

OFFICIAL STATEMENT DATED FEBRUARY 22, 2007

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Series 2007A-2 Bonds will be excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions, subject to the matters described under "TAX MATTERS - SERIES 2007A-2 BONDS" herein, and will be an item of tax preference for purposes of determining the alternative minimum tax imposed on individuals and corporations. In the opinion of Bond Counsel, as of the date of issuance of the Series 2007B Bonds, the Series 2007B Bonds are not obligations described in section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS - SERIES 2007B BONDS" herein.

NEW ISSUES - Book-Entry-Only

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

TEXAS PUBLIC FINANCE AUTHORITY



\$10,160,000
State of Texas General Obligation Bonds
(Texas Military Value Revolving Loan Program),
Series 2007A-2

\$28,620,000
State of Texas General Obligation Bonds
(Texas Military Value Revolving Loan Program),
Taxable Series 2007B

Dated: March 1, 2007
Interest Accrual: Date of Delivery

Due: October 1, as shown on inside cover pages

The Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007A-2 (the "Series 2007A-2 Bonds"), and State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Taxable Series 2007B (the "Series 2007B Bonds," and together with the Series 2007A-2 Bonds, the "Bonds") are general obligations of the State of Texas being issued by the Texas Public Finance Authority (the "Authority") on behalf of the Texas Military Preparedness Commission (the "Commission") for the purposes described below. See "THE BONDS – Source of Payment of the Bonds" herein.

The Bonds are being issued for the purpose of (i) funding the Texas Military Value Revolving Loan Account (as defined herein) and to pay certain costs of administering the Military Value Revolving Loan Account Loans (as defined herein), and (ii) paying the costs of issuance of the Bonds. See "PLAN OF FINANCE" herein.

Interest on the Bonds will accrue from the Date of Delivery and will be payable on October 1 and April 1 of each year, commencing October 1, 2007. Interest on the Bonds is calculated on the basis of a 360-day year composed of 12 months of 30 days each. The Bonds will be issued only as fully registered bonds in the denomination of \$5,000 or an integral multiple thereof. The Bonds are initially issuable only to Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-system described herein. Such book-entry-system may be discontinued under certain conditions as described herein under "BOOK ENTRY ONLY SYSTEM." So long as the book-entry-system is in effect, beneficial ownership of any stated maturity of Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. So long as DTC is the securities depository for the Bonds, no physical delivery of the Bonds will be made to the purchaser of the beneficial interest therein. Principal of and interest on the Bonds will be payable to Cede & Co., or such other nominee as may be designated by DTC, which is required to make distributions of the payments to the participating members of DTC for subsequent remittance to the beneficial owners. See "THE BONDS" and "BOOK ENTRY ONLY SYSTEM" herein.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption" herein.

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

SEE INSIDE COVER PAGES FOR MATURITY SCHEDULE

The Bonds are offered for delivery when, as, and if issued by the Authority 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 McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Houston, Texas. It is expected that the Bonds will be delivered on or about March 15, 2007 through the facilities of The Depository Trust Company.

MORGAN KEEGAN & COMPANY, INC.

LOOP CAPITAL MARKETS, LLC

MORGAN STANLEY

RBC CAPITAL MARKETS

SIEBERT BRANDFORD SHANK & CO., LLC

MATURITY SCHEDULE

\$10,160,000
Texas Public Finance Authority
State of Texas General Obligation Bonds
(Texas Military Value Revolving Loan Program),
Series 2007A-2

<u>CUSIP⁽¹⁾</u>	<u>Maturity Date (October 1)</u>	<u>Principal Amount⁽²⁾</u>	<u>Interest Rate</u>	<u>Initial Offering Yield</u>
882721SZ7	2012	\$ 230,000	4.000%	3.950%
882721TA1	2013	240,000	4.000	4.000
882721TB9	2014	250,000	4.000	4.060
882721TC7	2015	260,000	4.000	4.120
882721TD5	2016	270,000	4.000	4.180
882721TE3	2017	285,000	4.125	4.250
882721TF0	2018	295,000	4.125	4.300
882721TG8	2019	310,000	4.250	4.370
882721TH6	2020	320,000	4.250	4.460
882721TJ2	2021	335,000	4.375	4.490
882721TK9	2022	350,000	4.375	4.520
882721TL7	2023	365,000	4.500	4.550
882721TM5	2024	385,000	4.500	4.580
882721UC5	2025	400,000	4.500	4.600
882721TP8	2026	420,000	4.500	4.610
882721TN3	2027	440,000	4.500	4.620

\$5,005,000 4.625% Term Bond due October 1, 2036 Yield 4.670% CUSIP 882721TQ6⁽¹⁾

(Interest Accrues from Date of Delivery)

The Series 2007A-2 Bonds scheduled to mature on October 1, 2036 are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Authority, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

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

⁽²⁾ The Series 2007A-2 Bonds maturing on or after October 1, 2017, inclusive, are subject to redemption, at the option of the Authority, in whole or in part, on October 1, 2016, or any date thereafter, at a redemption price equal to par plus accrued interest to the date fixed for redemption.

\$28,620,000
Texas Public Finance Authority
State of Texas General Obligation Bonds
(Texas Military Value Revolving Loan Program),
Taxable Series 2007B

<u>CUSIP⁽¹⁾</u>	<u>Maturity Date (October 1)</u>	<u>Principal Amount⁽²⁾</u>	<u>Interest Rate</u>	<u>Initial Offering Yield</u>
882721TR4	2012	\$ 565,000	5.200%	5.210%
882721TS2	2013	595,000	5.200	5.230
882721TT0	2014	625,000	5.200	5.230
882721TU7	2015	655,000	5.250	5.260
882721TV5	2016	690,000	5.250	5.280
882721TW3	2017	730,000	5.250	5.300
882721TZ6	2018	765,000	5.250	5.330

\$3,495,000 5.500% Term Bond due October 1, 2022 Yield 5.540% CUSIP 882721TX1⁽¹⁾

\$5,590,000 5.650% Term Bond due October 1, 2027 Yield 5.700% CUSIP 882721TY9⁽¹⁾

\$14,910,000 5.700% Term Bond due October 1, 2036 Yield 5.730% CUSIP 882721UA9⁽¹⁾

(Interest Accrues from Date of Delivery)

The Series 2007B Bonds scheduled to mature on October 1 in the years 2022, 2027 and 2036 are subject to mandatory sinking fund redemption prior to their scheduled maturity, *pro rata* among the Owners thereof, and shall be redeemed by the Authority, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

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

⁽²⁾ The Series 2007B Bonds maturing on or after October 1, 2017, inclusive, are subject to redemption, at the option of the Authority, in whole or in part, on October 1, 2016, or any date thereafter, at a redemption price equal to par plus accrued interest to the date fixed for redemption.

