

# OFFICIAL STATEMENT

Dated September 26, 2007

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX EXEMPTION" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX EXEMPTION" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax on corporations.

**NEW ISSUE - Book-Entry-Only**

**Ratings: Moody's: "Aaa"**

**S&P: "AAA"**

(See "BOND INSURANCE" and "RATINGS")



**\$45,350,000**

**TEXAS PUBLIC FINANCE AUTHORITY**

**BUILDING REVENUE REFUNDING BONDS**

**(TEXAS DEPARTMENT OF CRIMINAL JUSTICE PROJECTS), SERIES 2007**

**Dated: October 1, 2007 (Interest accrues from date of delivery)**

**Due: February 1, as shown on following page**

The Texas Public Finance Authority Building Revenue Refunding Bonds (Texas Department of Criminal Justice Projects), Series 2007 (the "Bonds") are special and limited obligations of the Texas Public Finance Authority (the "Authority"), a public authority and body politic and corporate, being issued in the principal amount shown above. The Bonds are being issued to advance refund certain outstanding bonds of the Authority as further described herein (the "Refunded Bonds") in order to achieve a debt service savings and to pay costs associated with the issuance of the Bonds. See "PLAN OF FINANCE" and "THE PROJECT."

The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the paying agent/registrars, initially the Authority (the "Paying Agent/Registrar"), to Cede & Co., nominee of DTC, which will make distribution of the amounts so paid to the participating members of DTC for subsequent remittance to the owners of the beneficial interests in the Bonds. The Bonds will be dated as of October 1, 2007, but will accrue interest from date of delivery. Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2008 until maturity. The Bonds are not subject to optional redemption prior to maturity. See "THE BONDS - No Optional Redemption."

The Bonds will be special and limited obligations of the Authority payable only from certain pledged security, which will consist primarily of lease payments made pursuant to a lease agreement (the "Lease") between the Authority and the Texas Department of Criminal Justice (the "Department") relating to the Project which were originally refinanced with proceeds of the Refunded Bonds. The Lease obligates the Department to make lease payments sufficient to pay, when due, the principal of, premium, if any, and interest on the Bonds.

**Ambac**

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

**The obligation of the Department to make payments under the Lease is subject to, and dependent upon, appropriation by the Legislature of the State of Texas of funds necessary to make such payments. The Legislature has no obligation to make any such appropriation. Neither the State of Texas nor any state agency, political corporation, or political subdivision of the State of Texas will be obligated to pay the principal of, premium, if any, or interest on the Bonds, except as described herein with respect to payments to be made by the Authority from the revenues pledged for such purpose. Neither the full faith and credit nor the taxing power of the State of Texas or any state agency, political corporation, or political subdivision of the State of Texas (including the Authority) will be pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power. See "THE BONDS - Source of Payment" and "DESCRIPTION OF THE TRANSACTION DOCUMENTS - The Lease."**

---

**SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE**

---

The Bonds are offered for delivery when, as, and if issued and accepted by the Underwriters, and subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Andrews Kurth LLP, Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P. It is expected that the Bonds will be delivered on or about November 6, 2007 through the facilities of DTC.

**A.G. Edwards**

**Morgan Keegan & Company, Inc.**

**Ramirez & Co., Inc.**

**MATURITY SCHEDULE**

| <u>Maturity<br/>(February 1)</u> | <u>Principal<br/>Amount</u> | <u>Interest<br/>Rate</u> | <u>Price or<br/>Yield</u> | <u>CUSIP No.<br/>(88275M)<sup>(1)</sup></u> |
|----------------------------------|-----------------------------|--------------------------|---------------------------|---|
| 2008                             | \$ 595,000                  | 4.000%                   | 3.480%                    | RK2   |
| 2009                             | 9,325,000                   | 4.500                    | 3.520                     | RL0   |
| 2010                             | 2,500,000                   | 4.000                    | 3.580                     | RM8   |
| 2010                             | 9,120,000                   | 5.000                    | 3.580                     | RT3   |
| 2011                             | 2,500,000                   | 4.000                    | 3.620                     | RN6   |
| 2011                             | 3,435,000                   | 5.000                    | 3.620                     | RU0   |
| 2012                             | 2,500,000                   | 4.000                    | 3.650                     | RP1   |
| 2012                             | 5,570,000                   | 5.000                    | 3.650                     | RV8   |
| 2013                             | 2,500,000                   | 4.000                    | 3.690                     | RQ9   |
| 2013                             | 2,435,000                   | 5.000                    | 3.690                     | RW6   |
| 2014                             | 2,300,000                   | 4.000                    | 3.760                     | RR7   |
| 2014                             | 2,255,000                   | 5.000                    | 3.760                     | RX4   |
| 2015                             | 315,000                     | 4.000                    | 3.840                     | RS5   |

<sup>(1)</sup> CUSIP numbers have been assigned to the Bonds by Standard & Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc. and are included solely for the convenience of the owners of the Bonds. Neither the Authority nor the Underwriters are 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**

---

**TEXAS PUBLIC FINANCE AUTHORITY**

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

**Ruth C. Schiermeyer, Secretary**

**Carin M. Barth, Member**

**R. David Kelly, Member**

**Linda McKenna, Member**

**D. Joseph Meister, Member**

**Robert T. Roddy, Jr., Member**

\*\*\*\*

**Kimberly K. Edwards, Executive Director**

**Judith Porras, General Counsel**

---

**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 shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create the implication that there has been no change in the affairs of the Authority or the State of Texas since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

Certain information set forth in this Official Statement has been furnished by the Authority and 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.

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

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

### Marketability

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

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

### Securities Laws

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

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

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 in this Official Statement. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. Neither the Authority nor the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown on the inside cover page.

## TABLE OF CONTENTS

|   |   |
|---|---|
| <p>Maturity Schedule ..... ii</p> <p>Public Officials and Financial Advisor ..... iii</p> <p>Sale and Distribution of the Bonds ..... iv</p> <p>Table of Contents ..... v</p> <p>Summary Statement ..... vi</p> <p>Introduction ..... 1</p> <p>Plan of Finance ..... 1</p> <p style="padding-left: 20px;">General ..... 1</p> <p style="padding-left: 20px;">Refunded Bonds ..... 2</p> <p style="padding-left: 20px;">The Lease ..... 2</p> <p>Sources and Uses of Funds ..... 3</p> <p>The Authority ..... 3</p> <p style="padding-left: 20px;">Sunset Review ..... 4</p> <p style="padding-left: 20px;">Additional Authorized but<br/>Unfunded Revenue Bond Projects ..... 4</p> <p style="padding-left: 20px;">Relationship With Other State Agencies ..... 4</p> <p style="padding-left: 20px;">Texas Bond Review Board ..... 5</p> <p>The Department ..... 5</p> <p style="padding-left: 20px;">General ..... 5</p> <p style="padding-left: 20px;">Authority's Relationship with the Department ..... 5</p> <p style="padding-left: 20px;">Sunset Review ..... 6</p> <p>The Project ..... 6</p> <p>The Bonds ..... 7</p> <p style="padding-left: 20px;">Description of the Bonds ..... 7</p> <p style="padding-left: 20px;">No Optional Redemption ..... 7</p> <p style="padding-left: 20px;">Source of Payment ..... 7</p> <p style="padding-left: 20px;">Investment Considerations ..... 8</p> <p style="padding-left: 20px;">Flow of Funds ..... 8</p> <p>Book-Entry-Only System ..... 9</p> <p style="padding-left: 20px;">Use of Certain Terms in Other Sections of this<br/>Official Statement ..... 10</p> <p>Description of the Transaction Documents ..... 10</p> <p style="padding-left: 20px;">Selected Definitions ..... 10</p> <p style="padding-left: 20px;">The Bond Resolution ..... 14</p> <p style="padding-left: 20px;">The Lease ..... 19</p> | <p>Bond Insurance ..... 23</p> <p style="padding-left: 20px;">Payment Pursuant to Financial<br/>Guaranty Insurance Policy ..... 23</p> <p style="padding-left: 20px;">Ambac Assurance Corporation ..... 24</p> <p style="padding-left: 20px;">Available Information ..... 24</p> <p style="padding-left: 20px;">Incorporation of Certain Documents by Reference ..... 25</p> <p>Ratings ..... 25</p> <p>Tax Exemption ..... 25</p> <p>Tax Treatment of Original Issue Premium Bonds ..... 26</p> <p>The Bonds as Legal Investments in Texas ..... 27</p> <p>Litigation ..... 27</p> <p>General Information Regarding the State of Texas ..... 27</p> <p>Continuing Disclosure of Information ..... 28</p> <p style="padding-left: 20px;">Continuing Disclosure Undertaking of the Authority ..... 28</p> <p style="padding-left: 20px;">Comptroller ..... 28</p> <p style="padding-left: 20px;">Availability of Information from NRMSIRs and SID ..... 29</p> <p style="padding-left: 20px;">Limitations and Amendments ..... 29</p> <p style="padding-left: 20px;">Compliance with Prior Undertakings ..... 29</p> <p>Underwriting ..... 29</p> <p>The Financial Advisor ..... 30</p> <p>Verification of Arithmetical and<br/>Mathematical Computations ..... 30</p> <p>Registration and Qualification of Bonds for Sale ..... 30</p> <p>Legal Matters ..... 30</p> <p>Forward Looking Statements ..... 31</p> <p>Miscellaneous ..... 31</p> <p style="text-align: center;"><b>Appendices</b></p> <p>The State of Texas ..... Appendix A</p> <p>Debt Service Requirements ..... Appendix B</p> <p>Form of Opinion of Bond Counsel ..... Appendix C</p> <p>Schedule of Refunded Bonds ..... Appendix D</p> <p>Specimen Bond Insurance Policy ..... Appendix E</p> |
|---|---|

## 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 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>          | Texas Public Finance Authority Building Revenue Refunding Bonds (Texas Department of Criminal Justice Refunding Projects), Series 2007.  |
| <b>Maturity</b>          | February 1 of each of the years and in the principal amounts set forth on the inside cover page of this Official Statement. See "THE BONDS."   |
| <b>Interest</b>          | Payable semiannually on February 1 and August 1 of each year, commencing February 1, 2008. See "THE BONDS."  |
| <b>Redemption</b>        | The Bonds are <u>not</u> subject to redemption prior to maturity. See "THE BONDS - No Optional Redemption."  |
| <b>Book-Entry System</b> | The Bonds are initially issuable only to Cede & Co, the nominee of The Depository Trust Company, pursuant to a book-entry system (as described herein). No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Interest and principal 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>           | Proceeds from the sale of the Bonds will be used to refund \$45,460,000 in principal amount of the Authority's outstanding Building Revenue Bonds (Texas Department of Criminal Justice Refunding Project), Series 1998A (the "Refunded Bonds") in order to lower the overall debt service requirements of the State and the Department, and to pay costs associated with the issuance of the Bonds. See "PLAN OF FINANCE" and "THE PROJECT."  |
| <b>The Department</b>    | The Department is an agency of the State generally responsible for, among other things, administering the criminal justice system for the State. See "THE DEPARTMENT."   |
| <b>Source of Payment</b> | The Lease (defined on the cover page) is the primary source of payment for the Bonds. The Lease obligates the Department to make lease payments sufficient to pay the principal of and interest on the Bonds. <b>The obligation of the Department to make payments under the Lease is subject to, and dependent upon, appropriation by the Legislature of funds necessary to make such payments. The Legislature has no obligation to make such appropriation. There is no mortgage or other security interest in the Project (as hereinafter defined) or other property securing the Bonds.</b> See "THE BONDS - Source of Payment" and "–Investment Considerations." |
| <b>Ratings</b>           | The Bonds have been assigned ratings of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("S&P") on the basis of a financial guaranty insurance policy having been issued by Ambac Assurance Corporation on the date of original delivery of the Bonds. The Bonds have been assigned underlying, unenhanced ratings of "Aa2" and "AA-" by Moody's and S&P, respectively. (See "RATINGS" and "BOND INSURANCE" herein).   |
| <b>Bond Insurance</b>    | Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "BOND INSURANCE."   |
| <b>Legality</b>          | The issuance of the Bonds is subject to the approving opinions of the Attorney General of the State of Texas and the approval of certain legal matters by Andrews Kurth LLP, Austin, Texas, as Bond Counsel. See "LEGAL MATTERS."  |

