as the 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 the Bond Appendix quarterly for use in State agency securities offerings. The Comptroller intends to continue to prepare or supplement such Bond 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 its disclosure agreement. Quarterly updates to the Bond Appendix are also available at <http://www.cpa.state.tx.us/treasops/bondapp.htm>. 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 the 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 of the United States Securities and Exchange Commission (the “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 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 and the Comptroller have agreed to update information and to provide notices of material events only as described above. Neither has agreed to provide other information that may be relevant or material to a complete presentation of the Authority'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 makes any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 Bonds may seek a writ of mandamus to compel the Authority and the Comptroller to comply with their agreements.

The Authority 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 or the State if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the SEC Rule 15c2-12 and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Authority, 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 Bonds. If the Authority 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 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, for which Bear, Stearns & Co. Inc. is acting as representative and as set forth on the cover of this Official Statement, have jointly and severally agreed, subject to certain conditions set forth in a bond purchase agreement with the Authority, to purchase the Bonds at a Purchase Price of \$388,368,788.85 (which represents the par amount of the Bonds, less an original issue discount of \$468,967.70, plus an original issue premium of \$20,844,738.35, less an underwriting discount of \$1,721,981.80), plus accrued interest on the Bonds to the date of delivery. The bond purchase agreement pertaining to the Bonds provides that the Underwriters will purchase all of the Bonds, if any are purchased.

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 Bonds. The Financial Advisor also serves in other capacities with the Authority. All fees and other remuneration received in such other capacities are separate and distinct from the fees associated with the Bonds and are not contingent upon the sale and issuance of the 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 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 and its representatives relating to (a) computation of anticipated receipts of principal and interest on the Escrowed Securities and the anticipated payments of principal and interest to defease the Refunded Notes, and (b) computation of the yields on the Bonds and the Escrowed Securities was examined by Arbitrage Group, Inc. (the "Verification Agent"). Such computations were based solely upon assumptions and information supplied by the Underwriters and reviewed by the Authority and its representatives. 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 upon 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 upon by Co-Bond Counsel in rendering their opinion with respect to the tax exemption of interest on the Bonds and with respect to defeasance of the Refunded Notes, if any. The report of examination prepared by the Verification Agent will state that the 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 Bonds has not been registered under the Federal Securities Act of 1993, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Authority assumes no responsibility for qualification of the bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the 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 Bonds by the Authority are subject to the unqualified approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Vinson & Elkins L.L.P., Houston, Texas, and Delgado, Acosta, Braden & Jones P.C., El Paso, Texas, Co-Bond Counsel. The compensation paid to Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds. Co-Bond Counsel's approving opinion will be rendered in substantially the form attached to this Official Statement as Appendix C.

Co-Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that in their capacity as Co-Bond Counsel, such firms have reviewed the information in the Official Statement under the captions, "PLAN OF FINANCE," "THE BONDS," "DESCRIPTION OF THE TRANSACTION DOCUMENTS," "TAX EXEMPTION," "TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS," "TAX ACCOUNTING TREATMENT OF PREMIUM BONDS," "THE BONDS AS LEGAL INVESTMENTS IN TEXAS," "CONTINUING DISCLOSURE OF INFORMATION" and "LEGAL MATTERS" to verify that the information relating to the Bonds and the Transaction Documents 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, McCall, Parkhurst & Horton L.L.P., Dallas, Texas and Renee Higginbotham-Brooks, Esq., Fort Worth, Texas.

The various legal opinions to be delivered concurrently with the delivery of the 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 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.

This Official Statement has been approved by the Authority.

TEXAS PUBLIC FINANCE AUTHORITY

By: \s\ John Kerr
 Vice Chair

SCHEDULE I

Schedule of Refunded Notes

<u>Maturity Date</u>	<u>Par Amount</u>
02/13/2002	\$155,000,000
02/25/2002	7,950,000.00
04/09/2002	23,050,000.00
02/19/2002	3,600,000.00
02/19/2002	20,000,000.00
02/19/2002	20,000,000.00
02/20/2002	14,500,000.00
02/20/2002	8,000,000.00
02/20/2002	8,600,000.00
03/04/2002	26,755,000.00
04/19/2002	10,000,000.00
05/02/2002	4,000,000.00
05/02/2002	38,745,000.00
05/02/2002	2,000,000.00
05/02/2002	27,500,000.00
05/02/2002	10,000,000.00
04/09/2002	8,000,000.00

APPENDIX A

THE STATE OF TEXAS

The Bond Appendix dated November 2001 is currently on file with each NRMSIR and the Texas SID and is hereby incorporated by reference and made a part of this Official Statement. The Bond Appendix may also be obtained from the Comptroller's website at: <http://www.window.state.tx.us/treasops/bondapp.html>. It is anticipated that the Bond Appendix dated February 2002 will be available by February 5, 2002.

