OFFICIAL STATEMENT DATED SEPTEMBER 9, 2003, AS STICKERED ON SEPTEMBER 25, 2003

NEW ISSUE – BOOK-ENTRY ONLY RATINGS: See "RATINGS" herein

In the opinion of Vinson & Elkins L.L.P. and Delgado, Acosta, Braden & Jones, P.C., Co-Bond Counsel, assuming compliance with certain covenants and based on certain representations, under existing law, interest on the Series A Bonds is excludable from gross income for federal income tax purposes and the Series A Bonds are not private activity bonds. Interest on the Series B Bonds, the Series C Bonds and the Series D Bonds is not exempt from federal income tax. See "TAX MATTERS" herein for a discussion of the opinion of Co-Bond Counsel, including a description of alternative minimum tax consequences for corporations.

TEXAS PUBLIC FINANCE AUTHORITY
UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT

$776,720,000 REVENUE BONDS		$600,000,000 REVENUE VARIABLE RATE DEMAND BONDS	
$256,235,000	$520,485,000	$400,000,000	$200,000,000
Series 2003A	Series 2003B (Taxable)	Series 2003C (Taxable)	Series 2003D (Taxable)

Interest Accrues from Date of Delivery Due: As shown on the inside cover

The Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2003A (the "Series A Bonds") and Series 2003B (Taxable) (the "Series B Bonds," collectively with the Series A Bonds, the "Fixed Rate Bonds") and the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Variable Rate Demand Bonds, Series 2003C (Taxable) (the "Series C Bonds") and Series 2003D (Taxable) (the "Series D Bonds," collectively with the Series C Bonds, the "Variable Rate Bonds") are being issued by the Texas Public Finance Authority (the "Authority" or the "Issuer") on behalf of the Texas Workforce Commission (the "Commission") for the purposes described below. The Fixed Rate Bonds and the Variable Rate Bonds (the "Bonds") are payable from and secured solely by a lien on "Pledged Revenues" (as defined herein). The Bonds are issued pursuant to a resolution approved by the Authority on August 19, 2003 (the "Resolution"). The Comptroller of Public Accounts of the State of Texas has agreed, pursuant to the "Liquidity Agreement" to purchase Variable Rate Bonds tendered to The Bank of New York Trust Company of Florida, N.A. (the "Tender Agent") but not remarketed by the Remarketing Agents listed below (collectively, the "Remarketing Agent"). *See* "DESCRIPTION OF THE BONDS—The Variable Rate Bonds—The Liquidity Agreement." **NEITHER THE STATE OF TEXAS, NOR ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS, OTHER THAN AS PROVIDED IN THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.** *See* "SECURITY FOR THE BONDS."

The proceeds from the sale of the Bonds will be used for the purposes of (i) repaying principal of and interest on advances from the federal unemployment trust fund; (ii) paying unemployment benefits by depositing the proceeds in the unemployment compensation fund; (iii) paying costs of issuance; and (iv) paying capitalized interest on the Bonds. *See* "PLAN OF FINANCING."

Interest on the Fixed Rate Bonds will accrue from the date of delivery, and is payable on June 15, 2004 and each December 15 and June 15 thereafter, calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Variable Rate Bonds will accrue from the date of delivery and is initially payable and calculated as described on the inside cover hereof. The Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry only system described herein. The Bonds will be issued in the denominations described on the inside cover hereof. No physical delivery of the Bonds will be made to the purchasers thereof. Interest on and principal of (i) the Fixed Rate Bonds will be payable by the Authority and (ii) the Variable Rate Bonds will be payable by The Bank of New York Trust Company of Florida, N.A., to Cede & Co. which will make distribution of the amounts so paid to the beneficial owners of the Bonds. The Variable Rate Bonds are subject to redemption and mandatory tender for purchase prior to stated maturity as described herein. The Fixed Rate Bonds are not subject to redemption.

THE SERIES C BONDS MAY BE CONVERTED TO TAX-EXEMPT BONDS IF CERTAIN CONDITIONS ARE MET. THE SERIES B BONDS AND SERIES D BONDS MAY NOT BE CONVERTED TO TAX-EXEMPT BONDS. *See* "DESCRIPTION OF THE BONDS—The Variable Rate Bonds."

FSA The scheduled payment of principal of and interest on the Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series A Bonds by FINANCIAL SECURITY ASSURANCE INC. *See* "MUNICIPAL BOND INSURANCE" herein.

The Bonds are offered for delivery when, as, and if issued and accepted by the Underwriters, and subject to approval of legality by the Attorney General of the State of Texas and approval of certain legal matters by Vinson & Elkins L.L.P. and Delgado, Acosta, Braden & Jones, P.C., Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by Disclosure Counsel, Winstead Sechrest & Minick P.C. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews & Kurth L.L.P. The Bonds are expected to be available for delivery through the facilities of DTC on or about September 25, 2003.

GOLDMAN, SACHS & CO. [1, 2, 3, 4]

GEORGE K. BAUM & COMPANY [1]

ESTRADA HINOJOSA & COMPANY, INC. [1]

MORGAN KEEGAN & COMPANY, INC. [2]

BANC ONE CAPITAL MARKETS, INC. [1]
CITIGROUP [1]
RAMIREZ & CO., INC. [1]
RBC DAIN RAUSCHER [1]
SBK BROOKS INVESTMENT CORP. [1]
SOUTHWEST SECURITIES [1]

BANC OF AMERICA SECURITIES LLC [2]
FIRST ALBANY CORPORATION [2]
LEHMAN BROTHERS [2]
MORGAN STANLEY [2]
SANDERS MORRIS HARRIS [2]
SIEBERT BRANDFORD SHANK & CO., LLC [2]
U.S. BANCORP PIPER JAFFRAY [2]

JPMORGAN [3]
LOOP CAPITAL MARKETS [3]
MERRILL LYNCH [3]
UBS FINANCIAL SERVICES INC. [3]

[1]Underwriters for the Series A Bonds [2]Underwriters for the Series B Bonds
[3]Underwriters and Remarketing Agents for the Series C Bonds (see inside cover for listing by subseries)
[4]Underwriters and Remarketing Agents for the Series D Bonds

MATURITY SCHEDULES

$776,720,000
TEXAS PUBLIC FINANCE AUTHORITY
UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT
REVENUE BONDS,
SERIES 2003A and SERIES 2003B (TAXABLE)

$256,235,000 Series 2003A Bonds					$520,485,000 Series 2003B Bonds (Taxable)				
Due	Amount	Interest Rate	Price or Yield	CUSIP	Due	Amount	Interest Rate	Price or Yield	CUSIP
06/15/04					06/15/04	$ 65,000,000	1.200%	1.248%	882756PY9
12/15/04					12/15/04	74,000,000	2.000	1.560	882756PZ6
06/15/05					06/15/05	77,880,000	2.000	1.960	882756QA0
12/15/05					12/15/05	76,545,000	2.125	2.230	882756QB8
06/15/06					06/15/06	77,360,000	2.625	2.730	882756QC6
12/15/06					12/15/06	78,375,000	2.875	2.950	882756QD4
06/15/07	$ 8,175,000	2.750%	2.260%	882756PR4	06/15/07	71,325,000	3.125	3.230	882756QE2
12/15/07	5,000,000	2.750	2.380	882756PT0	12/15/07				
12/15/07	75,730,000	5.000	2.380	882756PS2	12/15/07				
06/15/08	72,690,000	5.000	2.650	882756PV5	06/15/08				
06/15/08	10,000,000	2.625	2.650	882756PU7	06/15/08				
12/15/08	70,000,000	5.000	2.750	882756PX1	12/15/08				
12/15/08	14,640,000	3.250	2.750	882756PW3	12/15/08				

The Fixed Rate Bonds will be issued in denominations of $5,000 or integral multiples thereof. THE SERIES B BONDS MAY NOT BE CONVERTED TO TAX-EXEMPT BONDS.

$600,000,000
TEXAS PUBLIC FINANCE AUTHORITY
UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT
REVENUE VARIABLE RATE DEMAND BONDS,
SERIES 2003C (TAXABLE) and SERIES 2003D (TAXABLE)

Series/Subseries	Underwriter and Remarketing Agent	Principal Amount
Series C-1	Goldman, Sachs & Co.	$100,000,000
Series C-2	JPMorgan Securities Inc.	100,000,000
Series C-3	UBS Financial Services Inc.	100,000,000
Series C-4	Merrill Lynch	50,000,000
Series C-5	Loop Capital Markets	50,000,000
Series D-1	Goldman, Sachs & Co.	100,000,000
Series D-2	Goldman, Sachs & Co.	100,000,000

The final maturity of the Subseries C-1 Bonds is December 15, 2008; the final maturity of all other Variable Rate Bonds is December 15, 2009. The Variable Rate Bonds initially will be issued in the Flexible Mode, but may be converted to a Daily Mode, a Weekly Mode, a Term Rate Mode, or a Fixed Rate Mode. THE SERIES C BONDS MAY BE CONVERTED TO TAX-EXEMPT BONDS IF CERTAIN CONDITIONS ARE MET. THE SERIES D BONDS MAY NOT BE CONVERTED TO TAX-EXEMPT BONDS. Interest on the Variable Rate Bonds initially issued will accrue from the date of delivery and, while in the Flexible Mode, will be payable on the first Business Day following the last day of each Flexible Rate Interest Period until converted to a different Mode. For information on redemption, tenders, interest period, interest rate, and denominations of the Variable Rate Bonds issued in the Flexible Mode, see "DESCRIPTION OF THE BONDS—The Variable Rate Bonds" herein.

SALE AND DISTRIBUTION OF THE BONDS

Use of Information in Official Statement

No dealer, broker, salesman or other person has been authorized by the Commission or the Authority to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Commission or the Authority. All other information contained herein has been obtained from the Authority, the Commission, DTC and other sources which are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as, or construed as a promise or representation by, the Issuer or 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 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 does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of any Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Commission or the Authority or other matters described herein since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Municipal Bond Insurance" and Exhibit E, the specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax-exempt status of the interest on the Series A Bonds.

Marketability

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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.

All of the summaries of the statutes, resolutions, contracts, financial statements, reports, agreements, and other related documents set forth in this Official Statement are qualified in their entirety by reference to such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Commission or the Authority.

Securities Laws

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 Commission and the Authority assume 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.

TEXAS PUBLIC FINANCE AUTHORITY

Board of Directors

R. David Kelly, Chair
H. L. Bert Mijares, Jr., Vice Chair
J. Vaughn Brock, Secretary
Helen Huey, Member
Daniel T. Serna, Member
Barry T. Smitherman, Member
(Vacant), Member

Certain Appointed Officials

Kimberly K. Edwards, Executive Director
Judith Porras, General Counsel

TEXAS WORKFORCE COMMISSION

Commissioners

Name	Representing	Term Expiration (February 1)
Diane D. Rath	The Public	2007
Vacant	Labor	2005
Ron Lehman	Employers	2003[1]

[1]Commissioner Lehman continues to serve on the Commission at the will of the Governor.

Certain Appointed Officials

Name	Title
Larry Temple[2]	Executive Director
Cassie Carlson Reed[3]	Former Executive Director
John Moore	General Counsel
Gene Crump	Deputy Executive Director

[2]Mr. Temple assumed the position of Executive Director on September 12, 2003.

[3]Cassie Carlson Reed, formerly the Executive Director of the Commission, continues to serve the Commission to work on certain projects and assist with the transition to a new Executive Director.

Consultants and Advisors

Co-Financial Advisors .... CKW Financial Group, Inc.
Coastal Securities
First Southwest Company

Co-Bond Counsel .... Delgado, Acosta, Braden & Jones, P.C.
Vinson & Elkins L.L.P.

Disclosure Counsel .... Winstead Sechrest & Minick P.C.

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement, reference to which is made for all purposes. No person is authorized to detach this Official Statement Summary from this Official Statement or to otherwise use it without this entire Official Statement (including the appendices).

The Issuer	The Texas Public Finance Authority (the "Authority" or the "Issuer") is authorized to issue bonds on behalf of the Commission pursuant to Subchapters C and F, Chapter 203, Texas Labor Code, as amended, in accordance with Chapters 1232 and 1371, and applicable provisions of Title 9 of the Texas Government Code, as amended. *See* "THE AUTHORITY."
The Commission	The Texas Workforce Commission (the "Commission"), is an agency of the State of Texas which administers the State's unemployment insurance program. *See* "THE COMMISSION."
The Bonds	The Fixed Rate Bonds mature on June 15 and December 15 in the years and in the principal amounts set forth on the inside cover page hereof. Interest on the Fixed Rate Bonds accrues from the date of delivery and is payable initially on June 15, 2004, and on each June 15 and December 15 thereafter until the earlier of maturity or redemption. The Variable Rate Bonds will initially be issued as described on the inside cover page.
Authority for Issuance	The Bonds are being issued pursuant to Chapters 1232 and 1371, and applicable provisions of Title 9, Texas Government Code, as amended, Chapter 203, Texas Labor Code, as amended, and a resolution adopted by the Authority on August 19, 2003. The Texas Bond Review Board has approved the issuance of the Bonds as required by law.
Source of Payment	The Bonds constitute special obligations of the Authority and the Commission payable solely from the Pledged Revenues (as defined herein) pledged thereto pursuant to the Resolution. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, NOR ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.
Fixed Rate Bonds: Redemption	The Fixed Rate Bonds are not subject to redemption.
Variable Rate Bonds: Redemption and Tender	The Variable Rate Bonds are subject to optional and mandatory redemption and tender for purchase at par as described herein. *See* "DESCRIPTION OF THE BONDS – The Variable Rate Bonds."
Use of Proceeds	Proceeds from the sale of the Bonds will be used for the purposes of (i) repaying principal of and interest on advances from the federal unemployment trust fund; (ii) paying unemployment benefits by depositing the proceeds in the unemployment compensation fund; (iii) paying costs of issuance; and (iv) paying capitalized interest on the Bonds. *See* "PLAN OF FINANCING – Purpose."
Bond Insurance and Ratings: Fixed Rate Bonds	The Authority has obtained ratings of "AA," "Aa2," and "AA-" from Standard & Poor's Ratings Group ("S&P"), Moody's Investors Service ("Moody's"), and Fitch Ratings ("Fitch"), respectively, for the Fixed Rate Bonds. S&P, Moody's, and Fitch will assign ratings of "AAA," "Aaa", and "AAA" respectively, to the Series A Bonds as a result of the insurance policy issued by Financial Security. *See* "MUNICIPAL BOND INSURANCE" and "RATINGS."
Ratings: Variable Rate Bonds	Moody's and Fitch have assigned ratings of "Aa2/VMIG1", and "AA-/F1+" respectively, to the Variable Rate Bonds. *See* "RATINGS."

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OFFICIAL STATEMENT

relating to

$776,720,000
TEXAS PUBLIC FINANCE AUTHORITY
UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT
REVENUE BONDS, SERIES 2003A and SERIES 2003B (TAXABLE)

and

$600,000,000
TEXAS PUBLIC FINANCE AUTHORITY
UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT
REVENUE VARIABLE RATE DEMAND BONDS,
SERIES 2003C (TAXABLE) and SERIES 2003D (TAXABLE)

This Official Statement, including the cover page and the Appendices hereto, provides certain information regarding the issuance by the Texas Public Finance Authority (the "Authority"), on behalf of the Texas Workforce Commission (the "Commission"), of the bonds titled above (the "Bonds"). The Authority is authorized to issue the Bonds on behalf of the Commission pursuant to the Authorizing Law (as defined below). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise defined herein. Unless otherwise indicated, all references to time included herein are to New York time.

This Official Statement contains summaries and descriptions of the plan of financing, the Bonds, the Commission, the Authority, and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the General Counsel, Texas Workforce Commission, 101 East 15th Street, Room 614, Austin, Texas 78701, (512) 463-8812. Copies of documents relating to the Authority may be obtained from the Executive Director, Texas Public Finance Authority, 300 West 15th Street, Suite 411, Austin, Texas 78701, (512) 463-5544.

INTRODUCTION

Title IX of the Social Security Act established the Unemployment Compensation Program ("UC Program") as a joint federal-state program to provide benefits for workers who have lost their jobs through no fault of their own. Federal laws and regulations provide the framework for state UC Programs, but each state is accorded the discretion to set benefit levels, establish eligibility rules and employer contribution rates, and to determine other issues relevant to unemployment compensation. Pursuant to the Federal Unemployment Tax Act ("FUTA"), employers must pay federal unemployment taxes to the Internal Revenue Service. The FUTA tax rate is currently 6.2% of the first $7,000 of wages (the federal taxable wage base) paid by employers. FUTA tax proceeds which are deposited into an account of the "Unemployment Trust Fund" held in the United States Treasury, are available to pay administrative costs of state UC Programs and half of extended unemployment benefits, and used to maintain a loan fund from which Federal Advances (hereinafter defined) may be made. The United States Department of Labor reviews state unemployment compensation laws annually to determine whether such laws meet all federal law requirements. Generally, if the United States Secretary of Labor certifies that a state UC Program meets certain criteria, contributing employers of that state may receive a tax credit of 5.4% against the FUTA tax rate, reducing the federal rate to 0.8%. If a state's unemployment compensation laws fail to conform to federal law requirements, employers in that state could lose the tax credit described above, and the state could lose federal grants which provide funds to cover costs of administering its UC Program. The State of Texas (the "State") UC Program has never been decertified by the United States Secretary of Labor.

Title XII of the Social Security Act provides that advances ("Federal Advances") may be made to a state when the state's unemployment trust account has insufficient funds to meet its Benefit Obligations (defined below). If a state has outstanding Federal Advances on January 1 of two consecutive years which remain unpaid as of the November 9 following the second consecutive January 1, the 5.4% credit on the FUTA tax to employers within such state may be

reduced by 0.3%. In the succeeding year the tax credit would be reduced by 0.6% and an additional 0.3% each year thereafter until its Federal Advances are repaid. For the third and each succeeding year that Federal Advances remain unpaid, the tax credit to employers may be further reduced if the state's unemployment compensation tax rate fails to meet certain federal criteria. Any revenue resulting from a reduction in the tax credit for employers is collected by the Internal Revenue Service and applied to repay the state's outstanding Federal Advances. The date on which reductions in the tax credit begin can be deferred, provided that a state has demonstrated that amendments to its unemployment compensation law will increase estimated contributions to a mandated level.

Federal Advances bear interest at a rate equal to the rate paid by the federal government on the aggregate balances in the state unemployment trust accounts in the last quarter of the preceding calendar year, but not more than 10%. The rate for 2003 is 6.08%. Interest is charged annually, but if Federal Advances made in any calendar year are repaid before September 30th of the same calendar year, no interest is charged with respect to such Federal Advances unless a state receives further Federal Advances within the same calendar year. Federal law prohibits the use of funds in a state's unemployment trust account to pay interest due on Federal Advances.

STATE UNEMPLOYMENT COMPENSATION PROGRAM

Texas Unemployment Compensation Act

The Commission administers the State UC Program in accordance with Title 4, Subtitle A of the Texas Labor Code, as amended (the "Texas Unemployment Compensation Act" or "TUCA"). TUCA sets out qualifying requirements, benefit levels, and disqualification provisions for unemployed workers, and the State's financing structure for the UC Program. For certain statistical information regarding the State's UC Program, see "APPENDIX B—CERTAIN INFORMATION REGARDING THE STATE UNEMPLOYMENT COMPENSATION PROGRAM" herein.

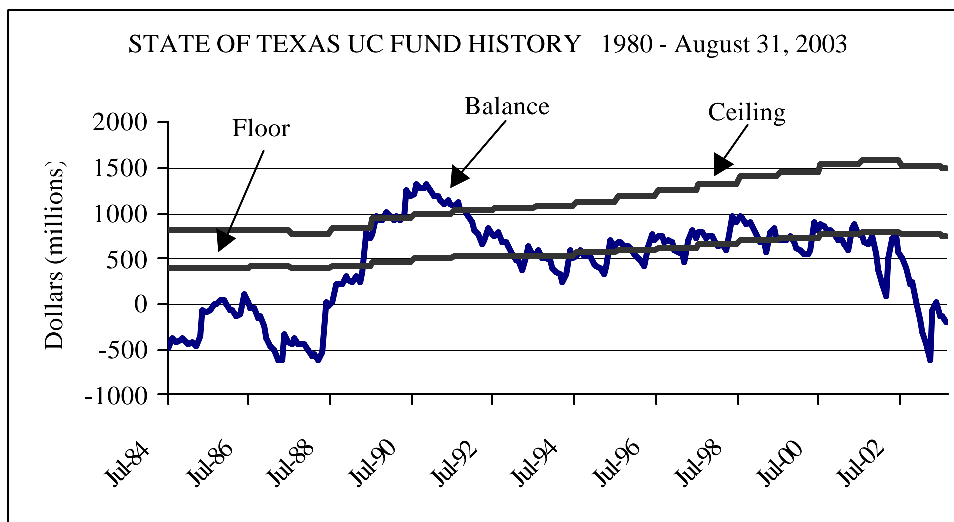
Pursuant to TUCA, the State's portion of the UC Program is financed through an unemployment tax on the taxable wage base portion of an employer's payroll ("Contributions"). Contributions so collected are deposited into the State's unemployment compensation fund (the "UC Fund"). Within the UC Fund, a clearing account, federal trust fund account, and a benefit account have been established, with the federal trust fund account being held as the State's account in the federal Unemployment Trust Fund in the Treasury of the United States of America (the "United States") for the payment of State unemployment compensation benefits (the "Benefit Obligations"). Contributions are deposited into the clearing account of the UC Fund, which is administered by the Commission and maintained by the Texas Comptroller of Public Accounts (the "Comptroller"). Subsequently, all deposits for the payment of benefits, including Contributions, are transferred through the federal funds wire transfer system to the United States Treasury for credit to the State's unemployment trust account. The Comptroller draws moneys from this account, as needed, to pay Benefit Obligations by requesting that the United States Treasury transfer money through the federal funds wire transfer system to the UC Fund maintained by the State in the State Treasury. Once received, those funds are deposited into the UC Fund's benefit account and paid out as benefits.