## OFFICIAL STATEMENT

relating to

**\$45,350,000**

### **TEXAS PUBLIC FINANCE AUTHORITY BUILDING REVENUE REFUNDING BONDS (TEXAS DEPARTMENT OF CRIMINAL JUSTICE PROJECTS) SERIES 2007**

## 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 the Texas Public Finance Authority Building Revenue Refunding Bonds (Texas Department of Criminal Justice Projects), Series 2007 (the "Bonds"), which are being issued by the Texas Public Finance Authority (the "Authority") in the principal amount set forth above, pursuant to the authority granted to it by the Texas Public Finance Authority Act, as amended, Chapter 1232, Texas Government Code, as amended (the "Authorizing Law"), Chapter 1207, Texas Government Code, as amended, certain other statutes, a bond resolution (the "Bond Resolution") and the actions of the Pricing Committee fixing the price and terms of the Bonds. Capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings ascribed to them in "DESCRIPTION OF THE TRANSACTION DOCUMENTS," the Bond Resolution, the Lease and the Escrow Agreement (collectively, the "Transaction Documents").

This Official Statement includes descriptions of the Bonds (including the source of payment of the Bonds), the Authority, the Department, the Project and certain other matters, along with summaries of the Transaction Documents. Because payments to be made by the Texas Department of Criminal Justice (the "Department") under the Lease will come from appropriations of State general funds made by the Legislature, the information concerning the State that is contained in Appendix A to this Official Statement should be reviewed carefully. The summaries of documents contained herein do not purport to be complete and are qualified in their entirety by reference to the respective documents. The form of the Transaction Documents are available for inspection at the offices of the Authority, 300 W. 15<sup>th</sup> Street, Suite 411, Austin, Texas 78701.

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 and the Escrow Agreement (defined below) 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 undertaking to provide certain information on a continuing basis.

## PLAN OF FINANCE

### **General**

Between 1988 and 1994, eleven series of bonds were issued by five different local governmental entities, including the Texas Correctional Facilities Financing Corporation, the Lockhart Correctional Facilities Financing Corporation, the East Texas Criminal Justice Facilities Financing Corporation, the Texas Community Detention Facilities Finance Corporation and Anderson County to finance criminal justice facilities located within ten local governments (Anderson, Angelina, Harris, Hays, Johnson, Liberty, Rusk and Wise Counties and the Cities of Henderson and Lockhart) for the benefit of the Department, or its predecessors in interest. The financing structure for the various transactions was very similar and involved the issuance of bonds by the local government or a nonprofit corporation, created to act on behalf of the local governmental entity, which bonds are secured by and payable from a trust estate held by a bond trustee which includes funds held by the trustee, lease payments made by the Department in an amount sufficient to pay debt service on the respective bonds and a mortgage on the criminal justice facilities financed. The lease payments under those financings were subject to appropriation by the Legislature of the State. With the exception of the Anderson County facility, which the Department manages, the Department entered into management contracts with various private operators related to the operation of the facilities. The original principal amount of such series of bonds issued by the various local governments totaled \$228,310,000.

In July 1998, the Authority issued \$169,320,000 in aggregate principal amount of its Building Revenue Bonds (Texas Department of Criminal Justice Refunding Project), Series 1998A (the "Series 1998A Bonds"), in order to provide funds to the Department for use, together with other lawfully available funds, to prepay and refinance the existing lease purchase obligations of the Department executed in connection with the issuance of such bonds for criminal justice facilities. Proceeds of the Bonds will be used to refund a portion of the Series 1998A Bonds (the "Refunded Bonds" - see APPENDIX D - Schedule of Refunded Bonds) and to pay costs of issuance. This refinancing will achieve a debt service savings for the State.

### **Refunded Bonds**

The principal and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption date of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the Authority and the Comptroller of Public Accounts of the State of Texas acting by and on behalf of the Texas Treasury Safekeeping Trust Company, as escrow agent (the "Escrow Agent"). See APPENDIX D - Schedule of Refunded Bonds. The Bond Resolution provides that a portion of the proceeds of the sale of the Bonds, together with certain other available funds, if any, 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 special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Grant Thornton LLP, a nationally recognized accounting firm, will verify from the information provided to them the mathematical accuracy at the time of delivery of the Bonds of the provided schedules that demonstrate the Federal 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 Federal Securities, and other uninvested funds in the Escrow Fund, will not be available to pay the Bonds. See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS."

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the Department 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, the 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 Agreement.

### **The Lease**

The Project is leased by the Authority to the Department pursuant to a Lease, dated as of June 1, 1998 (the "Lease"), between the Authority and the Department. The Lease obligates the Department to make or cause to be made lease payments sufficient to pay, when due, the principal of, premium, if any, and interest on the Bonds, and to pay certain expenses related to the Bonds and the Project. See "DESCRIPTION OF THE TRANSACTION DOCUMENTS - The Lease." Pursuant to the Bond Resolution, the Authority will pledge to the Bond Owners as security for the payment of the Bonds (i) all right, title and interest of the Authority in and to the Pledged Revenues, which consist of all Lease Payments with certain exceptions as described in (ii) hereof; (ii) all rights and remedies of the Authority under the Lease and any other lease or use agreement or arrangement between the Authority and any Person whereby such Person uses or occupies all or any part of the Project (except for the Authority's rights (A) to receive proceeds of insurance maintained with respect to any of the facilities constituting the Project, (B) to indemnification and (C) to payment of Bond Administration Costs; and (iii) the Interest and Sinking Fund. The moneys held by the Comptroller of Public Accounts of the State of Texas (the "Comptroller") in the Restoration Fund and the Rebate Fund do not constitute security for the Bonds. See "THE BONDS - Source of Payment," "-Investment Considerations" and "-Flow of Funds."

**The obligation of the Department to make payments under the Lease is subject to and dependent upon, appropriation by the Legislature of the State of Texas (the "Legislature") of funds necessary to make such payments. Neither the State of Texas (the "State") nor any state agency, political corporation or political subdivision of the State will be obligated to pay the principal of, premium, if any, or interest on the Bonds, except as described herein with respect to payments to be made by the Authority from the revenues pledged for such purpose. Neither the full faith and credit nor the taxing power of the State or any state agency, political corporation or political subdivision of the State (including the Authority) will be pledged for payment of the principal of, premium, if any, or interest on the Bonds. See "THE BONDS - Source of Payment."**

## SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds including accrued interest on the Bonds:

### Sources of Funds

|                           |                               |
|---------------------------|-------------------------------|
| Principal Amount of Bonds | \$45,350,000.00               |
| Original Issue Premium    | <u>1,280,109.05</u>           |
| <b>Total</b>              | <b><u>\$46,630,109.05</u></b> |

### Uses of Funds

|  |                               |
|--|-------------------------------|
| Deposit to Escrow for Refunded Bonds         | \$46,211,990.15               |
| Underwriters' Discount                       | 207,815.25                    |
| Costs of Issuance and Bond Insurance Premium | 210,005.41                    |
| Rounding Amount                              | <u>298.24</u>                 |
| <b>Total</b>                                 | <b><u>\$46,630,109.05</u></b> |

## THE AUTHORITY

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

The Authority is currently governed by a board of directors (the "Authority Board") composed of seven members appointed by the Governor of the State (the "Governor") with the advice and consent of the State Senate. Board members whose terms have expired continue to serve on the Authority Board until a successor therefor has been appointed by the Governor, and qualified for office. The current members of the Authority Board, the office held by each member and the date on which each member's term expires are as follows:

| Name                   | Position  | Term Expires<br>(February 1) |
|------------------------|-----------|------------------------------|
| H.L. Bert Mijares, Jr. | Chairman  | 2009                         |
| Ruth C. Schiermeyer    | Secretary | 2007                         |
| Carin M. Barth         | Member    | 2009                         |
| R. David Kelly         | Member    | 2007                         |
| Linda McKenna          | Member    | 2011                         |
| D. Joseph Meister      | Member    | 2013                         |
| Robert T. Roddy, Jr.   | Member    | 2013                         |

The Authority employs an Executive Director who is charged with managing the affairs of the Authority, subject to and under the direction of the Authority Board. The Executive Director is Kimberly K. Edwards, who has been employed in that position since March 1997.

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

has issued revenue bonds on behalf of the Parks & Wildlife Department, the Building and Procurement Commission, the State Preservation Board, the Texas Department of Criminal Justice, the Health & Human Services Commission, the Texas Department of Agriculture, the Texas Department of State Health Services, the Texas Workforce Commission, the Texas State Technical College System, the Texas Military Facilities Commission, Midwestern State University, Stephen F. Austin University, and Texas Southern University. It has also issued general obligation bonds for the Parks & Wildlife Department, the Building and Procurement Commission, the Texas 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.

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 Authorizing Law, 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 thereof.

### **Sunset Review**

In 1977, the Texas Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code, as amended) which provides that virtually all agencies of the State, including the Authority, are subject to periodic review of the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The Authority was reviewed during the 1997 legislative session under the Texas Sunset Act, and the next scheduled review of the Authority is during the legislative session in 2011. The Authorizing Law of the Authority, as amended by the 80th Texas Legislature, 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.

### **Additional Authorized but Unfunded Revenue Bond Projects**

The Texas Legislature has authorized the Authority to issue revenue bonds for a number of additional projects and may authorize further projects in future legislative sessions. See Appendix A, "STATE DEBT - State Revenue Bonds." The Authority cannot determine which of the projects to be financed with these authorizations, or which additional projects, will be authorized and funded by the Legislature.

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

Under the Authorizing Law, the Authority's power is limited to financing projects and does not affect the power of the Department or any other agency or institution of the State to carry out its statutory authority, including its authority to construct buildings. The Authorizing Law 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 the Project.

