

**OFFICIAL STATEMENT**

**Dated July 16, 2008**

*In the opinion of 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 and interest on the Bonds is not an item of tax preference includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX EXEMPTION" herein for a discussion of the opinion of 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+"**

**\$214,900,000**

**TEXAS PUBLIC FINANCE AUTHORITY  
State of Texas  
General Obligation and Refunding Bonds  
Series 2008A**

**Interest Accrual: Date of Delivery**

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

The Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A (the "Bonds") are general obligations of the State of Texas being issued by the Texas Public Finance Authority (the "Authority"). (See "THE BONDS - Source of Payment of the Bonds" herein.) The Bonds are being issued for the purpose of (i) refunding a portion of the Authority's outstanding general obligation bonds issued to refinance projects for the Texas Department of Criminal Justice, the Texas Department of Mental Health and Mental Retardation, and the Texas Youth Commission, (ii) providing financing for repairs and renovations to State facilities for the Texas Department of Criminal Justice, and for land acquisition and construction and renovation of State facilities for the Texas Department of Public Safety (the "Projects"), and (iii) paying the costs of issuance of the Bonds. (See "PLAN OF FINANCE" herein.)

Interest on the Bonds will accrue from the Date of Delivery and will be payable on October 1 and April 1 of each year, commencing April 1, 2009. Interest on the Bonds is 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-only system described herein. Such book-entry-only system may be discontinued under certain conditions as described herein under "BOOK-ENTRY-ONLY SYSTEM." So long as the book-entry-only 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 their scheduled maturities as more fully described herein. (See "THE BONDS - Redemption of the Bonds.")

**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.**

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**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS  
SHOWN ON INSIDE COVER**

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*The Bonds are offered when, as, and if issued and accepted by the Underwriters, subject to the approval of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Bond Counsel, as to the validity of the issuance of the Bonds under the Constitution and laws of the State. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead PC, Austin, Texas. It is expected that the Bonds will be delivered on or about August 5, 2008, through the facilities of DTC.*

**PIPER JAFFRAY & CO.**

**ESTRADA HINOJOSA & COMPANY, INC.**

**JPMORGAN**

**MERRILL LYNCH & CO.**

**MORGAN KEEGAN & COMPANY, INC.**

**MORGAN STANLEY**

**RBC CAPITAL MARKETS**

**SIEBERT BRANDFORD SHANK & CO., LLC**

**STONE & YOUNGBERG**

**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS**

**CUSIP Prefix 882721<sup>(1)</sup>**

**\$214,900,000  
Texas Public Finance Authority  
State of Texas  
General Obligation and Refunding Bonds  
Series 2008A**

**Serial Bonds**

<b>CUSIP Suffix<sup>(1)</sup></b>	<b>Maturity Date (October 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Offering Prices/Yield</b>
4V2	2009	\$ 42,435,000	5.000%	1.850%
4W0	2010	40,690,000	5.000	2.330
4X8	2011	23,480,000	5.000	2.740
4Y6	2012	4,385,000	4.000	3.010
4Z3	2013	2,890,000	4.000	3.170
5A7	2014	21,185,000	5.000	3.300
5B5	2015	22,310,000	5.000	3.430
5C3	2016	2,890,000	4.000	3.570
5D1	2017	2,890,000	4.000	3.700
5E9	2018	2,890,000	4.000	3.820
5F6	2019	2,890,000	4.000	4.030
5G4	2020	2,885,000	5.000	4.070*
5H2	2021	2,885,000	5.000	4.190*
5J8	2022	2,885,000	5.000	4.260*
5K5	2023	2,885,000	5.000	4.330*
5L3	2024	2,885,000	4.500	4.520
5M1	2025	2,885,000	5.000	4.450*
5N9	2026	2,885,000	5.000	4.510*
5P4	2027	2,885,000	5.000	4.570*
5Q2	2028	2,885,000	5.000	4.610*

**Serial Bonds (Retail)**

4U4	2010	5,000,000	3.000	2.330
5U3	2011	5,000,000	3.500	2.740
***	***	***	***	***
***	***	***	***	***
5V1	2014	5,000,000	3.625	3.300
5W9	2015	<u>5,000,000</u>	3.750	3.430

TOTAL \$214,900,000

(Interest Accrues from Date of Delivery)

The Bonds maturing on or after October 1, 2019, 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, 2018, or on any date thereafter, at a redemption price equal to par plus accrued interest to the date fixed for redemption.

\*Yields shown are calculated to the first call date of October 1, 2018.

<sup>(1)</sup> CUSIP numbers have been assigned to this issue by the Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. and included solely for the convenience of the owners of the Bonds. Neither the Authority, the Financial Advisor, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

# STATE OF TEXAS

**Rick Perry**

*Governor*

**David Dewhurst**

*Lieutenant Governor*

**Greg Abbott**

*Attorney General*

**Susan Combs**

*Comptroller of Public Accounts*

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## TEXAS PUBLIC FINANCE AUTHORITY

**H. L. Bert Mijares, Jr.**

*Chair*

**Ruth C. Schiermeyer**

*Vice Chair*

**Linda McKenna**

*Secretary*

**Gerald Alley**

*Member*

**D. Joseph Meister**

*Member*

**Robert T. Roddy, Jr.**

*Member*

**Gary Wood**

*Member*

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**Kimberly K. Edwards**

*Executive Director*

**Judith Porras**

*General Counsel*

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**Coastal Securities, Inc.**  
**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 will 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, will, 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 the State of Texas, and other sources which are believed to be reliable, but such information is not to be construed as a representation by the Underwriters. Neither the Authority nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use herein.