TUCA provides that the UC Fund must be kept within a designated range, and when the balance falls outside of this range, automatic adjustments to tax rates are triggered. If on October 1 of any year, the UC Fund balance falls below the "floor" which is currently projected to be approximately $746.2 million on October 1, 2003 (the greater of $400 million or one percent of total taxable wages for the four calendar quarters preceding June 30th), then the Deficit Assessment (hereinafter described) will be triggered to bring the balance of the UC Fund up to the floor. The "ceiling" of the UC Fund is two percent of total taxable wages for the four calendar quarters ending June 30th preceding the rate computation date, which is currently projected to be approximately $1,492.4 million on October 1, 2003. If the UC Fund balance rises above the ceiling, then Contributing Employers will be entitled to a tax credit against their required Contributions in the following year. *See* "STATE UNEMPLOYMENT COMPENSATION PROGRAM-Contributions; Unemployment Taxes" herein for descriptions of the Deficit Assessment and the tax credit.

History of the UC Fund

The State's UC Program has been in existence since 1936. During the recession of the early 1980's, for the first time, funds on deposit in the State's UC Fund were insufficient to pay the State's Benefit Obligations. From 1982 through 1988, the State borrowed and repaid a total of $2.9 billion in Federal Advances, and paid $182 million in

interest on those Federal Advances. In November of 1982, a special session of the Texas Legislature was called to address the depletion of the UC Fund, and during that session, the Texas Legislature established an "Advance Interest Trust Fund" and authorized the Commission to charge an additional assessment to Contributing Employers to fund the Advance Interest Trust Fund. Money in the Advance Interest Trust Fund has been used to pay interest due on Federal Advances. In 1983, the State again revised its unemployment tax structure, raising the floor and the ceiling of the UC Fund, creating a temporary solvency tax to address shortfalls in the short term, and creating a Deficit Tax (now the Deficit Assessment) to be assessed on Contributing Employers when the UC Fund balance is below its designated floor on October 1 of each year. The Texas Legislature also authorized a tax credit for



Source: Texas Workforce Commission.

Contributing Employers when the UC Fund balance is above its designated ceiling. Further revisions to the unemployment tax structure were made in 1987 which broadened the application of the Deficit Assessment and increased the taxable wage base. However, due in part to the relatively small difference between the floor and the ceiling, the Commission has had to administer either the tax credit or Deficit Assessment more than ten times between 1984 and 1995, and Federal Advances have been needed to pay Benefit Obligations. The current level of Contributions is now insufficient to pay all Benefits due. Federal Advances due on September 25, 2003 are estimated to be $292.6 million. Furthermore, the UC Fund balance is estimated to be $838.4 million below the floor on October 1, 2003, and approximately $251 million is projected to be needed to keep the UC Fund balance at or above the floor on October 1, 2004. As a result, to repay outstanding Federal Advances and avoid a Deficit Assessment for 2004 and 2005, an amount of approximately $1,382 million, in addition to estimated Contributions, is projected to be needed on September 30, 2003.

The Authorizing Law

In order to (1) maintain a balance in the UC Fund which is sufficient to pay Benefit Obligations, (2) avoid paying interest on Federal Advances, and (3) avoid imposing the Deficit Assessment when possible, the Texas Legislature, during its 78th Regular Session in 2003, enacted Article 6 in Senate Bill 280 ("SB 280"). SB 280, the Commission's Sunset Bill, continues the Commission to 2009, and includes the authority to issue up to $2 billion in bonds or other obligations (pursuant to Chapters 1232 and 1371, and applicable provisions of Title 9 of the Texas Government Code, as amended) if a borrowing is needed to pay Benefit Obligations or to repay Federal Advances. Borrowing proceeds may also be used for costs of issuance, administration expenses related to the borrowing, and capitalized interest relating to the obligations. SB 280 amends the Texas Labor Code to abolish the Advance Interest Trust Fund and create the "Obligation Trust Fund," and authorizes the Commission to impose the Obligation Assessment on Contributing Employers, to be deposited into the Obligation Trust Fund. For more information on the Obligation Assessment, see "STATE UNEMPLOYMENT COMPENSATION PROGRAM—Contributions; Unemployment Taxes" below.

Benefit Obligations

An unemployed worker's eligibility for unemployment benefits is based upon two general criteria: earnings and the reason for separation from employment. An employee must have been paid at least 37 times his or her weekly benefit rate during the base period (the first four of the most recently completed five calendar quarters preceding the effective date of the unemployment insurance claim). An employee must be totally or partially unemployed through no fault of the employee, be able to work, be available for work, and be actively seeking employment to be eligible to receive benefits. For the 12 months ending September 30, 2003, the maximum weekly benefit amount is $328. For the 12 months beginning October 1, 2004, the maximum weekly benefit amount is $330.

The total amount of benefits payable to an individual in a benefit year is 26 times his or her weekly benefit amount. During periods of high unemployment, individuals may also be eligible for certain extended benefits. All extended benefit programs provided in the last 20 years have been created through federal legislation, were not mandated by the U.S. Department of Labor, and were fully federally-funded. While the U.S. Department of Labor has the ability to mandate that the State pay 50% of any extended benefits, it has not done so during the last 20 years. For statistical information regarding the payment of Benefit Obligations by the State, see "APPENDIX B—CERTAIN INFORMATION REGARDING THE STATE UNEMPLOYMENT COMPENSATION PROGRAM" herein.

Contributions; Unemployment Taxes

Benefit Obligations, which represent the aggregate benefits payable by the State, are financed from "Contributions" paid by employers (the "Contributing Employers") or, in the case of nonprofit organizations and governmental employers who have so elected, reimbursement payments in lieu of Contributions. TUCA authorizes an unemployment tax which is levied on the first $9,000 of taxable wages earned by each employee (the "taxable wage base"). The State unemployment tax consists of the assessment of a General Tax, a Replenishment Tax, a Deficit Assessment, and an Obligation Assessment, and may be reduced by a tax credit in certain circumstances. Rates are recalculated for each employer in November of each year, to be effective for wages paid in the next year. Each employer's total rate varies based on their specific unemployment insurance claims experience. Annual recalculation also incorporates benefits paid that cannot be charged to a specific employer, any UC Fund deficit (if the balance is below the floor on October 1), and any debt service obligations anticipated for the next year. For statistical information regarding Contributions, see "APPENDIX B—CERTAIN INFORMATION REGARDING THE STATE UNEMPLOYMENT COMPENSATION PROGRAM" herein.

General Tax: Contributing Employers with former employees who received unemployment insurance benefits are assessed a general tax (the "General Tax"). The General Tax Rate is determined as of October 1 and assessed beginning January 1 of the following calendar year. The General Tax Rate is the rate derived from multiplying the "Benefit Ratio" by the "Replenishment Ratio." The Benefit Ratio for any Contributing Employer is equal to the amount of benefits paid to the particular Contributing Employer's former employees ("Chargebacks") during the previous three years divided by the total amount of taxable wages paid by that particular Contributing Employer during the same previous three years. The Replenishment Ratio is the result obtained by dividing the total effectively charged benefits paid during the 12 month period preceding the October 1 rate computation date plus one-half of the ineffectively charged benefits (benefits attributable to employers no longer in existence) for the same period by the total amount of benefits paid for the same period that are effectively charged. Canceled benefit warrants, repaid benefits which were overpaid, and benefits paid which are repayable from reimbursing employers, the federal government, or any other governmental entity are excluded from this computation. If a Contributing Employer has no history of Chargebacks, its General Tax Rate will be zero. By statute, the maximum General Tax Rate is capped at 6%. If a Contributing Employer has no Chargebacks, the General Tax Rate can be 0% for that Contributing Employer. As a point of reference, the computed average General Tax Rate for calendar year 2003 is 0.65%.

Replenishment Tax: The Replenishment Tax is a flat tax imposed on all Contributing Employers with Chargebacks, and is used to replenish the UC Fund for half of all ineffectively-charged benefits. The Replenishment Tax Rate is equal to one half of the ineffectively-charged benefits divided by one year of total taxable wages Statewide. The computed Replenishment Tax Rate for calendar year 2003 is 0.47%.

Deficit Assessment: The Deficit Assessment is imposed on all Contributing Employers if on October 1 of any year the balance of the UC Fund is below the floor, which is equal to the greater of $400 million or one percent of total taxable wages for the four calendar quarters preceding June 30th. The Deficit Assessment Rate is equal to the "Deficit Ratio" multiplied by the Contributing Employer's total unemployment tax rate. The Deficit Ratio is equal to the difference between the UC Fund balance and the floor on October 1, divided by the revenue received from the General Tax and the Replenishment Tax in the previous year. The Deficit Assessment Rate may not exceed 2% for any particular Contributing Employer.

Obligation Assessment: Prior to June of 2003, the Commission had the authority to levy an additional tax on each experience-rated employer, the rate of which could not exceed 0.2%. The proceeds of the additional tax were deposited into the "Advance Interest Trust Fund" and used by the Commission solely to pay interest on Federal Advances. This additional tax has now become the "Obligation Assessment," which was authorized by the Texas Legislature in 2003. The Obligation Assessment will be imposed on Contributing Employers with Chargebacks if, after January 1 in any particular year, an interest payment on a Federal Advance will be due or principal and/or interest on bonds issued by the Authority for the UC Fund are due, and the amount needed to make such payments is not available in the Obligation Trust Fund, formerly the Advance Interest Trust Fund, or otherwise available.

The portion of the Obligation Assessment Rate needed to pay interest on Federal Advances may not exceed 0.2% and will be calculated by dividing 200% of the additional amount estimated to be needed to pay interest due by the estimated total taxable wages for the first and second quarters of the year in which the interest is due. The portion of the Obligation Assessment Rate needed to pay principal and interest on the Authority's bonds issued for the UC Fund is a percentage (which percentage is set by Commission resolution and may not exceed 200%) of the product of the Obligation Assessment Ratio and the sum of the employer's prior year's General Tax Rate, the Replenishment Tax Rate, and the Deficit Assessment. The Obligation Assessment Ratio is equal to the total principal, interest, and administration expenses to be due during the next year, divided by the amount of contributions due under the General Tax Rate and the Replenishment Tax Rate for the four calendar quarters ending the preceding June 30th from Contributing Employers with Chargebacks. **Other than the portion of the Obligation Assessment Rate which will be needed to pay interest on Federal Advances, the Obligation Assessment Rate is not capped.** The Obligation Assessment Rate for 2004 will be set by the Commission in November of 2003 to provide an amount which is not less than interest due on Federal Advances, if any; to pay principal and interest due on the Bonds in 2004; administration expenses relating to the Bonds expected to be incurred in 2004; and to provide an additional amount equal to 50% of the principal and interest due on the Bonds in 2004, all as required by the Financing and Pledge Agreement dated as of September 1, 2003, between the Authority and the Commission (the "Financing and Pledge Agreement). *See* "THE FINANCING AND PLEDGE AGREEMENT" herein. The majority of the revenues generated by the Obligation Assessment in any given year are expected to be available in April of each year to pay the annual debt service due on the Bonds in such year. *See* "APPENDIX C-- RULE REGARDING COMPUTATION OF OBLIGATION ASSESSMENT RATE."

Tax Credit: If the UC Fund balance rises above an amount equal to two percent of total taxable wages for the four calendar quarters preceding June 30th (the "ceiling"), then Contributing Employers will be entitled to a tax credit against their required Contributions in the following year. Tax credits based on the ceiling are computed by using the total amount of taxes due from experience-rated employers during the four calendar quarters preceding the computation date as the denominator and the amount by which the UC Fund is above the ceiling as the numerator. This ratio is multiplied by the Contributing Employer's Contributions due for the four calendar quarters ending September 30th preceding the computation date to obtain a credit amount which the Contributing Employer may apply against his taxes in the ensuing year. The credit may not be applied against delinquent taxes or applied in any manner until the Contributing Employer has paid any delinquent taxes it owes.

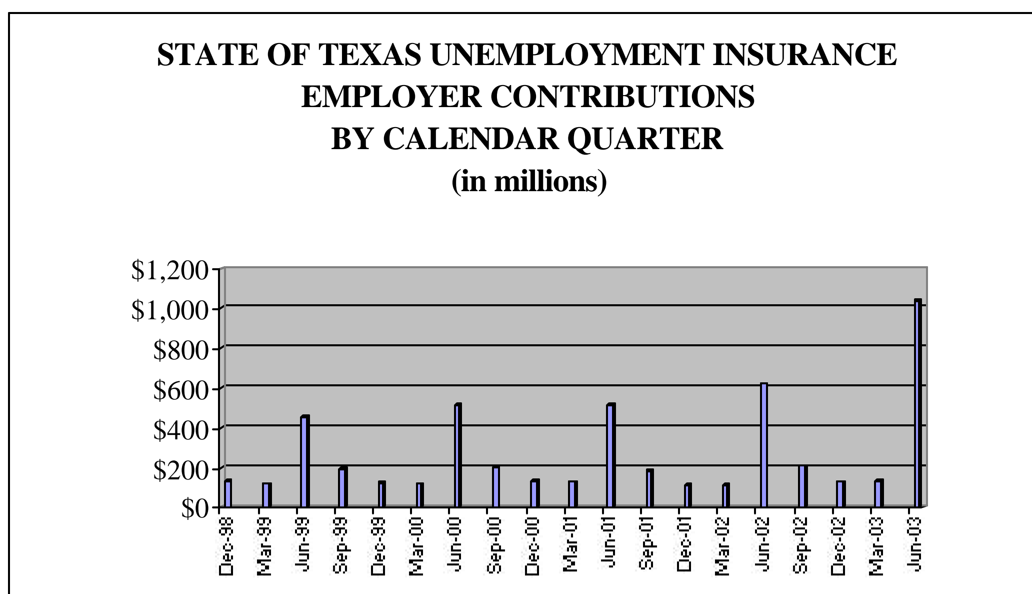
Contributions in Lieu of Taxes: Contributing Employers may reduce their tax rate by voluntarily paying in all or part of their share of the benefits paid to former employees instead of repaying the benefits through an increase in their tax rate.

Governmental Entities: Tax rates for taxed governmental entities are computed as a group, and all governmental employers have the same tax rate which is determined by how much the group has cost the UC Fund in benefit payments to their ex-employees as compared to the amount of taxes that the group has paid. Political subdivisions, Indian tribes, and 501(c)(3) organizations may elect to pay reimbursements to the UC Fund in lieu of paying taxes.

New Employers: New Contributing Employers pay an initial unemployment tax rate of 2.7%. Because new Contributing Employers have no experience established regarding the payment of Benefits, the General Tax Rate is statutorily set for these Contributing Employers at 2.7% or the applicable industry average tax rate, whichever is higher. New Contributing Employers are not assessed a Replenishment Tax, a Deficit Assessment, or an Obligation Assessment, and they continue to pay at the initial rate until eligible for a computed effective tax rate based on their experience regarding payment of Benefits, which generally occurs six to eight calendar quarters after they first become Contributing Employers.

The Collection and Enforcement Process

Most Contributing Employers pay Contributions to the State on a quarterly basis. Because Contributions are based only on the first $9,000 of wages paid to employees, most employees will have received those wages in the first quarter of the calendar year, so the majority of Contributions received by the State are collected on or before June 30th of each calendar year. The following chart demonstrates the pronounced unemployment insurance revenue peak in the second quarter of each year. Unemployment insurance contributions are due quarterly (on the last day of the month following the last month of the quarter).



Source: Texas Workforce Commission.

The Unemployment Insurance Tax Department within the Commission is responsible for assisting employers with compliance with TUCA provisions. The Collections Section of this Department maintains delinquent charges, verifies billing notices, reviews all collection activities, and takes enforcement action as required. This Section uses collection letters; installment payment agreements; negotiated settlements; and enforcement actions such as imposing and enforcing tax liens on property, freezing bank accounts, and placing holds on State warrants payable to delinquent businesses. Collections examiners also review employer reports to locate underreported or overreported wages or false information relating to ownership, partners, and corporate officers. The Status Section of this Department registers new employers, maintains files on employers, and makes determinations on tax liability issues. The Status Section also works with the Internal Revenue Service and the Texas Comptroller of Public Accounts to determine if any new employers have been created which may be liable for unemployment taxes but which have not registered with the Commission. The Accounts Section computes employer tax rates, maintains accounts to correct errors in taxes and wages reported, and processes refunds. The Field Tax Operations Section provides employer education services and performs collection and audit functions at the field tax offices, performs formal training of Tax Department staff, and prepares statistical reports of production and performance of the Department.

The Commission will administer the same billing and collection processes for the collection of the Obligation Assessment that it currently uses for the collection of all other Contributions, and late or delinquent payments will be subject to the same interest charges and penalties currently assessed Contributing Employers with late or delinquent Contributions. Interest for late payment is assessed at a rate of one and one-half percent (1.5%) of the amount of the Obligation Assessment for each month or part of a month elapsed after the final due date, with the maximum interest rate set at 37.5%. Only Contributing Employers that are deemed "active" (still in existence and not in liquidation or bankruptcy proceedings) by the Commission will be included in the calculation of the Obligation Assessment. The rate of the Obligation Assessment for any particular calendar year will be determined in November of the preceding year, and Contributing Employers will be mailed notification of their Obligation Assessment Rate in December of the preceding year. The Obligation Assessment will be paid by Contributing Employers each calendar quarter, but a majority of the Obligation Assessment revenues are expected to be collected in April and May of 2004 and in April and May of each year thereafter while the Bonds are Outstanding.

If payment of an Obligation Assessment is not received in the full amount due, the delinquent Contributing Employer will receive a debit statement for the remaining amount due. Delinquency notices will be sent out to Contributing Employers who are delinquent three weeks or more. If delinquent Contributing Employers are non-responsive after receipt of the notice, tax liens will be in place within six months from the due date of the Assessment. If a Contributing Employer remains delinquent, the Commission will place a tax lien on the Contributing Employer's property immediately and may seize the property. For amounts of the Obligation Assessment due from Contributing Employers which go into receivership or bankruptcy, the Commission will proceed to collect those amounts from the trustee in bankruptcy or the receiver.

For employment taxes due in any calendar quarter, the process of collecting the taxes due in that particular quarter continues over time until the Commission collects as much of the tax due as possible. Therefore, collection rates will increase over time. For example, as of August 18, 2003, the Commission collected 98.18% of taxes due in the first calendar quarter of 2003, and in the next calendar quarter expects to collect up to at least 99% of the taxes due during that first calendar quarter of 2003. Based on Contributing Employer returns, audit procedures, and enforcement, the Commission estimates that it has collected in excess of 99% of Contributions due for the years 1989 through 2002. The collection rate for the Obligation Assessment is expected to approximate that of Contributions overall. Rate notices sent to Contributing Employers show a composite tax rate due, and Contributing Employers are required to pay the entire amount due. If Contributing Employers pay less than the full amount due, the amount paid is allocated among the composite tax and assessment rates in accordance with any one tax or assessment rate's proportion to the composite tax rate. For statistical information regarding the collection of Contributions by the State, see "APPENDIX B—CERTAIN INFORMATION REGARDING THE STATE UNEMPLOYMENT COMPENSATION PROGRAM" herein.

PLAN OF FINANCING

Authority for Issuance of the Bonds

The Bonds are being issued in accordance with the general laws of the State of Texas, specifically Chapter 203, Subchapters C and F, Texas Labor Code, as amended, and Chapters 1232 and 1371, and applicable provisions of Title 9, Texas Government Code, as amended (collectively, the “Authorizing Law”), and additionally pursuant to a resolution (the “Resolution”) adopted by the Authority’s governing body on August 19, 2003.

Pursuant to the Authorizing Law, the Authority has the exclusive authority to issue up to $2 billion in bonds or other obligations on behalf of the Commission. The Commission submitted and the Authority approved a request for financing relating to the issuance of the Bonds pursuant to the authority granted under the Authorizing Law.

Purpose

Proceeds from the sale of the Bonds will be used for the purposes of (i) repaying principal of and paying interest on advances from the federal unemployment trust fund; (ii) paying unemployment benefits by depositing the proceeds in the UC Fund; (iii) paying costs of issuance; and (iv) paying capitalized interest on the Bonds.

Sources and Uses of Proceeds

The proceeds of the Bonds will be applied as follows:

Sources:	
Series A Par Amount	$256,235,000.00
Net Premium	23,621,812.45
Series B Par Amount	$520,485,000.00
Net Discount	(412,944.65)
Series C Par Amount	$ 400,000,000.00
Series D Par Amount	$200,000,000.00
Total	$1,399,928,867.80
Uses:	
Deposit to Program Fund:	$1,382,241,029.36
Costs of Issuance[1]	$ 4,668,660.36
Deposit to Debt Service Account	$13,019,178.08
Total	$1,399,928,867.80

[1] Includes Underwriters' Discount and premium for bond insurance.

DEBT SERVICE AND COVERAGE SCHEDULES

Debt Service Schedule for the Fixed Rate Bonds

Calendar Year (December 31)	Series A Principal	Series A Interest	Series B Principal	Series B Interest	Annual Debt Service
2004		$14,693,081.94	$139,000,000	$14,224,195.14	$167,917,277.08
2005		12,021,612.50	154,425,000	8,918,268.76	175,364,881.26
2006		12,021,612.50	155,735,000	5,497,537.50	173,254,150.00
2007	$88,905,000	11,909,206.25	71,325,000	1,114,453.13	173,253,659.38
2008	167,330,000	5,924,300.00			173,254,300.00
2009					
TOTAL	$256,235,000	$56,569,813.19	$520,485,000	$29,754,454.53	$863,044,267.72

Debt Service Schedule for the Variable Rate Bonds

Calendar Year (December 31)	Series C Principal	Series C Interest[1]	Series D Principal	Series D Interest[1]	Annual Debt Service
2004		$12,246,575.34		$6,123,287.67	$18,369,863.01
2005	$20,000,000	11,849,589.04		6,000,000.00	37,849,589.04
2006	23,000,000	13,106,972.60		7,000,000.00	43,106,972.60
2007	28,000,000	13,124,280.82		7,500,000.00	48,624,280.82
2008	29,000,000	12,895,232.88		8,021,917.82	49,917,150.70
2009	300,000,000	12,750,000.00	$200,000,000	8,499,999.99	521,249,999.99
TOTAL	$400,000,000	$75,972,650.68	$200,000,000	$43,145,205.48	$719,117,856.16

[1] Taxable variable rates assumed as follows: 2.50% in 2003, 2.75% in 2004, 3% in 2005, 3.5% in 2006, 3.75% in 2007, 4% in 2008, and 4.25% in 2009; bond proceeds will be used to pay interest due during the period which begins on the date of delivery and ends on June 15, 2004.