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

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

## 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 prior to their issuance. The Texas Bond Review Board is composed of the Governor, the Lieutenant Governor, the Speaker of the House of Representatives and the Comptroller of Public Accounts. The Governor is the Chairman of the Texas Bond Review Board. Each member of the Texas Bond Review Board may, and frequently does, act through a designee. The Bonds were approved by the Texas Bond Review Board on September 20, 2007.

## THE DEPARTMENT

### General

The Department is an agency of the State governed by the Texas Board of Criminal Justice, whose members are appointed by the Governor with the advice and consent of the State Senate. Members of the Board of Criminal Justice hold office for staggered terms of six years. Board members whose terms have expired continue to serve on the Board of Criminal Justice until a successor therefor has been appointed by the Governor, and qualified for office. The current members of the Board of Criminal Justice, the occupation of each member, and the date on which each member's term expires are as follows:

| <u>Name</u>                   | <u>Occupation</u>              | <u>Term Expires<br/>(February 1)</u> |
|-------------------------------|--------------------------------|--------------------------------------|
| Christina Melton Crain, Chair | Attorney                       | 2007                                 |
| Pierce Miller, Vice Chair     | Business Owner                 | 2007                                 |
| Adrian A. Arriaga             | Real Estate Broker             | 2007                                 |
| Oliver J. Bell                | Entrepreneur                   | 2009                                 |
| Gregory S. Coleman            | Attorney                       | 2009                                 |
| Patricia A. Day               | Retired                        | 2003                                 |
| Charles Lewis Jackson         | Pastor                         | 2011                                 |
| Tom Mechler                   | Oil & Gas Production           | 2011                                 |
| Leopoldo Vasquez III          | Corporate Finance Professional | 2011                                 |

The Board of Criminal Justice employs an Executive Director who is charged with managing the affairs of the Department, subject to and under the direction of the Department. Brad Livingston is the Executive Director of the Department.

Three formerly separate agencies governing probation, prisons and parole were combined on January 1, 1990, under the jurisdiction of the Department. Probation funding and monitoring is the function of the Community Justice Assistance Division, and parole administration is the function of the Parole Division. Parole release and revocation decisions are controlled by an independently appointed Board of Pardons and Paroles. The responsibility of managing the affairs of the prison system and for the proper care, treatment, clothing and management of the prisoners confined therein is that of the Institutional Division. In 1993, the State Jail Division of the Department was created to provide alternatives to traditional sentencing by establishing a new category of confinement.

### Authority's Relationship with the Department

The Authority and the Department entered into a memorandum of understanding, dated as of June 1, 1998 (the "Department Memorandum"), which defines the division of authority between the Authority and the Department with respect to projects financed by the Authority. The Department Memorandum provides that the Authority, at the request of the Department, will issue bonds to finance or refinance projects identified by the Department and approved by the Legislature. The Department Memorandum also provides that the Department will be responsible for the planning, construction, maintenance, and operation of projects. Under the terms of the Department Memorandum, the Department is obligated to provide to the Authority a deed to any building project or real property that is the site of a building project and any necessary easements, without cost. The Department has or will convey by special warranty deed title to the Project to the Authority. Under the Authorizing Law and the Department Memorandum, the Department will reacquire title to the Project once the Bonds are paid in full. In the event of a conflict between the Department Memorandum and the Lease, the Lease will control.

## Sunset Review

The Department is subject to review under the Texas Sunset Act. The next scheduled review of the Department under the Texas Sunset Act is during the legislative session in 2011. The Department's enabling act provides that if the Department is not continued in existence, the Department will cease to exist on September 1, 2011; however, the Texas Sunset Act provides that the Department will exist until September 1 of the following year in order to conclude its business.

In the event the Department is abolished pursuant to the Texas Sunset Act, the Governor is required to designate an appropriate state agency to carry out the Department's covenants contained in the Bonds and in the documents authorizing the Bonds. In such event, counsel for the Department has opined (1) the Lease would remain a valid and binding obligation, subject to all applicable terms and conditions of the laws and proceedings authorizing the Lease and (2) such designated agency would be obligated and authorized to carry out all such covenants and to provide payment from the sources pledged to the Bonds in accordance with the terms thereof until the Bonds are paid in full.

## THE PROJECT

The Project leased pursuant to the Lease consists of the facilities financed or refinanced with the proceeds of the Refunded Bonds as further described below. See APPENDIX D - Schedule of Refunded Bonds. With the exception of the Anderson County facility, which is managed by the Department, the Department has entered into management agreements with various private operators to manage and operate the facilities. The terms and provisions of each agreement vary including the expiration dates which conform with federal tax law guidelines. Pursuant to State law, the Board of Criminal Justice may not enter into a management agreement without requesting proposals and such agreements: (i) provide an initial contract term of not more than three years with an option to renew for additional periods, (ii) provide for regular, on-site monitoring, (iii) acknowledge that payment by the State is subject to availability of appropriations, (iv) are awarded to the best value bidder and (v) in the case of the Hays, Wise, Liberty, Johnson, Angelina and Rusk County facilities, must offer a level and quality of programs at least equal to those provided by State operated facilities that house similar types of inmates and at a cost that provides the State with a savings of not less than 10 percent of the cost of housing inmates in similar facilities and providing similar programs to those types of inmates in State operated facilities.

*Anderson County.* The Mark W. Michael Unit, a 2,250 bed correctional facility, located in Anderson County, Texas, was completed and occupied in August, 1987 and is currently operated by the Department. Subsequent to construction, the Legislature appropriated funds for an 882 bed expansion of this facility. As of the end of fiscal year 2006, the Anderson County facility housed 3,170 inmates.

*Hays/Wise Counties.* Two 500 man pre-release centers, located in Kyle and Bridgeport, Texas, were completed and occupied in June and August 1989, respectively. The Department is currently under contract with Management and Training Corporation to operate and manage the Hays County facility and with The GEO Group, Inc. to operate and manage the Wise County facility. As of the end of fiscal year 2006, the Hays County facility housed 518 inmates and the Wise County facility housed 519 inmates.

*Liberty/Johnson Counties.* Two 500 man pre-release centers, located in Venus and Cleveland, Texas, were completed and occupied in August and September 1989, respectively. In 1994, a 500 man expansion of the pre-release center located in Venus, Texas was completed. The Department is currently under contract with The GEO Group, Inc. to operate and manage these facilities. As of the end of fiscal year 2006, the Johnson County facility, as expanded, housed 999 inmates and the Liberty County facility housed 520 inmates.

*City of Lockhart.* A 500 bed male secure community work program facility and an industrial facility are located in Lockhart, Texas. These facilities were completed and occupied in February, 1993. A 500 bed female correctional facility expansion adjacent to the existing Lockhart facilities was completed and occupied in June, 1994. The Department is currently under contract with The GEO Group, Inc. to operate and manage these facilities. As of the end of fiscal year 2006, the Lockhart facility completed in 1993 housed 499 male inmates and the Lockhart facility completed in 1994 housed 499 female inmates. Additionally, as of the end of fiscal year 2006, the industrial facility employed approximately 50 percent of the male inmates.

*City of Henderson.* A 1,500 bed state jail felony facility near the City of Henderson, Texas in Rusk County was completed and occupied in August, 1994. The Department is currently under contract with Corrections Corporation of America to manage and operate this facility. As of the end of fiscal year 2006, the Henderson facility housed 1,969 confinees.

*Angelina County.* A 500 bed secure correctional facility to house minimum/medium custody inmates, located in Diboll, Texas, was completed and occupied in June, 1995. The Department is currently under contract with Corrections Corporation of America to manage and operate this facility. As of the end of fiscal year 2006, the Angelina County facility housed 517 inmates.

*Rusk County.* A 500 bed secure correctional facility to house minimum/medium custody inmates, located in Overton, Texas, was completed and occupied in June, 1995. The Department is currently under contract with Corrections Corporation of America to manage and operate this facility. As of the end of fiscal year 2006, the Rusk County facility housed 499 inmates.

*Harris County.* A 400 bed intermediate sanction facility, located in Harris County, Texas, was completed and occupied in December, 1993. The Department is currently under contract with The GEO Group, Inc. to manage and operate this facility. As of the end of fiscal year 2006, the Harris County facility housed 464 releasees.

Only at the direction of the Legislature, may the Authority sell or otherwise dispose of any one or more of the facilities constituting the Project. The Authority must apply the proceeds of such sale or disposition in accordance with such direction. In the event of damage, destruction, or condemnation of the facilities constituting the Project, the proceeds received may, at the election of the Department, be used to restore or update such facilities, to pay Project Costs of any other property or be transferred to the Interest and Sinking Fund. See "THE BONDS—Investment Considerations."

## THE BONDS

### Description of the Bonds

The Bonds will be issued in book-entry form pursuant to the book-entry-only system described below. Beneficial owners of Bonds will not receive physical delivery of the bond certificates. The Bonds will be issuable in fully registered form and purchases of Bonds are required to be in the denomination of \$5,000 or any integral multiple thereof. The Bonds will bear interest at the respective rates shown on the inside cover page of this Official Statement, calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature in the respective principal amounts and on the respective dates shown on the inside cover page of this Official Statement. The Bonds will be dated as of October 1, 2007 but will not begin bearing interest until the date the Bonds are initially delivered to the Underwriters. Interest on the Bonds will be payable semi-annually on each February 1 and August 1 (each an "Interest Payment Date"), commencing February 1, 2008.

### No Optional Redemption

The Bonds are not subject to optional redemption prior to maturity.

### Source of Payment

Pursuant to the Bond Resolution, the Authority will pledge to the Bond Owners as security for the payment of the Bonds all right, title and interest of the Authority in and to the Pledged Revenues, which consist of (i) all Rent Payments, except the amount of Rent Payments used by the Authority for the purchase of insurance or to fund a self-insurance program as described in the Lease; (ii) any receipts derived from the exercise of any rights or remedies of the Authority with respect to the Pledged Security (including amounts on deposit in the Interest and Sinking Fund and any rights and remedies of the Authority under the Lease or any other lease or use arrangement of all or any part of the Department Projects, but excluding any right to receive proceeds of insurance maintained with respect to the Department Projects, to indemnification, and to payment of Bond Administration Costs); and (iii) if the Lease is terminated with respect to any or all of the Department Projects, the net revenues (i.e., revenues net of operating and maintenance expenses, determined in accordance with generally accepted accounting principles) derived from the Department Projects.

The Lease obligates the Department to make Rent Payments in amounts sufficient to pay the principal of, premium, if any, and interest on the Bonds. See "DESCRIPTION OF THE TRANSACTION DOCUMENTS - The Lease-Rent Payments."