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 REGULATORY 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 will 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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## SUMMARY STATEMENT

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

<b>Issuer</b>	Texas Public Finance Authority.
<b>Offering</b>	State of Texas General Obligation and Refunding Bonds, Series 2008A in the aggregate principal amount of \$214,900,000.
<b>Maturity</b>	October 1 of each of the years 2009 through 2028.
<b>Interest</b>	Interest on the Bonds will accrue from the Date of Delivery and will be payable on October 1 and April 1 of each year, commencing April 1, 2009. (See "THE BONDS – Description of the Bonds.")
<b>Redemption</b>	The Bonds are subject to redemption in whole or in part from time to time prior to maturity as described herein. (See "THE BONDS – Redemption of the Bonds.")
<b>Book-Entry-Only System</b>	The Bonds are initially issuable only to Cede & Co, the nominee of The Depository Trust Company, pursuant to a book-entry-only system (as described herein). No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Interest on and principal of the Bonds will be paid to Cede & Co., which will distribute the payments to the participating members of The Depository Trust Company for remittance to the beneficial owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM.")
<b>Purpose</b>	The Bonds are being issued for the purpose of (i) refunding a portion of the Authority's outstanding general obligation bonds issued to refinance projects for the Texas Department of Criminal Justice, the Texas Department of Mental Health and Mental Retardation, and the Texas Youth Commission as shown on Schedule I (the "Refunded Bonds"), (ii) providing financing for repairs and renovations to State facilities for the Texas Department of Criminal Justice, and for land acquisition and construction and renovation of State facilities for the Texas Department of Public Safety (the "Projects"), and (iii) paying the costs of issuance of the Bonds. (See "PLAN OF FINANCE" herein.)
<b>Source of Payment</b>	The Bonds are general obligations of the State, issued under the applicable Authorizing Law. (See "THE BONDS - Source of Payment of the Bonds.")
<b>Ratings</b>	Moody's Investors Service, Inc., Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., and Fitch Ratings have assigned ratings of "Aa1", "AA" and "AA+", respectively, to the Bonds. (See "RATINGS.")
<b>Legality</b>	The issuance of the Bonds is subject to the approval of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel, as to the validity of the issuance of the Bonds under the Constitution and laws of the State. (See "LEGAL MATTERS.")

# **OFFICIAL STATEMENT**

**relating to**

**\$214,900,000**

**TEXAS PUBLIC FINANCE AUTHORITY**

**State of Texas**

**General Obligation and Refunding Bonds**

**Series 2008A**

## **INTRODUCTION**

The purpose of this Official Statement (which includes the cover page, inside cover page, Summary Statement, and attached Appendices) is to furnish information concerning the offering of \$214,900,000 principal amount of Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A (the “Bonds”), which are being issued by the Authority pursuant to Article III, Sections 49-h and 50-g of the Texas Constitution (the “Constitutional Provisions”); the Texas Public Finance Authority Act, Chapter 1232, Texas Government Code, as amended (the “Enabling Act”); and Chapters 1201, 1207, and 1371, Texas Government Code, as amended (the Constitutional Provisions, Enabling Act and any regulations promulgated by the Authority thereunder, and the other statutes cited above together constituting the “Authorizing Law”), and pursuant to the resolution (the “Bond Resolution”) adopted by the Board of Directors of the Authority on June 5, 2008.

This Official Statement includes descriptions of the Bonds (including the source of payment therefor), the Authority, and certain other matters, along with a summary of the Bond Resolution.

The summaries of documents contained herein do not purport to be complete and are qualified in their entirety by reference to the respective documents. The form of the Bond Resolution is available for inspection at the offices of the Authority, 300 West 15th Street, Suite 411, Austin, Texas 78701. Reference is made to the section herein captioned “DESCRIPTION OF THE TRANSACTION DOCUMENTS — Selected Definitions” and to the Bond Resolution for the definition of certain terms used herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the Authority’s and the Comptroller’s undertakings to provide certain information on a continuing basis.

## **PLAN OF FINANCE**

### **Purpose**

The Bonds are being issued for the purpose of (i) refunding a portion of the Authority’s outstanding general obligation bonds issued to refinance projects for the Texas Department of Criminal Justice, the Texas Department of Mental Health and Mental Retardation, and the Texas Youth Commission as shown on Schedule I (the “Refunded Bonds”), (ii) providing financing for repairs and renovations to State facilities for the Texas Department of Criminal Justice, including infrastructure rehabilitation, improvements to facility security systems, and safety standard compliance; and for land acquisition and construction and renovation of State facilities for the Texas Department of Public Safety, including expansion or construction of crime laboratories in the cities of Abilene, Corpus Christi, El Paso, Tyler, Austin, Houston, and Lubbock, the construction of regional or area offices in the cities of Lubbock and Rio Grande City, and the construction of an Emergency Vehicle Operations Course (the “Projects”), and (iii) paying the costs of issuance of the Bonds.

## Payment of Refunded Bonds

The Refunded Bonds and the interest due thereon, are to be paid on the scheduled redemption date from funds to be deposited pursuant to an Escrow Agreement for the Refunded Bonds (the “Escrow Agreement”), between the Authority and 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 the Refunded Bonds. Such funds will be held by the Escrow Agent in a separate special escrow account (the “Escrow Fund”) and used to purchase noncallable United States Treasury obligations or other noncallable 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 the Refunded Bonds.