Coverage Schedule

Calendar Year	Fixed Rate Bonds Debt Service	Variable Rate Bonds Debt Service[1]	Annual Total Projected Debt Service	Minimum Obligation Assessment[2]	Projected Accelerated Retirement of VRDB Principal	Projected VRDB Outstanding Balance
						$600,000,000
2004	$167,917,277	$18,369,863	$186,287,140	$279,430,710	$ 91,400,000	508,600,000
2005	175,364,881	37,849,589	213,214,470	319,821,705	110,800,000	377,800,000
2006	173,254,150	43,106,973	216,361,123	324,541,684	113,100,000	241,700,000
2007	173,253,659	48,624,281	221,877,940	332,816,910	112,800,000	100,900,000
2008	173,254,300	49,917,151	223,171,451	334,757,176	71,900,000	0
2009	[3] 0	521,250,000	521,250,000	781,875,000		

[1] Projected debt service to maturity. Does not reflect the reduced interest cost resulting from the accelerated redemption of the Variable Rate Bonds. Estimated at projected variable rates as follows: 2.50% in 2003, 2.75% in 2004, 3% in 2005, 3.5% in 2006, 3.75% in 2007, 4% in 2008, and 4.25% in 2009.
[2] Estimated minimum Obligation Assessment required to produce revenues equal to 1.50x the amount of Bond Obligations due in the next year. Does not include the amount of Obligation Assessment revenues needed to pay administration expenses or repay Federal Advances, if any.
[3] The Variable Rate Bonds are projected to be retired prior to maturity (the estimated retirement date is 12/15/2008). Therefore, the Obligation Assessment for calendar year 2009 is not expected to be implemented.

DESCRIPTION OF THE BONDS

Provisions Applicable to All Bonds

Paying Agent/Registrar

The Authority will serve as the initial Paying Agent/Registrar for the Fixed Rate Bonds and perform all duties and functions required to be performed with respect to the Fixed Rate Bonds under the Resolution by the Paying Agent/Registrar; provided, however, that the Authority must appoint a third party Paying Agent/Registrar if the

Fixed Rate Bonds cease to be Book-Entry Bonds. The Bank of New York Trust Company of Florida, N.A. will serve as the initial Paying Agent/Registrar for the Variable Rate Bonds and perform all duties and functions required to be performed with respect to the Variable Rate Bonds under the Resolution by the Paying Agent/Registrar.

The Authority may appoint or discharge a Paying Agent/Registrar at any time, and the appointment or discharge shall take effect on the date fixed by the Board. The Authority may enter into an agreement with any Paying Agent/Registrar governing the duties and functions to be performed by such Paying Agent/Registrar, compensation, termination and resignation, or such other matters as the Board determines appropriate. If the Authority appoints or discharges a Paying Agent/Registrar, it will give written notice thereof to the Bond Owners.

To be qualified to serve as Paying Agent/Registrar, a Person (other than the Authority, the Comptroller or the Texas Treasury Safekeeping Trust Company) must be a bank, trust company, or other entity that: (1) is authorized under law to exercise trust powers and perform the duties and functions of Paying Agent/Registrar prescribed by the Resolution; and (2) is subject to supervision or examination by a federal or state governmental authority with jurisdiction over financial institutions.

While any Bonds are outstanding, the Authority will either act as Paying Agent/Registrar or maintain a qualified Paying Agent/Registrar and will promptly appoint a replacement if the Paying Agent/Registrar resigns, is terminated, or otherwise ceases to serve.

The Authority reserves the right to terminate the appointment of the Paying Agent/Registrar at any time by causing written notice of such termination, stating the effective date thereof, to be given to the Paying Agent/Registrar, provided that such termination will not be effective until a successor Paying Agent/Registrar has been appointed and assumed its duties.

Transfer, Exchange, and Registration

The Paying Agent/Registrar or the Tender Agent on behalf of the Paying Agent/Registrar, will maintain a register as registrar for the Bonds (the "Register"), at its principal office. A transfer of a Bond is not effective until entered in the Register. The transfer of a Bond will be made by the Paying Agent/Registrar or Tender Agent upon the surrender to the Paying Agent/Registrar or Tender Agent of the Bond by the Bond Owner (or such owner's duly authorized representative), together with such endorsement or other evidence of transfer as is satisfactory to the Authority and the Paying Agent/Registrar or Tender Agent. To effect a transfer, the Authority will execute and the Paying Agent/Registrar or Tender Agent will authenticate and deliver to the transferee a new Bond or Bonds (each in an authorized denomination) of the same tenor and aggregate principal amount and interest rate as the Bond or Bonds surrendered for transfer. A transfer of a Bond will be made without any charge to the Bond Owner, except that any tax or other governmental charge imposed with respect to the transfer will be paid by the Bond Owner requesting the transfer.

Any Bond(s) may be exchanged for a new Bond or Bonds (each in an authorized denomination) of the same tenor and aggregate principal amount and interest rate upon the surrender to the Paying Agent/Registrar by the Bond Owner (or such owner's duly authorized representative) of the Bond(s) as to which the exchange is desired. To effect an exchange, the Authority will execute and the Paying Agent/Registrar will authenticate and deliver to the Bond Owner the new Bond or Bonds in exchange for the surrendered Bond(s). A Bond Owner exchanging any Bond(s) shall pay an amount sufficient to reimburse any out-of-pocket expenses incurred by the Authority, the Paying Agent/Registrar, or the Tender Agent in connection with making the exchange, and any tax or other governmental charge imposed with respect to the exchange. The Paying Agent/Registrar or Tender Agent is not required to transfer or exchange any Bond: (1) between a Record Date and the related Interest Payment Date; (2) during the 30-day period preceding the maturity date of such Bond; or (3) which has been selected for redemption in whole or in part.

Notice of Redemption

Not less than 15 days prior to a redemption date for any Bond, 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 distribution. The notice will state the redemption date, the redemption price, the place at which such Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or portions thereof to be redeemed. So long as the Bonds remain Book-Entry Bonds, the Authority will only be required to send such notice of redemption to the Depository Trust Company (or its nominee). Any notice of redemption so distributed 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 will 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 as herein provided, the Bonds or portions thereof so redeemed will 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 will terminate on the date fixed for redemption.

Book-Entry Only System

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Bank 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 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating, "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 Bond 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 purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Bond 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.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds 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 Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe that it will not receive payment on the payable date. Payments by DTC 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 names," and will be the responsibility of such Participant and not of DTC, the Paying Agent 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 and disbursement of such payment to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information under 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.

THE COMMISSION AND THE AUTHORITY, SO LONG AS THE DTC BOOK-ENTRY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF PROPOSED AMENDMENT TO THE RESOLUTION OR OTHER NOTICES WITH RESPECT TO SUCH BONDS ONLY TO DTC. ANY FAILURE BY DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO NOTIFY THE BENEFICIAL OWNERS, OF ANY NOTICES AND THEIR CONTENTS OR EFFECT WILL NOT AFFECT ANY ACTION PREMISED ON ANY SUCH NOTICE. NEITHER THE COMMISSION NOR THE AUTHORITY WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM DTC PARTICIPANTS ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS ON THE BONDS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

Definition of Bond Obligations

Bond Obligations means, with respect to the Bonds and any additional bonds issued on a parity with the Bonds (the "Parity Bonds"), and with respect to any particular calendar year or 12 month period, an amount equal to the sum of

(a) all interest payable on the Parity Bonds during such period, except to the extent that such interest is to be paid from amounts (including any investment earnings thereon) deposited in the Debt Service Account for the purpose of paying capitalized interest, plus (b) that portion of the principal amount of such Parity Bonds which are due and payable during such period, plus (c) any premium due and payable on such Parity Bonds during such period, plus (d) any amount owed under a Credit Agreement relating to such Parity Bonds; provided, however, for purposes of satisfying any requirement under the Financing and Pledge Agreement relating to calculating Bond Obligations or the requirement in the Resolution regarding the deposit of sufficient Pledged Assessments to the Debt Service Account to fund anticipated Bond Obligations during any such calendar year or the determination of Excess Pledged Assessments, the following rules will apply:

(A) Interest and principal for any series of Parity Bonds will be calculated on the assumption that no Parity Bonds outstanding on the date of calculation will cease to be outstanding except by reason of the scheduled payment of principal on the due date thereof.

(B) To the extent any Additional Bonds are issued as commercial paper, interest and principal for any commercial paper will be calculated on the assumption that all such commercial paper will be continuously refinanced with other Bonds, bearing interest as provided in (C) below, so as to permit approximately equal annual amortization of Bond Obligations on such commercial paper to be due and payable over a period of ten years following depletion of any amounts provided for capitalized interest on such commercial paper.

(C) Except as provided in (D) below, the Bond Obligation for any Variable Rate Bonds or other bonds issued pursuant to a supplement to the Resolution which bear interest at variable rates or which will at some future date bear interest at a rate or rates to be determined or which will be subject to conversion to an interest rate or interest rate mode such that rates cannot then be ascertained will be deemed to bear interest at the higher of (i) a long-term interest rate estimated by the Authority or the Authority's Financial Advisor to be the average rate of interest such bonds would bear if issued as long-term obligations bearing interest at fixed interest rates to be amortized over the remaining term of such bonds, (ii) a short-term interest rate equal to 150% of the average interest rate borne by such bonds during the twelve month period (or such lesser period if such bonds have not been outstanding for 12 months) ending within 30 days prior to the Date of Calculation, or (iii) a rate to be determined by the Authority or the Authority's Financial Advisor.

(D) Amounts payable and/or receivable by the Authority under Hedge Agreements (as defined in the Resolution) may be combined with payments of Bond Obligations on any series of Parity Bonds to which the Hedge Agreement relates. In such event, the Authority or the Financial Advisor to the Authority will prepare a combined calculation of Bond Obligations with respect to the amounts payable and/or receivable under the Hedge Agreement and the amounts of interest payable under the Parity Bonds to which it relates, and in such calculation may offset amounts receivable by the Authority under the Hedge Agreement against interest payable on related Parity Bonds. Any remaining (i.e. not offset) payment obligations of the Authority under the Hedge Agreement, excluding any termination payments arising under such Hedge Agreement, shall be treated as payments of interest for purposes of computing Bond Obligations and shall be calculated at the rate provided in such Hedge Agreement the same as if it were an interest rate on Parity Bonds, and if such rate is variable or otherwise not ascertainable at the time of calculation, will be estimated by the Authority or the Financial Advisor to the Authority in the same manner as herein described for the estimation of Bond Obligations on Parity Bonds bearing interest at variable rates or rates not ascertainable at the time of calculation. If not combined with payments of Bond Obligations on Parity Bonds as set forth above, amounts payable and/or receivable by the Authority under Hedge Agreements will include only the net amount payable and/or receivable for purposes of computing Bond Obligations.

(E) Interest accreting on Parity Bonds issued as capital appreciation bonds will be treated as principal payable at maturity of such Parity Bonds.

(F) Interest (other than on capital appreciation bonds) will be deemed to accrue monthly and principal also will be deemed to accrue monthly but only during the twelve months immediately preceding any scheduled principal payment (or during such shorter periods as may be appropriate if principal payments are more frequent than every twelve months).

(G) Amounts derived from the investment of money in the Debt Service Account, Redemption Account, or any debt service reserve fund or account during the calendar year or other period of calculation will reduce Bond Obligations on Bonds during such fiscal year or other period of calculation.

Hedge Agreements

The Authority has not entered into any Hedge Agreement relating to the Bonds. Should the Authority enter into one or more Hedge Agreements relating to the Bonds, the Authority will notify each SID and each NRMSIR or the MSRB of such fact and provide information on such Hedge Agreement(s). *See* "CONTINUING DISCLOSURE OF INFORMATION" herein.

Defeasance

The lien on Pledged Revenues will be of no further force and effect when the Bond Obligations have been discharged. The Bond Obligations will be deemed discharged when the payment of Bond Obligations has been provided for by irrevocably depositing sufficient assets into the Debt Service Account or with the Paying Agent/Registrar or a financial institution or trust company designated by the Authority, the Authority has received a favorable opinion of Bond Counsel, all other payments due under the Resolution have been made or provided for, and the Paying Agent/Registrar has received all documentation regarding such discharge as it may require.

Additional Bonds

So long as the Financing and Pledge Agreement is in effect, one or more series of Additional Bonds may be issued for the purpose of financing, in whole or in part, the purposes of the Authorizing Law, or for the purpose of refunding any outstanding Bonds. Such Additional Bonds, when issued, and the interest thereon will be equally and ratably secured by and payable from a first lien on and pledge of Pledged Revenues, in the same manner and to the same extent as the Bonds at the time outstanding, and the Additional Bonds, when issued, and the interest thereon, will be on a parity and in all respects of equal dignity with each other. Notwithstanding the foregoing, no installment, series, or issue of Additional Bonds may be issued and delivered unless: (1) the Chair of the Board signs a written certificate to the effect that the Authority is not in default, or as of the date of issuance and delivery of the Additional Bonds then being issued will not be in default, as to any of its covenants, conditions, or obligations set forth in the Financing and Pledge Agreement, the Liquidity Agreement, the Funds Management Agreement, any other related document, the Resolution, or any resolution authorizing outstanding Additional Bonds; (2) an appropriate officer of the Commission signs a certificate to the effect that the Commission is not in default as to any of its covenants, conditions, or obligations set forth in the Financing and Pledge Agreement; (3) the Comptroller signs a certificate to the effect that the Comptroller is not in default as to any covenants, conditions, or obligations set forth in the Liquidity Agreement and the Funds Management Agreement; and (4) the Executive Director of the Authority signs a written certificate to the effect that the Financing and Pledge Agreement (as the same may be amended) will provide Pledged Revenues which will be sufficient to pay Bond Obligations on all then outstanding Bonds, including the Additional Bonds then proposed to be issued, and sufficient to pay all administration expenses of the Authority related to the Bonds and Additional Bonds. Each series of Additional Bonds issued will be equally and ratably secured under the Resolution with the Bonds and all other series of Additional Bonds, if any, issued, without preference, priority, or distinction of any Bonds over any other thereof.

Amendments

Except as otherwise provided, the 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. For any one or more of the following purposes and at any time or from time to time, the Resolution, without the consent of, or notice to, any of the Bond Owners, may be amended or supplemented for any of the following purposes: (1) to close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on the delivery of Bonds or the issuance of other evidences or indebtedness; (2) to add to the covenants and agreements of the Authority in the Resolution, other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with this Resolution; (3) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution of the Pledged Revenues, or to grant to Bond Owners additional rights or enhancements on any loan agreement, revolving credit

agreement, agreement establishing a line of credit, letter of credit, interest rate swap agreement, or any other agreement that enhances the marketability, security, or creditworthiness of a Bond (a "Credit Agreement"); (4) to surrender any right, power, or privilege reserved to or conferred upon the Authority by the terms of the Resolution, provided that the surrender of such right, power, or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolution; (5) to increase the reserve requirement for any debt service reserve fund or account or to provide for reserve account surety policies; (6) to alter the Resolution to comply with the requirements of a nationally recognized rating agency in order to obtain or maintain a rating on the Bonds in a long-term debt rating category or in a high-quality, short-term, or commercial paper rating category or of such rating agency; (7) to increase the interest rate or rates on the Bonds of any series; (8) to designate Paying Agents, Tender Agents, Registrars, and other agents for the Bonds of any series; (9) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; (10) to modify the Resolution to maintain or preserve federal tax-exemption relating to the Bonds; (11) to modify the Resolution, which may relate to any or all series of the Variable Rate Bonds, to allow changes to interest rate modes for the Variable Rate Bonds at any Mandatory Purchase Date; (12) to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution; and (13) to modify any of the provisions of the Resolution in any respect whatsoever, provided that such action shall not adversely affect the interest of the Bond Owners of outstanding Bonds.

The consent of the Bond Owners of all outstanding Bonds is required for any proposed amendment to the 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 Resolution.

The consent of the Bond Owner of each affected outstanding Bond is required for any proposed amendment to the 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 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.

Unless otherwise required as described above, no Bond Owner consent is required for an amendment to the Resolution if the amendment, in the opinion of Bond Counsel, will not cause any Bond which is tax-exempt to become taxable and, in the opinion of Bond Counsel, will not adversely affect the rights of any Bond Owner under related documents, including without limitation, amendments, changes, or modifications to facilitate the economic and practical utilization of Credit Agreements with respect to the Bonds.

No amendment to the Resolution will take effect until the Authority obtains an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the excludability of interest on any Bond, unless such Bond was issued as a taxable Bond, from the gross income of the Bond Owner thereof for federal income tax purposes, and the opinion of Bond Counsel to the effect that such amendment will not violate the Resolution, the Authorizing Law or other applicable law and, upon obtaining the required Bond Owner consent (if any), will otherwise comply with the requirements of the Resolution for such amendment.

The Financing and Pledge Agreement may not be amended unless (1) the Authority receives a favorable opinion of Bond Counsel to the effect that such amendment will not violate the Resolution, the Authorizing Law, or other applicable law; and (2) either of the following requirements is satisfied: (A) the Authority receives a favorable opinion of Bond Counsel to the effect that such amendment will not cause any Bonds which are tax-exempt to become taxable and that such amendment will not adversely affect the rights of the Bond Owners under the Resolution; or (B) the Bond Owners of at least a majority in aggregate principal amount of the outstanding Bonds affected by such amendment consent thereto, except that the consent of the Bond Owner of each outstanding Bond affected by such amendment is required if such amendment would decrease the minimum percentage of Bond Owners required for effective consent to such amendment.

The Funds Management Agreement may not be amended without Bond Owners’ direction consenting to such amendment unless such amendment, in the favorable opinion of Bond Counsel, will not adversely affect the excludability of interest on any Bond from the gross income of the Bond Owner thereof for federal income tax purposes, and will not adversely affect the rights of any Bond Owner under the Bond documents.

The Fixed Rate Bonds

General

The Fixed Rate Bonds will be issued only as fully registered bonds, without coupons, and will accrue interest from their date of delivery. Interest on the Fixed Rate Bonds is payable on June 15 and December 15 of each year, commencing June 15, 2004, and is calculated on the basis of a 360-day year composed of twelve 30-day months. The Fixed Rate Bonds mature on June 15 and December 15 in the years and in the principal amounts set forth on the inside cover page hereof. The Record Date for the Fixed Rate Bonds is the last Business Day of the month immediately preceding each June 15 and December 15. The Fixed Rate Bonds will be issued in Authorized Denominations of $5,000 and integral multiples thereof.

If the specified date for any payment of principal of or interest on the Fixed Rate Bonds is a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

The interest on the Series A Bonds is tax-exempt; the interest on the Series B Bonds is taxable. THE SERIES B BONDS MAY NOT BE CONVERTED TO TAX-EXEMPT BONDS.

Payment of Bond Obligations

The Paying Agent/Registrar will calculate the amount of Bond Obligations from time to time payable on each Fixed Rate Bond (other than a Book-Entry Bond) and make timely payment of the Bond Obligations thereon from the funds available therefor under the Resolution. The payment of Bond Obligations with respect to Book-Entry Bonds will be made in accordance with the initial Blanket Letter of Representations or comparable instrument under any subsequent book-entry system and the Funds Management Agreement. Interest on each Fixed Rate Bond will be paid to the Person who is the Bond Owner at the close of business on the Record Date.

Redemption

The Fixed Rate Bonds are not subject to redemption.

The Variable Rate Bonds

The Remarketing Agents for each series and subseries of the Variable Rate Bonds are listed, by series and subseries, on the inside cover of this Official Statement. All references in this section and in this Official Statement to "the Remarketing Agent" refers to each Remarketing Agent in its capacity as remarketing agent for one or more particular series or subseries of the Variable Rate Bonds.

General

The final maturity of the Subseries C-1 Bonds is December 15, 2008; the final maturity of all other Variable Rate Bonds is December 15, 2009.

The Variable Rate Bonds in a Daily Mode or Weekly Mode will be issued in authorized denominations of $100,000 and any integral multiple of $5,000 in excess thereof. The Variable Rate Bonds in a Flexible Mode will be issued in authorized denominations of $100,000 and any integral multiple of $1,000 in excess thereof. The Variable Rate Bonds in a Term Rate Mode or Fixed Rate Mode will be issued in authorized denominations of $5,000 and any integral multiple thereof.

The Record Date for Variable Rate Bonds is, with respect to Variable Rate Bonds in a Daily Mode, Weekly Mode, or Flexible Mode, the last Business Day before an Interest Payment Date, and with respect to Variable Rate Bonds in a Term Rate Mode or Fixed Rate Mode, the last day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

The Interest Payment Date is: (i) for the Flexible Mode, each applicable Mandatory Purchase Date; (ii) for the Daily Mode or Weekly Mode, the first Business Day of each month; (iii) for the Long-Term Mode, the first day of the sixth calendar month following the month in which such Long-Term Mode takes effect, and the first day of each sixth calendar month thereafter or, upon receipt of a favorable opinion of bond counsel, any other six-month interval chosen by the Authority (beginning with the first such day which is at least three months after the Mode Change Date) and, with respect to a Term Rate Period, the final day of the current Interest Period if other than a regular six-month interval; (iv) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between Daily Mode and Weekly Mode, and each Maturity Date; and (v) for Purchased Bonds, the day set out in the Liquidity Agreement.

If the specified date for any payment of principal of or interest on the Variable Rate Bonds is a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium), such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Payment of Bond Obligations

Interest on the Variable Rate Bonds will be payable to the Bond Owners as shown in the Register at the close of business on the Record Date. Other than with respect to Variable Rate Bonds held in the Book-Entry System, principal and interest will be paid (i) with respect to Variable Rate Bonds bearing interest at a Flexible Rate, a Daily Rate, or at a Weekly Rate, by federal funds by wire transfer within the continental United States upon written instruction from the Bond Owner to the Paying Agent/Registrar, and otherwise by check dated the Interest Payment Date and mailed by first class mail, and (ii) with respect to Variable Rate Bonds bearing interest at a Term Rate or Fixed Rate, by check, dated as of the Interest Payment Date, and sent by first class mail, postage prepaid, by the Paying Agent/Registrar to each Bond Owner at the address shown in the Register, or by such other customary banking arrangement acceptable to the Paying Agent/Registrar at the request of and at the risk and expense of the Bond Owner.