STATE OF TEXAS

**Rick Perry
Governor**

**David Dewhurst
Lieutenant Governor**

**Greg Abbott
Attorney General**

**Susan Combs
Comptroller of Public Accounts**

TEXAS PUBLIC FINANCE AUTHORITY

R. David Kelly, Chair

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

J. Vaughn Brock, Secretary

Carin M. Barth, Member

Linda McKenna, Member

Ruth C. Schiermeyer, Member

Marcellus A. Taylor, Member

Kimberly K. Edwards, Executive Director

Judith Porras, General Counsel

**First Southwest Company
Financial Advisor**

SALE AND DISTRIBUTION OF THE BONDS

Use of Official Statement

No dealer, broker, salesman or other person has been authorized by the Authority to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create the implication that there has been no change in the affairs of the Authority or the State of Texas since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

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

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SUMMARY STATEMENT

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

The Issuer	The Texas Public Finance Authority (the “Authority”). See “THE AUTHORITY.”
The Commission	The Texas Military Preparedness Commission (the “Commission”) was created pursuant to legislation enacted by the 78 th Texas Legislature in 2003. The office of the Commission was established within the Governor’s Office of the State, and is responsible for, among other things, administering the Texas Military Value Revolving Loan Account. See “THE TEXAS MILITARY PREPAREDNESS COMMISSION.”
Offering	State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007A-2 and State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Taxable Series 2007B, in the principal amounts set forth on the inside cover pages of this Official Statement.
Authority for Issuance	The Bonds are being issued pursuant to Article III, Section 49-n of the Texas Constitution (as added by Acts 2003, 78 th Legislature, S.J.R. No. 55), Chapters 436, 1232 and 1371, Texas Government Code, as amended, and a resolution adopted by the Authority Board on February 1, 2007.
Maturity	October 1 of the years 2012 through 2036. See “THE BONDS.”
Interest	Interest on the Bonds will accrue from the Date of Delivery and will be payable on October 1 and April 1 of each year, commencing October 1, 2007. See “THE BONDS.”
Redemption	The Bonds are subject to optional and mandatory sinking fund redemption from time to time, prior to maturity as described herein. See “THE BONDS – Optional Redemption” and “THE BONDS – Mandatory Sinking Fund Redemption.”
Purpose	The Bonds are being issued for the purpose of (i) funding the Texas Military Value Revolving Loan Account and to pay certain costs of administering the Military Value Revolving Loan Account Loans, and (ii) paying the costs of issuance of the Bonds. See “PLAN OF FINANCE.”
Source of Payment	The Bonds are general obligations of the State, issued under the Authorizing Law. See “THE BONDS – Source of Payment of the Bonds.”
Ratings	Moody’s Investors Service, Inc., Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc., and Fitch Ratings will assign ratings of “Aa1”, “AA” and “AA+”, respectively, to the Bonds. See “RATINGS.”
Legality	The issuance of the Bonds is subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. See “LEGAL MATTERS.”

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OFFICIAL STATEMENT

relating to

TEXAS PUBLIC FINANCE AUTHORITY

\$10,160,000
State of Texas General Obligation Bonds
(Texas Military Value Revolving Loan Program),
Series 2007A-2

\$28,620,000
State of Texas General Obligation Bonds
(Texas Military Value Revolving Loan Program),
Taxable Series 2007B

INTRODUCTION

The purpose of this Official Statement (which includes the cover page, inside cover pages and attached Appendices) is to furnish information concerning the offering of \$38,780,000 aggregate principal amount of Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007A-2 (the “Series 2007A-2 Bonds”), and State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Taxable Series 2007B (the “Series 2007B Bonds”, and together with the Series 2007A-2 Bonds, the “Bonds”), which are being issued by the Authority pursuant to Article III, Section 49-n of the Texas Constitution (as added by Acts 2003, 78th Legislature, S.J.R. No. 55) (the “Constitutional Provision”); the Texas Public Finance Authority Act, Chapter 1232, Texas Government Code, as amended (the “Enabling Act”); Chapter 1201, Texas Government Code, as amended; Chapter 436, Texas Government Code, as amended (the “Military Preparedness Commission Act”), Chapter 1371, Texas Government Code, as amended (the Constitutional Provision, the Military Preparedness Commission Act, the Enabling Act, and other statutes and any regulations promulgated by the Authority thereunder together constituting the “Authorizing Law”), and pursuant to the resolution (the “Bond Resolution”) adopted by the Board of Directors of the Authority on February 1, 2007.

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

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

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

PLAN OF FINANCE

The proceeds of the Bonds are being issued for the purpose of (i) funding the Texas Military Value Revolving Loan Account and to pay certain costs of administering the Military Value Revolving Loan Account Loans, and (ii) paying the costs of issuance of the Bonds. See “THE TEXAS MILITARY VALUE REVOLVING LOAN ACCOUNT.”

Concurrently with the issuance of the Bonds, the Authority will issue its State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007A-1 pursuant to the Authorizing Law and the Bond Resolution. Such bonds will be issued for the purpose of funding a loan from the Texas Military Value

Revolving Loan Account to the City of Corpus Christi, Texas pursuant to the Military Preparedness Commission Act, paying certain costs of administering such loan and paying the costs of issuance of such bonds.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources		
Par Amount of the Series 2007A-2 Bonds		\$10,160,000.00
Net Original Issue Discount		(93,895.80)
Par Amount of the Series 2007B Bonds		28,620,000.00
Original Issue Discount		(124,978.65)
Total		\$38,561,125.55
Uses		
Deposit to Military Value Revolving Loan Account Project Fund		\$37,974,907.37
Deposit to Interest and Sinking Fund		171,037.50
Deposit to Costs of Issuance Fund		171,654.01
Underwriters Discount		243,526.67
Total		\$38,561,125.55

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:

<u>Name</u>	<u>Position</u>	<u>Term Expires (February 1)</u>
R. David Kelly	Chair	2007
H.L. Bert Mijares, Jr.	Vice-Chair	2009
J. Vaughn Brock	Secretary	2007
Carin M. Barth	Member	2009
Linda McKenna	Member	2011
Ruth C. Schiermeyer	Member	2007
Marcellus A. Taylor	Member	2011

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 Enabling Act 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 Enabling Act, revenue obligations issued thereunder are not a debt of the State or any State agency, political corporation or political subdivision of the State and are not a pledge of the full faith and credit 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 2009. The Enabling Act of the Authority, as amended by the 75th Texas Legislature, provides that if the Authority is not continued in existence, the Authority will cease to exist as of September 1, 2009; however, the Texas Sunset Act provides that the Authority will exist until September 1 of the following year (September 1, 2010) in order to conclude its business.