By the deposit of the Escrowed Securities and/or 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 Bonds in accordance with applicable law. Bond Counsel will render an opinion to the effect that, as a result of such firm banking and financial arrangements, such Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Fund pursuant to the 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 Bonds if the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Grant Thornton LLP, a firm of certified public accountants, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Escrowed Securities 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 the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities will not be available to pay principal of and interest due on the Bonds. (See “VERIFICATION OF MATHEMATICAL ACCURACY” herein.)

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds are estimated to be applied as follows:

### Sources

Par Amount of the Bonds	\$214,900,000.00
Net Original Issue Premium	11,591,898.95
Cash Contribution	3,415,000.00
Total	<u>\$229,906,898.95</u>

### Uses

Deposit to Escrow Fund for Refunded Bonds	\$168,789,464.57
Deposit to Project Funds	60,000,000.00
Deposit to Interest and Sinking Fund	2,758.58
Underwriters’ Discount	874,675.80
Costs of Issuance	240,000.00
Total	<u>\$229,906,898.95</u>



## 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 “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 Board, the office held by each member and the date on which each member’s term expires are as follows:

<u>Name</u>	<u>Position</u>	<u>Term Expires (February 1)</u>
H.L. Bert Mijares, Jr.	Chair	2009
Ruth C. Schiermeyer	Vice Chair	2013
Linda McKenna	Secretary	2011
Gerald Alley	Member	2013
D. Joseph Meister	Member	2013
Robert T. Roddy, Jr.	Member	2013
Gary Wood	Member	2009

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 Board. The Executive Director is Kimberly K. Edwards, who has been employed in that position since March 1997.

Pursuant to the Enabling Act and Chapters 1401 and 1403, Texas Government Code, the Authority issues general obligation and revenue bonds for designated State agencies (including certain institutions of higher education). In addition, the Authority currently administers four commercial paper programs, namely: the Master Lease Purchase Program, which is primarily for financing equipment acquisitions; two general obligation commercial paper programs for certain general state government construction projects; and a general obligation commercial paper program for the Colonia Roadway program. Also, in 2003, the Authority created a nonprofit corporation to finance projects for eligible charter schools pursuant to Chapter 53 of the Texas Education Code.

Before the Authority may issue obligations for the acquisition or construction of a building, the Legislature must have authorized the specific project for which the obligations 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 obligations. 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.

The Authority has issued revenue bonds on behalf of the Parks & Wildlife Department, the Texas Facilities Commission, the State Preservation Board, the Texas Department of Criminal Justice, the Health & Human Services Commission, the Texas Department of Agriculture, the Department of State Health Services, the Texas Workforce Commission, the Texas State Technical College System, the Texas Military Facilities Commission (now part of the Adjutant General's Department), Midwestern State University, Stephen F. Austin University, and Texas Southern University.

The Authority has also issued general obligation bonds for the Parks & Wildlife Department, the Texas Facilities Commission, the Department of State Health Services, the Texas Department of Criminal Justice, the Texas Department of Aging and Disability Services, the Texas Department of Public Safety, the Texas Youth Commission, the Texas National Research Laboratory Commission, the Texas Historical Commission, the Texas School for the Blind and Visually Impaired, the Texas School for the Deaf, the Texas Department of Agriculture, the Adjutant General's Department, the Texas Department of Transportation, and the Texas Juvenile Probation Commission.

In November 2007, Texas voters passed a constitutional amendment (Art. III, Section 50-g, Texas Constitution ("Section 50-g")) authorizing the issuance of up to \$1 billion in bonds payable from the general revenues of the State for maintenance, improvement, repair, and construction projects and for the purchase of needed equipment for the State. The projects will benefit the Texas Parks & Wildlife Department, the Texas Facilities Commission, the Department of State Health Services, the Texas Department of Criminal Justice, the Texas Department of Aging and Disability Services, the Texas Department of Public Safety, the Texas Youth Commission, the Texas Historical Commission, the Texas School for the Blind and Visually Impaired, the Texas School for the Deaf, and the Adjutant General's Department. The portion of the Bonds issued to finance the Projects are being issued pursuant to Section 50-g.

### **Sunset Review**

In 1977, the 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 2011. The Enabling Act of the Authority, as amended by the 80th legislative session, provides that if the Authority is not continued in existence, the Authority will cease to exist as of September 1, 2011; however, the Texas Sunset Act provides that the Authority will exist until September 1 of the following year (September 1, 2012) 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 – "State Debt".)

### **Relationship With Other State Agencies**

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

The Authority is directed by law to deposit the proceeds of the sale of its bonds in the State Treasury for the account of the State agency at whose request those bonds were issued. Once the funds are so deposited and the 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.")

### **Texas Bond Review Board**

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 (the "Bond Review Board") prior to their issuance. The Bond Review Board is composed of the Governor, the Lieutenant Governor, the Speaker of the House of Representatives and the Comptroller. The Governor is the Chairman of the Bond Review Board. Each member of the Bond Review Board may, and frequently does, act through a designee. The Bonds were approved by the Bond Review Board on May 22, 2008.

## **THE BONDS**

### **Description of the Bonds**

The Bonds will be dated July 1, 2008, but interest on the Bonds will accrue from the date of initial delivery (the "Date of Delivery"). 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 from the Date of Delivery 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 October 1 and April 1 (each an "Interest Payment Date"), commencing April 1, 2009.

The Bonds are stated to mature in the respective principal amounts and on the dates shown on the inside cover page of this Official Statement. A debt service schedule for the Bonds appears as Appendix B to this Official Statement.