The Comptroller has provided the following information, which is expected to be included in the Bond Appendix dated February 2002, for inclusion in this Official Statement:

LITIGATION

The State is a party to various legal proceedings relating to its operations and governmental functions but unrelated to the security for the Bonds. In the opinion of the State Comptroller of Public Accounts, based on information provided by the State Attorney General as to the existence and legal status of such proceedings, none of such proceedings, except for *Frew v. Gilbert*, *West Orange-Cove Consolidated ISD, et al v. Jim Nelson*, Texas Commissioner of Education, Texas Education Agency, et al and *Dow Chemical Co. v. Rylander, et al.*, as discussed below, if finally decided adversely to the State, would have a materially adverse effect on the long term financial condition of the State.

Frew v. Gilbert. The United States District Court, Eastern District of Texas, Paris Division, found violations of certain provisions of a consent decree and found the decree enforceable to the extent outlined in *Frew v. Gilbert*, 109 F. Supp. 2d 579 (E D. Tex. 2000). The defendants have appealed the decision to the United States Court of Appeals for the 5th Circuit and enforcement has been stayed pending the appeal.

West Orange-Cove Consolidated ISD, et al v. Jim Nelson, Texas Commissioner of Education, Texas Education Agency, et al. This is a school finance litigation case At issue is whether the \$1.50 cap on the school districts' maintenance and operations taxes creates an unconstitutional state property tax. The case is No. GV-100528 in the 250th Judicial District of the District Court of Travis County. The District Court dismissed the case on July 11, 2001. The case is on appeal at the Third Court of Appeals in Austin..

Dow Chemical Co. v. Rylander, et al., 38 S.W.3d 741 (Tex App.—Austin 2001, pet. denied). The Third Court of Appeals for Texas found that the application of the independently procured insurance tax by the State of Texas was violative of the federal McCarran-Ferguson Act. All appeals have been exhausted. If similarly situated taxpayers fall within the scope of this ruling, the Comptroller considers the decision in *Dow* monetarily significant but does not expect the ruling to impact the long term financial condition of the State.

The State Comptroller of Public Accounts is a party to various proceedings relating to the application of state tax law but unrelated to the security for Bonds. Taken individually, none of the cases if finally decided adversely to the State would have a materially adverse effect on the long term financial condition of the State; however, if numerous adverse decisions were to be applied broadly to all similarly situated taxpayers, then there could possibly be an adverse affect on the financial condition of the State. *USAA v. Rylander* and *Ratheon E-Systems v. Rylander*, discussed below, are examples of this type of proceeding.

United Services Automobile Association and USAA Life Insurance Co. v. Rylander, et al. Two insurance companies claim exemption from general State taxes based on provisions of art. 4.10 and art. 4.11 of the Insurance Code. The companies seek a refund of taxes and allege that the refund may equal approximately \$200,000,000. Other insurers may make similar claims. The Comptroller is contesting the claims and a summary judgment motion is set for March 20, 2002, in the 345th District Court of Travis County, Cause No. GN-103414. The Legislature clarified the statutes that purported to provide the exemptions, which is expected to preclude future claims.

Raytheon E-Systems, Inc. v. Rylander. This is a sales tax refund case that is based in part on alleged sales for resale. Plaintiffs claim that certain purchases of tangible personal property for resale to the federal government were not subject to sales and use tax. Other similarly situated taxpayers may file similar claims. The Comptroller is contesting the claim. A summary judgment motion is set for March 4, 2002, in the 200th District Court of Travis County, Cause No. GN-1-101511.

APPENDIX B

DEBT SERVICE REQUIREMENTS

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Annual Debt Service</u>
10/01/2002	\$7,405,000	\$13,346,830.22	\$20,751,830.22	
04/01/2003		9,273,415.00	9,273,415.00	
08/31/2003				\$30,025,245.22
10/01/2003	7,595,000	9,273,415.00	16,868,415.00	
04/01/2004		9,083,540.00	9,083,540.00	
08/31/2004				25,951,955.00
10/01/2004	8,075,000	9,083,540.00	17,158,540.00	
04/01/2005		8,927,552.50	8,927,552.50	
08/31/2005				26,086,092.50
10/01/2005	24,760,000	8,927,552.50	33,687,552.50	
04/01/2006		8,312,052.50	8,312,052.50	
08/31/2006				41,999,605.00
10/01/2006	24,760,000	8,312,052.50	33,072,052.50	
04/01/2007		7,702,637.50	7,702,637.50	
08/31/2007				40,774,690.00
10/01/2007	24,760,000	7,702,637.50	32,462,637.50	
04/01/2008		7,063,100.00	7,063,100.00	
08/31/2008				39,525,737.50
10/01/2008	24,760,000	7,063,100.00	31,823,100.00	
04/01/2009		6,421,400.00	6,421,400.00	
08/31/2009				38,244,500.00
10/01/2009	24,760,000	6,421,400.00	31,181,400.00	
04/01/2010		5,747,400.00	5,747,400.00	
08/31/2010				36,928,800.00
10/01/2010	24,760,000	5,747,400.00	30,507,400.00	
04/01/2011		5,075,800.00	5,075,800.00	
08/31/2011				35,583,200.00
10/01/2011	24,760,000	5,075,800.00	29,835,800.00	
04/01/2012		4,425,850.00	4,425,850.00	
08/31/2012				34,261,650.00
10/01/2012	24,760,000	4,425,850.00	29,185,850.00	
04/01/2013		3,744,950.00	3,744,950.00	
08/31/2013				32,930,800.00
10/01/2013	24,760,000	3,744,950.00	28,504,950.00	
04/01/2014		3,079,525.00	3,079,525.00	
08/31/2014				31,584,475.00
10/01/2014	24,760,000	3,079,525.00	27,839,525.00	
04/01/2015		2,414,100.00	2,414,100.00	
08/31/2015				30,253,625.00
10/01/2015	24,760,000	2,414,100.00	27,174,100.00	
04/01/2016		1,826,050.00	1,826,050.00	
08/31/2016				29,000,150.00
10/01/2016	24,760,000	1,826,050.00	26,586,050.00	
04/01/2017		1,238,000.00	1,238,000.00	
08/31/2017				27,824,050.00
10/01/2017	24,760,000	1,238,000.00	25,998,000.00	
04/01/2018		619,000.00	619,000.00	
08/31/2018				26,617,000.00
10/01/2018	24,760,000	619,000.00	25,379,000.00	
08/31/2019				25,379,000.00
Total	\$369,715,000	\$183,255,575.22	\$552,970,575.22	\$552,970,575.22