Other State General Obligation Bonds

Various State entities, including the Authority, have issued general obligation bonds of the State. In some instances, such State entities have authority to issue additional general obligation bonds. See the Bond Appendix incorporated by reference in Appendix A of this Official Statement.

Relationship with the Commission

Pursuant to the Constitutional Provision and the Military Preparedness Commission Act, the Authority is authorized to issue general obligation bonds and notes in an amount not to exceed \$250 million, at the request of the Commission, to provide funds for the Texas Military Value Revolving Loan Account. The Commission submitted and the Authority approved a request for financing relating to the issuance of the Bonds. See "THE TEXAS MILITARY VALUE REVOLVING LOAN ACCOUNT."

Under the Military Preparedness Commission Act, the Authority's power is limited to financing the purposes permitted thereunder and such power does not affect the power of the Commission to carry out its statutory authority regarding the Texas Military Value Revolving Loan Account. Accordingly, the Authority will not be

responsible for supervising the on-going administration of the Commission's programs. The Authority will, however, pursuant to the Financing Agreement, be responsible for making debt service payments due on the Bonds and for monitoring federal tax and securities law compliance.

For a discussion of the sources available for the payment of the Bonds, see "THE BONDS - Source of Payment of the Bonds."

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 January 26, 2007.

THE TEXAS MILITARY PREPAREDNESS COMMISSION

The Commission was created in 2003 by the 78th Texas Legislature and is charged with preserving and expanding the State's military installations and their missions, assisting communities that have been impacted by a Base Realignment and Closure action, and assisting defense communities. The Commission is composed of 13 public members appointed by the Governor. To be eligible for appointment as a public member, a person must have demonstrated experience in economic development, the defense industry, military installation operation, environmental issues, finance, local government, or the use of airspace or outer space for future military missions. The 13 public members serve staggered terms of six years with the terms of four or five members expiring February 1 of each odd numbered year. Members of the Commission whose terms have expired continue to serve until a successor therefor has been appointed by the Governor. The Governor designates one member to serve as presiding officer at the pleasure of the Governor. The Commission currently has two vacancies. The Commission also has two ex-officio members: the chair of the Texas House of Representatives' Committee on Defense Affairs and State-Federal Relations, and the chair of the Texas Senate's Veteran Affairs and Military Installation Committee.

The current members of the Commission, the office held by each member and the date on which each member's term expires are as follows:

<u>Name</u>	<u>Position</u>	<u>Term Expires (February 1)</u>
William J. Ehrie	Chairman	2007
Ralph C. Gauer	Vice Chair	2009
Dora G. Alcala	Commissioner	2009
Donald D. Henson	Commissioner	2007
Josue Robles, Jr.	Commissioner	2011
Paul F. Paine	Commissioner	2009
Johnny C. Fender	Commissioner	2007
Loyd Neal	Commissioner	2011
James P. Maloney	Commissioner	2011
Eugene N. Tulich	Commissioner	2011
Alvin W. Jones	Commissioner	2009

The Commission is within and is managed by the Office of the Governor. The Commission employs an Executive Director who is charged with managing the affairs of the Commission, subject to and under the direction of the Commission. The Executive Director of the Commission is Al Casals.

THE TEXAS MILITARY VALUE REVOLVING LOAN ACCOUNT

Pursuant to the Military Preparedness Commission Act, the Commission may provide a loan of financial assistance to a defense community for: (1) a project that will enhance the military value of a military facility located in, near, or adjacent to the defense community, (2) an economic development project that minimizes the negative effects of a defense base reduction on the defense community as a result of a United States Department of Defense base realignment process that occurs during 2005 or later, or (3) an infrastructure project to accommodate new or expanded military missions assigned to a military facility located in, near, or adjacent to the defense community as a result of a United States Department of Defense base realignment process that occurs during 2005 or later.

Proceeds of the Bonds will be deposited into the Texas Military Value Revolving Loan Account, an account in the State's General Revenue Fund and allocated to the appropriate Loan Accounts created thereunder. The Texas Military Value Revolving Loan Account will be used by the Commission to make loans ("Military Value Revolving Loan Account Loans") under the Military Preparedness Commission Act to the Port Authority of San Antonio, to pay certain costs of administering the Military Value Revolving Loan Account Loans, and to pay Costs of Issuance. The Commission will deposit amounts received from the Port Authority of San Antonio representing the repayment of such loans to the Texas Military Value Revolving Loan Account. See "THE BONDS – Source of Payment of the Bonds."

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 have a dated date of March 1, 2007 and will bear interest from the date of initial delivery (the "Date of Delivery") at the rates shown on the inside cover pages of this Official Statement, calculated on the basis of a 360-day year composed of 12 months of 30 days each. Interest on the Bonds will be payable semiannually on each October 1 and April 1 (each an "Interest Payment Date"), commencing October 1, 2007. The Bonds are stated to mature in the respective principal amounts and on the dates shown on the inside cover pages of this Official Statement. A debt service schedule for the Bonds appears as Appendix B to this Official Statement.

Optional Redemption

The Series 2007A-2 Bonds maturing on or after October 1, 2017 are subject to redemption, at the option of the Authority, in whole or in part, in such manner as the Authority may select, on October 1, 2016 or on any date thereafter, at a redemption price equal to par plus accrued interest to the date fixed for redemption.