### **Redemption of the Bonds**

***Optional Redemption.*** The Bonds maturing on or after October 1, 2019, 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, 2018, or on any date thereafter, at a redemption price equal to par plus accrued interest to 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 will 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 will 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.

### **Notice of Redemption**

Notice of any redemption identifying the Bonds to be redeemed in whole or in part is required to be given by the Paying Agent/Registrar at least 30 days but not more than 45 days prior to the date fixed for redemption by sending notice to DTC (or any successor securities depository for the Bonds) as long as a book-entry registration is used for the Bonds, or if the Bonds subsequently are issued in certificate form, to the registered owners of the Bonds to be redeemed in whole or in part at the address shown in the registration books kept by the Paying Agent/Registrar.

### **Redemption Through the Depository Trust Company**

The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Resolution, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Authority will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Bond Resolution and will not be conducted by the Authority as Paying Agent/Registrar. Neither the Authority nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

### **Source of Payment of the Bonds**

The Bonds are general obligations of the State, issued under the applicable Authorizing Law, particularly the Constitutional Provisions, and therefore, funds available pursuant to the Constitutional Provisions are the sole security for payment of the Bonds. The Refunded Bonds were issued pursuant to the authority of Article III, Section

49-h of the Texas Constitution (“Section 49-h”) and therefore the refunding portion of the Bonds are also issued under Section 49-h. The following excerpt from Section 49-h is applicable to that portion of the Bonds used to refund the Refunded 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.

The portion of the Bonds attributable to financing the Projects is issued pursuant to the authority of Article III, Section 50-g of the Texas Constitution (“Section 50-g”). The following excerpt from Section 50-g applicable to that portion of the Bonds used to finance the Projects:

While any of the bonds or interest on the bonds authorized by this section is outstanding and unpaid, from the first money coming into the state treasury in each fiscal year not otherwise appropriated by this constitution, an amount sufficient to pay the principal and interest on the bonds that mature or become due during the fiscal year and to make payments that become due under a related credit agreement during the fiscal year is appropriated, less the amount in the sinking fund at the close of the previous fiscal year.

### **Flow of Funds**

Under the terms of the Bond Resolution, the Authority will create for the Bonds: (i) an Interest and Sinking Fund, (ii) a Costs of Issuance Fund, (iii) the Project Funds, and (iv) 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 or cause to be deposited 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 Provisions, not later than the second Business Day preceding each date on which any such Bond Obligations come due. 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) to be withdrawn for the payment of Bond Obligations, and 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 will be transmitted to the appropriate payee(s) for such purpose from funds made available under the Constitutional Provisions, at such time as will cause such Bond Obligations to be timely paid.

The costs of issuance for the Bonds will be paid from the Costs of Issuance Fund.

With respect to the portion of the Bonds issued to finance the Projects, the Authority will deposit the proceeds of such Bonds in the State Treasury into a Project Fund established for each of the Texas Department of Criminal Justice and the Texas Department of Public Safety. 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, these State agencies may begin work on the Projects. The Bond Owners have no rights to the Project Funds so held in the State Treasury. Once a Rebate Amount has been determined, if any, such amount will be transferred from the Project Funds to the Rebate Fund pending payment to the federal government.

The Rebate Fund is to be established for purposes of complying with provisions of sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the “Code”) that require the Authority to pay 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 will be for the sole benefit of the United States of America and will not be subject to the claim of any Bond Owner. From time to time the Authority will 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 Bond Resolution may be invested (and reinvested) by the Comptroller in any investment authorized by law for State money.

With respect to the portion of the Bonds issued to refund the Refunded Bonds, all money required to be deposited into the Escrow Fund will be, on the Date of Delivery of the Bonds, 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 Bonds, respectively, and the principal of the Refunded Bonds, on the redemption date.

### **Tax Covenants**

In the Bond Resolution, the Authority states its intention that the interest on the Bonds be excludable from gross income for purposes of federal income taxation pursuant to the Code and applicable regulations. The Authority covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the Authority covenants and agrees in the Bond Resolution to comply with each requirement of the Bond Resolution relating to the treatment of interest on the Bonds for federal income tax purposes; provided, however, that the Authority will not be required to comply with any particular requirement if the Authority has received an opinion of nationally recognized bond counsel acceptable to the Authority that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the Authority has received an opinion of such counsel to the effect that compliance with some other requirement set forth in the Bond Resolution will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such counsel's opinion will constitute compliance with the corresponding requirement specified in the Bond Resolution.

### **Defaults and Remedies**

If the Authority defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any Fund or Funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Bond Owners may seek a writ of mandamus to compel Authority officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Bond Resolution and the Authority's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from time to time. The Bond Resolution does not provide for the appointment of a trustee to represent the interest of the Bond Owners upon any failure of the Authority to perform in accordance with the terms of the Bond Resolution or upon any other condition; accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Bond Owners. The opinion of Bond Counsel will note that the rights of the Bond Owners are subject to 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.

## **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.

*Authority* - the Texas Public Finance Authority or any successor thereto.

*Authorizing Law* - the Constitutional Provisions, the Texas Public Finance Authority Act (Chapter 1232, Texas Government Code, as amended) and any regulations promulgated by the Authority thereunder, the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended), and Chapters 1207 and 1371, Texas Government Code, as amended.

*Beneficial Owner* - each Person in whose name a Book-Entry Bond is recorded as the owner of a beneficial interest in such Bond by a participant in such book-entry system.