**The obligation of the Department to make Rent Payments and other payments under the Lease is subject to, and dependent upon, the appropriation of funds by the Legislature in amounts sufficient to make such payments. Under the Texas Constitution, an appropriation may not be made for more than one biennium. Accordingly, at any given time, the Department's obligations under the Lease will be limited to the then-current fiscal year or biennium and, if the Legislature has adopted an appropriations bill, for the succeeding fiscal year**

**or biennium. Although the term of the Lease extends beyond the current fiscal year or biennium, the continuation of the Lease is dependent upon the successive appropriation in the budget for each fiscal year or biennium of sufficient moneys to make the payments required thereunder, and the failure of the Legislature to make such appropriation may result in the termination of the Lease. While it is expected that the Legislature will make appropriations for each fiscal year or biennium in an amount sufficient to allow the Department to make the Rent Payments and other required payments under the Lease, the Legislature has no legal obligation to do so, and the owners of the Bonds will have no right to compel the Legislature to make such appropriations.**

Because the Rent Payments will ultimately be made from funds appropriated by the Legislature to the Department, prospective purchasers of the Bonds are encouraged to review Appendix A to this Official Statement (which contains certain information regarding the State) as though the State were the source of revenues for debt service payments on the Bonds, even though the State will not be obligated to pay the Bonds. The financial condition of the State has a bearing upon whether the Legislature will be willing to appropriate funds to make Lease Payments and whether the State will be able to satisfy obligations for Rent Payments if funds are appropriated.

### **Investment Considerations**

The Authority has not granted the Bond Owners a lien against, or security interest in, the Project as security for the Bonds. If the Department defaults in the payment of amounts due under the Lease or a Lease is terminated because of non-appropriation, the Authority has the right, in accordance with the Lease, to re-lease the facilities constituting the Project to other users. However, the ability of the Authority to re-lease all or any part of the facilities constituting the Project upon default under the Lease (or termination of the same because of non-appropriation) may be impaired by factors such as the integration of the Project with other state facilities and the specialized nature of the Project. The Authority's ability to re-lease all or any part of the facilities constituting the Project is further limited by federal income tax-related covenants contained in the Bond Resolution which, in order to preserve the excludability of interest on the Bonds from gross income for federal income purposes, effectively prohibits the lease of the Project to non-governmental users without the consent of the applicable Bond Owners. The ability of the Authority to re-lease all or any part of the facilities constituting the Project also may be hindered by the traditional reluctance of the courts to evict a governmental body from a facility that is used in the performance of its governmental functions, especially if that governmental body has the right to occupy that facility, pursuant to the terms of another valid agreement.

### **Flow of Funds**

The Authority will establish an Interest and Sinking Fund for the Bonds which will be held by the Comptroller in the state treasury. All money required to be deposited with or paid to the Authority and credited to the Interest and Sinking Fund will be held in trust and, except for funds held for the payment of Bond Obligations that have become due, will be subject to the pledge created by the Bond Resolution.

The Authority will cause to be deposited into the Interest and Sinking Fund from the Pledged Revenues an amount that is sufficient (together with any other money on deposit therein) to provide for the timely payment of the Bond Obligations, such deposit to be made not later than the second (2nd) Business Day preceding each date on which any Bond Obligations come due. The Executive Director may direct any such deposit to be made on an earlier date so long as such date is not earlier than the fiftieth (50th) day before the date that the Bond Obligations for which such deposit is made come due.

If, after any Rent Payment Date but before the date that payment of the principal of, premium, if any, and interest on the Bonds next comes due following such Rent Payment Date, the Comptroller receives telephonic instructions of the Executive Director to transfer funds to the Interest and Sinking Fund from funds lawfully appropriated or other funds lawfully available to the Department as may be directed by the Department in order to cure a deficiency in such Interest and Sinking Fund, the Comptroller of Public Accounts-Treasury Operations, upon receipt of such instructions, shall make such transfer in the amount and otherwise in accordance with such instructions.

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

Money held by the Comptroller may be invested in any investment authorized by law for State funds as selected by the Comptroller. Income from any investment of moneys in a fund shall be deposited in such fund.

## BOOK-ENTRY-ONLY SYSTEM

*This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The Depository Trust Company ("DTC"), New York, New York, 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 will be issued for each maturity of 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Participants are on file with the SEC. 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 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 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 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 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 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 transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security 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 the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue 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 such other DTC nominee) will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities 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-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

### **DESCRIPTION OF THE TRANSACTION DOCUMENTS**

#### **Selected Definitions**

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

*Authority Regulations* - means the regulations of the Authority in Part X, Title 34, Texas Administrative Code.

*Authority Representative* - means each of the Executive Director, General Counsel, Deputy Director and Chief Accountant of the Authority, or any other member of the Authority's staff designated by the Executive Director or the Authority Board as an Authority Representative.

*Authorized Department Representative* - means each of the chief administrative officer of the Department or any member of the staff of the Department designated by the chief administrative officer or by the governing body of the Department as an authorized representative.

*Authorizing Law* - means the Texas Public Finance Authority Act (Chapter 1232, Texas Government Code), as amended.

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

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

*Bond Administration Costs* - the paying agency, financial advisory, legal, arbitrage compliance, and other costs incurred by or on behalf of the Authority (including without limitation, costs of enforcing the transaction documents and attorneys' fees) in connection with the administration of the Bonds.

*Bond Counsel* - means any nationally recognized law firm experienced in legal work relating to the issuance of tax-exempt bonds that is engaged by the Authority to render services to the Authority as bond counsel.

*Bond Insurance Policy* - means the bond insurance policy or policies issued by a Bond Insurer that guarantees payment of principal of and interest on any of the Bonds.

*Bond Insurer* - means the issuer of a Bond Insurance Policy.

*Bond Obligations* - means the principal, premium (if any) and interest payment obligations of the Authority on any Bond.

*Bond Owner* - means the Person who is the registered owner of any Bond, as such ownership appears in the Register.

*Bond Owners' Direction* - means an instrument or instruments executed by the owners of not less than a majority in aggregate principal amount of the Bonds then outstanding, directing or consenting to the taking of some specific actions.

*Bond Resolution* - means the Bond Resolution adopted by the Board on September 6, 2007, including any amendments thereto.

*Book Entry Bond* - means any Bond administered under a book entry system pursuant to the Bond Resolution.

*Book Entry Representation Letter* - any representation letter of, or agreement delivered by, the Authority pursuant to the Bond Resolution providing for administration of a book entry system for any of the Bonds.

*Business Day* - means any day that is a day on which both the Comptroller and the Authority are open for business and, while any Person other than the Authority is the Paying Agent/Registrar, on which financial institutions in the city where the office for payment of the Paying Agent/Registrar is located are not authorized by law or executive order to close.

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

*Closing* - means the concurrent delivery of any of the Bonds to or upon the order of any purchaser of such Bonds in exchange for payment therefor.

*Closing Date* - means the date of any Closing.

*Code* - means the Internal Revenue Code of 1986, as amended by all legislation, if any, enacted on or before the Closing Date relating to the Bonds.

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

*Costs of Issuance* - means the "costs of issuance," as provided in the Authorizing Law and the Authority Regulations, incurred in connection with the issuance of the Bonds.

*Department* - means the Texas Department of Criminal Justice and any successor thereto.

*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* - means 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 permitted therein.

*Escrow Agreement* - means the Escrow Agreement (including any amendments thereto) between the Authority and the Escrow Agent providing for the payment for the Refunded Bonds of sufficient money to pay debt service thereon

*Escrow Fund* - means the "Texas Public Finance Authority Building Revenue Refunding Bonds, Series 2007 Escrow Fund," created pursuant to the Escrow Agreement.

*Event of Default* - has the meaning described under the heading "THE BOND RESOLUTION – Events of Default."

*Event of Nonappropriation* - means the failure of the Legislature to appropriate for any fiscal period of the State sufficient funds that are lawfully available to pay all Lease Payments that are to come due (or estimated to come due) during such fiscal period. An Event of Nonappropriation shall be determined as of the first day of each such fiscal period.

*Event of Taxability* - means any act or omission that could cause any payment 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.

*Fund(s)* - means collectively or individually, the Interest and Sinking Fund, the Costs of Issuance Fund, the Restoration Fund and the Rebate Fund.

*Government Obligations* - means any of the following: (1) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States; (2) noncallable obligations of an agency or instrumentality of the United States of America, 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; or (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.

*Interest and Sinking Fund* - means the "Texas Public Finance Authority Building Revenue Refunding Bonds (Texas Department of Criminal Justice Refunding Project), Series 2007 Interest and Sinking Fund" created pursuant to the Bond Resolution.

*Lease* - means the lease agreement (including any amendments or supplements thereto) between the Authority and the Department, providing the terms and conditions (1) under which the financing or refinancing of the Project for the benefit of the Department is to be undertaken, and (2) of the lease of the Project to the Department.

*Lease Payments* - means the Rent Payments and/or any other payment of money required to be paid or made available by the Department pursuant to the Lease, including (without limitation) costs of insurance required to be maintained pursuant to the Lease, Bond Administration Costs, and payments indemnifying the Authority.

*Legislature* - means the Legislature of the State.

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

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

*Pledged Revenues* - means collectively, with respect to the Bonds the following:

- (1) all Rent Payments, except the amount of Rent Payments used by the Authority for the purchase of insurance or to fund a self-insurance program as described in the Lease;
- (2) any receipts derived from the exercise of any rights or remedies of the Authority with respect to the Pledged Security; and
- (3) if the Lease is terminated with respect to any or all of the Department Projects, the net revenues (i.e., revenues net of operating and maintenance expenses, determined in accordance with generally accepted accounting principles) derived from the Department Projects.

*Pledged Security* - means collectively, all right, title and interest of the Authority in and to the following:

- (1) the Pledged Revenues;
- (2) any rights and remedies of the Authority under the Lease or any other lease or use arrangement of all or any part of the Department Projects (except for any right to receive proceeds of insurance maintained with respect to the Department Projects, to indemnification, and to payment of Bond Administration Costs); and
- (3) amounts in the Interest and Sinking Fund.

*Project or Projects* - means all or any one of the projects of the Department as described in the Lease, including the Project Site, or as altered or substituted pursuant to the Lease, and any additional projects, the costs of which are financed, in whole or in part, with the proceeds of additional bonds or with money in the Restoration Fund.

*Project Site* - means the land on which each Project is situated, as described in the Lease.

*Project Description* - means the description of the facilities constituting the Project set forth as an exhibit to the Lease.

*Purchase Agreement* - means the bond purchase agreement relating to the Bonds between the Authority and the Purchaser.

*Rating Agency* - Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., or Moody's Investors Service or any successor to Standard & Poor's Ratings Services or Moody's Investors Service, or any nationally recognized securities rating agency that shall have assigned a rating that is then in effect with respect to the Bonds only upon the application of the Authority.

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

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

*Regular Rent Payment Date* - means the second Business Day preceding any day on which principal of or premium, if any, or interest comes due on any Bond.

*Rent Payment Date* - means any date on which Rent Payments are required to be paid pursuant to the Lease.

*Rent Payments* - means the portion of each Lease Payment (under each Lease) attributable to debt service on the Bonds.

*Restoration Fund* - means the Restoration Fund established pursuant to the resolution authorizing the issuance of the Refunded Bonds and confirmed pursuant to the Resolution.

*Special Rent Payment Date* - means any date (other than a Regular Rent Payment Date) fixed by the Executive Director pursuant to the Lease for the payment of a Rent Payment.

*State* - means the State of Texas.