The principal of each Variable Rate Bond will be paid to the Bond Owner thereof on the due date, whether at the maturity date or the date of prior redemption, only upon presentation and surrender of such Variable Rate Bond at the designated office of the Paying Agent/Registrar.

Interest on the Variable Rate Bonds

Modes*:* The Variable Rate Bonds may be issued in a Daily Mode ("Daily Rate Bonds") for a one day interest period, and will bear interest as described below. The Variable Rate Bonds may be issued in a Flexible Mode ("Flexible Rate Bonds") for a Flexible Rate Period of one to 270 calendar days, and will bear interest at the Flexible Rate to be set as described below. The Variable Rate Bonds may also be issued in a Weekly Mode ("Weekly Rate Bonds," collectively with the Daily Rate Bonds and the Flexible Rate Bonds, the "Short-Term Rate Bonds"), for a Weekly Rate Period beginning on the Thursday of each week to and including the Wednesday of the following week; provided, however, the first Weekly Rate Period will be from the Mode Change Date (hereinafter defined) or date of issuance of the Bonds, as applicable, to and including the Wednesday of the following week, and the last Weekly Rate Period will be from and including the Thursday of the week prior to the Mode Change Date to the day next succeeding the Mode Change Date. The Weekly Rate Bonds will bear interest at the Weekly Rate to be set as described below. The Daily Mode, the Flexible Mode, and the Weekly Mode are collectively referred to herein as the "Short-Term Mode."

The Variable Rate Bonds may also be issued in a Term Rate Mode ("Term Rate Bonds") for a Term Rate Period set by the Authority which will be at least 180 days long. The Term Rate Bonds will bear interest at the Term Rate which will be set as described below. The Variable Rate Bonds may also be converted to fixed rate bonds (the "Fixed Rate Mode Bonds") for a period beginning on the Mode Change Date until final maturity of such Fixed Rate Mode Bonds. The Fixed Rate for the Fixed Rate Mode Bonds will be set as described below. Term Rate Bonds and Fixed Rate Mode Bonds are collectively referred to herein as "Long-Term Rate Bonds." The Term Rate Mode and the Fixed Rate Mode are collectively referred to herein as the "Long-Term Mode."

Calculation and Payment of Interest; Maximum Interest Rate: When a Short-Term Mode is in effect, interest will be calculated on the basis of a 365/366 day year for the actual number of days elapsed. When a Long-Term Mode is in effect, interest will be calculated on the basis of a 360 day year comprised of twelve 30-day months. Payment of interest on each Variable Rate Bond will be made on each Interest Payment Date for such Variable Rate Bond for unpaid interest accrued during the "Interest Period" (with respect to each Mode, the period during which interest will accrue at a rate which is effective at the beginning of such period) to the Bond Owner of such Variable Rate Bond on the applicable Record Date. The Variable Rate Bonds may not bear interest at a rate higher than the maximum interest rate permitted by law, which is currently 15%.

In the absence of manifest error, the determination of interest rates (including any determination of rates in connection with a new Mode) and Interest Periods by the applicable Remarketing Agent (referred to herein as the "Remarketing Agent") and the record of interest rates maintained by the Tender Agent will be conclusive and binding upon the Remarketing Agent, the Authority, and the Bond Owners.

Determination of Interest Rate for Daily Mode: The interest rate for Variable Rate Bonds in the Daily Mode ("Daily Rate Bonds") will be the rate of interest determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, will result in the sale of the Daily Rate Bonds at a price equal to the principal amount thereof, plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period. During the Daily Mode, the Remarketing Agent will establish the Daily Rate by 10:00 A.M. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day will be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent will make the Daily Rate available after 10:30 A.M. on each Rate Determination Date by telephone or electronic means to any Bond Owner or Notice Party requesting such rate. The Rate Determination Date for Daily Rate Bonds is each Business Day commencing with the first day (which must be a Business Day) the Variable Rate Bonds are issued in the Daily Mode.

Determination of Interest Period and Interest Rate for Flexible Mode: The Interest Period for the Variable Rate Bonds in the Flexible Mode ("Flexible Rate Bonds") will be one to 270 calendar days, ending on a Business Day or the maturity date. Any Flexible Rate Bond can have an Interest Period and bear interest at a Flexible Rate different from that of another Flexible Rate Bond. In making the determinations with respect to Interest Periods, on the first day of an Interest Period (the "Rate Determination Date" for a Flexible Rate Bond), the Remarketing Agent will select for such Flexible Rate Bond the Interest Period which would result in the Remarketing Agent being able to remarket such Flexible Rate Bond at par in the secondary market at the lowest average interest cost; provided, however, that if the Remarketing Agent has received notice from the Authority that the Flexible Rate Bonds are to be changed from the Flexible Mode to another Mode, the Remarketing Agent will select Interest Periods which do not extend beyond the resulting applicable Mandatory Purchase Date (hereinafter defined) of the Flexible Rate Bonds.

For any Flexible Rate Bonds not registered in a Book-Entry System, in order to receive payment of the purchase price, the Bond Owner must present such Flexible Rate Bond to the Paying Agent/Registrar, by 12:00 noon on the Rate Determination Date, in which case, the Paying Agent/Registrar must pay the purchase price to such Bond Owner by 3:00 P.M. on the same day.

By 1:00 P.M. on each Rate Determination Date, the Remarketing Agent, with respect to each Flexible Rate Bond which is subject to adjustment on such date, will determine the Flexible Rate(s) for the Interest Periods then selected for such Flexible Rate Bond and will give notice by electronic means to the Paying Agent/Registrar and the Authority, of the Interest Period, the purchase date(s), and the Flexible Rate(s). The Remarketing Agent will make the Flexible Rate and Interest Period available after 2:00 p.m. on each Rate Determination Date by telephone or electronic means to any Beneficial Owner or to the Paying Agent/Registrar, the Remarketing Agent, the Tender Agent, the Liquidity Provider, and the Authority (each a "Notice Party") requesting such information.

Determination of Interest Rate for Weekly Mode: The interest rate for Variable Rate Bonds in the Weekly Mode ("Weekly Rate Bonds") will be the rate of interest determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, will result in the sale of the Weekly Rate Bonds at a price equal to the

principal amount thereof, plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period. During the Weekly Mode, the Remarketing Agent will establish the Weekly Rate by 4:00 P.M. on each Rate Determination Date. The Weekly Rate will be in effect during the applicable Weekly Rate Period. The Remarketing Agent will make the Weekly Rate available after 5:00 P.M. on the Rate Determination Date by telephone or electronic means to any Bond Owner or Notice Party requesting such rate. The Rate Determination Date for Weekly Rate Bonds is, in the case of the initial conversion to the Weekly Mode, no later than the Business Day prior to the Mode Change Date, and thereafter will be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday.

Determination of Interest Period and Interest Rate for Term Mode: For Term Rate Bonds, the Term Rate will be determined by the Remarketing Agent not later than 4:00 P.M. on the Rate Determination Date (a Business Day no earlier than 15 Business Days prior to and no later than the Business Day next preceding the first day of an Interest Period), and the Remarketing Agent will make the Term Rate available by telephone or by electronic means to any Notice Party requesting such rate. The Term Rate will be the minimum rate which, in the sole judgment of the Remarketing Agent, would result in a sale of the Term Rate Bonds at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the Authority in writing delivered to the Remarketing Agent before such Rate Determination Date. If a new Interest Period is not selected by the Authority prior to a Rate Determination Date (for a reason other than a court prohibiting such selection), the new Interest Period will be the same length as the current Interest Period (but no Interest Period in the Term Rate Mode may extend beyond the applicable maturity date). The Remarketing Agent will make the Term Rate available by telephone or electronic means after 5:00 p.m. on the Rate Determination Date to any Notice Party requesting such Term Rate. Upon request of any Notice Party the Paying Agent/Registrar must give notice of such rate by electronic means.

Determination of Interest Rate for Fixed Rate Mode: The Remarketing Agent will determine the Fixed Rate for the Variable Rate Bonds being converted to the Fixed Rate Mode in the manner and at the times as follows. Not later than 4:00 P.M. on the applicable Rate Determination Date, the Remarketing Agent will determine the Fixed Rate (or Fixed Rates, if the Variable Rate Bonds will have serial maturity dates). Unless the Authority elects to sell such converted Bonds at prices other than par, the Fixed Rate will be the minimum interest rate which, in the sole judgment of the Remarketing Agent, will result in a sale of such Variable Rate Bonds at a price equal to the principal amount thereof on the Rate Determination Date. The Remarketing Agent will make the Fixed Rate available by telephone or by electronic means after 5:00 p.m. on the Rate Determination Date to any Notice Party requesting such Fixed Rate. Upon request of any Notice Party, the Paying Agent/Registrar must give notice of such rate by electronic means. The Fixed Rate so established will remain in effect until the maturity date of such Variable Rate Bonds, unless such Variable Rate Bonds are redeemed at the option of the Authority on any Interest Payment Date after such conversion to a Fixed Rate. The Rate Determination Date for Fixed Rate Mode Bonds will be a date determined by the Remarketing Agent which must be at least one Business Day prior to the Mode Change Date.

Alternate Rates: If (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for the Variable Rate Bonds, (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to the Variable Rate Bonds (or the selection by the Authority of the Interest Periods for Variable Rate Bonds in the Term Rate Mode) is held to be unenforceable by a court of law of competent jurisdiction or (iii) the Remarketing Agent suspends its remarketing effort in accordance with the Remarketing Agreement, the alternate rate and Interest Period determination methods described below will apply to the Variable Rate Bonds. These provisions will continue to apply until the Remarketing Agent (or the Authority, if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Authority, if applicable) will again make such determination when there is delivered to the Remarketing Agent and the Authority an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations. The following will be the methods by which the interest rates and, in the case of the Flexible and Term Rate Modes, the Interest Periods, will be determined for the Variable Rate Bonds as to which either of the events described in clauses (i) or (ii) will be applicable. Such methods will be applicable from and after the date either of the events described in clauses (i) or (ii) first become applicable to the Variable Rate Bonds until such events are no longer applicable. These provisions will not apply if the Authority fails to select an Interest Period for the Variable Rate Bonds in the Term Rate Mode for a reason other than as described in clause (ii) above.

The Alternate Rate, on any Rate Determination Date, for any Mode: (1) with respect to a Bond which is tax-exempt, is a rate per annum equal to (a) the BMA Municipal Swap Index of Municipal Market Data, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the "BMA Rate") most recently available as of the date of determination, or (b) if such index is no longer available or no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or if neither the BMA Rate nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bond Market Association to determine the BMA Rate just prior to when the Bond Market Association stopped publishing the BMA Rate; and (2) with respect to a Bond which is taxable, a per annum rate equal to 150% of one-month LIBOR. The Tender Agent will make the determinations required to effect an Alternate Rate, upon notification from the Authority, if there is no Remarketing Agent or if the Remarketing Agent fails to make any such determination.

For Flexible Rate Bonds, the next Interest Period will be from, and including, the first day following the last day of the current Interest Period for the Flexible Rate Bonds to, but excluding, the next succeeding Business Day and thereafter will begin on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for the Flexible Rate Bonds will be the applicable Alternate Rate in effect on the Business Day that begins an Interest Period. Daily Rate Bonds and Weekly Rate Bonds will bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period. Term Rate Bonds will automatically convert to Flexible Rate Bonds, with an Interest Period commencing on the first day following the last day of the current Interest Period for the Term Rate Bonds to, but excluding, the next succeeding Business Day and thereafter will begin on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for the converted Term Rate Bonds will be the applicable Alternate Rate in effect at the beginning of each such Interest Period.

Changes in Mode: *Changes to Modes Other Than Fixed Rate Mode.* At any time, the Variable Rate Bonds (other than Fixed Rate Mode Bonds) may be changed from one Mode to another Mode (other than the Fixed Rate Mode) as described below.

No later than a Business Day which is at least 30 days (or such shorter time as may be agreed to by the Authority, the Tender Agent, and the Remarketing Agent) preceding the proposed Mode Change Date, the Authority will give written notice to the Notice Parties of its intention to effect a change in the Mode then prevailing (the "Current Mode") to another Mode (the "New Mode"), and, if the change is to a Term Rate Mode, the length of the initial Interest Period as set by the Authority. Notice of the proposed change in Mode will be given by the Tender Agent to the Bond Owners of the Variable Rate Bonds not less than the 15th day next preceding the Mode Change Date. The New Mode will begin on the Mode Change Date and the interest rate(s) (together, in the case of a change to the Flexible Mode, with the Interest Period(s)) will be determined by the Remarketing Agent (or the Authority in the case of the Interest Period for the Variable Rate Bonds converted to the Term Rate Mode) in the manners described herein, as applicable.

The Mode Change Date must be: (1) in the case of a change from the Flexible Mode, the next Mandatory Purchase Date (hereinafter defined) for the Flexible Rate Bonds; (2) in the case of a change from the Daily Mode or the Weekly Mode, any Business Day; and (3) in the case of a change from the Term Rate Mode to another Mode, or from a Term Rate Period to a Term Rate Period of a different duration, the Mode Change Date must be limited to any Interest Payment Date on which the Variable Rate Bonds are subject to optional redemption or to the last Interest Payment Date of the current Term Rate Period, as the case may be. Such Variable Rate Bonds will be purchased on the Mode Change Date at a purchase price equal to par, provided that if such Variable Rate Bonds are to be purchased on an Interest Payment Date other than the last Interest Payment Date and would otherwise be subject to optional redemption on such Mode Change Date at a redemption price of more than par, such Variable Rate Bonds will be purchased at a purchase price equal to such redemption price.

If the Variable Rate Bonds to be converted are in the Flexible Mode, no Interest Period set after delivery by the Authority to the Remarketing Agent of the notice of the intention to effect a change in Mode will extend beyond the proposed Mode Change Date, and the following items must be delivered to the Paying Agent/Registrar and the Remarketing Agent on or prior to the Mode Change Date: (1) in the case of a change from a Short-Term Mode to a

Long-Term Mode or from a Long-Term Mode to a Short-Term Mode, a favorable opinion of Bond Counsel dated the Mode Change Date and addressed to the Notice Parties; (2) if there is to be a substitute Liquidity Agreement delivered in connection with such change, the items required by the Resolution for such substitution; and (3) a rating confirmation notice, or if the Mode Change Date is a Mandatory Purchase Date, a notice from the rating agencies of the rating(s) to be assigned the Variable Rate Bonds on such Mode Change Date.

Changes in Mode: *Change to Fixed Rate Mode.* The Variable Rate Bonds will be converted to the Fixed Rate Mode upon termination of the Liquidity Agreement if no substitute Liquidity Agreement is provided, or at the option of the Authority as described below.

If the Authority elects to terminate the Liquidity Agreement pursuant to its terms and no substitute liquidity agreement is then in effect, the Variable Rate Bonds will be converted to the Fixed Rate Mode. The Fixed Rate Conversion Date will be an Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made or an Interest Payment Date on which interest is payable for all Variable Rate Bonds during Flexible Rate Periods; provided, however, that if the conversion is from a Term Rate Period, the Fixed Rate Conversion Date will be limited to an Interest Payment Date on which a new Term Rate Period would have otherwise begun. The Authority must give written notice of any such conversion to the Remarketing Agent, the Paying Agent/Registrar, and the Tender Agent not less than 45 days prior to the proposed Mode Change Date. Not less than 30 days prior to the Fixed Rate Conversion Date, the Paying Agent/Registrar must send a written notice of the conversion to the rating agencies and the Bond Owners of all Variable Rate Bonds to be converted. Such notice will inform the rating agencies and the Bond Owners of: (1) the proposed Fixed Rate Conversion Date; (2) the dates by which the Remarketing Agent will determine and the Paying Agent/Registrar will notify the Bond Owners of the Fixed Rate; and (3) the conditions to the conversion.

At any time, at the option of the Authority, the Variable Rate Bonds may be changed to the Fixed Rate Mode. On any Business Day which is at least 30 days (or such shorter time as may be agreed to by the Authority, the Paying Agent/Registrar, and the Remarketing Agent, but in any event not less than the 15th day next preceding the Mode Change Date) before the proposed Mode Change Date, the Authority must give written notice to the Notice Parties stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date. In addition, such notice must state whether some or all of the Variable Rate Bonds to be converted to Fixed Rate will be converted to serial Bonds and, if so, the applicable serial maturity dates and serial payments. Not less than the 15th day next preceding the Mode Change Date, the Paying Agent/Registrar will send, in the name of the Authority, a notice of such proposed change to the Bond Owners of the Variable Rate Bonds stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date, and that the Bond Owners are required to tender their Variable Rate Bonds for purchase on the proposed Mode Change Date.

The Mode Change Date will be: (A) in the case of a change from the Flexible Mode, the next Mandatory Purchase Date for the Flexible Rate Bonds; (B) in the case of a change from the Daily Mode or the Weekly Mode, any Business Day; and (C) in the case of a change from the Term Rate Mode, the Mode Change Date will be limited to any Interest Payment Date on which the Term Rate Bonds are subject to optional redemption or to the next Mandatory Purchase Date for the Term Rate Bonds, as the case may be. Such Variable Rate Bonds will be purchased on the Mode Change Date at a purchase price equal to par, provided that if such Variable Rate Bonds would otherwise be subject to optional redemption on such Mode Change Date at a redemption price of more than par, such Variable Rate Bonds will be purchased at a purchase price equal to such redemption price.

The change to the Fixed Rate Mode may not occur unless the following items shall have been delivered to the Authority, the Paying Agent/Registrar, the Tender Agent, and the Remarketing Agent on or prior to the Mode Change Date: (A) a favorable opinion of Bond Counsel dated the Mode Change Date and addressed to the Authority, the Paying Agent/Registrar, Tender Agent, and the Remarketing Agent and (B) notice from the rating agencies of the rating(s) to be assigned the Variable Rate Bonds on the Mode Change Date. If the foregoing condition is not met for any reason, the conversion shall not be effective, and the Variable Rate Bonds will continue to bear interest at the last effective rate. The Paying Agent/Registrar will promptly notify the Bond Owners of such fact and will give all additional notices and take all further actions required pursuant to the Resolution.

Upon conversion of the Variable Rate Bonds to the Fixed Rate Mode, the Fixed Rate Mode Bonds will be remarketed at par, will mature on the same maturity date(s) and be subject to the same mandatory sinking fund

redemption, if any, for any prior Mode; provided, however, that if the Authority delivers to the Paying Agent/Registrar a favorable opinion of Bond Counsel, the Authority may elect to (1) have some of the Fixed Rate Mode Bonds be serial Bonds and some subject to mandatory sinking fund redemption even if such Fixed Rate Mode Bonds were not serial Bonds or subject to mandatory sinking fund redemption prior to such change, and/or (2) sell some or all of the Fixed Rate Mode Bonds at a premium or a discount to par. The Authority will determine the serial maturities, redemption provisions, and other terms which will be applicable to the pricing of the Variable Rate Bonds on and after the Fixed Rate Conversion Date. Serial maturities for Variable Rate Bonds converted to a Fixed Rate will be determined on the basis of providing similar relative principal payments on such Variable Rate Bonds (after giving pro rata effect for any prior sinking fund redemptions) beginning in the later of the fiscal year in which the conversion occurs or the fiscal year ending August 31, 2010.

Not later than 4:00 p.m., New York City time, the Remarketing Agent will determine the Fixed Rate or Fixed Rates which will cause the Variable Rate Bonds to have a market value equal to the principal amount thereof on the Rate Determination Date. Such rate will remain in effect until the maturity date of the Fixed Rate Mode Bonds. The Remarketing Agent will make the Fixed Rate available by telephone or by electronic means after 5:00 p.m. on the Rate Determination Date to any Notice Party requesting such Fixed Rate. Upon request of any Notice Party, the Paying Agent/Registrar will give notice of such rate by electronic means.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions described above for a Mode Change have not been satisfied by the applicable Mode Change Date, then the New Mode will not take effect (although any mandatory tender will be made on such date if notice has been sent to the Bond Owners stating that such Variable Rate Bonds would be subject to mandatory purchase on such date), and the Variable Rate Bonds will remain in the Current Mode or Current Modes, with interest rates and Interest Periods, as applicable, to be established by the Remarketing Agent on the failed Mode Change Date.

Rescission of Election. The Authority may rescind any election by it to change a Mode as described above prior to the Mode Change Date by giving written notice to the Notice Parties prior to such Mode Change Date. If the Paying Agent/Registrar receives notice of such rescission prior to the time the Paying Agent/Registrar has given notice to the Owners of the Variable Rate Bonds, then such notice of change in Mode will be of no force and effect. If the Tender Agent receives notice from the Authority of rescission of a Mode change after the Tender Agent has given notice thereof to the holders of the Variable Rate Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date will continue to be a Mandatory Purchase Date. Upon rescission of such election, then the New Mode will not take effect (although any mandatory tender will be made on such date if notice has been sent to the Bond Owners stating that such Variable Rate Bonds would be subject to mandatory purchase on such date), and the Variable Rate Bonds will remain in the Current Mode or Current Modes, with interest rates and Interest Periods, as applicable, to be established by the Remarketing Agent on the proposed Mode Change Date.

Conversion of Taxable Series C Bonds to Tax-Exempt Variable Rate Bonds: The Authority may give written notice at any time to the Remarketing Agent and the Tender Agent that it intends to convert all or a portion of the Series C Bonds to one or more series of tax-exempt variable rate bonds on the day specified in such notice, which date will be the Tax-Exempt Conversion Date and will be not less than 15 days after the date of such notice and must be the day following the last day or days of the Current Mode or Modes, as applicable, with respect to each of the Series C Bonds to be converted. With such notice, the Authority must file with the Remarketing Agent and the Tender Agent a favorable opinion of Bond Counsel acceptable to the Remarketing Agent and the Tender Agent to the effect that (i) the conversion of such Series C Bonds will not adversely affect the validity of such Series C Bonds, and (ii) the interest on the resulting series of tax-exempt bonds will be excludable from gross income for federal income tax purposes in the hands of the Bond Owners thereof pursuant to the Code. Upon conversion, the Authority must also convert the Rate Period of the converted Series C Bonds on the Tax-Exempt Conversion Date to a new Rate Period. If the conditions to conversion do not occur on a Tax-Exempt Conversion Date with respect to any Series C Bonds, such Series C Bonds will continue to bear interest at a taxable rate on and after the date of such failed conversion until a Tax-Exempt Conversion Date, if any, occurs with respect to such Series C Bonds.