*Blanket Letter of Representations* - any representation letter of, or agreement delivered by, the Authority pursuant to the Bond Resolution or a prior bond resolution providing for administration of a book-entry system for the Bonds and any successive arrangements under which the Authority provides for the administration of a book-entry system for the Bonds or any other bonds.

*Board* - the Board of Directors of the Authority.

*Bond Counsel* - any law firm or firms experienced in matters relating to the issuance of tax-exempt obligations, which firm or firms are engaged by the Board to render services to the Authority as bond counsel.

*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 Register.

*Bond Resolution* - the resolution authorizing the issuance of the Bonds adopted by the Authority on June 5, 2008.

*Bonds* - the “Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A” authorized by the Bond Resolution.

*Book-Entry Bond* - any Bond administered under a book-entry system pursuant to the Bond Resolution and the Blanket Letter of Representations.

*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 corporate trust office of the Paying Agent/Registrar is located are not authorized by law or executive order to close.

*Chair* - the Chair of the Board, or any member of the Board authorized to act as Chair.

*Closing* - the concurrent delivery of the Bonds to or upon the order of the Purchaser in exchange for payment therefor.

*Code* - the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the date of delivery of the Bonds.

*Comptroller* - the Comptroller of Public Accounts for the State of Texas or any successor thereto.

*Constitutional Provisions* – Article III, Sections 49-h and 50-g, of the Texas Constitution.

*Continuing Disclosure Agreement* - the Continuing Disclosure Agreement dated August 17, 1995 between the Comptroller and the Texas Bond Review Board, as amended.

*Costs of Issuance* - the “costs of issuance”, as provided in the Authorizing Law, incurred in connection with the issuance of the Bonds.

*Costs of Issuance Fund* – the “*Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A Costs of Issuance Fund*” created pursuant to the Bond Resolution.

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

*Escrow Agent* - the Comptroller acting by and on behalf of the 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 Bonds of money sufficient to pay debt service thereon.

*Escrow Fund* - the “*Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds Series 2008A Escrow Fund*” created pursuant to 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 Bond Owner.

*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.

*Financing Agreements* – the financing agreement (including any amendments thereto) between the Authority and each of the Qualified Agencies providing the terms and conditions under which the financing provided to the respective Qualified Agency with the proceeds of the Bonds is to be undertaken.

*Fund* - any of the Funds.

*Funds* - collectively, the Interest and Sinking Fund, the Costs of Issuance Fund, the Project Funds, and the Rebate Fund, if any.

*General Counsel* - the general counsel of the Authority.

*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, as amended, for the investment of escrow deposits.

*Interest and Sinking Fund* - the “Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A Interest and Sinking Fund” created pursuant to the Bond Resolution.

*Interest Payment Date* - October 1 and April 1 of each year commencing April 1, 2009.

*Legislature* - the Legislature of the State.

*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.

*Person* - any individual, partnership, corporation, trust, or unincorporated organization or any governmental entity.

*Pricing Certificate* - the certificate executed by the Pricing Committee which sets forth the final terms of the Bonds.

*Project Funds* – the “Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A Project Fund- Texas Department of Criminal Justice ” and the “Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A Project Fund- Texas Department of Public Safety” created pursuant to the Bond Resolution.

*Purchase Contract* - the bond purchase contract among the Authority and the representative of the Purchasers pursuant to which the Bonds are sold to the Purchasers.

*Purchase Price* - the proceeds of the sale of the Bonds (including any premium that is paid to the Authority upon the Closing) but excluding underwriters’ discount and any original issue discount.

*Purchasers or Underwriters* - the Persons who initially purchase the Bonds from the Authority pursuant to the Purchase Contract.

*Qualified Agency* or *Qualified Agencies* - individually or collectively, the Texas Department of Public Safety and the Texas Department of Criminal Justice.

*Rebate Amount* – the excess as of any date of the future value of all receipts on nonpurpose investments over the future value of all payments on nonpurpose investments all as determined in accordance with Section 1.148-3 of the federal income tax regulations.

*Rebate Fund* – the “Texas Public Finance Authority State of Texas General Obligation and Refunding Bonds, Series 2008A Rebate Fund” created pursuant to the Bond Resolution.

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

*Refunded Bonds* - the Refunded Bonds listed in Schedule I attached to this Official Statement.

*Register* - the official registration records for the Bonds maintained by the Paying Agent/Registrar for the Bonds pursuant to the Bond Resolution.

*Securities Depository* - initially the Depository Trust Company, or any Person acting as a securities depository for the Book-Entry 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; and
- (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* – as used in the Bond Resolution, collectively, the Bond Resolution, the Financing Agreements, the Escrow 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 June 5, 2008. 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.

***Security for the Bonds.*** The Authority, pursuant to the Bond Resolution, has pledged as the sole security for the Bonds the funds that become available for payment of the Bonds pursuant to the Constitutional Provisions.

***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 all required notices to Bond Owners will be given only to the Securities Depository.

***Transfer, Exchange, and Replacement of Bonds.*** For so long as the Bonds are Book-Entry Bonds, the Securities Depository will be treated as the Bond Owner for all purposes and any transfer, exchange, or replacement of a Bond will occur on the books and records of the Securities Depository.

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 tenor and 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 tenor and aggregate principal amount and interest rate of the Bonds upon surrender to the Paying Agent/Registrar by the Bond Owner (or the Bond 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 related 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 representative) 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, if indemnity or security is provided as described above, 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.