The Series 2007B Bonds maturing on or after October 1, 2017 are subject to redemption, at the option of the Authority, in whole or in part, in such manner as the Authority may select, on October 1, 2016 or on any date thereafter, at a redemption price equal to par plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series 2007A-2 Bonds scheduled to mature on October 1, 2036 (the “Series 2007A-2 Term Bonds”) are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Authority, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates, and in the principal amounts, respectively, set forth in the following schedule:

Series 2007A-2 Term Bond due October 1, 2036

<u>Redemption Date</u> <u>(October 1)</u>	<u>Principal Amount</u>
2028	\$460,000
2029	480,000
2030	505,000
2031	525,000
2032	550,000
2033	580,000
2034	605,000
2035	635,000
2036 (Final Maturity)	665,000

The Series 2007B Bonds scheduled to mature on October 1, 2022 (the “Series 2007B 2022 Term Bonds”) are subject to mandatory sinking fund redemption prior to their scheduled maturity, *pro rata* among the Owners of the Series 2007B 2022 Term Bonds, and shall be redeemed by the Authority, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates, and in the principal amounts, respectively, set forth in the following schedule:

Series 2007B Term Bond due October 1, 2022

<u>Redemption Date</u> <u>(October 1)</u>	<u>Principal Amount</u>
2019	\$805,000
2020	850,000
2021	895,000
2022 (Final Maturity)	945,000

The Series 2007B Bonds scheduled to mature on October 1, 2027 (the “Series 2007B 2027 Term Bonds”) are subject to mandatory sinking fund redemption prior to their scheduled maturity, *pro rata* among the Owners of the Series 2007B 2027 Term Bonds, and shall be redeemed by the Authority, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates, and in the principal amounts, respectively, set forth in the following schedule:

Series 2007B Term Bond due October 1, 2027

<u>Redemption Date</u> <u>(October 1)</u>	<u>Principal Amount</u>
2023	\$1,000,000
2024	1,055,000
2025	1,115,000
2026	1,175,000
2027 (Final Maturity)	1,245,000

The Series 2007B Bonds scheduled to mature on October 1, 2036 (the “Series 2007B 2036 Term Bonds”) are subject to mandatory sinking fund redemption prior to their scheduled maturity, *pro rata* among the Owners of the Series 2007B 2036 Term Bonds, and shall be redeemed by the Authority, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates, and in the principal amounts, respectively, set forth in the following schedule:

Series 2007B Term Bond due October 1, 2036

<u>Redemption Date</u> <u>(October 1)</u>	<u>Principal Amount</u>
2028	\$1,315,000
2029	1,390,000
2030	1,470,000
2031	1,550,000
2032	1,640,000
2033	1,735,000
2034	1,830,000
2035	1,935,000
2036 (Final Maturity)	2,045,000

The principal amount of the Term Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Authority, by the principal amount of any Term Bonds of the same series and maturity and bearing the same interest rate, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Authority and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by such Paying Agent/Registrar at the direction of the Authority, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Term Bonds or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption.

Notice of Redemption

Not less than thirty (30) nor more than forty-five (45) days prior to a redemption date for the Bonds, a notice of redemption will be sent in the name of the Authority to each Bond Owner of a Bond to be redeemed in whole or in part at the address of such Bond Owner appearing on the Register at the close of business on the Business Day next preceding the date of mailing. Such notices shall state the redemption date, the redemption price, the place at which Bonds are to be surrendered for payment and, if less than all the outstanding Bonds are to be redeemed, the numbers of such Bonds or portions thereof to be redeemed. So long as the Bonds remain in book-entry form, the Authority shall only be required to send such notice of redemption to the securities depository (or its nominee), initially DTC. Any notice of redemption so sent will be conclusively presumed to have been duly given, whether or not the Bond Owner receives such notice by the date fixed for redemption, and due provisions shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed. When Bonds have been called for redemption, in whole or in part, and notice of redemption has been given, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding, except for the purpose of receiving payment solely from the funds so provided for redemption, and interest that would otherwise accrue after the redemption date, on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

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

Source of Payment of the Bonds

Constitutional Appropriation for the Bonds. The Bonds are general obligations of the State, issued under the Authorizing Law. The following excerpt from the Constitutional Provision is applicable to the Bonds:

While any of the bonds or notes or interest on the bonds or notes is outstanding and unpaid, there is appropriated out of the first money coming into the treasury in each fiscal year, not otherwise appropriated by this constitution, the amount sufficient to pay the principal of and interest on the bonds or notes that mature or become due during the fiscal year, including an amount sufficient to make payments under a related credit agreement, less any amounts in the interest and sinking accounts at the close of the preceding fiscal year that are pledged to payment of the bonds or notes or interest.

Loan Repayments. Additionally, the Military Preparedness Commission Act requires the Commission to administer loans made by the Commission from the Texas Military Value Revolving Loan Account to ensure the full repayment of the general obligation bonds, such as the Bonds, issued to finance projects for defense communities. Accordingly, the Financing Agreement provides that the Commission will deposit loan repayments received from the Port Authority of San Antonio into the Texas Military Value Revolving Loan Account and will transfer such amounts into the applicable Interest and Sinking Fund in order to pay debt service on the applicable series of Bonds when due. Loan repayments are not pledged to the Bond Owners.

Flow of Funds

Under the terms of the Bond Resolution, the Authority will create for each series of Bonds: (i) an Interest and Sinking Fund, (ii) a Loan Account within the Texas Military Value Revolving Loan Account, (iii) a Costs of Issuance Fund (with separate accounts for each series of Bonds), and (iv) a Rebate Fund for the Series 2007A-2 Bonds (if such fund is determined to be necessary). The Texas Military Value Revolving Loan Account, each Interest and Sinking Fund, and the Costs of Issuance Fund are separate funds or accounts held by the Comptroller in the State Treasury.

Pursuant to the Bond Resolution, the Authority will deposit or cause to be deposited into the respective Interest and Sinking Fund for each series of Bonds an amount that is sufficient (together with any other funds on deposit therein) to provide for the timely payment of the Bond Obligations, from funds that are available for such purpose under the Constitutional Provision, not later than the second Business Day preceding each date on which any such Bond Obligations come due. If, on any date that funds in the Interest and Sinking Fund are required (pursuant to the Bond Resolution) to be withdrawn for the payment of Bond Obligations, such Interest and Sinking Fund does not contain sufficient funds for such purpose, an amount of immediately available funds sufficient (together with the funds then on deposit in such Interest and Sinking Fund) to pay such Bond Obligations shall be transmitted to the appropriate payee(s) for such purpose from funds made available under the Constitutional Provision, at such time as will cause such Bond Obligations to be timely paid.

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

The Rebate Fund is to be established for purposes of complying with provisions of the Code that require the Authority to pay over to the federal government any excess earnings (generally, the portion of investment income attributable to a yield on investments that is higher than the yield on the Series 2007A-2 Bonds) received from investment of the proceeds of the Series 2007A-2 Bonds, and certain money held in connection with the Series 2007A-2 Bonds. The Rebate Fund will be established only if it is necessary in accordance with the provisions of the Bond Resolution. The Rebate Fund would be for the sole benefit of the United States of America and would not be subject to the claim of any Bond Owner. From time to time the Authority would transfer to the Rebate Fund the amounts to be paid to the federal government pursuant to the Code.

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

Defaults and Remedies

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

DESCRIPTION OF THE TRANSACTION DOCUMENTS

Selected Definitions

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

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

Authority Board - the Board of Directors of the Authority.