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

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

*Transaction Document(s)* - means collectively, this Resolution, the Lease, the Escrow Agreement, the Bonds, the Book Entry Representation Letter, and the Purchase Agreement.

## **The Bond Resolution**

The Bonds will be issued pursuant to a bond resolution. The following is a summary of certain provisions of the Bond Resolution, adopted by the Board on September 6, 2007, that authorize the issuance of the Bonds. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Bond Resolution. A copy of the Bond Resolution is available for examination at the offices of the Authority. Except where specifically indicated otherwise, the summary below pertains to the Bond Resolution.

***Security for the Bonds.*** The Authority, pursuant to the Bond Resolution, has pledged as the sole security for the Bonds all of its right, title, and interest in the Pledged Security.

***No Additional Encumbrance.*** The Authority shall not incur additional debt secured by the Pledged Security in any manner except as specifically set forth in the Bond Resolution unless such debt is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of such Bond Resolution. Notwithstanding anything to the contrary in the Bond Resolution, the Authority reserves the right to issue obligations to refund the Bonds and to finance other improvements to any or all of the Department Projects or any part thereof or the property on which any part of such Department Project is situated pursuant to other lease agreements and to secure such obligations with a pledge of the amounts to be received from such lease agreements.

***Bond Ownership.*** A Bond Owner is deemed as the absolute owner of the Bonds for all purposes. The Paying Agent/Registrar is not bound to recognize any Person as the owner of any Bond or take action at such Person's request unless such Person furnishes evidence of its identity as the Bond Owner satisfactory to the Paying Agent/Registrar. Notwithstanding any contrary provision of the Bond Resolution, for purposes of determining whether the requisite number of registered owners of Bonds have taken any action authorized thereunder, the Authority will count the beneficial owners of Bonds registered in the name of a securities depository, or its nominee, provided the Authority has received written notice acceptable to the Authority from said securities depository confirming that such beneficial owners have consented to or otherwise taken such action.

***Transfer, Exchange, and Replacement of Bonds.*** The Authority will keep or cause to be kept at the office for payment of the Paying Agent/Registrar, the Register to record ownership and transfer of the Bonds, and the Authority has designated itself as the initial Paying Agent/Registrar to keep such books or records and make such transfers and registrations under such reasonable regulations as the Authority and the Paying Agent/Registrar, if not the Authority, may prescribe.

The Paying Agent/Registrar will obtain and record in the Register the address of the Bond Owner of each Bond to which payments with respect to the Bonds will be made, as provided in the Bond Resolution. It will be the duty, however, of each Bond Owner to notify the Paying Agent/Registrar in writing of the address to which payments will be mailed, and such interest payments will not be mailed unless such notice has been given. Each Bond issued and delivered pursuant to the Bond Resolution, to the extent of the unpaid or unredeemed principal balance thereof, may, upon surrender of such Bond at the principal office of the Paying Agent/Registrar, together with a written request therefor duly executed by the Bond Owner or its assignee, or its duly authorized attorney or representative, with guarantee of signatures satisfactory to the Paying Agent/Registrar, at the option of the Bond Owner or such assignee, as appropriate, be converted into and exchanged for fully registered Bonds of the same series, without interest coupons, in an aggregate principal amount equal to the unpaid or unredeemed principal balance of any Bond so surrendered, and payable to the appropriate Bond Owner or assignee, as the case may be. The Authority will pay the Paying Agent/Registrar's fees and charges, if any, for making such transfer or conversion and delivery of a substitute Bond, but the one requesting such transfer will pay any taxes or other governmental charges required to be paid with respect thereto.

The Paying Agent/Registrar is not required to make any transfer of registration, conversion and exchange, or replacement of any Bond or any portion thereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) called for redemption prior to maturity, within 45 days prior to its redemption date; except that at the option of the Owner of at least \$1,000,000 in principal amount of Bonds, the Paying Agent/Registrar is required to transfer or exchange any such Bond which has been selected in whole or in part for redemption upon surrender thereof. In which event, the Paying Agent/Registrar will make such arrangements as it deems appropriate for notation on each new Bond issued in exchange for or upon transfer of the Bonds so selected for redemption of an appropriate legend to the effect that such new Bond has been so selected for redemption.

If a portion of any Bond is redeemed prior to its scheduled maturity as provided in the Bond Resolution, a substitute Bond or Bonds of the same series, having the same maturity date, bearing interest at the same rate, in any authorized denomination requested by the Bond Owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the Bond Owner upon surrender thereof for cancellation, at the expense of the Authority.

In the event any outstanding Bond is damaged, mutilated, lost, stolen or destroyed, the Paying Agent/Registrar will cause to be printed, executed, and delivered a new Bond of the same principal amount, maturity, and interest rate as the damaged, mutilated, lost, stolen, or destroyed Bond.

In every case of loss, theft or destruction of a Bond, the applicant for a replacement Bond must furnish to the Authority and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft or destruction of a Bond, the applicant must furnish to the Paying Agent/Registrar evidence to its satisfaction of the loss, theft or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant must surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

Notwithstanding the foregoing provisions, in the event any such Bond has matured or will mature within the 90-day period following the Bond Owner's request for a replacement Bond, the Paying Agent/Registrar, at the Authority's direction, may, upon receiving indemnity or security as described in the Bond Resolution, pay the Bond at maturity instead of delivering a replacement Bond.

Prior to the issuance of any replacement bond, the Paying Agent/Registrar will charge the owner of such Bond with all legal, printing and other expenses in connection therewith. Every replacement Bond issued pursuant to the provisions of the Bond Resolution by virtue of the fact that any Bond is lost, stolen or destroyed will constitute a contractual obligation of the Authority whether or not the lost, stolen or destroyed Bond is found at any time, or be enforceable by anyone, and will be entitled to all the benefits of the Bond Resolution equally and proportionately with any and all other Bonds duly issued under the Bond Resolution.

***Application of Pledged Revenues.*** The Authority will cause to be deposited into the Interest and Sinking Fund from the Pledged Revenues an amount sufficient (together with any other moneys on deposit therein) to provide for the timely payment of the Bond Obligations, such deposit to be made not later than the second Business Day preceding each date on which any Bond Obligations come due. The Executive Director may direct any such deposit to be made 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.

***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.

***Application of Restoration Fund.*** The Restoration Fund will be applied to pay the costs of restoring or replacing any of the facilities constituting the Project if the Department elects to restore or replace any of such facilities pursuant to the Lease following any damage to any of the facilities constituting the Project or the taking of any of the facilities constituting the Project (or any part thereof) through the exercise of the power of eminent domain. The money on deposit in the Restoration Fund will be disbursed in accordance with the procedures to the disbursement of the Restoration Fund (to the extent such procedures can be made applicable), with such alteration in such procedures as the Executive Director determines appropriate.

***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 are to be secured in the manner and to the extent required by law.

***Unclaimed Payment.*** Any money held for the payment of Bond Obligations due on any Bond which money is 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 money remaining unclaimed for three years after such Bond Obligations become due (or such other period as specified by applicable law) will be transferred to the Authority, which will dispose of such money 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 money 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.

***Amendment of Bond Resolution.***

***Amendment Without Consent of Bondholders.*** The Resolution may be amended without consent of or notice to the Bond Owners of outstanding Bonds if the Executive Director of the Authority first receives (i) Bond Counsel's opinion to the effect that such amendment will not constitute an Event of Taxability, and (ii) Bond Counsel's opinion or written advice of the Attorney General to the effect that such amendment will not violate the terms of the Authorizing Law and other applicable State or federal law or adversely affect the rights of the Bond Owners of the outstanding Bonds under the Transaction Documents, including without limitation, amendments, changes or modifications to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange, or similar types of agreements with respect to the Bonds.

***Amendment With Consent of Majority of Bondholders.*** In addition to amendments described under the preceding paragraph, the Bond Resolution may also be amended with the consent of the registered owners of Bonds aggregating a majority in principal amount of the aggregate principal amount of Bonds then outstanding.

***Amendment With Consent of All Bondholders.*** Notwithstanding the foregoing, nothing contained in the Bond Resolution or any Transaction Document may permit or be construed to permit, without the approval of the owners of all of the outstanding Bonds, the amendment of the terms and conditions of any Transaction Document or in any Bond so as to:

- (1) Make any change in the maturity of the outstanding Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds;
- (3) Reduce the amount of the principal payable on the outstanding Bonds;
- (4) Modify the terms of payment of principal of, premium (if any), or interest on the outstanding Bonds, or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the Bonds then outstanding;
- (6) Change the minimum percentage of the principal amount of Bonds necessary for consent to such amendment; or
- (7) Change the Pledged Security.

No amendment to the Resolution can take effect until the Executive Director obtains an opinion of Bond Counsel or the written advice of the Attorney General of Texas to the effect that such amendment will not violate the Resolution, the Authorizing Law or other applicable law and, upon obtaining the required Bond Owner consent (if any), will comply with the requirements of the Resolution for such amendment.

***Amendment of Lease.*** The Lease may be amended by the Authority and the Department by mutual agreement if, prior to the time the amendment takes effect, (1) the Authority 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 or the written advice of the Attorney General of the State of Texas to the effect that such amendment will not violate the Bond Resolution, the Authorizing Law or other applicable law; (2) the Department obtains an opinion of its legal counsel to the effect that such amendment is permitted under applicable law governing the Department; and (3) either of the following requirements is satisfied:

- (1) the Authority receives an opinion of Bond Counsel or written advice of the Attorney General of the State to the effect that such amendment will not adversely affect the rights of the owners of the Bonds under the Bond Resolution; or
- (2) the 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 owner of each outstanding Bond affected by such amendment is required if such amendment would decrease the minimum percentage of owners of Bonds required for effective consent to such amendment.

***Defeasance of Bonds.***

- (a) The Bond Obligations on any Bond(s) will be deemed discharged when the following requirements have been satisfied:
  - (1) the payment of such Bond Obligations has been provided for by irrevocably depositing Sufficient Assets into the Interest and Sinking Fund or with the Paying Agent/Registrar, which Sufficient Assets are to 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:
      - (i) will not constitute an Event of Taxability; and
      - (ii) complies with State law; and
    - (B) all conditions precedent to such Bond Obligations being deemed discharged have been satisfied;
  - (3) all amounts (other than Bond Obligations) due, or reasonably estimated by the Paying Agent/Registrar to become due, under the Bond Resolution (including, without limitation, compensation of the Paying Agent/Registrar) 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.
- (b) 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 maturity, the principal amount within a maturity) will be as specified by the Authority, and the particular Bonds (or portions thereof) will be selected by the Paying Agent/Registrar by lot in such manner as the Paying Agent/Registrar determines.
- (c) The Paying Agent/Registrar must transfer funds from the Interest and Sinking Fund or an escrow account established pursuant to the Bond Resolution at such times and in such amounts as necessary for the timely payment of the Bond Obligations on the Bond(s).
- (d) To the extent permitted by law, the Paying Agent/Registrar, at the Executive Director's direction, may substitute, for any of the securities or obligations deposited as Sufficient Assets, other securities or obligations constituting Sufficient Assets if, upon such substitution, the above referenced requirements are satisfied. Any net proceeds realized from such a substitution shall be paid to the Authority.