***Creation of Funds.*** The Authority will create the following funds: (i) the Interest and Sinking Fund, (ii) the Costs of Issuance Fund, (iii) the Project Funds, and (iv) the Rebate Fund (if the Rebate Fund is determined to be necessary).

***Application of Constitutionally Appropriated Funds.*** The Authority will cause to be deposited into the Interest and Sinking Fund an amount sufficient (together with any other money on deposit therein) to provide for the timely payment of the Bond Obligations, from money that is available for such purpose under the Constitutional Provisions, not later than the second Business Day preceding each date on which any Bond Obligations come due. 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 the Bond Obligations for which such deposit is made come due. If, on any date that money in the Interest and Sinking Fund is required to be withdrawn for the payment of Bond Obligations, the Interest and Sinking Fund does not contain sufficient money for such purpose, an amount of immediately available money sufficient (together with money then on deposit in the Interest and Sinking Fund) to pay such Bond Obligations will be transmitted to the appropriate payee(s) for such purpose from money made available under the Constitutional Provisions, at such time as will cause such Bond Obligations to be timely paid.

***Application of Interest and Sinking Fund.*** Amounts on deposit in the Interest and Sinking Fund will be applied at such times and in such amounts as required for the timely payment of Bond Obligations.

***Investment of Funds.*** The money on deposit in any Fund may be invested and reinvested only in Eligible Investments by the Comptroller. The investments of each Fund will be made under conditions that will timely provide amounts sufficient to satisfy the purpose(s) for which such Fund is intended. The proceeds received from the disposition of any investment acquired with money from any Fund, and any income received from any such investment, are to be deposited into such Fund. Uninvested money (if any) in any Fund is to be secured in the manner and to the extent required by law.

***Unclaimed Payments.*** Any funds held for the payment of Bond Obligations due on any Bond, which funds are unclaimed by the Bond Owner, will 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) will be transferred to the Authority, which will 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 will 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 or omit to take any action within its control, 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 Bond Resolution 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, will not adversely affect the rights of any Bond Owner under the Transaction Documents, including without limitation, amendments, changes, or modifications to facilitate the utilization of Bond Enhancement Agreements.

Except with respect to amendments of the descriptions of the Projects (which are permitted with the approval of the Legislature and the Executive Director), no Financing Agreement will be amended unless (1) the Executive Director receives an opinion of Bond Counsel to the effect that such amendment will not violate the Bond Resolution, the Authorizing Law, or other applicable law; and (2) either of the following requirements is satisfied:

- (A) the Executive Director receives an opinion of Bond Counsel to the effect that such amendment will not constitute an Event of Taxability and an opinion of Bond Counsel to the effect that such amendment will not adversely affect the rights of the Bond Owners under the Resolution; or
- (B) the Bond Owners of at least a majority in aggregate principal amount of the outstanding Bonds affected by such amendment consent thereto, except that the consent of the Bond Owner of each outstanding Bond affected by such amendment is required if such amendment would decrease the minimum percentage of Bond Owners required for effective consent to such amendment.

***Discharge of Claim Against Constitutional Provisions.*** The claim of the Bond Resolution against money provided under the Constitutional Provisions will be deemed discharged and of no further force and effect when the Bond Obligations on all Bonds have been discharged and all other amounts of money payable under the Bond Resolution have been paid or arrangements satisfactory to the Person to whom any such payment is due for making such payment have been made. The Bond Obligations on any Bond or Bonds will be deemed discharged when (i) such Bond Obligations have been paid pursuant to the terms of such Bonds or become due and money sufficient for the payment thereof has been deposited into the Interest and Sinking Fund or with the Paying Agent/Registrar; (ii) such Bonds have been canceled or surrendered to the Paying Agent/Registrar for cancellation; or (iii) such Bond Obligations have been discharged by a deposit of Sufficient Assets as described below.

***Defeasance.*** The benefits of the Bond Resolution, and the covenants of the Authority contained therein in support of any Bond (or Bonds), will be deemed redeemed and discharged with respect to such Bond (or Bonds) when the following requirements have been satisfied:

- (1) the payment of the Bond Obligations with respect thereto has been provided for by irrevocably depositing Sufficient Assets into the Interest and Sinking Fund or with the Paying Agent/Registrar or a financial institution or trust company designated by the

Authority, which will be held in trust in a separate escrow account and applied exclusively to the payment of such Bond Obligations;

- (2) the Authority has received an opinion of Bond Counsel to the effect that: (a) such deposit of Sufficient Assets complies with State law and will not adversely affect the excludability of interest on any Bond from the gross income of the Bond Owner thereof for federal income tax purposes; and (b) all conditions precedent to such Bond Obligations being deemed discharged have been satisfied;
- (3) all amounts of money (other than Bond Obligations) due, or reasonably estimated by the Paying Agent/Registrar to become due, under the Bond Resolution with respect to such Bond(s) have been paid, or provision satisfactory to the Person to whom any such payment is or will be due for making such payment has been made; and
- (4) the Paying Agent/Registrar has received such other documentation and assurance as the Paying Agent/Registrar reasonably may request.

If a deposit of Sufficient Assets is to provide for the payment of Bond Obligations on less than all of the outstanding Bonds, the particular maturity or maturities of Bonds (or, if less than all of a particular maturity, the principal amounts), will be as specified by the Authority, and the particular Bonds (or portions thereof) will be selected by the Paying Agent/Registrar by lot or other random method in such manner as the Paying Agent/Registrar determines (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000 principal amount).