Authorizing Law - the Constitutional Provision, the Texas Public Finance Authority Act (Chapter 1232, Texas Government Code, as amended), the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended), Chapters 436 and 1371, Texas Government Code, as amended, Part X, Title 34, Texas Administrative Code, as amended, and any regulations promulgated by the Authority thereunder.

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

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

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

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

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

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

Bond Resolution - the resolution authorizing the issuance of the Bonds adopted by the Authority Board on February 1, 2007.

Bonds - the Series 2007A-2 Bonds and the Series 2007B Bonds authorized by the Bond Resolution.

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

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

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

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

Closing - the concurrent delivery of any series of Bonds to or upon the order of the Purchasers thereof in exchange for payment therefor.

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

Commission – The Texas Military Preparedness Commission or its successor.

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

Constitutional Provision - Article III, Section 49-n of the Texas Constitution (as added by Acts 2003, 78th Legislature, S.J.R. No. 55).

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

Costs of Issuance - the “costs of issuance,” as provided in the Authorizing Law, incurred in connection with the issuance of the Bonds; provided that in no event shall the costs of issuance of the Series 2007A-2 Bonds to be paid from bond proceeds exceed 2% of the proceeds of such Series 2007A-2 Bonds.

Costs of Issuance Amount - the amount of proceeds of the Bonds expected to be expended for payment of Costs of Issuance.

Costs of Issuance Fund – the “Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007 Costs of Issuance Fund” created pursuant to the Bond Resolution.

Event of Taxability - any act or omission that could cause any amount payable with respect to any of the Series 2007A-2 Bonds, which is treated as interest under the Code, not to be excludable under section 103(a) of the Code from the gross income of the owner of the Bond.

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

Financing Agreement – the Financing Agreement between the Authority and the Commission providing the terms and conditions under which the financing of loans with the proceeds of the Bonds is to be undertaken.

Fund - any of the Funds.

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

General Counsel - the general counsel of the Authority.

Government Obligations - any of the following:

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

Interest and Sinking Fund - with respect to the Series 2007A-2 Bonds, the “*Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007A-2 Interest and Sinking Fund*” and with respect to the Series 2007B Bonds, the “*Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Taxable Series 2007B Interest and Sinking Fund*” created pursuant to the Bond Resolution.

Interest Payment Date - October 1 and April 1 of each year commencing October 1, 2007.

Legislature - the Legislature of the State.

Loan Account - with respect to the Series 2007A-2 Bonds, the “*Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007A-2 Loan Account*” and with respect to the Series 2007B Bonds, the “*Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Taxable Series 2007B Loan Account*” created pursuant to the Bond Resolution.

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

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

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

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

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

Rebate Fund - with respect to the Series 2007A-2 Bonds, the "Texas Public Finance Authority State of Texas General Obligation Bonds (Texas Military Value Revolving Loan Program), Series 2007A-2 Rebate Fund" created pursuant to the Bond Resolution.

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

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

Securities Depository - initially DTC, or any Person acting as a securities depository for the Book-Entry Bonds.

State - the State of Texas.

Texas Military Value Revolving Loan Account - the Texas Military Value Revolving Loan Account established in the State treasury pursuant to the Constitutional Provision.

Transaction Documents - collectively, the Bond Resolution, the Financing Agreement, the Purchase Contract and the Bonds.

The Bond Resolution

The Bonds will be issued pursuant to the Bond Resolution and the following is a summary of certain provisions of the Bond Resolution, adopted by the Authority Board on February 1, 2007. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Bond Resolution. Copies of the Bond Resolution are available for examination at the offices of the Authority.

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

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

A Bond may be exchanged by the Bond Owner for a new Bond or Bonds (each in an authorized denomination) of the same series, tenor, aggregate principal amount and interest rate of the Bonds upon surrender to the Paying Agent/Registrar by the Bond Owner (or the Owner's duly authorized attorney) of the Bond(s) as to which

the exchange is desired. The Paying Agent/Registrar will authenticate and deliver to the surrendering Bond Owner the new Bond(s) in exchange for the surrendered Bond(s). The out of pocket expenses incurred by the Authority and the Paying Agent/Registrar in connection with making an exchange of Bonds and any tax or other governmental charge imposed with respect to the exchange will be paid by the Bond Owner.

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

At the request of the Bond Owner of a mutilated, lost, stolen or destroyed Bond, the Bond will be replaced if, in the case of a mutilated Bond, the Bond Owner (or its duly authorized attorney) surrenders the mutilated Bond to the Paying Agent/Registrar, or in the case of a lost, stolen, or destroyed Bond, the Bond Owner (1) furnishes the Authority and the Paying Agent/Registrar with evidence satisfactory to the Authority and the Paying Agent/Registrar that the loss, theft, or destruction has occurred, (2) provides indemnity or security satisfactory to the Authority and the Paying Agent/Registrar to save the Paying Agent/Registrar and the Authority harmless from any loss or damage with respect thereto, and (3) satisfies such other requirements as may reasonably be imposed by the Authority and the Paying Agent/Registrar. If a mutilated, lost, stolen, or destroyed Bond has matured or will mature within the 30 day period following the Bond Owner's request for a replacement Bond, the Bond (at the Authority's direction) may be paid instead of delivering a replacement Bond. The out of pocket expenses incurred by the Authority and the Paying Agent/Registrar in connection with replacement of a Bond and any tax or other governmental charge imposed with respect to the replacement will be paid by the Bond Owner.

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

Tax-Exempt Status. The Authority has covenanted in the Bond Resolution that it will not take any action that could cause the interest on the Series 2007A-2 Bonds to become includable in the gross income of the Series 2007A-2 Bond Owners thereof for federal income tax purposes.

Noncompliance with the provisions of the Bond Resolution relating to the tax exempt status of the Series 2007A-2 Bonds under the Code will only be permitted to the extent that, in the opinion of nationally recognized bond counsel, such noncompliance will not adversely affect the excludability of interest on the Series 2007A-2 Bonds from the gross income of the Bond Owners thereof for federal income tax purposes.

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

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

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

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

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

Defeasance. The Authority may provide for the irrevocable deposit into the Interest and Sinking Fund or in escrow with the Paying Agent/Registrar of an amount of money sufficient, without investment, or “Government Obligations” (as defined in the Bond Resolution, which may include direct obligations of, or obligations fully guaranteed by, the United States of America) not redeemable prior to maturity and maturing as to principal and interest in such amounts and at such times as will provide (without reinvestment) money sufficient to pay the Bond Obligations when due and all other amounts due under the Bond Resolution. Upon such a deposit, the benefits of the Bond Resolution and the covenants of the Authority including the Authority’s obligation to pay debt service on the Bonds will be deemed discharged.