APPENDIX C

FORM OF OPINION OF CO-BOND COUNSEL

VINSON & ELKINS L.L.P.
2300 First City Tower
1001 Fannin Street
Houston, Texas 77002

**DELGADO, ACOSTA,
BRADEN & JONES, P.C.**
221 N. Kansas, Suite 2000
El Paso, Texas 79901

_____, 2002

WE HAVE ACTED as co-bond counsel for the Texas Public Finance Authority (the "Authority"), in connection with an issue of bonds (the "Bonds") described as follows:

TEXAS PUBLIC FINANCE AUTHORITY STATE OF TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2002, dated January 15, 2002, in the total authorized amount of \$369,715,000.

The Bonds mature, bear interest and may be transferred and exchanged as set out in the Bonds and the resolution adopted by the Board of Directors of the Authority authorizing their issuance (the "Resolution").

WE HAVE ACTED as co-bond counsel 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 of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Authority or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority's Official Statement (the "Official Statement") prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, and the obligations being refunded, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Authority and the Texas Treasury Safekeeping Trust Company, as escrow agent (the "Escrow Agent"); the report of The Arbitrage Group, Inc. verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded and the mathematical accuracy of certain computations of the yield on the Bonds and obligations acquired with the proceeds of the Bonds; customary certificates of officers, agents and representatives of the Escrow Agent, the Authority, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the obligations being refunded. We have also examined executed Bond No. R-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

- (1) The Board has duly adopted the Resolution, which Resolution duly authorizes the issuance, sale, execution and delivery of the Bonds. Authorized representatives of the Board have duly executed the Bonds, and the Bonds have been duly registered and delivered to the Purchasers (as defined in the Resolution). The Bonds constitute legal, valid and binding general obligations of the State.

- (2) The Bonds have been authorized and issued in accordance with the Constitution and laws of the State and a continuing appropriation is made pursuant to the Constitution of the State out of the first money coming into the State Treasury in each fiscal year, not otherwise appropriated by the Constitution of the State, in an amount that is sufficient to pay the principal of and interest on Bonds that mature or become due during that fiscal year (less the amount of any sinking fund at the end of the preceding fiscal year that is pledged to payment of Bonds or interest thereon).
- (3) Firm banking and financial arrangements have been made for the discharge and final payment of the obligations being refunded pursuant to an Escrow Agreement entered into between the Authority and the Escrow Agent on the date of delivery of the Bonds, and that therefore such obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that:

- (1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.
- (2) The difference between the amount payable at maturity of each Discount Bond (as defined in the Official Statement) and the "issue price" of such Bond (as stated in the Official Statement) is excludable from gross income for federal income tax purposes as original issue discount under existing law.
- (3) The Bonds are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Authority, the Authority's financial advisor, and the Purchasers, with respect to matters solely within the knowledge of the Authority, the Authority's financial advisor, and the Purchasers, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Authority fails to comply with the foregoing provisions of the Resolution, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Purchasers of Discount Bonds in the initial public offering are directed to the discussion entitled "Tax Accounting Treatment of Discount Bonds" set forth in the Official Statement for purposes of determining the portion of the original issue discount described in paragraph (2) above which is allocable to the period such Bonds are held by an owner. The federal income tax consequences of the purchase, ownership, and redemption, sale, or other disposition of Discount Bonds which are not purchased in the initial public offering at the initial offering price may be determined according to rules which differ from those described above and in the Official Statement.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Authority as the taxpayer. We observe that the Authority has covenanted in the Resolution not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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