***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 will 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 will be subject to any personal liability with respect thereto.

***Bond Enhancement Agreement.*** Pursuant to the Bond Resolution, to the extent permitted by law, the Board may execute one or more Bond Enhancement Agreements for the Bonds. The Board 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. Payments due under one or more Bond Enhancement Agreements will be made from funds made available for such purpose pursuant to the Constitutional Provisions.

### **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 Texas Treasury Safekeeping Trust Company, as escrow agent whereby certain proceeds of the Bonds and any 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) will be the property of the Escrow Fund as a special trust and irrevocable escrow fund, (b) will be applied in strict conformity with the terms of the Escrow Agreement, and (c) will be applied to the extent needed to pay the principal of and interest on the Refunded Bonds respectively, on the redemption date.

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 money for transfer to each place of payment for the Refunded Bonds at the times and in the amounts required by each place of payment for such Refunded Bonds. 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 money in the amounts required to make such payments.

### **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, NY, will act 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) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate per maturity will be issued for the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: “AAA.” The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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 Participants’ and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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 Direct Participants and Indirect 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, 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. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. 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 issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect 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 Direct Participant and Indirect Participant and not of DTC nor its nominee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as 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 depository is not obtained, Bond certificates 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). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

## **RATINGS**

Fitch Ratings, Moody's Investors Service, and Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc., have assigned ratings of "AA+," "Aa1" and "AA" to the Bonds, respectively. An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are 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 such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds. An explanation of the significance of such ratings may be obtained from the company furnishing the rating.

## **TAX EXEMPTION**

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on Bonds is not 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.

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 Advisors and the Underwriters with respect to matters solely within the knowledge of the Authority, the Authority's Financial Advisors and the Underwriters, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report of Grant Thornton LLP 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.

Except as stated above 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.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, 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 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.

## **ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

### **Collateral Tax Consequences**

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. Prospective purchasers of the Bonds should also be aware that, 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.

### **Tax Accounting Treatment of Original Issue Premium**

The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

### **Tax Accounting Treatment of Original Issue Discount Bonds**

The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX EXEMPTION” and “ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS--Collateral Tax Consequences” generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (a) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Authority nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.



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

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

### **THE BONDS AS LEGAL INVESTMENTS IN TEXAS**

Chapter 1201, Texas Government Code, as amended, 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 (Chapter 2256, Texas Government Code, as amended), 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 of this Official Statement.)

### **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. The Bond Appendix is dated May 2008 and is incorporated herein as described in Appendix A. (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 2007 Comprehensive Annual Financial Report for the year ended August 31, 2007 (the “2007 CAFR”) is currently on file with each nationally recognized municipal securities information repository (“NRMSIR”). The 2007 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 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. Prior to the date of delivery of the Bonds, the Bond Review Board is expected to certify that the maximum annual debt service in any fiscal year on debt payable from the general revenue fund, including debt service on the Bonds, does not exceed 5% of an amount equal to the average of the amount of general revenue fund revenues, excluding revenues constitutionally dedicated for purposes other than payment of state debt, for the three immediately preceding fiscal years. (See Appendix A attached hereto.)

## 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 or financial data in accordance with its agreement described below under “- Continuing Disclosure Undertaking of the Comptroller - *Annual Reports*.” (Neither the Bonds nor the Bond Resolution make any provision for debt service reserves, credit enhancement, or liquidity enhancement.) 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”), the Municipal Securities Rulemaking Board (“MSRB”), or any other entity as may be required by the Rule.

### 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 Bond Owners 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.window.state.tx.us/treasops/bondapp.html>. 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* online at <https://www.window.state.tx.us/fnotes/> or 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 1-800-531-5441.

**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 2008. The Comptroller will provide the updated information to each NRMSIR and to any SID, or to any successors thereto, or any other entity as may be required pursuant to the Rule.

The Comptroller may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. 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, and any other entity (as may be required by the Rule).

#### **Availability of Information from NRMSIRs and SID**

The Authority and the Comptroller have agreed to provide the foregoing information only to NRMSIRs, or any other entity as may be required by the Rule, and any SID. The information will be available to Bond Owners only if they 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 (the “MAC”) ([www.mactexas.com](http://www.mactexas.com)) has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the MAC is 600 West 8th Street, Post Office Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and is operating, a “central post office” for information filings made by municipal issuers, such as the Authority. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at [www.DisclosureUSA.org](http://www.DisclosureUSA.org) (“DisclosureUSA”). The Authority may utilize DisclosureUSA for the filing of information relating to the Bonds unless the SEC has withdrawn the interpretive advice in its letter to the Municipal Advisory Council dated September 7, 2004, that was confirmed in a subsequent letter dated October 3, 2007.

#### **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 Bond Owners 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 Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, 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 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 it in accordance with the Rule.

## **UNDERWRITING**

The Underwriters 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 \$225,617,223.15 (which represents the par amount of the Bonds, plus a net original issue premium of \$11,591,898.95, less an underwriting discount of \$874,675.80.

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 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.

## **VERIFICATION OF MATHEMATICAL ACCURACY**

Grant Thornton LLP will verify from the information provided to them by the Financial Advisor, the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the Financial Advisor's schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds and (2) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is exempt from federal income tax. Grant Thornton LLP will express no opinion on the assumptions provided to them, nor as to the exemption from federal taxation of the interest on the Bonds.