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

Bond Enhancement Agreement. Pursuant to the Bond Resolution, to the extent permitted by law and by adoption of a resolution, the Board of the Authority may approve the material terms of one or more Bond Enhancement Agreements for the Bonds subsequent to the authorization and issuance of the Bonds. The execution and delivery of any Bond Enhancement Agreement is subject to the approval of the Attorney General of Texas. Bond Owner consent is not necessary for the Authority to adopt a Bond Enhancement Agreement.

BOOK ENTRY ONLY SYSTEM

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of

DTC and Members of the National Securities Clearing Corporation, Fixed Income 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and 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 DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Authority, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Direct and Indirect Participant and not of DTC nor its nominee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized

representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

RATINGS

Moody's Investors Service, Inc., Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., and Fitch Ratings have assigned ratings of "Aa1," "AA" and "AA+" to the Bonds. The ratings will only reflect the views of such rating companies at the time such ratings are given, and the Authority makes no representations as to the appropriateness of the ratings.

There is no assurance that such ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies circumstances so warrant. Any such downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The Authority furnished the rating agencies certain information which is not included in this Official Statement.

TAX MATTERS - SERIES 2007A-2 BONDS

Opinion

On the date of initial delivery of the Series 2007A-2 Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Series 2007A-2 Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, except for any holder who is treated pursuant to section 147(a) of the Code as a "substantial user" of the project financed with proceeds of the loan from the Commission to the Port Authority of San Antonio (the "Port Authority") funded with proceeds of the Series 2007A-2 Bonds (the "Project") or, a "related person" to such user. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Series 2007A-2 Bonds.

In rendering its opinion, Bond Counsel (a) will rely upon information furnished by the Port Authority, and particularly written representations of officers and agents of the Port Authority with respect to certain material facts that are solely within their knowledge relating to the ultimate use of the proceeds of the Series 2007A-2 Bonds and the construction, use and management of the Project and (b) will assume continuing compliance with covenants of the Authority and the Port Authority with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Series 2007A-2 Bonds and certain other matters. Failure by Authority and Port Authority to observe the aforementioned representations or covenants could cause the interest on the Series 2007A-2 Bonds to become taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that

Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Series 2007A-2 Bonds.

A ruling was not sought from the Internal Revenue Service by either the Port Authority or the Authority with respect to the Series 2007A-2 Bonds or the Project. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Series 2007A-2 Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Authority as the taxpayer and the Owners may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The Underwriters have represented that the initial public offering price to be paid for one or more maturities of the Series 2007A-2 Bonds is less than the principal amount thereof (the "Original Issue Discount Bonds"). The difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Series 2007A-2 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Series 2007A-2 Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE SERIES 2007A-2 BONDS.

Interest on the Series 2007A-2 Bonds is an item of tax preference, as defined in section 57(a)(5) of the Code, for purposes of determining the alternative minimum tax imposed on individuals and corporations by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Series 2007A-2 Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Series 2007A-2 Bonds, if such obligation 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. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. 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., the issue price plus accrued original issue discount). 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.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Series 2007A-2 Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

TAX MATTERS - SERIES 2007B BONDS

General

The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Series 2007B Bonds. It is based in part on an opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, and on the Code, the regulations promulgated thereunder, published revenue rulings and court decisions currently in effect, all of which are subject to change. The Internal Revenue Service has not yet issued regulations or rulings relating to the treatment of obligations such as the Series 2007B Bonds, and as such said opinion and this summary of federal income tax consequences are subject to modification by the eventual issuance of regulations or rulings or by subsequent administrative or judicial interpretation, which

could apply retroactively. The following discussion is applicable to investors other than those investors who are subject to special provisions of the Code, such as life insurance companies, tax-exempt organizations, foreign taxpayers and taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code. This summary is further limited to investors who will hold the Series 2007B Bonds as “capital assets” (generally, property held for investment) within the meaning of Section 1221 of the Code. **INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE SERIES 2007B BONDS IN THEIR PARTICULAR CIRCUMSTANCES BEFORE DETERMINING WHETHER TO PURCHASE SERIES 2007B BONDS.**

IRS Circular 230 Notice

In compliance with IRS requirements, we inform you that any U.S. tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding tax penalties or in connection with marketing or promotional materials.

Periodic Interest Payments and Original Issue Discount

On the date of issue, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render an opinion that the Series 2007B Bonds are not obligations described in section 103(a) of the Code. Accordingly, the stated interest paid on the Series 2007B Bonds or original issue discount, if any, accruing on the Series 2007B Bonds will be included in “gross income” within the meaning of section 61 of the Code of the owners and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to the owner thereof.

Disposition of Series 2007B Bonds

An owner will recognize gain or loss on the redemption, sale or exchange of a Series 2007B Bond equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner’s tax basis in the Series 2007B Bond. Generally, the owner’s tax basis in the Series 2007B Bond will be the owner’s initial cost. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Series 2007B Bond has been held for more than one year.

Under current law, purchasers of the Series 2007B Bonds who do not purchase the Series 2007B Bonds in the initial public offering at the initial public offering price (a “subsequent purchaser”) will generally be required, on the disposition of a Series 2007B Bond, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued “market discount”. Market discount is the amount by which the price paid for a Series 2007B Bond by a subsequent purchaser is less than the Series 2007B Bond’s “stated redemption price at maturity” (or, in the case of a Series 2007B Bond issued at an original issue discount, if any, the Series 2007B Bond’s “revised issue price”). In such instances, section 1277 of the Code also may apply so as to defer the deductibility of all or a portion of the interest incurred by a subsequent purchaser with respect to amounts borrowed to acquire a Series 2007B Bond with market discount.

Required Reporting to Internal Revenue Service

Subject to certain exceptions, interest payments made to the owners with respect to the Series 2007B Bonds will be reported to the Internal Revenue Service. Such information will be filed each year with the Internal Revenue Service on Form 1099 which will reflect the name, address and taxpayer identification number of the registered owner. A copy of Form 1099 will be sent to each registered owner of a Series 2007B Bond for federal income tax reporting purposes.

Other Federal Income Tax Consequences

The Code requires debt obligations, such as the Series 2007B Bonds, to be issued in registered form and denies certain tax benefits to the issuer and the holders of obligations failing this requirement. The Authority shall issue the Series 2007B Bonds in registered form.