THE SERIES D BONDS MAY NOT BE CONVERTED TO TAX-EXEMPT BONDS.

Redemption

Optional Redemption. Bonds in the Flexible Mode are not subject to optional redemption prior to their respective Purchase Dates. Bonds in the Flexible Mode are subject to redemption at the option of the Authority, in Authorized Denominations, in whole or in part on their respective purchase dates at a redemption price equal to the principal amount thereof plus accrued interest, if any.

Bonds in the Daily Mode or the Weekly Mode are subject to optional redemption by the Authority, in whole or in part, in Authorized Denominations on any date, at a redemption price equal to the principal amount thereof, plus, accrued interest, if any, from the end of the preceding Interest Accrual Period to the redemption date.

Bonds in a Term Rate Mode are subject to redemption, in whole or in part, on their individual Mandatory Purchase Dates, at the option of the Authority at a redemption price equal to the principal amount thereof, plus accrued interest, if any.

Bonds in a Fixed Rate Mode are subject to optional redemption by the Authority, in whole or in part, in Authorized Denominations on any June 15 or December 15, at a redemption price equal to the principal amount thereof plus accrued interest, if any.

Mandatory Redemption. The Series C Bonds, Subseries C-1 maturing on December 15, 2008 are subject to mandatory sinking fund redemption on the dates and in the respective principal amounts as set forth in the following schedule:

Date	Principal Amount
06/15/05	$10,000,000
12/15/05	10,000,000
06/15/06	11,000,000
12/15/06	12,000,000
06/15/07	14,000,000
12/15/07	14,000,000
06/15/08	15,000,000
12/15/08*	14,000,000

*Final Maturity

Tenders and Purchases

Optional Tenders: Bond Owners of Weekly Rate Bonds may elect to have their Weekly Rate Bonds purchased on any Business Day for a price equal to par plus accrued interest, upon delivery of a notice to such effect no later than seven days prior to the requested purchase date. Bond Owners of Daily Rate Bonds may elect to have their Daily Rate Bonds purchased on any Business Day for a price equal to par plus accrued interest, upon delivery of a notice to such effect no later than 11:00 a.m. on any Business Day.

Mandatory Tenders: The Variable Rate Bonds are subject to mandatory purchase on each Mandatory Purchase Date. The Mandatory Purchase Date is (i) with respect to a Flexible Rate Bond, the first Business Day following the last day of each Flexible Rate Period with respect to such Flexible Rate Bond, (ii) for Term Rate Bonds, on the first Business Day following the last day of each Term Rate Period, (iii) any Mode Change Date (except a change in Mode from the Daily Mode to the Weekly Mode or vice versa), (iv) the date of any substitution for the Liquidity Agreement (a "Substitution Date"), (v) the fifth Business Day prior to the expiration date of the Liquidity Agreement ("Expiration Date"), and (vi) the date specified by the Liquidity Provider in a written notice to the Paying Agent/Registrar and Tender Agent following the occurrence of an event of default under the Liquidity Agreement.

The Tender Agent will give notice of such mandatory purchase to the Bond Owners of the Variable Rate Bonds subject to mandatory purchase (a) no less than 30 days prior to the Mandatory Purchase Date in the case of a mandatory purchase (i) at the end of an Interest Period for Term Rate Bonds or (ii) on a Substitution Date; (b) no less than 15 days prior to the Mandatory Purchase Date in the case of a mandatory purchase on a Mode Change

Date; and (c) no less than five days prior to the Mandatory Purchase Date (i) following notice from the Liquidity Provider of an event of default under the Liquidity Agreement or (ii) immediately preceding any Expiration Date. No notice will be given of the Mandatory Purchase Date at the end of each Interest Period for Flexible Rate Bonds. Any notice will state the Mandatory Purchase Date, the purchase price, the numbers of the Variable Rate Bonds to be purchased if less than all of the Variable Rate Bonds owned by such Bond Owner are to be purchased, and that interest on Variable Rate Bonds subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to send such notice with respect to any Variable Rate Bond will not affect the validity of the mandatory purchase of any other Variable Rate Bond with respect to which notice was so distributed. Any notice sent will be conclusively presumed to have been given, whether or not actually received by any Bond Owner.

Remarketing of Variable Rate Bonds: The Remarketing Agent is to use its best efforts to offer for sale: (i) all Daily Rate Bonds or Weekly Rate Bonds or portions thereof as to which notice of optional tender has been given; and (ii) all Variable Rate Bonds required to be purchased on a Mandatory Purchase Date; and (iii) any Variable Rate Bonds purchased by the Liquidity Provider pursuant to the Liquidity Agreement ("Purchased Bonds"): (A) purchased on a purchase date as described above, (B) with respect to which the Liquidity Provider has provided notice to the Tender Agent and the Remarketing Agent that it is ready to reinstate the amount available under the Liquidity Agreement, (C) with respect to which a substitute Liquidity Agreement applies, or (D) which are being marketed as Fixed Rate Bonds. The Remarketing Agent is not required to remarket the Variable Rate Bonds if there has been a failure of the Liquidity Provider to pay a request for advance under the Liquidity Agreement, the filing of any bankruptcy or insolvency proceedings by or against the Liquidity Provider, or the Liquidity Provider declares a moratorium on its payment obligations under or repudiates the Liquidity Agreement.

On each date on which a Variable Rate Bond is to be purchased: (i) the Remarketing Agent will notify the Tender Agent by electronic means by 12:00 noon if it has been unable to remarket any tendered Variable Rate Bonds, and will include in such notice the principal amount of Variable Rate Bonds it has been unable to remarket; (ii) unless the Remarketing Agent has delivered the notice described in clause (i) above, the Remarketing Agent will notify the Tender Agent by electronic means not later than 1:00 P.M. of the names of the purchasers of the remarketed Variable Rate Bonds and such information as may be necessary to register the Variable Rate Bonds and the registration instructions with respect thereto; and (iii) if the Variable Rate Bonds are no longer in the Book-Entry System, the Tender Agent will authenticate new Variable Rate Bonds for the respective purchasers which will be available for pick-up by the Remarketing Agent not later than 2:30 P.M.

On each date on which a Variable Rate Bond is to be purchased, if the Remarketing Agent has given notice to the Tender Agent that it has been unable to remarket any of the Variable Rate Bonds, the Tender Agent will direct the Paying Agent/Registrar (if the two are separate entities) to draw on the Liquidity Agreement by 1:30 P.M. in an amount equal to the purchase price of all such Variable Rate Bonds which have not been successfully remarketed. *See* "DESCRIPTION OF THE BONDS—*The Variable Rate Bonds*—The Liquidity Agreement" herein. The proceeds of such draw will be paid to the Tender Agent for deposit into the Liquidity Agreement Purchase Account (hereinafter described).

The Resolution establishes a separate fund to be known as the "Purchase Fund," to be held by the Tender Agent, as agent for the Paying Agent/Registrar. The Tender Agent must also establish separate accounts within the "Purchase Fund to be known as the "Liquidity Agreement Purchase Account" and the "Remarketing Proceeds Account."

Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of a Variable Rate Bond on the date such bond is to be purchased, the Tender Agent will deposit such proceeds in the Remarketing Proceeds Account for application to the purchase price of the Variable Rate Bonds. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Purchased Bonds, the Tender Agent will immediately pay such proceeds to the Liquidity Provider to the extent of any amount owing to the Liquidity Provider.

Liquidity Agreement Purchase Account. Upon receipt from the Paying Agent/Registrar of the immediately available funds transferred to the Tender Agent, the Tender Agent will deposit such money in the Liquidity Agreement Purchase Account for application to the purchase price of the Variable Rate Bonds to the extent that the money on deposit in the Remarketing Proceeds Account is not sufficient. Any amounts deposited in the Liquidity Agreement Purchase Account and not needed with respect to the purchase price for any Variable Rate Bonds will be immediately returned to the Liquidity Provider.

While a Book-Entry System is in place for the Variable Rate Bonds, all tenders will be subject to the terms and conditions in the letter of representations provided by the Authority to the Depository Trust Company ("DTC") and any regulations promulgated by DTC, and tender option rights may be exercised only by a Direct Participant (hereinafter defined) of DTC acting on behalf of a Bond Owner, in the manner described above. No physical delivery of any tendered Variable Rate Bond will be required, and neither the Tender Agent nor the Paying Agent/Registrar will be responsible for remitting funds to any person; provided, however, the Paying Agent/Registrar will be responsible for drawing upon the Liquidity Agreement when required as described above and remitting such funds to DTC, and for remitting proceeds from the remarketing of Purchased Bonds to the Liquidity Provider.

If a Book-Entry System is not in place for the Variable Rate Bonds, the Variable Rate Bonds must be delivered (with all necessary endorsements) at or before 12:00 noon on the purchase date at the office of the Paying Agent/Registrar; provided, however, that payment of the purchase price will be made only if the Variable Rate Bond so delivered to the Tender Agent conforms in all respects to the description thereof in the notice. Payment of the purchase price will be made to the Bond Owners of tendered Variable Rate Bonds by wire transfer in immediately available funds by the Paying Agent/Registrar by 3:00 P.M. on the purchase date. If a Variable Rate Bond to be purchased is not delivered by the Bond Owner to the Paying Agent/Registrar by 12:00 noon on the purchase date, the Paying Agent/Registrar will hold any funds received for the purchase of those Variable Rate Bonds in trust in a separate account and will pay such funds to the former Bond Owners of the Variable Rate Bonds upon presentation of such Bonds. Such undelivered Bonds will cease to accrue interest as to the former Bond Owners on such purchase date and money representing the purchase price will be available against delivery of those Bonds at the principal office of the Paying Agent/Registrar; provided, however, that any funds which are so held by the Paying Agent/Registrar and which remain unclaimed by the former Bond Owner of a Variable Rate Bond not presented for purchase for a period of three years after delivery of such funds to the Paying Agent/Registrar, will, to the extent permitted by law, upon request in writing by the Authority and the furnishing of security or indemnity to the Paying Agent/Registrar's satisfaction, be paid to the Authority free of any trust or lien and thereafter the former Bond Owner of such Variable Rate Bond may look only to the Authority and then only to the extent of the amounts so received by the Authority without any interest thereon and the Paying Agent/Registrar will have no further responsibility with respect to such money or payment of the purchase price of such Variable Rate Bonds. The Paying Agent/Registrar will authenticate a replacement Variable Rate Bond for any undelivered Variable Rate Bond which may then be remarketed by the Remarketing Agent.

The Liquidity Agreement

Pursuant to the Resolution, the Authority will enter into a Liquidity Agreement (the "Liquidity Agreement"), with the State Comptroller of Public Accounts (the "Liquidity Provider" or the "Comptroller"). The Liquidity Agreement provides that the Comptroller will, for the benefit of the Authority in connection with the issuance of the Variable Rate Bonds, provide liquidity for the purchase of Variable Rate Bonds tendered to the Tender Agent but not remarketed by the Remarketing Agent ("Unremarketed Bonds"). *The following is a summary of certain provisions of the Liquidity Agreement. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Liquidity Agreement. Copies of the Liquidity Agreement are available for examination at the offices of the Authority.*

The Authority or the Tender Agent will notify the Liquidity Provider of the need for funds for the purchase of Unremarketed Bonds by delivering a notice of draw to the Liquidity Provider not later than 12:15 noon (New York City time) on the date of such purchase. Funds required for the purchase of Unremarketed Bonds will be made available by the Liquidity Provider to the Tender Agent in immediately available funds. The Liquidity Provider will notify the Authority and the Tender Agent of the availability of such funds by 1:30 p.m. (New York City time) on

the date it receives a notice of draw, and the Tender Agent will use such funds to purchase for the benefit of the Liquidity Provider any Unremarketed Bonds that are maturing on such date; provided, however, any funds not used to purchase Unremarketed Bonds on such date are to be returned to the Liquidity Provider by 3:30 p.m. (New York City time), in immediately available funds. The rate of interest on Unremarketed Bonds purchased by the Liquidity Provider ("Purchased Bonds") will convert, from and after the date of the advancement of funds to purchase the Purchased Bonds, to the Treasury Rate, which is equal to 25 basis points plus the then current prior day effective federal funds rate. The Treasury Rate may not exceed 10%. The Authority is to use its best efforts to cause to be purchased from the Liquidity Provider, as soon as possible, each Purchased Bond, and the Liquidity Provider authorizes each Remarketing Agent to sell the Purchased Bonds at a price which, together with any money provided by the Authority pursuant to the Resolution, will equal the principal of such Purchased Bonds plus accrued but unpaid interest thereon. Until Purchased Bonds are remarketed by the Remarketing Agent, the Authority is to use its best efforts to pay each Purchased Bonds as soon as possible but no later than their respective maturity dates.

The amount of the unused Commitment will automatically be reduced upon the redemption, repayment, or other payment of all or any portion of the principal amount of the Variable Rate Bonds; provided, however, that after such reduction, the resulting Commitment may not be less than the maturity value of the Variable Rate Bonds still outstanding. The Authority will provide notice to the Remarketing Agent, the Tender Agent, and the rating agencies of any such reduction in the Commitment.

Each disbursement of funds by the Liquidity Provider is subject to the condition precedent that one of the following events must not have occurred and be continuing: (i) the State or any other governmental entity having jurisdiction over the Authority imposes a debt moratorium, debt restructuring, or other event that results in a restriction on repayment when due and payable of the principal of or interest on any debt by the Authority; or (ii) the Authority fails to pay when due a money judgment entered by a court or other regulatory body of competent jurisdiction against the Authority in an amount in excess of $20 million, and enforcement of such judgment continues unstayed and in effect for a period of 60 consecutive days; or (iii) a nonappealable final judgment of a court of competent jurisdiction is rendered that the Liquidity Agreement in its entirety or in part is or are not valid or enforceable with respect to the Authority, or a proceeding is commenced by the Authority seeking to establish the invalidity or unenforceability thereof or of any of the other documents relating to the issuance of the Bonds.

Pursuant to the Liquidity Agreement, upon the occurrence of one of the following events, the Liquidity Provider may: (i) reduce its commitment under the Liquidity Agreement to zero immediately (except with respect to events described in (A), (E), or (F) below), (ii) declare all amounts payable by the Authority to the Liquidity Provider to be immediately become due and payable, without presentment, demand, protest or any other notice of any kind, and/or (iii) pursue any other remedy available to it at law or in equity: (A) The Authority fails to pay within 90 days after written notice from the Liquidity Provider specifying the failure to pay any fees, expenses, or other amounts payable by it to the Liquidity Provider; or (B) the State or any other governmental entity having jurisdiction over the Authority imposes a debt moratorium, debt restructuring, or other event that results in a restriction on repayment when due and payable of the principal of or interest on any debt by the Authority; or (C) the Authority fails to pay when due a money judgment entered by a court or other regulatory body of competent jurisdiction against the Authority in an amount in excess of $20 million, and enforcement of such judgment continues unstayed and in effect for a period of 60 consecutive days; or (D) a nonappealable final judgment of a court of competent jurisdiction is rendered that the Liquidity Agreement in its entirety or in part is or are not valid or enforceable with respect to the Authority, or a proceeding is commenced by the Authority seeking to establish the invalidity or unenforceability of the Liquidity Agreement or any of the documents relating to the issuance of the Bonds; or (E) a breach or failure of performance by the Authority of any covenant, condition, or agreement on its part to be observed or performed contained in the Liquidity Agreement (other than a breach or failure covered by items A through D above) that continues for a period of 45 days after notice thereof from the Liquidity Provider to the Authority and that the Liquidity Provider reasonably determines may have a material adverse effect on the Liquidity Provider; or (F) any of the Authority's representations or warranties made or deemed made by the Authority in the Liquidity Agreement or in any other Bond document or in any statement or certificate at any time given in connection with the Liquidity Agreement proves at any time to have been false or misleading in any material respect when made, or any such warranty is breached and may have a material adverse effect on the Liquidity Provider.

The Authority reserves the right to terminate the Liquidity Agreement and enter into an Alternate Liquidity Facility, provided that 90 days advance written notice is provided to the Liquidity Provider, any rating agency then rating the

Variable Rate Bonds, the Tender Agent, the Remarketing Agents, and the Paying Agent/Registrar, and 15 days advance written notice is provided to the Bond Owners of Variable Rate Bonds, so long as: (1) written confirmation is obtained by the Authority that such action will not result in any rating agency then rating the Variable Rate Bonds to reduce, withdraw or suspend its rating on any Variable Rate Bonds then outstanding; or result in a rating below the category A-1, P-1 or F-1 (or any subcategory thereof) for any Variable Rate Bonds Outstanding; (2) the alternate Liquidity Facility provides for a term commencing no later than the day immediately following the last day that the prior Liquidity Agreement is in effect and ending on a date no earlier than the Stated Expiration Date; and (3) the alternate Liquidity Facility is approved by the Attorney General of the State to the extent required under applicable law.

The Liquidity Provider, with the consent of the Authority and the approval of the Attorney General of the State, reserves the right to grant financial institutions a participation or syndications in whole or in part of the Liquidity Provider's rights and benefits under the Liquidity Agreement, so long as: (1) the Liquidity Provider remains responsible for the performance of its obligations under the Liquidity Agreement to the extent such obligations have not been granted to such financial institutions; and (2) written confirmation is obtained by the Authority that such participation or syndication is not a basis for any rating agency then rating the Variable Rate Bonds to reduce, withdraw, or suspend its rating on any Variable Rate Bonds then outstanding; or result in a rating below the category "A-1,""P-1," or "F-1" (or any subcategory thereof) for any Variable Rate Bonds outstanding.

The initial term of the Liquidity Agreement is the period from the delivery date of the Variable Rate Bonds to December 15, 2009, the final maturity date of the Variable Rate Bonds, unless the Liquidity Agreement is terminated earlier in accordance with its provisions. The Liquidity Agreement may be renewed for an additional term, in the sole and exclusive discretion of the Liquidity Provider.

Notwithstanding the foregoing, if the Authority terminates the Liquidity Agreement as described above and an alternate Liquidity Agreement is not in then effect, as described above, then the Variable Rate Bonds then outstanding are subject to mandatory conversion to a Fixed Rate.

The Liquidity Provider

The Comptroller and the Authority have entered into the Liquidity Agreement as authorized by Section 404.024 of the Texas Government Code, as amended, pursuant to which the Comptroller will purchase Variable Rate Bonds, the proceeds of which will be used to pay all tendered Variable Rate Bonds that are not otherwise purchased or remarketed, up to a maximum commitment of $600,000,000 plus interest for 270 days, and a maximum daily commitment of $100,000,000 plus interest for 270 days.

The Comptroller provides liquidity in the exercise of its duty and power to invest funds in the State Treasury. The State Treasury Pool (the "Pool") is used to provide this liquidity, and it is currently rated "AAA+" as to credit quality and "S1" as to volatility by S&P. As of July 31, 2003, the net asset value of the pool was $11.45 billion, and the maturity distribution of the Pool and distribution of the Pool's top ten holdings was as follows:

Maturity Distribution of the Pool

Maturity	Percentage
0-1 years	87.2%
1-3 years	4.2
3-7 years	6.2
7-10 years	1.5
10+ years	.9

Top Ten Holdings of the Pool

Holdings	Percentage
Agency Debt	65.035%
REPO	15.597
Mutual Fund	6.286
Commercial Paper	4.801
Bid Tex	3.668
Collateralized Mortgage Obligations	2.796
Agency Mortgage-Backed	1.245
US Treasuries	.879
SBA	.473
Linked Deposit	.129

As of August 28, 2003, assuming an interest rate of 10% for a period of 270 days for the Liquidity Agreement, the execution of the Liquidity Agreement will result in a total overall maximum commitment from the Comptroller to provide liquidity of approximately $1,222,997,911. Once the Variable Rate Bonds are issued, obligations outstanding which are supported by the Comptroller's liquidity facility as of such date is estimated at $850,454,000.

The Remarketing Agents and The Remarketing Agreements

Pursuant to the Resolution, Goldman, Sachs & Co.; J.P. Morgan Securities Inc.; Loop Capital Markets; Merrill Lynch; and UBS Financial Services Inc. are appointed as the Remarketing Agents for the Variable Rate Bonds as described on the inside cover hereof. A Remarketing Agent may at any time resign and be discharged of its duties and obligations by giving at least 10 days notice to the Authority, the Liquidity Provider, and the Paying Agent/Registrar. A Remarketing Agent may be removed at any time, at the direction of the Authority, by an instrument filed with the Remarketing Agent, the Liquidity Provider, and the Paying Agent/Registrar, and upon at least 10 days notice to the Remarketing Agent. Any successor Remarketing Agent(s) will be selected by the Authority, and each must be a member of the National Association of Securities Dealers, Inc., have a capitalization of at least $5,000,000, be authorized by law to perform all the duties set out in the Resolution, and must be acceptable to the Liquidity Provider. If a Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets (or, in the case of a bank, national banking association, or trust company, its corporate assets) to, another corporation, the resulting, surviving, or transferee corporation without any further act will be the successor Remarketing Agent.

Pursuant to their respective Remarketing Agreements, each Remarketing Agent agrees to exercise its best efforts in the remarketing of the series or subseries of the Variable Rate Bonds for which each is responsible, to effect and process all applicable Variable Rate Bond purchases, to bill and receive payment of applicable Variable Rate Bond purchases, to transfer purchase proceeds to the Tender Agent, to determine interest rates and interest periods, when applicable, and to perform all other obligations required of each Remarketing Agent pursuant to the Resolution and its respective Remarketing Agreement. Each Remarketing Agent's obligations under its respective Remarketing Agreement is subject to the requirement that the Resolution, the Financing and Pledge Agreement, the Liquidity Agreement, and the applicable Remarketing Agreement must be in full force and effect, without any subsequent amendments not approved by that Remarketing Agent. Each Remarketing Agent incurs no liability to the Authority, or any other party, for its actions as Remarketing Agent except for (i) the liabilities for which the Remarketing Agent has agreed to indemnify the Authority and other pursuant to its respective Remarketing Agreement and (ii) its gross negligence or willful misconduct.