***Events of Default.*** Each of the following events are defined in the Bond Resolution to be and to constitute an "Event of Default":

*Event of Default* - means the occurrence of any of the following:

- (1) the failure to pay when due any Bond Obligations except upon an Event of Nonappropriation (as defined in the Lease);
- (2) the breach by the Authority of any of its obligations (other than its obligation to pay Bond Obligations) under the Transaction Documents, which breach materially and adversely affects the rights of any Bond Owner under the Transaction Documents, and the continuation of such breach for at least 45 days after the date of receipt by the Executive Director of written notice of such breach from the owners of not less than 25 percent in aggregate principal amount of the outstanding Bonds;
- (3) the occurrence of any act of bankruptcy of the Department, the Authority, or the State; or

- (4) the occurrence of any "Event of Default" as defined in the Lease or any other lease (or other use arrangement) of the Department Projects entered into by the Authority relating to any Department Project.

**Acceleration.** Upon the occurrence of an Event of Default arising from the failure to (i) pay any Bond Obligations when due, or (ii) make a Lease Payment when due (other than as a result of an Event of Nonappropriation), at the Bond Owners' Direction, the Bond Obligations on all outstanding Bonds may be declared immediately due and payable, to the extent that the Legislature has appropriated funds for payment, and thereupon such Bond Obligations will be immediately due and payable to the extent that the Legislature has appropriated funds for payment.

***Enforcement of Rights and Remedies.***

- (a) During the continuance of an Event of Default or an Event of Nonappropriation, the Bond Owners, as the pledgees and assignees for security purposes of all right, title, and interest of the Authority in and to the Pledged Security, acting pursuant to Bond Owners' Direction and upon compliance with applicable requirements of law, will have standing and the exclusive right to enforce the rights and remedies of the Authority with respect to the Pledged Security to the extent permitted by law. The Authority will cooperate in such enforcement to the extent permitted by law, but the Authority will not be required to take any action in that connection except at the Bond Owners' Direction.
- (b) During the continuance of an Event of Default or an Event of Nonappropriation, an agent of the owners of the outstanding Bonds may be appointed through the Bond Owners' Direction, to exercise any rights and remedies available to the owners of the outstanding Bonds with respect to the Pledged Security as though such agent were the Authority.
- (c) Upon the occurrence of an Event of Default or an Event of Nonappropriation, any one or more of the following actions may be taken acting pursuant to the Bond Owners' Direction:
- (1) by suit for damages or injunction, or by other action or proceeding at law or in equity, enforce all rights of the owners of the outstanding Bonds or require the Authority to carry out any agreements with or for the benefit of the owners of the outstanding Bonds and to perform its duties under the Transaction Documents;
  - (2) by action in equity, enjoin any acts that may be unlawful or in violation of the rights of the owners of the outstanding Bonds;
  - (3) by out-of-court proceeding or by suit, action, or other proceeding at law or in equity, enforce and exercise all rights of the owners of the outstanding Bonds and the Authority under the Transaction Documents; and
  - (4) upon the filing of a suit or commencement of any other action or proceeding to enforce the rights of the Authority or the owners of the outstanding Bonds, have a receiver appointed for the Pledged Security with such powers as are provided by law and such additional powers as the court making such appointment may confer.
- (d) Any judgment against the Authority may be enforceable only against Pledged Security. There may not be authorized any deficiency judgment against any assets of, or the general credit of, the Authority, the Comptroller, the Department or the State.
- (e) In addition to the remedies provided under the Bond Resolution, the owners of the outstanding Bonds, acting pursuant to Bond Owners' Direction, may exercise any other rights and remedies afforded by law.
- (f) To the extent permitted by law, any suit or other action or proceeding instituted by the owners of the outstanding Bonds may be instituted, if necessary, in the name of the Authority for the benefit of the owners of the outstanding Bonds.
- (g) No delay or omission to exercise any right or power existing upon any breach of the Bond Resolution or a Lease may impair such right or power or constitute a waiver thereof, and each such right or power may be exercised as often as may be deemed expedient.

**Restoration of Rights.** If any action taken by the owners of the Bonds as a result of an Event of Default or Event of Nonappropriation is discontinued or abandoned for any reason, or is determined adversely to the owners of the outstanding Bonds, the owners of the outstanding Bonds will be restored to their respective former positions and rights under the Transaction Documents, and all rights, remedies and powers of the owners of the outstanding Bonds will continue as though no such action had been taken.

**Bond Owner's Right to Enforce Payment.** The Bond Resolution does not impair the right of any owner of a Bond to enforce, by suit or otherwise, its right to payment of its Bonds.

**Remedies Nonexclusive.** No remedy available to the owners of the Bonds under the Transaction Documents is intended to be exclusive of any other remedy, except as expressly provided therein, and each such remedy shall be cumulative.

**Application of Funds upon Enforcement of Remedies.** Upon an acceleration of Bond Obligations pursuant to the Bond Resolution, the Authority will take all action permitted by law to transfer all Pledged Revenues held by it or on its behalf to the Interest and Sinking Fund.

All funds received as a result of any remedies enforced pursuant to the Bond Resolution must be deposited in the Interest and Sinking Fund. All funds so deposited in the Interest and Sinking Fund (other than funds for the payment of Bonds that have matured or otherwise become payable prior to the Event of Default giving rise to such deposit or for the payment of interest due prior to such Event of Default) must be applied as follows:

- (1) first, to the payment of Bond Administration Costs;
- (2) second, to the ratable payment of all unpaid interest due on the Bonds;
- (3) third, to the payment of the unpaid principal of (and any premium on) the Bonds that have become due, along with interest on such overdue principal from the respective dates upon which such principal became due, and, if the amount available is not sufficient to pay in full such amounts on any particular date, then to the payment ratably, according to the amount of principal due on such date, without any discrimination or privilege among the Bonds Owners entitled to such payment; and
- (4) fourth, to the Authority to be applied in accordance with the law.

**Notice by Authority of Default or Nonappropriation.** Upon the occurrence and continuation of an Event of Default or an Event of Nonappropriation known to the Authority, the Executive Director, within ten days after the date of becoming aware of the occurrence thereof, shall notify, or cause the Paying Agent/Registrar to notify, of each Bond Owner then outstanding of such default or Event of Nonappropriation.

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

## **The Lease**

The following is a summary of certain provisions of the Lease. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Lease. Copies of the Lease is available for examination at the offices of the Authority. For purposes of this heading, the Department is referred to as the "Lessee."

**Lease of Project.** The Lease provides that the Authority leases the Project to the Lessee, and the Lessee leases such Project from the Authority.

**Rent Payments.** On each Rent Payment Date, the Lessee must pay or cause to be paid Rent Payments in the amounts, at the times, and otherwise in accordance with the Lease. The Lessee must pay the Rent Payments or cause the Rent Payments to be paid, from funds lawfully available for the payment of Rent Payments, to the Comptroller for deposit into the Interest and Sinking Fund. Each Rent Payment must be paid in immediately available funds in an amount that is sufficient (together with any funds then on deposit in the Interest and Sinking Fund) to provide for the timely payment of the Bond Obligations next coming due. Rent Payments are due on each Regular Rent Payment Date (the second business day preceding the date each payment of principal, premium, if any, or interest is due on the Bonds),

provided, however, that the Executive Director may establish any other date as a Special Rent Payment Date for the payment of any amounts due under the Lease. If, on the Business Day immediately preceding any date on which Bond Obligations come due, the Authorized Representative of the Lessee receives telephonic notice from the Executive Director (promptly confirmed in writing) to the effect that the Interest and Sinking Fund does not contain sufficient funds for the payment of such Bond Obligations, the Lessee must immediately (before the close of business) cause to be deposited into the Interest and Sinking Fund immediately available funds (to the extent lawfully available) in an amount that is sufficient (together with the funds then on deposit in the Interest and Sinking Fund) to pay such Bond Obligations.

The Lessee may prepay Rent Payments or cause Rent Payments to be prepaid at any time and in any amount. Any prepayment by the Lessee will not relieve it of liability for each remaining Rent Payment as provided in the Lease and the Bond Resolution or reduce the amount of any Rent Payment. If all or any part of the Bonds are called for redemption in accordance with the Bond Resolution, the Lessee must prepay, to the extent funds are lawfully available by legislative appropriation or otherwise, Rent Payments sufficient to pay and redeem such Bonds on the date fixed for redemption, or, if the Authority deems it to be more advantageous, to buy Bonds on the open market for cancellation at a price not greater than the par value thereof plus interest thereon.

The Lessee has agreed to transfer and pay to the Authority as a portion of the Rent Payments (related to certain overhead and operating expenses caused by the Bonds being outstanding and the Project) an amount determined annually by the Authority and certified to the Lessee as the amount payable.

***Lessee's Obligation Unconditional Subject to Appropriation.*** All obligations of the Lessee under the Lease are absolute and unconditional and are not subject to any diminution, abatement, set-off, or counterclaim and the Lessee may not suspend or discontinue any Lease Payment. The Lessee must apply, or cause to be applied, any funds lawfully available to it to pay the Lease Payments as they come due. The Lessee waives, to the extent permitted by applicable law, any right that it may have to terminate or cancel the Lease, except in accordance with the express terms thereof. Notwithstanding any other provision of the Lease, including the preceding provision, the payment of Lease Payments and other payments required to be made by the Lessee thereunder will be subject to appropriations by the Legislature of funds necessary to make the payments required under the Lease.

***Changes in Plans and Specifications and Project Site and Substitution of Project.*** The Lessee may alter any facilities constituting the Project (as described in the Project Description) or substitute other facilities for all or any part of any such facilities if, before such alteration or substitution is made:

- (1) in the case of an alteration or substitution that would cause the amount of funds necessary to complete the acquisition and construction of any facilities constituting the Project (as altered or substituted) to exceed the Project Completion Amount, an Authorized Representative of the Lessee certifies to the Executive Director that the Lessee has sufficient legally available funds to complete the acquisition and construction of any facilities constituting the Project;
- (2) the Authorized Representative of the Lessee obtains an opinion of Bond Counsel or the written advice of the Attorney General of the State of Texas to the effect that such alteration or substitution is authorized by law and would not constitute an Event of Taxability; and
- (3) an Authorized Representative of the Lessee notifies the Executive Director of such alteration or substitution and provides the Executive Director of the Authority with a revised Project Description describing such Project as altered or substituted; and the Authority notifies each Rating Agency and each Bond Insurer of such alteration or substitution and provides such Rating Agency and each Bond Insurer with a revised Project Description describing such Project as altered and substituted.

***Maintenance and Operation.*** The maintenance and operation of the Project, and any costs associated therewith, will be the sole responsibility of the Lessee. The Authority assumes no responsibility for the destruction or deterioration of or damage to the Project or for any theft or other loss of any personal property located at the Project.