Interest paid to an owner of a Series 2007B Bond ordinarily will not be subject to withholding of federal income tax if such owner is a United States person. A United States person, however, will be subject to withholding of such tax at a rate set forth in section 3406 of the Code. This withholding generally applies if the owner of a Series 2007B Bond (i) fails to furnish to the issuer such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the issuer an incorrect TIN, (iii) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the issuer or such owner's broker with a certified statement, signed under penalty or perjury, that the TIN provided to the issuer is correct and that such owner is not subject to backup withholding.

Defeasance

Holders of the Series 2007B Bonds should be aware that the deposit by the Authority of monies or Government Obligations with a financial institution authorized by State law and the release of the Bond Resolution (a "defeasance") for federal income tax purposes could result in the recognition by the holder of taxable income (or loss), without any corresponding receipt of monies by the holder. In addition, for federal tax purposes, the character and time of receipt of payments on the Series 2007B Bonds subsequent to any such defeasance also could be affected. Holders are advised to consult their own tax advisors with respect to the tax consequences resulting from such events.

State and Local Taxes and Foreign Persons

Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Series 2007B Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

THE BONDS AS LEGAL INVESTMENTS IN TEXAS

Chapter 1201, Texas Government Code provides that obligations, such as the Bonds, are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of municipalities and other political subdivisions or public agencies of the State. The Bonds are also eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are lawful and sufficient security for those deposits to the extent of their market value. For political subdivisions in the State that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may need to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATINGS" herein.

The Authority has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The Authority has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LITIGATION

There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Authority, threatened) that affects the obligation of the Authority to deliver the Bonds or the validity of the Bonds.

The State is a party to various legal proceedings relating to its operation and government functions, but unrelated to the Bonds or the security for the Bonds. See the Bond Appendix incorporated by reference in Appendix A of this Official Statement. At the time of payment for and delivery of the Bonds, the Attorney General of the State of Texas will render an opinion to the effect that there is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best of his knowledge, threatened) against or affecting the State or any of its agencies or instrumentalities (nor to the best of his knowledge is there any basis therefor) that (1) affects the existence of the Authority or the right of the present directors and officers of the Authority to hold their offices, (2) affects the validity or enforceability of the provisions pursuant to which the Bonds are being issued, and (3) would have a material adverse effect upon the power of the Authority to issue the Bonds.

GENERAL INFORMATION REGARDING THE STATE OF TEXAS

The Comptroller prepares a quarterly appendix (the "Bond Appendix") which sets forth certain information regarding the State including its government, finances, economic profile, and other matters. The Bond Appendix is dated February 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 2005 Comprehensive Annual Financial Report for the year ended August 31, 2005 (the "2005 CAFR") is currently on file with each nationally recognized municipal securities information repository ("NRMSIR"). The 2005 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 Series 2007A-2 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, credit enhancement, or liquidity enhancement.) The Authority will provide each notice described in this paragraph to any state information depository ("SID") and to either each nationally recognized municipal securities information repository ("NRMSIR") 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 2006. 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 (“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, for which Morgan Keegan & Company, Inc. is acting as representative as set forth on the cover of this Official Statement, have jointly and severally agreed, subject to certain conditions set forth in the Purchase Contract with the Authority, to purchase the Series 2007A-2 Bonds at a Purchase Price of \$10,002,329.63 (which represents the par amount of the Series 2007A-2 Bonds, less a net original issue discount of \$93,895.80, less an underwriting discount of \$63,774.57) and to purchase the Series 2007B Bonds at a Purchase Price of \$28,315,269.25 (which represents the par amount of the Series 2007B Bonds, less an original issue discount of \$124,978.65, less an underwriting discount of \$179,752.10). The Purchase Contract pertaining to the Bonds provides that the Underwriters will purchase all of the Bonds, if any are purchased.

RBC Capital Markets is the trade name under which RBC Dain Rauscher Inc. will be performing underwriting services in connection with the Bonds.

THE FINANCIAL ADVISOR

First Southwest Company (the “Financial Advisor”) has acted as financial advisor to the Authority in connection with the issuance and sale of the Bonds. All fees of the Financial Advisor with respect to the issuance of the Bonds are contingent upon the sale and issuance of the Bonds. The Financial Advisor has reviewed the information in this Official Statement but does not guarantee its accuracy or completeness (except for the information concerning the Financial Advisor). Investors should not draw any conclusions as to the suitability of the Bonds from, or base any investment decisions upon, the fact that the Financial Advisor has advised the Authority.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1993, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Authority assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds by the Authority are subject to the unqualified approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., 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 opinions will be rendered in substantially the forms 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 firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that in its capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions, “PLAN OF FINANCE,” “THE BONDS,” “DESCRIPTION OF THE TRANSACTION DOCUMENTS,” “TAX MATTERS - SERIES 2007A-2 BONDS,” “TAX MATTERS - SERIES 2007B BONDS,” “THE BONDS AS LEGAL INVESTMENTS IN TEXAS,” “CONTINUING DISCLOSURE OF INFORMATION” (other than under the subheadings “Compliance with Prior Undertakings” and “Continuing Disclosure Undertaking of the Comptroller”) and “LEGAL MATTERS” to verify that the information relating to the Bonds and the Transaction Documents contained under such captions in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate.

Certain legal matters will be passed upon for the Underwriters by their counsel, Vinson & Elkins L.L.P., Houston, Texas.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Forward-Looking Statements

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

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

MISCELLANEOUS

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

This Official Statement has been approved by the Authority.

TEXAS PUBLIC FINANCE AUTHORITY

By: /s/ R. David Kelly
Chair

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APPENDIX A

THE STATE OF TEXAS

The Bond Appendix dated February 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>.