Each Remarketing Agent may cease remarketing of each series or subseries of Variable Rate Bonds for which it has assumed the responsibility to remarket upon the occurrence of one of the following events: (i) a pending or proposed change in applicable tax laws, (ii) a material adverse change in the financial condition of the Authority, (iii) a general banking moratorium by federal, New York, or State authorities or a material disruption in commercial banking and securities settlement or clearance services, (iv) the occurrence or escalation of hostilities or other

national or international calamity or crisis, (v) a downgrade or withdrawal of the rating of the Variable Rate Bonds, (vi) an imposition of material restrictions on the Variable Rate Bonds or similar obligations, (vii) trading on the New York Stock Exchange or any other major national stock exchange shall have been wholly suspended, (viii) an event, including, without limitation, the bankruptcy or default of any other issuer of or obligor on obligations of the general character of the Variable Rate Bonds or on similar commercial paper, shall have occurred, or (ix) the identification of a material misstatement or omission in the Official Statement as then modified or supplemented, which the Remarketing Agent determines makes it inadvisable to remarket the Variable Rate Bonds.

Each Remarketing Agent, in its individual capacity, either as principal or agent, may buy, sell, own, hold, and deal in any of the Bonds, and may join in any action which any owner of any Bond may be entitled to take with the like effect as if it did not act in any capacity under the Remarketing Agreement. Each Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority and may act as depositary, trustee or agent for any committee or body of bondholders or other obligations of the Authority as freely as if it did not act in any capacity hereunder.

The Tender Agent

Pursuant to the Resolution, The Bank of New York Trust Company of Florida, N.A. is appointed to serve as the initial Tender Agent to perform all duties and functions required to be performed by the Tender Agent under the Resolution and under any Tender Agent Agreement. The Authority may discharge the Tender Agent at any time and thereafter appoint a successor Tender Agent, and such appointment or discharge will take effect on the date fixed by the Board; provided that while any Variable Rate Bonds are outstanding, the Authority will maintain a qualified Tender Agent and will promptly appoint a replacement if the Tender Agent resigns, is terminated, or otherwise ceases to serve as Tender Agent; and further provided that if the Authority discharges the Tender Agent or appoints a successor Tender Agent, it will give written notice thereof to the Bond Owners.

The Tender Agent must be a bank or trust company organized and doing business under the laws of the United States or of any state thereof, with a combined capital and surplus of at least $5,000,000, as shown in its most recent financial report. The Tender Agent must be authorized under such laws to exercise corporate trust powers and be subject to the supervision and examination by a federal or state authority. Any corporation into which any Tender Agent may be merged or converted or with which it may be consolidated; any corporation resulting from any merger, consolidation, or conversion to which the Tender Agent is a party; or any corporation succeeding to the corporate trust business of any Tender Agent will be the successor Tender Agent, if such successor corporation is otherwise eligible pursuant to the Resolution.

SECURITY FOR THE BONDS

Pledge Under the Resolution and Financing and Pledge Agreement

The Bonds and any additional bonds issued on a parity with the Bonds are special obligations of the Authority and the Commission equally and ratably secured solely by and payable solely from a pledge of and lien on the Pledged Revenues. Pledged Revenues consist of (1) revenues received by the Commission from the assessment of the Obligation Assessment pursuant to the Authorizing Law and Commission Rule 40 Texas Administrative Code Section 815.132(e) for the payment of Bond Obligations (the "Pledged Assessments"); (2) amounts on deposit in the Obligation Trust Fund and accounts created therein and in the Program Fund (hereinafter defined) and accounts created therein, including all investment income derived therefrom (the "Pledged Funds"); (3) any rights and remedies of the Authority under the Financing and Pledge Agreement and the Funds Management Agreement; and (4) any additional revenues later designated as Pledged Revenues.

In the Financing and Pledge Agreement:

(a) The Commission covenants that: (1) so long as the Bonds (and any Additional Bonds) are outstanding, it will annually impose the Obligation Assessment according to the requirements of the Authorizing Law at a rate that will provide revenues in an amount not less than:

(A) 1.50 times the amount of Bond Obligations due in the next calendar year;

(B) the amount needed to make an interest payment on a Federal Advance due in the next calendar year (provided such portion of the rate may not exceed 0.2%); and

(C) the estimated amount of administration expenses due in the next calendar year; and

(2) it will collect and deposit all Unemployment Obligation Assessment Revenues into the Obligation Trust Fund.

(b) The Authority covenants (1) to transfer, semiannually, on each June 1 and December 1, Pledged Assessments from the Obligation Trust Fund as follows:

(A) to the Debt Service Account, an amount, which, when added to other amounts in the Debt Service Account, equals the amount of Bond Obligations on the Fixed Rate Bonds due and payable on the next Interest Payment Date and the amount of Bond Obligations on the Variable Rate Bonds due and payable in the next six months; and

(B) to the Bond Administration Expenses Account, an amount sufficient to pay estimated administration expenses due and payable for the next six months.

To the extent sufficient Pledged Assessments are not available on June 1 or December 1, as applicable, to fund the amounts required by (b)(1)(A) above, the Authority will transfer, upon deposit of such Pledged Assessments in the Obligation Trust Fund, additional Pledged Assessments to the Debt Service Account until such account reaches the balance required by (b)(1)(A) above; and

(2) it will transfer Pledged Assessments from the Obligation Trust Fund at such times and in such amounts as it deems necessary to pay Bond Obligations and administration expenses.

After the transfers described in (b)(1) above have been made, the Authority may transfer Pledged Assessments from the Obligation Trust Fund to the Commission in amounts needed to make payments due on Federal Advances.

After Pledged Assessments have been transferred as described above, Excess Pledged Assessments may be used to pay Bond Obligations payable in a subsequent year, to redeem or purchase outstanding Bonds, or to pay principal of and interest on Federal Advances. No Variable Rate Bonds may be redeemed prior to their maturity unless there are Excess Pledged Revenues available for such purpose.

Further, the Commission irrevocably pledges and assigns to the Authority the Pledged Assessments to be deposited into the Obligation Trust Fund, and the Authority assigns all of its right, title, and interest in and to the Obligation Trust Fund and pledges the Pledged Revenues to the Bond Owners as security for payment of the Bond Obligations and administration expenses. *See* "THE FINANCING AND PLEDGE AGREEMENT" herein. The lien on and pledge of the Pledged Revenues becomes effective as of the date of delivery of any of the Bonds.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE STATE OF TEXAS, OR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE. NEITHER THE COMMISSION NOR THE AUTHORITY HAS ANY TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY OTHER AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED AS SECURITY FOR THE BONDS. THE BREACH OF ANY COVENANT, AGREEMENT, OR OBLIGATION CONTAINED IN THE RESOLUTION WILL NOT IMPOSE OR RESULT IN GENERAL LIABILITY ON OR A CHARGE AGAINST THE GENERAL CREDIT OF THE STATE, THE AUTHORITY, OR THE COMMISSION. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES.

Funds Created Under the Resolution; Flow of Funds

Obligation Trust Fund

The Resolution provides for the creation of the Obligation Trust Fund. Within the Obligation Trust Fund, (1) the Obligation Trust Fund Debt Service Account (the "Debt Service Account") is created for the deposit of (A) Bond proceeds to be used to pay capitalized interest and (B) Pledged Assessments received by the Commission for the payment of Bond Obligations; (2) the Obligation Trust Fund Bond Administration Expenses Account (the "Bond Administration Expenses Account") is created for the deposit of Pledged Assessments received by the Commission for the payment of administration expenses associated with the Bonds; and (3) the Obligation Trust Fund Redemption Account (the "Redemption Account") is created for the deposit of Excess Pledged Assessments (hereinafter defined) to be used for the redemption of Bonds. The Obligation Trust Fund will be maintained as a dedicated trust fund outside of the State Treasury, in the custody of the Comptroller.

Pursuant to the Financing and Pledge Agreement, Pledged Assessments are to be deposited by the Commission, upon receipt, into the Obligation Trust Fund. On June 1 and December 1 of any given year (each, a “Date of Calculation”) and at such other times as set forth in the Financing and Pledge Agreement, there will be deposited into the Debt Service Account from the Pledged Assessments, amounts which, when added to other amounts in the Debt Service Account, will provide an amount required to pay Bond Obligations on all Bonds from the Date of Calculation to but not including the next Date of Calculation (the “Required Debt Service Deposit), as follows: (i) any interest to become due and payable on outstanding Fixed Rate Bonds on any Interest Payment Date occurring within six months of the Date of Calculation; (ii) any principal scheduled to become due and payable on outstanding Fixed Rate Bonds occurring within six months of the Date of Calculation; (iii) any interest estimated, as set forth in the definition of “Bond Obligation,” to come due and payable on outstanding Variable Rate Bonds occurring within six months of the Date of Calculation, (iv) any sinking fund payments scheduled to become due and payable on the outstanding Variable Rate Bonds; and (v) any amounts due on Hedge Agreements.

To the extent sufficient Pledged Assessments are not available on the Date of Calculation to fund the required Debt Service Deposit as described above, the Authority covenants that, upon the deposit of additional Pledged Assessments to the Obligation Trust Fund, it will transfer such additional deposits to the Debt Service Account until the Debt Service Account reaches a balance equal to the required Debt Service Deposit due or estimated to be due with regard to any Interest Payment Date occurring within six months of the Date of Calculation.

On each Date of Calculation, after the payment and transfers described above, an amount of Pledged Assessments representing the amount needed to pay administration expenses occurring within six months of the Date of Calculation will be paid into the Bond Administration Account.

Excess Pledged Assessments. On each Date of Calculation or any date prior to the next Date of Calculation, but solely to the extent that any principal and interest is due on any Federal Advances, and after payments and transfers described above have been fully funded, the Authority may transfer to the Commission amounts needed to pay principal and interest on Federal Advances.

On each June 1 or such other date prior to the following Date of Calculation, when all payments and transfers described in the paragraphs above have been funded, the Authority may declare the existence of Excess Pledged Assessments by determining that amounts on deposit in the Obligation Trust Fund exceed the sum of (i) the amount of Bond Obligations for the Bonds due and payable to and including December 15 of such year and (ii) the estimated amount of administration expenses due and payable on December 15 of such year (“June Funding Amount”).

On each December 1 or such other date prior to the following Date of Calculation, when all payments and transfers described in the paragraphs above have been funded, the Authority may declare the existence of Excess Pledged Assessments by determining that amounts on deposit in the Obligation Trust Fund exceed the sum of (i) the amount of Bond Obligations for Variable Rate Bonds due and payable to and including June 15 of the following year and (ii) the estimated amount of administration expenses due and payable on June 15 of the following year (“December Funding Amount”); provided, however, for determinations of Excess Pledged Assessments between March 30 and the next Date of Calculation, the December Funding Amount shall also include the amount of Bond Obligations for the Fixed Rate Bonds due and payable to and including June 15 of such year.

Upon making this determination, “Excess Pledged Assessments” will be that amount of Pledged Assessments on deposit in the Obligation Trust Fund that exceeds the June Funding Amount or the December Funding Amount, as applicable, and such amount for that period will be deemed Excess Pledged Assessments and will be available to be transferred and deposited in the Redemption Account.

Debt Service Account. Unless provision for payment has been made with the Paying Agent/Registrar or Tender Agent, there will be paid out of the Debt Service Account on or before each Interest Payment Date for any of the Bonds, the amount required to pay Bond Obligations on such date. On or before any redemption date for Bonds to be redeemed, there will also be paid out of the Debt Service Account the amount required for the payment of the redemption price of and interest on the Bonds then to be redeemed; such amount will be transferred from the Redemption Account from funds determined to be Excess Pledged Assessments. On or before any other payment date set forth in the Resolution, there will also be paid out of the Debt Service Account the amounts required to be paid on any Hedge Agreements on such payment date. The Authority will apply amounts available in the Debt Service Account, or from other Pledged Assessments, for the payment of any scheduled mandatory or sinking fund redemptions on Bonds issued as “term bonds” to pay the purchase price (including any brokerage and other charges) for any Bond subject to such mandatory or sinking fund redemption provided that such purchase price will not exceed the applicable mandatory redemption price of such Bond. Upon any such purchase, the purchased Bonds will be delivered to the Paying Agent/Registrar or Tender Agent for cancellation and the principal amount of such Bonds purchased will be credited toward the next mandatory redemption or sinking fund installment.

Bond Administration Account. There will be paid out of the Bond Administration Expenses Account any amounts required to pay administration expenses pertaining to the Bonds.

Redemption Account. To the extent that the Authority determines that Excess Pledged Assessments are available, the Authority will transfer Excess Pledged Assessments into the Redemption Account to be used solely to redeem Variable Rate Bonds as provided in the Resolution. Prior to such redemption, the Authority will transfer the amount required to effect such redemption from the Redemption Account to the Debt Service Account.

Program Fund

The Resolution provides for the creation of the Program Fund in a dedicated trust fund outside the State Treasury in the custody of the Comptroller. Within the Program Fund, the following accounts are to be created: (1) the Cost of Issuance Account (the "Cost of Issuance Account") is created for the deposit of a portion of the Series A Bond proceeds for the payment of the costs of issuing the Bonds; (2) the Tax-Exempt Program Account (the "Tax-Exempt Program Account") is created for the deposit of proceeds of the Series A Bonds, and will be used to repay Federal Advances; and (3) the Taxable Program Account (the "Taxable Program Account") is created for the deposit of proceeds of the Series B Bonds, the Series C Bonds, and the Series D Bonds. Other than amounts needed to pay capitalized interest which will be deposited into the Debt Service Account, Bond proceeds will be deposited into the appropriate account within the Program Fund and used to repay principal of and interest on Federal Advances, to pay unemployment benefits by depositing amounts in the UC Fund, and to pay the costs of issuing the Bonds. With respect to disbursements from the Tax-Exempt Program Account and Taxable Program Account to fund these purposes, the Authority covenants to disburse all of the proceeds of the Series A Bonds on deposit in the Tax-Exempt Program Account prior to the disbursement of any proceeds deposited in the Taxable Program Account.

Investment income earned in the Program Fund may be used for the purposes described above or may be transferred to the Debt Service Account for the payment of the interest portion of Bond Obligations. Disbursements from the Program Fund are otherwise governed by the terms of the Financing and Pledge Agreement. *See* "THE FINANCING AND PLEDGE AGREEMENT" herein.

If it is determined at any time that the aggregate of all funds on deposit in the Program Fund, including all accounts created therein, exceeds the amount needed for the purposes described above, then the Authority may (i) transfer any additional interest earned on amounts in the Program Fund to the Debt Service Account for application to the next Interest Payment Date coming due, provided that the amount transferred may not exceed the next such payment coming due or (ii) transfer such amounts to the Redemption Account.

Rebate Fund

A Rebate Fund is to be created when needed to make rebate payments to the United States of America when required by the Code. If created, an amount equal to any required rebate will be deposited into the Rebate Fund from the Obligation Trust Fund.

Any additional funds or accounts may be created by the Authority to further the purposes of the Authorizing Law but any such additional funds or accounts may not alter the pledge of Pledged Revenues.

Money in the funds and accounts described above will be invested pursuant to the Funds Management Agreement. *See* "THE FUNDS MANAGEMENT AGREEMENT" herein.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series A Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series A Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as Appendix E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut, or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At June 30, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,986,068,000 and its total unearned premium reserve was approximately $1,195,179,000 in accordance with statutory accounting practices. At June 30, 2003, Financial Security's total shareholders' equity was approximately $2,152,547,000 and its total net unearned premium reserve was approximately $1,010,472,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series A Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds. Financial Security makes no representation regarding this Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in this Official Statement.

THE FINANCING AND PLEDGE AGREEMENT

The Financing and Pledge Agreement, dated as of September 1, 2003 and entered into by the Authority and the Commission, governs, together with the Resolution, the use of Bond proceeds by the Commission; the assessment, pledge, deposit, and use of the Obligation Assessment by the Commission and the Authority; and the responsibilities of the Commission and the Authority with respect to federal tax and securities law compliance relating to the Bonds. *The following is a summary of certain provisions of the Financing and Pledge Agreement. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Financing and Pledge Agreement. Copies of the Financing and Pledge Agreement are available for examination at the offices of the Authority.*

The Financing and Pledge Agreement provides that Bond proceeds are to be deposited and used pursuant to the terms of the Resolution to (1) repay the principal and interest of previous Federal Advances, (2) pay unemployment benefits by depositing the proceeds in the UC Fund, (3) pay costs of issuance, and (4) pay capitalized interest on the Bonds for the period determined necessary by the Commission, not to exceed two years. Proceeds to be used to repay Federal Advances are to be deposited into the UC Fund. Proceeds to be used to pay Benefits are to be deposited into the Program Fund and transferred to the UC Fund as needed; provided, however, amounts in the Tax-Exempt Program Account must be transferred to the UC Fund before any amounts in the Taxable Program Account may be transferred to the UC Fund for such purpose. Proceeds to be used for payment of costs of issuance are to be deposited into the Cost of Issuance Account created by the Resolution. Any excess proceeds remaining after the above-listed purposes have been fulfilled may be used to purchase or redeem Bonds. If no Bonds are outstanding, excess proceeds are to be deposited into the UC Fund.

The Commission irrevocably pledges and assigns to the Authority the Pledged Assessments, and the Authority assigns all of its right, title, and interest in and to the Financing and Pledge Agreement and the Pledged Assessments to the Bond Owners as security for payment of the Bond Obligations and administration expenses.

Pursuant to the Financing and Pledge Agreement, the Authority is to notify the Commission of the amount of Bond Obligations and the estimated amount of administration expenses each year, in sufficient time to allow the Commission to calculate and impose the Obligation Assessment for the upcoming calendar year.

The Commission and the Authority enter into the following covenants with respect to the Obligation Assessment:

(a) The Commission covenants that: (1) so long as the Bonds (and any Additional Bonds) are outstanding, it will annually impose the Obligation Assessment according to the requirements of the Authorizing Law at a rate that will provide revenues in an amount not less than:

(A) 1.50 times the amount of Bond Obligations due in the next calendar year;

(B) the amount needed to make an interest payment on a Federal Advance due in the next calendar year (provided such portion of the rate may not exceed 0.2%); and

(C) the estimated amount of administration expenses due in the next calendar year; and

(2) it will collect and deposit all Unemployment Obligation Assessment Revenues into the Obligation Trust Fund.

(b) The Authority covenants (1) to transfer, semiannually, on each June 1 and December 1, Pledged Assessments from the Obligation Trust Fund as follows:

(A) to the Debt Service Account, an amount, which, when added to other amounts in the Debt Service Account, equals the amount of Bond Obligations on the Fixed Rate Bonds due and payable on the next Interest Payment Date and the amount of Bond Obligations on the Variable Rate Bonds due and payable in the next six months; and

(B) to the Bond Administration Expenses Account, an amount sufficient to pay estimated administration expenses due and payable for the next six months.

To the extent sufficient Pledged Assessments are not available on June 1 or December 1, as applicable, to fund the amounts required by (b)(1)(A) above, the Authority will transfer, upon deposit of such Pledged Assessments in the Obligation Trust Fund, additional Pledged Assessments to the Debt Service Account until such account reaches the balance required by (b)(1)(A) above; and

(2) it will transfer Pledged Assessments from the Obligation Trust Fund at such times and in such amounts as it deems necessary to pay Bond Obligations and administration expenses.

After the transfers described in (b)(1) above have been made, the Authority may transfer Pledged Assessments from the Obligation Trust Fund to the Commission in amounts needed to make payments due on Federal Advances.

After Pledged Assessments have been transferred as described above, Excess Pledged Assessments may be used to pay Bond Obligations payable in a subsequent year, to redeem or purchase outstanding Bonds, or to pay principal of and interest on Federal Advances. No Variable Rate Bonds may be redeemed prior to their maturity unless there are Excess Pledged Revenues available for such purpose.

The Commission also agrees to comply with federal tax law provisions governing the tax-exemption of the interest due on any of the Bonds which are tax-exempt. In addition, the Commission and the Authority agree to provide continuing disclosure and material event information with respect to the Bonds for so long as such Bonds are outstanding, and the Authority agrees to file such information and provide material event disclosure as required by SEC Rule 15c2-12 on behalf of the Commission. *See* "CONTINUING DISCLOSURE OF INFORMATION."

THE FUNDS MANAGEMENT AGREEMENT

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

The Funds Management Agreement provides for the deposit and use of Bond proceeds into the Program Fund in the same manner as directed by the Resolution and the Financing and Pledge Agreement. Regarding the payment of Bond Obligations, at least two Business Days prior to the date on which Bond Obligations are due, the Authority is to transfer money into the Debt Service Account needed to make payments on the Bond Obligations. The Authority is to apply any money on deposit in the Debt Service Account representing accrued interest, if any, received from the sale of the Bonds, to the payment of the interest first coming due on the Bonds. Prior to the opening of business of the Paying Agent/Registrar on each day on which Bond Obligations come due on Bonds that are not Book-Entry Bonds, the Comptroller will transfer from the Debt Service Account, immediately available money to the Paying Agent/Registrar in an amount sufficient for the payment of such Bond Obligations and otherwise in accordance with any instructions of the Paying Agent/Registrar or the Authority. The Comptroller, after making such transfer into the Debt Service Account, will transfer money from the Debt Service Account for the payment of Bond Obligations on Book-Entry Bonds.

If on any date the Authority determines that money in the Debt Service Account is required to be transmitted pursuant to this Section to the Paying Agent/Registrar or other payee (as applicable) for the payment of Bond Obligations and the Debt Service Account does not contain sufficient money for such purpose, the Authority will transfer from money available pursuant to the Authorizing Law an amount of immediately available money sufficient (together with the money then on deposit in the Debt Service Account) to pay such Bond Obligations, at such time as will permit such Bond Obligations to be timely paid.