## **THE FINANCIAL ADVISOR**

Coastal Securities, Inc. is employed as Financial Advisor to the Authority in connection with the issuance of the Bonds. The Financial Advisor's fees for services rendered with respect to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds. Although the Financial Advisor has read and participated in the preparation of this Official Statement, it has not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the Authority's records and from other sources which are believed to be reliable. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Authority, and, as applicable, to investors under the federal securities laws as applied to the

facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

## **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The sale of the Bonds has not been registered under the 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 will 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 approval of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Houston, Texas, Bond Counsel, as to the validity of the issuance of the Bonds under the Constitution and law of the State. The compensation paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds. It is a condition to delivery of the Bonds that Bond Counsel render its opinion substantially to the effect of the form attached to this Official Statement as Appendix C.

Bond Counsel was not requested to participate, and did not take part in, the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that in their capacity as Bond Counsel, such firm has reviewed the information in this Official Statement under the captions “PLAN OF FINANCE,” “THE BONDS,” “DESCRIPTION OF THE TRANSACTION DOCUMENTS,” “CONTINUING DISCLOSURE OF INFORMATION” (other than under the subheading “Compliance with Prior Undertakings”), and “LEGAL MATTERS” (other than under the subheading “Forward-Looking Statements”) to verify that the information relating to the Bonds, the Bond Resolution, and the Escrow Agreement contained under such captions in all respects accurately and fairly reflects the provisions thereof, and to verify that the information contained in this Official Statement under the captions “TAX EXEMPTION,” “ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS”, and “THE BONDS AS LEGAL INVESTMENTS IN TEXAS,” 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, Winstead PC, Austin, Texas. The compensation paid to Underwriters' Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds.

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 regarding 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 for distribution in accordance with provisions of SEC Rule 15c2-12, codified at 17 C.F.R. Section 240.15c2-12.

#### **TEXAS PUBLIC FINANCE AUTHORITY**

By: /s/ H. L. Bert Mijares, Jr.  
Chair

**SCHEDULE I - REFUNDED BONDS**

	<b><u>Maturity Date</u></b>	<b><u>Interest Rate</u></b>	<b><u>Par Amount</u></b>	<b><u>Call Date</u></b>	<b><u>Call Price</u></b>
<b>General Obligation</b>	10/01/2009	5.125%	\$40,230,000	10/01/2008	101%
<b>Refunding Bonds</b>	10/01/2010	5.125%	43,625,000	10/01/2008	101%
<b>Series 1998B</b>	10/01/2011	5.125%	26,590,000	10/01/2008	101%
	10/01/2012	4.500%	2,600,000	10/01/2008	101%
	10/01/2014	5.125%	24,510,000	10/01/2008	101%
	10/01/2015	5.125%	25,800,000	10/01/2008	101%

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## **APPENDIX A**

### **THE STATE OF TEXAS**

The Bond Appendix dated May 2008 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>. An updated Bond Appendix is expected to become available on August 1, 2008.

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**APPENDIX B  
BOND DEBT SERVICE**

Fiscal <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2009	\$0	\$6,710,250	\$6,710,250
2010	42,435,000	9,175,100	51,610,100
2011	45,690,000	7,021,975	52,711,975
2012	28,480,000	5,255,225	33,735,225
2013	4,385,000	4,493,025	8,878,025
2014	2,890,000	4,347,525	7,237,525
2015	26,185,000	3,669,475	29,854,475
2016	27,310,000	2,397,725	29,707,725
2017	2,890,000	1,688,425	4,578,425
2018	2,890,000	1,572,825	4,462,825
2019	2,890,000	1,457,225	4,347,225
2020	2,890,000	1,341,625	4,231,625
2021	2,885,000	1,211,700	4,096,700
2022	2,885,000	1,067,450	3,952,450
2023	2,885,000	923,200	3,808,200
2024	2,885,000	778,950	3,663,950
2025	2,885,000	641,913	3,526,913
2026	2,885,000	504,875	3,389,875
2027	2,885,000	360,625	3,245,625
2028	2,885,000	216,375	3,101,375
2029	2,885,000	72,125	2,957,125
<hr/>			
	<u>\$214,900,000</u>	<u>\$54,907,613</u>	<u>\$269,807,613</u>

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Vinson & Elkins

[CLOSING DATE]

WE HAVE ACTED as 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 AND REFUNDING BONDS, SERIES 2008A, issued in the original aggregate principal amount of \$214,900,000.

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”) and the Pricing Certificate.

WE HAVE ACTED as 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 (the “State”), 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. Capitalized terms used and not otherwise defined herein have the meanings assigned to them in the Resolution.

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, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Authority; the report (the “Report”) of Grant Thornton LLP (the “Verification Agent”) verifying the sufficiency of the deposits made with the Texas Treasury Safekeeping Company, as Escrow Agent (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, the Qualified Agencies 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 defeased and refunded. We have also examined executed Bond No. TR-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

- (1) The transcript of certified proceedings referenced above evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and the laws of the State presently effective, and that therefore 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 are payable solely from funds made available for such purpose pursuant to the Constitutional Provision (as such term is defined in the Resolution). The Constitutional Provision provides for a continuing appropriation for such purpose from 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 in the related sinking fund at the close of the previous fiscal year.
- (3) Firm banking and financial arrangements have been made for the discharge and final payment of the obligations being defeased and refunded pursuant to an Escrow Agreement entered into between the Authority and the Escrow Agent on the date of delivery of the Bonds, that all conditions precedent to the obligations being discharged have been satisfied, 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:

- (3) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.
- (4) 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 or the Report 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.

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 knowingly 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.

Very truly yours,

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