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APPENDIX B

BOND DEBT SERVICE

Combined Debt Service Requirements

Fiscal Year (August 31)	Series 2007A-2 Bonds			Series 2007B Bonds			Total Debt Service Requirement
	Principal (October 1)	Interest	Annual Debt Service	Principal (October 1)	Interest	Annual Debt Service	
2008	\$ 0	\$ 472,716	\$ 472,716	\$ 0	\$ 1,670,954	\$ 1,670,954	\$2,143,670
2009	0	452,600	452,600	0	1,599,850	1,599,850	2,052,450
2010	0	452,600	452,600	0	1,599,850	1,599,850	2,052,450
2011	0	452,600	452,600	0	1,599,850	1,599,850	2,052,450
2012	0	452,600	452,600	0	1,599,850	1,599,850	2,052,450
2013	230,000	448,000	678,000	565,000	1,585,160	2,150,160	2,828,160
2014	240,000	438,600	678,600	595,000	1,555,000	2,150,000	2,828,600
2015	250,000	428,800	678,800	625,000	1,523,280	2,148,280	2,827,080
2016	260,000	418,600	678,600	655,000	1,489,836	2,144,836	2,823,436
2017	270,000	408,000	678,000	690,000	1,454,530	2,144,530	2,822,530
2018	285,000	396,722	681,722	730,000	1,417,255	2,147,255	2,828,977
2019	295,000	384,759	679,759	765,000	1,378,011	2,143,011	2,822,770
2020	310,000	372,088	682,088	805,000	1,335,793	2,140,793	2,822,881
2021	320,000	358,700	678,700	850,000	1,290,280	2,140,280	2,818,980
2022	335,000	344,572	679,572	895,000	1,242,293	2,137,293	2,816,865
2023	350,000	329,588	679,588	945,000	1,191,693	2,136,693	2,816,281
2024	365,000	313,719	678,719	1,000,000	1,137,455	2,137,455	2,816,174
2025	385,000	296,844	681,844	1,055,000	1,079,401	2,134,401	2,816,245
2026	400,000	279,181	679,181	1,115,000	1,018,099	2,133,099	2,812,280
2027	420,000	260,731	680,731	1,175,000	953,406	2,128,406	2,809,137
2028	440,000	241,381	681,381	1,245,000	885,041	2,130,041	2,811,422
2029	460,000	220,844	680,844	1,315,000	812,393	2,127,393	2,808,237
2030	480,000	199,106	679,106	1,390,000	735,300	2,125,300	2,804,406
2031	505,000	176,328	681,328	1,470,000	653,790	2,123,790	2,805,118
2032	525,000	152,509	677,509	1,550,000	567,720	2,117,720	2,795,229
2033	550,000	127,650	677,650	1,640,000	476,805	2,116,805	2,794,455
2034	580,000	101,519	681,519	1,735,000	380,618	2,115,618	2,797,137
2035	605,000	74,116	679,116	1,830,000	279,015	2,109,015	2,788,131
2036	635,000	45,441	680,441	1,935,000	171,713	2,106,713	2,787,154
2037	665,000	15,378	680,378	2,045,000	58,283	2,103,283	2,783,661
Totals	\$10,160,000	\$9,116,292	\$19,276,292	\$28,620,000	\$32,742,524	\$61,362,524	\$80,638,816

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APPENDIX C
FORM OF OPINIONS OF BOND COUNSEL

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[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the bonds described below, assuming no material changes in facts or law.]

\$10,160,000
TEXAS PUBLIC FINANCE AUTHORITY
STATE OF TEXAS GENERAL OBLIGATION BONDS
(TEXAS MILITARY VALUE REVOLVING LOAN PROGRAM), SERIES 2007A-2

AS BOND COUNSEL FOR THE TEXAS PUBLIC FINANCE AUTHORITY (the “Authority”) of the bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds and in accordance with the resolution of the Authority adopted on February 1, 2007 authorizing the issuance of the Bonds (the “Resolution”). Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Resolution.

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Authority, and other documents authorizing and relating to the issuance of said Bonds, including one of the executed certificates (Bond Numbered R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered, all in accordance with law, and that the Bonds, except as the enforceability thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors’ rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding general obligations of the State of Texas, and a continuing appropriation is made pursuant to the Texas Constitution out of the general revenue fund in each fiscal year in an amount sufficient to pay the principal of and interest on the Bonds that mature or become due during that fiscal year (less the amount of any sinking fund at the close of the proceeding fiscal year that is pledged to the payment of Bonds or the interest thereon).

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. The exceptions are as follows:

- (1) interest on the Bonds will be includable in the gross income of the holder during any period that such Bonds are held by either a “substantial user” of the facilities financed with the proceeds of the Bonds or a “related person” of such user, as provided in section 147(a) of the Internal Revenue Code of 1986 (the “Code”); and
- (2) interest on the Bonds will be included as an item of tax preference in determining the alternative minimum taxable income of the holder under section 57(a)(5) of the Code.

In expressing the aforementioned opinions, we (a) have relied on information furnished by the Authority, the Commission and the Defense Community, and particularly written representations, the accuracy of which we have not independently verified, of officers of the Commission and the Defense Community with respect to certain material facts which are solely within their respective knowledge, relating to the Defense Community’s Project financed with the Series 2007A-2 Military Value Revolving Loan Account Loan, and use and investment of the proceeds of the Bonds, and (b) assume continuing compliance by the Authority, the Commission and the Defense Community with certain covenants regarding the use and investment of the proceeds of the Bonds and the operation and management of such Project. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Authority, the Commission or the Defense Community to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Authority, and, in that capacity, we have been engaged by the Authority 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 from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data or other material relating to the financial condition or capabilities of the State of Texas or the disclosure thereof in connection with the sale of the Bonds, and we have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability 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.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the bonds described below, assuming no material changes in facts or law.]

\$28,620,000
TEXAS PUBLIC FINANCE AUTHORITY
STATE OF TEXAS GENERAL OBLIGATION BONDS
(TEXAS MILITARY VALUE REVOLVING LOAN PROGRAM),
TAXABLE SERIES 2007B

AS BOND COUNSEL FOR THE TEXAS PUBLIC FINANCE AUTHORITY (the “Authority”) of the bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds and in accordance with the resolution of the Authority adopted on February 1, 2007 authorizing the issuance of the Bonds (the “Resolution”). Capitalized terms not otherwise defined herein shall have the meanings given to such terms in the Resolution.

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Authority, and other documents authorizing and relating to the issuance of said Bonds, including one of the executed certificates (Bond Numbered R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered, all in accordance with law, and that the Bonds, except as the enforceability thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors’ rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding general obligations of the State of Texas, and a continuing appropriation is made pursuant to the Texas Constitution out of the general revenue fund in each fiscal year in an amount sufficient to pay the principal of and interest on the Bonds that mature or become due during that fiscal year (less the amount of any sinking fund at the close of the proceeding fiscal year that is pledged to the payment of Bonds or the interest thereon).

IT IS FURTHER OUR OPINION that the Bonds are not obligations described under Section 103(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Accordingly, the stated interest paid on the Bonds will be included in “gross income” within the meaning of Section 61 of the Code of the owners thereof and will be subject to federal income taxation when received or accrued, depending on the tax accounting method applicable to the owners thereof.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Authority, and, in that capacity, we have been engaged by the Authority 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 for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data or other material relating to the financial condition or capabilities of the State of Texas or the disclosure thereof in connection with the sale of the Bonds, and we have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability 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.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result

Respectfully