The money held in the funds created pursuant to the Resolution is to be invested (and reinvested) by the Comptroller. The investments of each Fund must be made under conditions that will timely provide money sufficient to meet the Authority's and the Commission's obligations. The proceeds received from the disposition of

any investment acquired with money from any fund, and any income from such investment, will be deposited into such fund. The Comptroller is required to maintain (or cause to be maintained) detailed accounting records accurately reflecting all investment transactions and all fund activity, with records are subject to State audit. With respect to each purchase (except any direct purchase from the United States government) or sale of an investment of funds held in the Tax-Exempt Program Account, the Comptroller represents and warrants that the price for which the investment is purchased or sold will be the "market price" determined in accordance with Treasury regulations and that the Comptroller will maintain records that adequately support such determination. Any losses from investment of any fund will be charged to the fund and account, on a pro rata basis, from which such investment was made. The Comptroller will not be held liable for any losses resulting from investments made in accordance with the Funds Management Agreement. The interest paid on investments made by the Comptroller will be net of costs incurred by the Comptroller in making such investments; no additional fees will be charged.

THE AUTHORITY

General

The Authority is a public authority and body politic and corporate originally 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.

In general, pursuant to Chapters 1232 and 1401, Texas Government Code, as amended, the Authority issues general obligation bonds and notes and revenue bonds for designated State agencies (including certain institutions of higher education) as directed by the Texas Legislature and administers the Master Lease Purchase Program, a revenue commercial paper program, primarily to finance equipment acquisitions by State agencies. Pursuant to the Authorizing Law, the Authority has been charged with issuing obligations on behalf of the Texas Workforce Commission, at the request of the Commission, to fund, in part, the State's Unemployment Compensation Fund. See "STATE UNEMPLOYMENT COMPENSATION PROGRAM-The Authorizing Law."

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 ruled, in Texas Public Building Authority v. Mattox, 686 S.W.2d 924 (1985), 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 Chapter 1232, Texas Government Code, as amended, revenue obligations issued thereunder are not a debt of the State or any State agency, political corporation or political subdivision of the State and are not a pledge of the full faith and credit of them.

Authority Executives

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. There is currently one vacancy on the Authority Board. The Governor designates one member to serve as Chair at the will of the Governor. Board members whose terms have expired continue to serve on the Authority Board, until a successor therefor has been appointed by the Governor. The current members of the Authority Board, the office held by each member, and the date on which each member's term expires are as follows:

Name	Position	Term Expires (February 1)
R. David Kelly	Chair	2007
H. L. Bert Mijares, Jr.	Vice-Chair	2005
J. Vaughn Brock	Secretary	2007
Helen Huey	Member	2005
Daniel T. Serna	Member	2003
Barry T. Smitherman	Member	2007
(Vacant)	-	-

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

R. David Kelly, Chair. Mr. Kelly is a partner at Carleton Residential Properties, where he directs its acquisition, assets management, and financial advising activities. He is a member of the Dallas Affordable Housing Coalition and the Texas Accessibility Coalition. Mr. Kelly is also a member of Dallas Assembly and the Ten Group. He earned his bachelor's degree in economics from Harvard University, where he was a John Harvard Scholar, and his master's degree in business administration from Stanford Business School.

H.L. Bert Mijares, Jr., Vice Chair. Mr. Mijares is the president of Mijares Mora Architects, a full service architectural firm located in El Paso, Texas. Mr. Mijares currently sits on the Advisory Board of Directors for J.P. Morgan Chase Bank in El Paso. He is also on the Board of The El Paso Center Against Family Violence, The Paso Del Norte Health Foundation Investment Committee and The El Paso Chamber of Commerce. Mr. Mijares is a 1974 graduate of Texas Tech University with a Bachelor of Architecture Degree.

J. Vaughn Brock, Secretary. Mr. Brock is the president of Brock Consulting Group, Inc. which specializes in the development, leasing, and management of commercial real estate. He is a member of the Urban Land Institute and serves on its Industrial and Office Park Council. Mr. Brock serves as chairman of the board of FaithHighway, Inc., an internet based service and applications provider to churches. He currently teaches entrepreneurial process in the masters of business administration program at the University of Texas at Austin and serves on the board of directors of the Greater Austin Chamber of Commerce. Mr. Brock received a bachelor's degree from the University of Oklahoma and a masters of business administration from Harvard Graduate School of Business.

Helen Huey, Member. Ms. Huey is currently employed as an independent business consultant. She is a member of the Houston West Chamber of Commerce, the Scenic Houston Advisory Board, the Spring Branch Medical Center Board of Trustees, and the Spring Branch Education Foundation. Ms. Huey is a former Houston city council member and has also held numerous other civil positions and has received many honors and awards.

Daniel T. Serna, Member. Mr. Serna is the president and founder of Serna and Company, P.C. He is a certified public accountant, and a member of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants. Mr. Serna formerly served as vice chairman of the Texas Public Finance Authority and is a former Arlington city council member. He also serves on the Arlington Ethics Commission and the Arlington Chamber Foundation. Mr. Serna received a bachelor's degree in accounting from Texas Tech University.

Barry T. Smitherman, Member. Mr. Smitherman is an assistant district attorney in Harris County and a former public finance investment banker. He is a member of the State Bar of Texas and a former adjunct professor of public administration at the University of St. Thomas in Houston. In 1999, Mr. Smitherman represented the municipal securities industry at the first Securities and Exchange Commission Municipal Market Roundtable in Washington, D.C. He received a bachelor's degree from Texas A&M University, a master's degree from Harvard University, and a law degree from the University of Texas School of Law.

Kimberly K. Edwards, Executive Director. Prior to assuming the position of Executive Director for the Authority, Ms. Edwards served as Assistant Director of the Municipal Advisory Council of Texas. Ms. Edwards was also previously employed by the Government Finance Group in Arlington, Virginia, a financial advisory firm, the Government Finance Officers Association, a trade association, in Washington, D.C., and the Office of Government Services of Price Waterhouse in Washington, D.C. A native of Dallas, Ms. Edwards holds both an M.B.A. from the Graduate School of Business and a Masters of Public Affairs from the LBJ School of Public Affairs at the University of Texas at Austin, and a B.A. from Rice University.

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 State laws governing the Authority, as amended by the 75th Legislature, provide 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.

Relationship with the Commission

The Authority's power is limited to financing the purposes permitted under the Authorizing Law and such power does not affect the power of the Commission to carry out its statutory authority regarding the UC Program. Accordingly, the Authority will not be responsible for supervising the on-going administration of the State's UC Program. The Authority will, however, pursuant to the Financing and Pledge Agreement, be responsible for making debt service payments due on the Bonds and for monitoring federal tax and securities law compliance.

Payments on the Bonds are expected to be made solely from the Pledged Revenues. *See* "SECURITY FOR THE BONDS." Any default in payments on the Bonds will not affect the payment of any other obligations of the Authority.

Texas Bond Review Board

With certain exceptions, bonds issued by State agencies, 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 August 21, 2003.

THE COMMISSION

General

Created in 1995, the Commission is the state government agency charged with overseeing and providing workforce development services to employers and job seekers in Texas to achieve and sustain economic prosperity. For employers, the Commission offers recruiting, retention, training and retraining, and outplacement services as well as information on labor law and labor market statistics. For job seekers, the Commission offers career development information, job search resources, training programs, and when appropriate, unemployment benefits. The Commission is responsible for all United States Department of Labor activities and programs in the State and currently has approximately 3,900 employees.

The Commission is part of a local/state network dedicated to developing the workforce of Texas. The network is comprised of the Statewide efforts of the Commission coupled with planning and service provision on a regional level by 28 Local Workforce Development Boards ("Boards") that operate approximately 270 one-stop workforce centers ("Texas Workforce Centers"). Texas Workforce Centers give customers access to local workforce solutions and Statewide services in a single location. Through the Texas Workforce Centers, the Boards plan and administer various programs including the Workforce Investment Act, Texas Assistance for Needy Families, Choices Employment Services, Food Stamp Employment and Training, child care services, and Welfare-to-Work programs.

One of the primary functions of the Commission is the administration of the collection of unemployment insurance taxes from employers and the payment of unemployment insurance benefits to qualified claimants. The Commission's Unemployment Insurance and Regulation Division is responsible for the administration of this program, and this division is segregated into four departments: Program Integrity, Customer Service and Unemployment Insurance Operations, Unemployment Insurance Policy Research and Analysis, and Appellate Services. The Customer Service and Unemployment Insurance Operations Department responds to questions about the unemployment tax on-line, and by telephone through the Commission's Unemployment Insurance Tele-Center

network, which constitutes seven linked telephone call centers in Austin, Dallas, El Paso, Fort Worth, Houston, McAllen, and San Antonio.

In addition, approximately 400 Unemployment Insurance Tax Department representatives are located in Austin and in 40 other tax offices throughout the State. The Unemployment Insurance Tax Department is responsible for assisting employers with compliance with TUCA provisions. The Collections Section of this Department maintains delinquent charges, verifies billing notices, reviews all collection activities, and takes enforcement action as required. This Section uses collection letters, installment payment agreements, negotiated settlements, and enforcement actions such as imposing and enforcing tax liens on property, freezing bank accounts, and placing holds on State warrants payable to the business. Collections examiners also review employer reports to locate underreported or overreported wages or false information relating to ownership, partners, and corporate officers. The Status Section of this Department registers new employers, maintains files on employers, and makes determinations on tax liability issues. The Status Section also works with the Internal Revenue Service and the Texas Comptroller of Public Accounts to determine if any new employers have been created which may be liable for unemployment taxes but which have not registered with the Commission. The Accounts Section computes employer tax rates, maintains accounts to correct errors in taxes and wages reported, and processes refunds. The Field Tax Operations Section provides employer education services and performs collection and audit functions at the field tax offices, performs formal training of Tax Department staff, and prepares statistical reports of production and performance of the Department.

The Commission also provides a formal appeals process to resolve claim disputes and issues arising around an employer's tax liability, contribution, or reimbursement. The Commission's Appeals Department hears and decides first-level appeals regarding claims and employer liability. Parties dissatisfied with decisions issued by the Appeals Department may file an appeal with the three-member Commission.

Commission Executives

Three Commissioners, each representing a different aspect of the workforce, make up the governing body of the Commission, and each is an officer of the State, appointed by the Governor with the advice and consent of the State Senate. These members serve in a full-time capacity and may not engage in any other business, vocation, or employment during their terms on the Commission. The Commission is directed to meet the needs of the businesses of the State for the development of a highly skilled and productive workforce and the workers of the State for education, skills training, and labor market information to enhance their employability, earnings, and standard of living. The Commission also has the responsibility for operating an efficient unemployment compensation system and to assist the people of the State who are making a transition into the workforce, particularly persons receiving public assistance, displaced homemakers, and students making the transition from education to employment. The Commission also responds to the communities of the State by supporting incentive programs for the creation, attraction, and expansion of jobs, and to the taxpayers of the State by ensuring that tax revenues for workforce development are spent efficiently and effectively. The Commission appoints the executive director to administer the daily operations of the Commission in compliance with applicable laws. The Commission is authorized to adopt rules necessary for the administration of Commission programs and activities.

The current members of the Commission and the Executive Director are as follows:

Diane D. Rath, Chair and Commissioner Representing the Public. Governor George W. Bush appointed Ms. Rath to the three-member Commission in September 1996, and named her Commission Chair on June 2, 1998. Governor Rick Perry reappointed her as Commissioner and Chair on June 13, 2001. Her Commission appointment expires February 1, 2007. Before being appointed to the Commission, Ms. Rath was the Senior Director of Public Affairs for Kinetic Concepts, Inc. Ms. Rath has also held several positions in the field of physical therapy. She received her bachelor of science degree in physical therapy from the University of Texas Medical Branch at Galveston.

Ron Lehman, *Commissioner Representing Employers*. Governor George W. Bush appointed Mr. Lehman to the three-member commission in July 1998. His term expired February 1, 2003, but he will continue to serve as a member of the Commission until a replacement is appointed by the Governor or the Governor appoints Mr. Lehman to a new term. Commissioner Ron Lehman's 31 years of experience at IBM Corporation give him an understanding of the challenges and workforce needs of Texas employers. Mr. Lehman has served as chair of the Capital Area

Workforce Development Board while holding the position of Program Manager, IBM Corporate Community Relations-Western Region. In 1981, he led the manufacturing hiring, staffing, and training programs for the second Austin plant. As part of the IBM chairman's reinventing education initiatives, Mr. Lehman became executive-on-loan to the Austin Community College to help create a world-class education system, and expanded the role in 1995 to include workforce development. Mr. Lehman has a bachelor's degree in management from St. Edward's University and is a graduate of The President's Class-Advanced Business Institute - Harvard University.

Larry Temple, Executive Director. Formerly Deputy Executive Director of the Commission, Larry Temple will serve as Executive Director of the Commission effective September 12, 2003. Mr. Temple began his public sector career in 1992, when he was named Deputy Director of the Mississippi Department of Human Services. In this position, Mr. Temple oversaw the day-to-day operations of a 3,000 employee state agency with an annual operating budget of approximately $1 billion. He was then named director of the Commission's Office of Welfare Reform in 1997. Beginning in 2002, Mr. Temple served as the Commission's Deputy Executive Director with the primary responsibility of producing employer-driven workforce solutions through the coordination of assets represented in the Unemployment Insurance and Workforce Development Divisions and the offices of Welfare Reform and Employer Initiatives. Mr. Temple holds a bachelor of arts degree in history from St. Edward's University in Austin.

Cassie Carlson Reed, Former Executive Director. Cassie Carlson Reed accepted the position of Texas Workforce Commission executive director on July 1, 2000. Ms. Reed, who was promoted to Executive Director from Administrative Support Division director, began her record of service with the State in 1973 as a legislative assistant for the Texas House of Representatives. From 1977 to 1981, Ms. Reed served in numerous capacities with the Texas Department of Water Resources. Her next six years were spent with the State Department of Highways and Public Transportation in positions ranging from deputy director of policy and research management to director of special projects. In 1987, she joined the General Services Commission ("GSC") as the first division director of the legislatively-created Travel and Transportation Division, becoming GSC deputy executive director in 1991. Ms. Reed then served as the Texas Department of Transportation's deputy executive director of administrative services until she joined the Commission in 1998. Ms. Reed received her bachelor of arts in government from The University of Texas at Austin, and her masters of public affairs is from UT's LBJ School of Public Affairs.

Effective September 12, 2003, Ms. Reed retired as Executive Director, but will continue working for the Commission to handle various projects for the Commissioners and to assist the newly-selected Executive Director with the transition until Ms. Reed's retirement date which is unknown at this time.

Financial Support of the Commission

Funding for the Commission's administration of the State's UC Program is primarily provided by the federal government from the federal unemployment trust fund. The base level amount of funding is determined by a number of productivity factors and the population of workers in the State who are covered by the UC Program. When federal funds are available, the federal government will also provide contingency appropriations for increases in claims activity, and "integrity supplements" for enhancements made by the State to the UC Program. More than 87% of the $1.052 billion appropriated to the Commission by the 78th Legislature for the 2003 Fiscal Year is funded through federal sources. The Commission provides block grants, through allocation formulas, of $768 million (approximately 73% of the total appropriation) to the Boards to fund the Boards' operations and services.

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 Commission, 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 Commission was reviewed during the 2003 regular legislative session under the Texas Sunset Act, and the next scheduled review of the Commission is during the legislative session in 2009. The State laws governing the Commission, as amended by the 78th Legislature, provide that if the Commission is not continued in existence, the Commission will be abolished as of September 1, 2009; however, the Texas Sunset Act provides that the Commission may continue to exist until September 1 of the following year (September 1, 2010) in order to conclude its business.

LEGAL MATTERS

General

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Vinson & Elkins L.L.P. and Delgado, Acosta, Braden & Jones, P.C., Co-Bond Counsel, whose opinion will be delivered at the closing of the sale of the Bonds in substantially the form attached hereto as Appendix D. Certain legal matters will be passed upon for the Underwriters by Andrews & Kurth, L.L.P.

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 Commission or 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 Commission's or 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 Commission and/or the Authority on the date hereof, and the Commission and the Authority assume no obligation to update any such forward-looking statements. It is important to note that the Commission's and 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 students, customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related 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 Commissioners and 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.

TAX MATTERS

Series A Bonds—In General

In the opinion of Vinson & Elkins L.L.P. and Delgado, Acosta, Braden & Jones, P.C., Co-Bond Counsel, (i) interest on the Series A Bonds is excludable from gross income for federal income tax purposes under existing law (ii) certain original issue discount on those Series A Bonds maturing on June 15, 2008 that bear interest at the rate of 2.625% (the "Original Issue Discount Bonds"), is excludable from gross income for federal income tax purposes under existing law as described more fully in "Series A Bonds—Tax Accounting Treatment of Original Issue Discount Bonds", and (iii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Series A Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

It is currently anticipated that the Series C Bonds will be converted to tax-exempt status at a later date. Such conversion, however, will be at the discretion of the Authority and will take place only upon the occurrence of

certain steps and the compliance with provisions of the Resolution, including the delivery of an opinion of nationally recognized bond counsel to the effect that interest on the Series C Bonds will be excludable from gross income for federal income tax purposes. There can be no assurance that such conversion to tax-exempt status will occur. In the event that the Series C Bonds are converted to bonds that are exempt from federal income tax, discussion under "Tax Matters" that applies to the Series A Bonds would also apply to the Series C Bonds.

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

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series A Bonds for federal income tax purposes and, in addition, will rely on representations by the Authority, the Commission, the Authority's Co-Financial Advisors and the Underwriters with respect to matters solely within the knowledge of the Authority, the Commission, the Authority's Co-Financial Advisors and the Underwriters, respectively, which Co-Bond Counsel has not independently verified. If the Authority should fail to comply with the covenants in the Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Series A Bonds could become taxable from the date of delivery of the Series A Bonds, regardless of the date on which the event causing such taxability occurs.

Further, certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not adversely affect the excludability of interest on the Series A Bonds from gross income for federal income tax purposes. The delivery of such opinions will depend on facts and law that exist on such future date or dates, if any. Therefore, we express no opinion regarding the excludability of interest on the Series A Bonds from gross income for federal income tax purposes on and after the date or dates, if any, of any such changes. Further, we express no opinion on our ability to render the opinion required in connection with such changes.

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

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

Except as stated above and as stated below in "Series A Bonds—Tax Accounting Treatment of Original Issue Discount Bonds", Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series A Bonds.

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

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

Series A Bonds—Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of the Original Issue Discount Bonds is less than the stated redemption price at maturity thereof. Co-Bond Counsel, under existing law and based upon the assumptions hereinafter stated, will render an opinion to the effect that:

(a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Dis count Bond in the initial public offering of the Series A Bonds; and

(b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

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. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Series A Bonds under the caption "Series A Bonds—In General" generally applies, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Original Issue Discount Bond at the initial offering price in the initial public offering of the Series A Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

In rendering the foregoing opinion, Co-Bond Counsel will assume, in reliance upon certain representations of the Underwriter, that (a) the Underwriter has purchased the Series A Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Authority nor Co-Bond counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Underwriter, upon which Co-Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts the Underwriter had no reason to believe were not correct.

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

Series A Bonds—Tax Accounting Treatment of Premium Bonds

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

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

Series B Bonds, Series C Bonds and Series D Bonds

The following discussion describes the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Series B Bonds, Series C Bonds and Series D Bonds (collectively, the "Taxable Bonds"). This summary is based on the Code, published revenue rulings, judicial decisions and existing and proposed Treasury regulations, including regulations concerning the tax treatment of debt instruments issued with original issue discount (the "OID Regulations"), changes to any of which subsequent to the date of this official statement may affect the tax consequences described herein.

This summary discusses only Taxable Bonds held as capital assets within the meaning of section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Taxable Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning and disposing of the Taxable Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Taxable Bonds.

For purposes of this discussion, a "U.S. person" means (a) an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, (b) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust whose administration is subject to the primary

supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts to the extent that their ownership of the Taxable Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they were citizens or residents.

In General. Income derived from a Taxable Bond by an Owner is subject to U.S. federal income taxation. In addition, a Taxable Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

Payments of Interest. Stated interest paid (and other original issue discount) on each Taxable Bond will generally be taxable in each tax year held by an Owner as ordinary interest income without regard to the time it otherwise accrues or is received in accordance with the Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of original issue discount, acquisition premium, market discount or amortizable premium are described below.

Original Issue Discount. Certain Taxable Bonds may be sold at a discount below their principal amount. As provided in the Code and the OID Regulations, the excess of the "stated redemption price at maturity" (as defined below) of each such Taxable Bond over its "issue price" (defined as the initial offering price to the public, excluding bond houses and brokers, at which a substantial amount of the Taxable Bonds have been sold) will be original issue discount if such excess equals or exceeds a de minimis amount (*i.e.*, one quarter of one percent of such Taxable Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity). A Taxable Bond having original issue discount equal to or greater than a de minimis amount will be referred to herein as an "OID Bond." Owners of Taxable Bonds that are not OID Bonds will include any de minimis original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Taxable Bond. The stated redemption price at maturity of a Taxable Bond includes all payments on the Taxable Bonds other than the stated interest amounts, which are based on a fixed rate and payable unconditionally at the end of each six-month accrual period.

Except as described below, Owners of OID Bonds will have to include in gross income (irrespective of their method of accounting) a portion of the original issue discount of OID Bonds for each year during which OID Bonds are held, even though the cash to which such income is attributable would not be received until maturity of OID Bonds. The amount of original issue discount included in income for each year will be calculated under a constant yield to maturity formula that results in the allocation of less original issue discount to earlier years of the term of OID Bonds and more original issue discount to the later years.

The foregoing summary is based on the assumptions that (a) the Underwriters have purchased the Taxable Bonds for contemporaneous sale to the general public and not for investment purposes, (b) all of the Taxable Bonds have been offered, and a substantial amount of each maturity thereof has been sold to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c)the respective initial offering prices of the Taxable Bonds to the general public are equal to the fair market value thereof. Neither the Authority nor Co-Bond Counsel warrants that the Taxable Bonds will be offered and sold in accordance with such assumptions.