***Project Insurance; Damage or Destruction; Condemnation.***

- (a) The Lessee must obtain and maintain insurance with respect to the facilities constituting the Project for the following types of coverage to the extent that Lease Payments (inclusive of Rent Payments) or other funds are lawfully available for such purpose:

- (1) fire and extended coverage, without a coinsurance penalty, in an amount (to the extent of insurability) not less than an amount equal to 100% of the replacement value of such Project or 100% of the replacement value of the facilities constituting the Project if insurance is written on a blanket basis; and
  - (2) business interruption or other time element coverage in an amount not less than one year's debt service on the outstanding Bonds.
- (b) Compliance with (a) above is not required to the extent that:
- (1) the Authority determines that the prescribed insurance coverage is unavailable or is available only at unreasonable rates; or
  - (2) the Authority establishes, or causes to be established, a self-insurance program that, in the opinion of a nationally recognized actuary selected by the Authority, which opinion is furnished to the Authority at least once every two years, is actuarially sound.
- (c) The Lessee must furnish the Authority with a copy of each policy of insurance maintained under the Lease. The Authority (to the extent permitted by law) must cooperate with the Lessee in obtaining and maintaining the insurance required.
- (d) If a claim arises under any insurance maintained under the Lease the Lessee must diligently pursue collection under the insurance policy.
- (e) The net proceeds of any business interruption or other time element insurance will be applied to the payment or prepayment of Rent Payments.
- (f) To the extent the Authority elects to maintain any insurance with respect to the Project, the Lessee must make, or cause to be made, available to the Authority lawfully available funds sufficient for the timely payment of premiums on insurance maintained pursuant to, and other costs incident to the administration of, the provisions described under this subheading.
- (g) If insurance or condemnation proceeds are received as a result of any damage to, or the taking through the exercise of the power of eminent domain of any portion of the Project, not later than the 120th day after receipt of such proceeds, the Department must elect, by notice to the Authority, to (i) restore such portion of the Project, (ii) replace the damaged or taken portion of the Project with other facilities or (iii) prepay Rent Payment in inverse order of their due date.

**Use.** The Lease in no way limits or prohibits the Legislature or the Lessee from using the Project for any lawful purposes under the laws of the State, including leasing or subleasing any portion of the Project to any state agency or political subdivision of the State; provided, however, before any such action is taken, the Executive Director determines that such action will not constitute an Event of Taxability. No sublease by the Lessee of any portion of the Project may release the Lessee from, or mitigate its obligations under, the Lease and the Lessee will continue to be obligated to make all payments required under the Lease.

**Disposition of Project.** At the direction of the Legislature, the Authority may sell or otherwise dispose of all or any part of the facilities constituting the Project, provided the Authority applies the proceeds of such sale or disposition in accordance with such directive. Any such legislative directive must appropriate the proceeds of such sale or other disposition for deposit into the Restoration Fund and be used to pay Project Costs of a substitute Project or transferred to the Interest and Sinking Fund to be applied in accordance with the Bond Resolution.

**Events of Default Defined.** The following are "Events of Default" under the Lease and the term "Event of Default" means, whenever used in the Lease, any one or more of the following events:

- (a) Failure by the Lessee to pay any Lease Payment when due, except upon an Event of Nonappropriation;
- (b) Failure by the Lessee to cure any breach by the Lessee of any representation, warranty, or agreement under the Lease within 45 days (or, in each case, such longer period as the Authority in its discretion, may specify) after the date of having been directed by the Authority to cure such breach unless the Authority has extended such period or has waived such breach;
- (c) Any act of bankruptcy by the Lessee, the Authority, the Comptroller, or the State; or

- (d) The occurrence of an "Event of Default" under the Bond Resolution.

**Remedies Upon Events of Default.** During the continuance of any Event of Default arising from the failure to make a Lease Payment, or during the continuance of an Event of Nonappropriation, any one or more of the following remedial actions may be taken by the Authority:

- (a) Enter and take possession of all or any portion of the Project without terminating the Lease, and sublease all or any part of all or any portion of the Project for the account of the Lessee, holding the Lessee and any sublessee of the Lessee liable for the difference in the rent and other amounts payable by the sublessee in such subleasing and the Lease Payments and other amounts payable by the Lessee under the Lease so long as the Legislature shall have appropriated funds to the Lessee to pay such amounts.
- (b) Terminate the Lease, enter and take possession of all or any portion of the Project, and at its option, to the extent permitted by law, lease all or any portion of the Project to another party for the account of the Lessee, holding the Lessee and any sublessee of the Lessee liable for all Lease Payments and other amounts due under the Lease and not paid by such other party so long as the Legislature has appropriated funds to the Lessee to pay such amounts.
- (c) Take any action at law or in equity to collect any amount due or that may become due under the Lease, or to enforce performance of any obligation of the Lessee under the Lease, by mandamus or otherwise.

No remedy in the Lease conferred upon or reserved to the Authority is intended to be exclusive of any other available remedy or remedies, but each and every such remedy is cumulative and in addition to every other remedy given under the Lease or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default will impair any such right or power or will be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it, it will not be necessary to give any notice other than such notice as may be required in the Lease.

To the extent provided in the Bond Resolution, such rights and remedies as are given the Authority thereunder will, upon execution and delivery of the Bond Resolution, be assigned to the owners of the Bonds, as provided in the Bond Resolution, a majority of such owners will have the right to exercise such rights and remedies in the same manner and under the limitations and conditions that such owners are entitled to exercise rights and remedies upon the occurrence of an Event of Default or an Event of Nonappropriation pursuant to the Bond Resolution.

**Performance of Lessee's Obligations by Authority.** While the Lessee is in default of any provision of the Lease, the Lessee authorizes (to the extent permitted by law) the Authority to take any lawful action to cure such default and to act in the name and stead of the Lessee to the same extent as the Lessee is empowered to act.

**Remedies Upon an Event of Nonappropriation.** Upon an Event of Nonappropriation, the Authority may exercise its remedies to the extent described above, except that the Authority may not seek to compel payment from the Lessee, whether by an acceleration of the Bonds, by mandamus, or by any other legal or equitable proceeding of Rent Payments for which there has been no appropriation by the Legislature.

**Term of Lease.** Unless otherwise terminated as provided therein, the Lease will remain in full force and effect from the date thereof until the Bond Obligations on all outstanding Bonds have been paid (or provision has been made for such payment pursuant to the Bond Resolution) and all other obligations of the Lease have been satisfied.

**Reinstatement.** If the Lease is terminated as a result of the occurrence of an Event of Default, the Authority agrees to reinstate the Lease when all defaults under the Lease have been cured or waived, and the Lessee will be restored to the use, occupancy, and possession of the Project, subject to the rights of any tenant who has entered into a binding agreement providing for the leasing of all or any portion of the Project.

**Conveyance Upon Termination.** When the Lease is terminated as a result of the Bond Obligations on all outstanding Bonds having been paid, the Executive Director will notify the Lessee that Lease Payments are no longer required to be made. In addition, the Authority will, for the sum of \$1.00 paid to it, convey its right, title and interest in the Project to the Lessee.

**Amendment of Lease.** The Authority and the Lessee, by mutual agreement, may amend the Lease if, before the amendment takes effect:

- (1) the Lessee obtains an opinion of its legal counsel to the effect that such amendment is permitted under the Lessee's enabling act and other law governing the Lessee;
- (2) the Executive Director obtains an opinion of Bond Counsel to the effect that such amendment will not constitute an Event of Taxability or the written advice of the Attorney General of the State to the effect that such amendment will not violate the Authorizing Law or the Bond Resolution or other applicable law; and
- (3) either of the following requirements is satisfied:
  - (A) the Executive Director obtains an opinion of Bond Counsel or the written advice of the Attorney General of the State to the effect that such amendment will not adversely affect the rights of the owners of the Bonds under the Bond Resolution; or
  - (B) the 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 owner of each outstanding Bonds affected by such amendment is required if such amendment would decrease the minimum percentage of owners of Bonds required for effective consent to such amendment.

**Investment of Funds.** The money on deposit in any Fund may be invested and reinvested only in Eligible Investments by the Comptroller in accordance with applicable State law. The investments of each Fund must 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, will be deposited into such Fund. Uninvested funds (if any) in any Fund must be secured in the manner and to the extent required by law.

## **BOND INSURANCE**

### **Payment Pursuant to Financial Guaranty Insurance Policy**

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

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's Bonds under the Financial Guaranty Insurance Policy shall be fully discharged.

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

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

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

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

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

### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,391,000,000 (unaudited) and statutory capital of approximately \$6,730,000,000 (unaudited) as of June 30, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

**No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Financial Guaranty Insurance Policy due to non-appropriation of funds by the Department.**

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

## **Incorporation of Certain Documents by Reference**

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;
4. The Company's Current Report on Form 8-K dated and filed on July 25, 2007;
5. The Company's Current Report on Form 8-K dated and filed on August 3, 2007; and
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007.

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

## **RATINGS**

The Bonds have been assigned ratings of "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("S&P") based on the payment of principal and interest on the Bonds being guaranteed by the Financial Guaranty Insurance Policy. The Bonds have been assigned underlying, unenhanced ratings of "Aa2" and "AA-" by Moody's and S&P, respectively. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflects only the respective view of such organizations and the Authority makes no representation as to the appropriateness of the ratings. There is no assurance that such a 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 companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds. (See "BOND INSURANCE").

## **TAX EXEMPTION**

In the opinion of Andrews Kurth LLP, Austin, Texas, Bond Counsel, interest on the Bonds is (1) excludable under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), from gross income of the owners thereof for federal income tax purposes and (2) is not includable in the alternative minimum taxable income of individuals or corporations, except as described below.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the Authority with certain covenants of the resolution authorizing the issuance of the Bonds (the "Resolution") and has relied on representations by the Authority with respect to matters solely within the knowledge of the Authority, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the Authority file an information report with the Internal Revenue Service (the "Service"). If the Authority should fail to comply with the covenants in the Resolution, or if its representations relating to the Bonds that are contained in the Resolution 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.

Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the "taxpayer," and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interests from the owners of the Bonds. 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 its ultimate outcome.

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are 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 eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

If a tax-exempt obligation, such as the Bonds, was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue, the Code provides ordinary income tax treatment of gain recognized upon the disposition of such "market discount bond." A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., a market discount). Such treatment applies to "market discount bonds" to the extent the gain from the disposition thereof exceeds the accrued market discount of such bonds unless a statutory de minimis rule applies. The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of the Bonds. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

## **TAX TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS**

The Bonds were offered at initial offering prices which exceed the stated redemption prices payable at the maturity of such Bonds. If any of the Bonds of such maturities are sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or organizations acting in the capacity of wholesalers or underwriters) at such initial offering prices, each of the Bonds of such maturities ("Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, 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 which is amortizable each year (or

shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering prices for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking fund of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the Bonds may have to be assigned a rating of "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 "Other Information - Ratings" above). No review by the Authority has been made of the 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.

## **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 August 2007 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 2006 Comprehensive Annual Financial Report for the year ended August 31, 2006 (the "2006 CAFR") is currently on file with each nationally recognized municipal securities information repository ("NRMSIR"). The 2006 CAFR is incorporated by reference and made a part of this Official Statement as if set forth herein.

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

## CONTINUING DISCLOSURE OF INFORMATION

### Continuing Disclosure Undertaking of the Authority

**Material Event Notices.** In the Bond Resolution, the Authority has covenanted to provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the Authority will provide timely notice of any failure by the Comptroller to provide information, data or financial statements in accordance with its agreement described below under "- Continuing Disclosure Undertaking of the Comptroller - Annual Reports." (Neither the Bonds nor the Bond Resolution make any provision for debt service reserves 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") or the Municipal Securities Rulemaking Board ("MSRB").

### Continuing Disclosure Undertaking of the Comptroller

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

In addition to the information that the Comptroller has agreed to provide annually as described below, the Comptroller currently prepares the Bond Appendix quarterly for use in State agency securities offerings. The Comptroller intends to continue to prepare or supplement such Bond Appendix quarterly and to provide each such update or supplement to the information vendors to whom the Comptroller must provide annual information in accordance with its disclosure agreement. Quarterly updates to the Bond Appendix are also available at <http://www.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 by writing to Fiscal Notes, Comptroller of Public Accounts, P.O. Box 13528, Austin, Texas 78711-3528. Information about State government may also be obtained from the Comptroller by calling 1-800-227-8392.

**Annual Reports.** The Comptroller will provide, within 195 days after the end of each fiscal year of the State, certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the State of the general type included in the Bond Appendix in Tables A-1 through A-14 and A-31 (however, only actual tax collections and revenues in Table A-10 will be updated) and under the headings "EDUCATION" and "RETIREMENT SYSTEMS." The Comptroller will update and provide this information within 195 days after the end of each fiscal year ending in or after 2007. The Comptroller will provide the updated information to each NRMSIR and to any SID of the United States Securities and Exchange Commission (the "SEC").

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

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

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

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

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

The Municipal Advisory Council of Texas (the "MAC") 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 has begun to operate, a "central post office" for information filings made by municipal issuers, such as the Authority. An 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.

### **Limitations and Amendments**

The Authority and the Comptroller have agreed to update information and to provide notices of material events only as described above. Neither has agreed to provide other information that may be relevant or material to a complete presentation of the Authority's or the State's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. Neither makes any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. Each disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of such person's continuing disclosure agreement or from any statement made pursuant to such person's agreement, although holders of Bonds may seek a writ of mandamus to compel the Authority and the Comptroller to comply with their agreements.

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

### **Compliance with Prior Undertakings**

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

## **UNDERWRITING**

The Underwriters, as set forth on the cover of this Official Statement, have jointly and severally agreed, subject to certain conditions set forth in a bond purchase agreement with the Authority, to purchase the Bonds at a price of \$46,422,293.80 (which represents the par amount of the Bonds, plus an original issue premium of \$1,280,109.05, less an underwriting discount of \$207,815.25). The Purchase Agreement pertaining to the Bonds provides that the Underwriters will purchase all of the Bonds, if any are purchased.

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.

On May 31, 2007, Wachovia Corporation and A.G. Edwards, Inc. entered into a definitive agreement wherein Wachovia Corporation agreed to acquire A.G. Edwards, Inc. Pending approval, the merger is scheduled to close on or about October 1, 2007. It is anticipated that, following the effective date of the merger, the municipal underwriting operations and related services of A.G. Edwards & Sons, Inc., a subsidiary of A.G. Edwards, Inc., will be transferred to the Municipal Products Group of Wachovia Bank, National Association, a subsidiary of Wachovia Corporation. In the event that such transfer is formally completed prior to consummation of the proposed financing, the Municipal Products Group of Wachovia Bank, National Association, shall perform all underwriting and related services in connection with the proposed financing.

### **THE FINANCIAL ADVISOR**

Coastal Securities, Inc. is employed as Financial Advisor to the Authority in connection with the issuance of 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 and the Department'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.

### **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP will verify from the information provided to them 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 underwriters' 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 tax. Grant Thornton LLP will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

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

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

### **LEGAL MATTERS**

Legal matters relating to the authorization, issuance and sale of the Bonds by the Authority are subject to the unqualified approving opinions of the Attorney General of the State of Texas and the approval of certain legal matters by Andrews Kurth LLP, Austin, Texas, Bond Counsel. 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. Bond Counsel's approving opinion will be rendered in substantially the form attached to this Official Statement as Appendix C.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that in their capacity as Bond Counsel, such firm have reviewed the

information in the Official Statement under the captions, "PLAN OF FINANCE," "THE BONDS," "DESCRIPTION OF THE TRANSACTION DOCUMENTS," "TAX EXEMPTION," "THE BONDS AS LEGAL INVESTMENTS IN TEXAS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings") and "LEGAL MATTERS" to verify that the information relating to the Bonds and the Transaction Documents contained under such captions in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate.

Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, as counsel to the Underwriters. The compensation paid to Underwrites' 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 attorney rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **FORWARD LOOKING STATEMENTS**

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

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

### **MISCELLANEOUS**

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

This Official Statement has been approved by the Authority for distribution in accordance with provisions of the Securities Exchange Commissions rule, as amended, codified at 17 C.F.R. Section 240.15c2-12.

### **TEXAS PUBLIC FINANCE AUTHORITY**

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

## **APPENDIX A**

### **THE STATE OF TEXAS**

The Bond Appendix, dated August 2007, 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>.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX B**  
**DEBT SERVICE REQUIREMENTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

**Texas Public Finance Authority  
Revenue Refunding Bonds**

| Date | Outstanding<br>Bonds<br>Debt Service | Refunded<br>Bonds<br>Debt Service | Series 2007 Bonds |             |                        | Combined<br>Annual<br>Debt Service |
|------|--------------------------------------|-----------------------------------|-------------------|-------------|------------------------|------------------------------------|
|      |                                      |                                   | Principal         | Interest    | Annual<br>Debt Service |                                    |
| 2008 | 11,431,300                           | 2,303,675                         | 595,000           | 1,525,670   | 2,120,670              | 11,248,295                         |
| 2009 | 11,399,313                           | 11,399,313                        | 9,325,000         | 1,855,163   | 11,180,163             | 11,180,163                         |
| 2010 | 13,209,663                           | 13,209,663                        | 11,620,000        | 1,367,350   | 12,987,350             | 12,987,350                         |
| 2011 | 7,107,138                            | 7,107,138                         | 5,935,000         | 953,475     | 6,888,475              | 6,888,475                          |
| 2012 | 8,920,306                            | 8,920,306                         | 8,070,000         | 628,350     | 8,698,350              | 8,698,350                          |
| 2013 | 5,482,231                            | 5,482,231                         | 4,935,000         | 328,225     | 5,263,225              | 5,263,225                          |
| 2014 | 4,890,125                            | 4,890,125                         | 4,555,000         | 114,975     | 4,669,975              | 4,669,975                          |
| 2015 | 543,250                              | 543,250                           | 315,000           | 6,300       | 321,300                | 321,300                            |
|      | \$62,983,325                         | \$53,855,700                      | \$45,350,000      | \$6,779,508 | \$52,129,508           | \$61,257,133                       |

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX C**

**FORM OF OPINION OF BOND COUNSEL**

[THIS PAGE INTENTIONALLY LEFT BLANK]

November 6, 2007

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 BUILDING REVENUE REFUNDING BONDS (TEXAS DEPARTMENT OF CRIMINAL JUSTICE PROJECTS), SERIES 2007, dated October 1, 2007 in the aggregate principal amount of \$45,350,000, maturing on February 1 in each year from 2008 through 2015, inclusive. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest and may be transferred and exchanged as set out in the Bonds and in the resolution (the "Resolution") adopted by the Board of Directors of the Authority authorizing their issuance.

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 and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the bonds that are being refunded (the "Refunded Bonds") with the proceeds of the Bonds, as described in the Resolution. The transcript contains certified copies of certain proceedings of the Authority, including the Resolution, the Pricing Certificate, the Escrow Agreement dated as of October 1, 2007 (the "Escrow Agreement"), between the Authority and the Texas Treasury Safekeeping Trust Company, as escrow agent (the "Escrow Agent"); a special report (the "Report") of Grant Thornton, LLP, certified public accountants (the "Accountants"), relating to the accuracy of certain mathematical computations described in such report; certain certifications and representations and other material facts within the knowledge and control of the Authority, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed Bond No. T-1. Capitalized terms used herein and not defined shall have the meaning assigned in the Resolution.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the State of Texas or the Authority, or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority's Official

Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The Bonds have been authorized, issued and delivered in accordance with the Constitution and laws of the State of Texas and constitute valid and legally binding special obligations of the Authority, except as enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws heretofore or hereafter enacted affecting the rights of creditors of political subdivisions and governmental agencies and the exercise of judicial discretion in appropriate cases;

(2) The Bonds constitute special obligations of the Authority payable exclusively from the Pledged Security including Lease Payments made by the Texas Department of Criminal Justice. Lease Payments are payable from appropriations which will have to be made by the Legislature. The Bonds are not a debt, a pledge of the faith and credit, or secured by the taxing power of the State of Texas or any agency, political corporation or political subdivision thereof; and

(3) The Escrow Agreement has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of the Pledged Security as set forth in the resolution authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and, therefore, the Refunded Bonds 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.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax

purposes. The Authority has covenanted in the Resolution to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all tax-exempt obligations, including the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Bonds are directed to the discussion entitled "TAX EXEMPTION" set forth in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are 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 qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX D**

**SCHEDULE OF REFUNDED BONDS**

**Texas Public Finance Authority Building Revenue Bonds  
(Texas Department of Criminal Justice Refunding Project), Series 1998A**

| <u>Original<br/>Dated Date</u> | <u>Maturities<br/>Being Refunded</u> | <u>Principal Amount<br/>Being Refunded</u> | <u>Interest<br/>Rate (%)</u> | <u>CUSIP No.<br/>(88275M)</u> |
|--------------------------------|--------------------------------------|--|------------------------------|-------------------------------|
| July 1, 1998                   | February 1, 2009                     | \$ 9,305,000                               | 4.50                         | KE3                           |
|                                | February 1, 2010                     | 11,630,000                                 | 5.25                         | KF0                           |
|                                | February 1, 2011                     | 5,990,000                                  | 5.25                         | KG8                           |
|                                | February 1, 2012                     | 8,175,000                                  | 5.25                         | KH6                           |
|                                | February 1, 2013                     | 5,085,000                                  | 5.25                         | KJ2                           |
|                                | February 1, 2014                     | 4,745,000                                  | 5.00                         | KK9                           |
|                                | February 1, 2015                     | 530,000                                    | 5.00                         | KL7                           |

All Refunded Bonds will be redeemed on February 1, 2008 at par plus accrued interest.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX E**  
**SPECIMEN BOND INSURANCE POLICY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

# Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

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

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

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

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

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

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

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

President



Secretary

Effective Date:

Authorized Representative

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

Authorized Officer of Insurance Trustee

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]





Printed on Recycled Paper  
IMAGEMASTER 800.452.5152