Acquisition Premium. In the event that an Owner purchases a Taxable Bond at an acquisition premium (i.e., at a price in excess of its "adjusted issue price" but less than or equal to its stated redemption price at maturity), the amount includible in income in each taxable year as original issue discount is reduced by that portion of the acquisition premium properly allocable to such year. (For Taxable Bonds that are purchased at a price in excess of the stated redemption price at maturity, see the discussion below under the heading "*Amortizable Premium*.") The adjusted issue price is defined as the sum of the issue price of the Taxable Bond and the aggregate amount of previously accrued original issue discount, less any prior payments of amounts included in its stated redemption price at maturity. Unless an Owner makes the accrual method election described below, acquisition premium is allocated on a pro rata basis to each accrual of original issue discount (i.e., to each six-month accrual period), so that the Owner is allowed to reduce each accrual of original issue discount by a constant fraction.

Market Discount. An Owner that purchases a Taxable Bond at a "market discount" will be subject to provisions in the Code that convert certain capital gain on the redemption, sale, exchange or certain other dispositions of the Taxable Bond into ordinary income. A Taxable Bond will have market discount to the extent the "revised issue price" (as defined in section 1278 of the Code) of such Taxable Bond exceeds, by more than a de minimis amount, the Owner's tax basis in the Taxable Bond immediately after the Owner acquires the Taxable Bond.

An Owner may elect to include market discount in income as it accrues, but such an election will apply to all market discount bonds acquired by such Owner on or after the first day of the first taxable year to which such election applies and is revocable only with permission from the IRS. Unless a Bond Owner elects to include market discount in income as it accrues, any partial principal payments on, or any gain realized upon the sale, exchange, disposition, redemption or maturity of a Taxable Bond will be taxable as ordinary income to the extent any market discount has accrued on such Taxable Bond. Market discount on a Taxable Bond would accrue ratably each day between the date an Owner purchases the Taxable Bond and the date of maturity. In the alternative, an Owner irrevocably may elect to use a constant interest accrual method under which marginally less market discount would accrue in early years and marginally greater amounts would accrue in later years.

If a Taxable Bond purchased with market discount is disposed of in a nontaxable transaction (other than a nonrecognition transaction described in section 1276(d) of the Code), accrued market discount will be includible as ordinary income to the Owner as if such Owner had sold the Taxable Bond at its then fair market value. An Owner of a Taxable Bond that acquired it at a market discount and that does not elect to include market discount in income on a current basis also may be required to defer the deduction for a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Taxable Bond until the deferred income is realized.

Amortizable Premium. An Owner that purchases a Taxable Bond for any amount in excess of its principal amount, or in the case of an OID Bond, its stated redemption price at maturity, will be treated as having premium with respect to such Taxable Bond in the amount of such excess. An Owner that purchases an OID Bond at a premium is not required to include in income any original issue discount with respect to such Taxable Bond.

If an Owner makes an election under section 171(c)(2) of the Code to treat such premium as "amortizable bond premium," the amount of interest that must be included in such Owner's income for each accrual period will be reduced by the portion of the premium allocable to such period based on the Taxable Bond's yield to maturity. If an Owner makes the election under section 171(c)(2), the election also shall apply to all taxable bonds held by the Owner at the beginning of the first taxable year to which the election applies and to all such taxable bonds thereafter acquired by such Owner, and it is irrevocable without the consent of the IRS. If such an election under section 171(c)(2) of the Code is not made, such an Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale of other disposition or retirement of the Taxable Bond. The existence of bond premium and the benefits associated with the amortization of bond premium vary with the facts and circumstances of each Owner. Accordingly, each Owner of a Taxable Bond should consult his own tax advisor concerning the existence of bond premium and the associated election.

Accrual Method Election. Under the OID Regulations, an Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Taxable Bond (i.e., the excess of all remaining payments to be received on the Taxable Bond over the amount paid for the Taxable Bond by such Owner) based on the compounding of interest at a constant rate. Such an election for a Taxable for all of the Owner's debt instruments with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

Disposition or Retirement. Upon the sale, exchange or certain other dispositions of a Taxable Bond, or upon the retirement of a Taxable Bond (including by redemption), an Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement and the Owner's basis in the Taxable Bond. An Owner's tax basis for determining gain or loss on the disposition or retirement of a Taxable Bond will be the cost of such Taxable Bond to such Owner, increased by the amount of any original issue discount and any market discount includible in such Owner's gross income with respect to such Taxable Bond, and decreased by the amount of any payments under the Taxable Bond that are part of its stated redemption price at maturity (i.e., all stated interest payments with respect to the Taxable Bonds previously paid) and by the portion of any premium

applied to reduce interest payments as described above. Such gain or loss will be capital gain or loss (except to the extent the gain represents accrued original issue discount or market discount on the Taxable Bond not previously included in gross income, to which extent such gain would be treated as ordinary income). Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Taxable Bond has been held for more than one year.

Information Reporting and Backup Withholding. The Corporation is required to report to the IRS payments of interest and accruals of original issue discount (if any) on Taxable Bonds held of record by U.S. persons other than corporations and other exempt holders. Such information will be filed each year with the IRS 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 Taxable Bond for federal income tax reporting purposes. The amount of original issue discount required to be reported by the Corporation may not be equal to the amount required to be reported as taxable income by an Owner of an OID Bond that acquired such Taxable Bond subsequent to its original issuance.

Interest paid to an Owner of a Taxable Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax at a rate of 31 percent may apply, however, to payments made in respect of the Taxable Bonds, as well as payments of proceeds from the sale of Series B Bonds, to registered holders or Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Owner of a Taxable Bond (who is not an exempt recipient) (a) fails to furnish to the Corporation such Owner's social security number or other taxpayer identification number (“TIN”), (b) furnishes the Corporation an incorrect TIN, (c) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (d) under certain circumstances, fails to provide the Corporation or such Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Corporation is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on a holder or Owner who is required to supply information but who does not do so in the proper manner.

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE TAXABLE 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 U.S. PERSONS.

LEGAL INVESTMENTS IN TEXAS

Pursuant to the Bond Procedures Act of 1981, Texas Government Code Section 1201.041, as amended, the Bonds are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of a municipality or other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, provides that a city, county, or school district may invest in the Bonds provided that Bonds have received a rating of not less than “A” from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations, or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Authority has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

RATINGS

In connection with the sale of the Fixed Rate Bonds, the Authority has received an underlying rating of "AA" from S&P, of "Aa2" from Moody's, and of "AA-" from Fitch. The Series A Bonds are expected to receive ratings of "AAA," "Aaa," and "AAA" from S&P, Moody's, and Fitch, respectively, as the result of the issuance of the municipal bond insurance policy issued for the Series A Bonds by Financial Security. *See* "MUNICIPAL BOND INSURANCE" herein.

In connection with the sale of the Variable Rate Bonds, the Authority has received a rating of "Aa2/VMIG1" from Moody's and of "AA-/F1+" from Fitch.

Ratings will reflect only the views of such organization at the time such ratings are given, and the Authority and the Commission make no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Financing and Pledge Agreement, the Commission, as the obligated party on the Bonds, has agreed to provide certain updated statistical information and operating data annually, and timely notice of specified material events to the Authority, and pursuant to the Financing and Pledge Agreement and the Resolution, the Authority has agreed to make such information available as described herein. The Commission and the Authority have made the following agreement for the benefit of the Authority and the Bond Owners. The Commission and the Authority are required to observe their agreement for so long as the Commission remains obligated to advance funds to pay the Bonds. Under the agreement, the Authority, on behalf of the Commission, will be obligated to provide certain updated statistical 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.

Annual Reports

Pursuant to the Financing and Pledge Agreement, the Commission will provide certain updated statistical information and operating data to certain information vendors annually. The information to be updated includes all quantitative statistical information and operating data with respect to the Commission of the general type included in this Official Statement in APPENDIX B, and the table entitled "Coverage Schedule" in "DEBT SERVICE AND COVERAGE SCHEDULES" herein. The Commission will update and provide this information to the Authority within 120 days after the end of each Fiscal Year ending in or after 2003 and the Authority will make this information available within 180 days after the end of each Fiscal Year ending in or after 2003. The Commission will provide the updated information to the Authority and the Authority will provide such information to each NRMSIR and to any SID that is designated and approved by the staff of the United States Securities and Exchange Commission (the "SEC"). The Authority may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule.

The State's current Fiscal Year end is August 31. Such updated information must be provided within 180 days following August 31 of each year, unless the State changes its Fiscal Year. If the State changes its Fiscal Year, the Authority will notify each NRMSIR and any SID of the change.

Material Event Notices

The Authority on behalf of the Commission will provide timely notices of certain events to certain information vendors. The Authority will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to

perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the Authority will provide timely notice of any Hedge Agreement relating to the Bonds and of failure by the Commission to provide information, data, or financial reports in accordance with its agreement described above under "Annual Reports." The Authority will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

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

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID, and the SEC staff has issued a no action letter confirming that it will accept that designation. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone is (512) 476-6947.

Limitations and Amendments

The Commission and the Authority have agreed to update information and to provide notices of material events only as described above. The Commission and the Authority have not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority and the Commission make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Commission and the Authority disclaim any contractual or tort liability of damages resulting in whole or in part from any breach of their continuing disclosure agreement or from any statement made pursuant to their agreement, although holders of Bonds may seek a writ of mandamus to compel the Commission or the Authority to comply with this agreement.

The Commission, with the consent of the Authority, may amend its continuing disclosure agreement from time to time 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 Commission, but only if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Resolution that authorizes such an amendment) of the Bonds then outstanding consent to the amendment or (b) any person unaffiliated with the Commission (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the registered owners and beneficial owners of the Bonds. The Commission, with the approval of the Authority, may also amend or repeal its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds. If the Commission and the Authority so amend the agreement, they have agreed to include with the next statistical information and operating data provided in accordance with the agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of statistical information and operating data so provided.

Compliance with Prior Agreements

The Commission has not entered into any prior continuing disclosure agreements.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Authority and the Commission. The purchase price for the Series A Bonds is $278,793,642.65 (representing a par amount of $256,235,000.00, plus a net premium of $23,621,812.45, less an Underwriters' discount of $1,063,169.80). The purchase price for the Series B Bonds is $518,766,507.51 (representing a par amount of $520,485,000.00, less a discount of $412,944.65, less an Underwriters' discount of $1,305,547.84. The purchase price for each subseries of the Series C Bonds will be determined upon the pricing of the Series C Bonds, and will be equal to the par amount thereof minus underwriter's discount. The purchase prices for the Series D Bonds are as follows:

Series or Subseries	Purchase Price	Par Amount	Underwriter's Discount
Series D-1	$99,857,442.36	$100,000,000	$142,557.64
Series D-2	99,857,442.38	100,000,000	142,557.62

The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

CO-FINANCIAL ADVISORS

CKW Financial Group, Inc., Coastal Securities, and First Southwest Company have acted as Co-Financial Advisors to the Authority in connection with the issuance of the Bonds. The Co-Financial Advisors' fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the Authority's and the Commission's records and from other sources which are believed to be reliable. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

LITIGATION

The Authority

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. At the time of payment for and delivery of the Bonds, the Attorney General 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 knowledge of the Attorney General of the State, 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.

The Commission

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 Commission, threatened) that would materially adversely affect (1) the existence of the Commission, or the right of the present Commissioners and officers of the Commission to hold their offices or (2) the power of the Commission: (i) to request issuance of the Bonds by the Authority, (ii) to

levy or collect the Obligation Assessment or use the Obligation Assessment to pay debt service due on the Bonds, or (iii) to meet its other obligations as described in the Financing and Pledge Agreement.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from the Commission's records and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

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APPENDIX A

STATE OF TEXAS

The Appendix A dated August 2003 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 Appendix may also be obtained from the State Comptroller's website at www.cpa.state.tx.us/treasops/bondapp.html.

THIS APPENDIX IS BEING PROVIDED FOR THE SOLE PURPOSE OF PROVIDING ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE STATE OF TEXAS. NEITHER THE STATE OF TEXAS, NOR ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE OF TEXAS IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS, OTHER THAN AS PROVIDED IN THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

THE LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS IN TABLES A-16, A-17, AND A-19 AS PROVIDED BY THE STATE COMPTROLLER IN APPENDIX A VARY IN METHOD OF CALCULATION FROM SIMILAR STATISTICS PRESENTED IN APPENDIX B HEREOF AS CALCULATED BY THE COMMISSION. INVESTORS SHOULD NOT RELY ON THE LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS PRESENTED IN APPENDIX A HEREOF.

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APPENDIX B

CERTAIN INFORMATION REGARDING THE STATE UNEMPLOYMENT COMPENSATION PROGRAM

THE CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS SET FORTH IN THIS APPENDIX REPRESENT THE ENTIRE CIVILIAN LABOR FORCE AND THE TOTAL NUMBER OF EMPLOYED AND UNEMPLOYED PERSONS IN THE STATE, AND DO NOT REPRESENT, WITH THE EXCEPTION OF TABLE 6 HEREIN, THE NUMBER OF EMPLOYERS WHICH ARE REQUIRED TO PAY UNEMPLOYMENT TAXES OR, WITH THE EXCEPTION OF TABLE 2 HEREIN, THE NUMBER OF EMPLOYEES WHICH ARE ELIGIBLE TO RECEIVE UNEMPLOYMENT BENEFITS.

I. INTRODUCTION

The statistics set forth herein have been prepared and calculated by the Texas Workforce Commission (the "Commission") unless stated otherwise. The statistics set forth herein have not been independently verified by the Underwriters and no representation or warranty is made as to the accuracy, completeness, or adequacy of such information by the Underwriters. There follows in this Appendix B certain information regarding the historic and projected labor force, unemployment and employment statistics; taxable wage statistics and projections; wage and employment data; and historic contribution collections, benefit payments, and UC Fund balances. Certain information may require economic analysis in order to assess the import of the facts and statistics presented. The projections contained in this Appendix B were prepared by the Commission based in part on economic assumptions developed for the State by the Comptroller of Public Accounts of the State of Texas. Future economic events are inherently uncertain, and no set of economic assumptions (including the assumptions used to prepare the projections contained in this Appendix B) are completely reliable.

II. EMPLOYMENT STATISTICS

Set forth below is a brief description of certain categories of information presented in Tables 1 through 5 in this section:

"Civilian Labor Force" represents the estimated number of persons 16 and older who are employed or actively seeking employment, excluding persons in the military.

"Employment" represents the estimated number of persons in the Total Civilian Labor Force who are employed.

"Unemployment" represents the estimated number of persons in the Total Civilian Labor Force who are not employed. Not all of those unemployed are eligible to receive benefits.

"Average Number of Benefit Recipients" represents the annual average number of individuals receiving Benefits.

"Taxable Wages" represents the aggregate amount of wages paid which is subject to Contributions.

"Taxable Wage Base" represents, for each employee, the amount of wages that are subject to Contributions.

Seasonally adjusted data are data that have been modified to eliminate seasonal fluctuations.

Set forth below is a brief description of the current status of Texas employment, based on May 2003 data:

Employment to Population Ratio (Seasonally Adjusted):
Texas' seasonally-adjusted employment to population ratio (the "EP ratio"), which measures the employed in the workforce population, slipped from 63.8 percent in May to 63.7 percent in June. The Texas EP ratio

stood at 63.6 percent a year ago. The U.S. employment to population ratio held steady over the month at 62.3 percent.

Civilian Labor Force Seasonally Adjusted:
Texas' seasonally adjusted civilian labor force shrunk by 39,200 workers or by 0.4 percent in June. This is the largest loss in June since 2002 when there was a decrease of 22,800 workers. Texas' civilian labor force increased by 2.5 percent or 264,100 workers over the year. This constitutes the largest June civilian labor force over-the-year gain since 1984, when the civilian labor force increased by 305,700.

Employment:

Seasonally Adjusted: Texas' employment rose by 2,700 workers in June. The employment total for June was 10,282,700. This increase was partly due to amusement parks hiring temporary workers during the summer season. Since June 2002, employment increased by 219,700 workers or by 2.2 percent.

Actual: The number of employed Texans rose by 64,400 from May's 10,269,700 to June's level of 10,334,100. This increase was smaller than the average May-to-June gain of 86,000 workers. Moreover, this month's gain was also the smallest May-to-June change since 1986. From 1997, the May-to-June employment gains have been steadily decreasing on average by 3,900. Year to date, the number of jobholders grew by 251,400, which has lifted Texas' employment to its highest level ever. In addition, annual employment growth in June was the highest it has been in five years.

Unemployment:

Seasonally Adjusted: The number of unemployed persons in Texas fell by approximately 41,900 persons or by 5.6 percent over the month. Over the year, the unemployment number increased by 44,400 or by 6.7 percent.

Actual: The number of Texans seeking work grew for the second consecutive month. June's level rose by 119,500 to 835,700 unemployed. This gain was the smallest for the month since 2000. While June's increase in job seekers was not unexpected, it was still larger than the average increase for the year of 108,900. Some of June's rise in job seekers could be attributed to local schools and colleges scaling back staffing for the summer months. Since the beginning of the year, the number of unemployed has risen by 101,200. Moreover, June's level was at its highest for the month since 1986.

Rate:

Seasonally Adjusted: The unemployment rate in Texas decreased over the month from 6.8 percent in May to 6.4 percent in June. This is the largest May-to-June rate decrease since 1983 when the rate decreased by 0.6 percent. The unemployment rate in Texas has been at or above 6 percent since January 2002.

Actual: The Texas unemployment rate climbed for the second consecutive month in June, rising to 7.5 percent from May's rate of 6.5 percent. June's increase wasn't surprising, since the May-to-June change has averaged a 1.1 percentage point gain for the past twenty-six years. June's rate was the highest recorded in the last ten years. The Texas unemployment rate has not dipped below 6.2 percent this year. The United States unemployment rate increased for only the second time this year, rising from May's 5.8 percent to 6.5 percent in June. The rate for June matched January's as the highest for the year and was the highest for the month of June in the last nine years. June's rate was five-tenths of a percentage point higher than the year-ago level of 6.0 percent.

Continued Claims: The number of continued claims in Texas increased by 2,800 claims or by 1.6 percent in June from May 2003 to 174,900. Since June 2002, the number of continued claims in Texas decreased by 1,100 claims or by 0.7 percent. The Education & Health Services Group experienced an increase in claims over the month at 25.5 percent, followed by Public Administration at 24.6 percent and Leisure & Hospitality Group at 14.0 percent.

Seasonally Adjusted Nonagricultural Employment: Total nonagricultural employment lost 4,200 jobs over the month, from a level of 9.444,100 for June. Over the year, nonagricultural jobs increased by 22,200 jobs. The decrease in jobs over the month can be partially attributed to substantial losses in Trade, Transportation & Utilities in the Service-Providing sector, and Manufacturing in the Goods-Producing sector.

Claims: The number of claims for unemployment benefits increased for the second time this year, rising from May's level of 171,000 to 173,800 claims in June. June's claims level was 1,100 below last year's figure. When comparing the first six months of claims activity in 2003 with those of 2002, there were 3,900 fewer claims reported in 2003 than last year. Of all the super sectors, only Information and Financial Activities recorded over-the-month decreases in claims. Education & Health Services had the largest over-the-month increase in claims with a gain of 2,900, while Trade, Transportation and Utilities posted the largest over-the-year increase with 2,900 claims.

TABLE 1

STATE OF TEXAS
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS
(SEASONALLY ADJUSTED) (1982-2002)

Year	Civilian Labor Force	Employment	Unemployment	Rate
1982	7,376,175	6,866,983	509,192	6.9%
1983	7,642,142	7,032,575	609,567	8.0
1984	7,910,617	7,441,367	469,250	5.9
1985	8,076,292	7,510,792	565,500	7.0
1986	8,127,008	7,402,767	724,242	8.9
1987	8,258,733	7,562,150	696,583	8.4
1988	8,354,125	7,744,200	609,925	7.3
1989	8,425,333	7,858,342	566,992	6.7
1990	8,615,900	8,071,392	544,508	6.3
1991	8,762,608	8,171,017	591,592	6.8
1992	9,010,783	8,319,242	691,542	7.7
1993	9,161,642	8,505,000	656,642	7.2
1994	9,355,500	8,753,667	601,833	6.4
1995	9,551,392	8,976,283	575,108	6.0
1996	9,682,333	9,137,742	544,592	5.6
1997	9,851,475	9,322,317	529,158	5.4
1998	10,094,225	9,609,108	485,117	4.8
1999	10,219,025	9,747,083	471,942	4.6
2000	10,390,675	9,950,575	440,100	4.2
2001	10,560,825	10,048,175	512,650	4.9
2002	10,751,067	10,069,708	681,358	6.3

Sources: Texas Workforce Commission; Comptroller of Public Accounts; U.S. Department of Labor

TABLE 2

STATE OF TEXAS
AVERAGE NUMBER OF BENEFIT RECIPIENTS

Year	Number
1990	96,941
1991	118,811
1992	133,876
1993	120,188
1994	113,724
1995	109,622
1996	106,616
1997	100,284
1998	93,678
1999	109,439
2000	90,122
2001	130,824
2002	175,777

Source: Texas Workforce Commission

TABLE 3

STATE OF TEXAS
PROJECTED ANNUAL CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS
(2003-2010)

Year	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2003	10,939,727	10,223,612.86	716,114.56	6.6%
2004	11,169,406	10,479,918.88	689,487.45	6.2
2005	11,433,007	10,761,432.37	671,574.84	5.9
2006	11,720,735	11,064,608.53	656,126.76	5.6
2007	11,982,776	11,325,041.49	657,734.58	5.5
2008	12,258,159	11,643,903.02	614,256.37	5.0
2009	12,515,033	11,929,329.68	585,703.56	4.7
2010	12,774,609	12,250,594.27	524,014.45	4.1

Source: Texas Comptroller of Public Accounts, Spring 2003 Economic Forecast

TABLE 4

STATE OF TEXAS
ANNUAL TAXABLE WAGES
1995-2002 (Actual); 2003-2010 (Projected)

Year	Taxable Wage Base	Taxable Wages (in billions)
1995	$9,000	$59.9
1996	9,000	63.0
1997	9,000	67.4
1998	9,000	71.3
1999	9,000	73.6
2000	9,000	77.6
2001	9,000	77.7
2002	9,000	75.3
2003	9,000	75.8
2004	9,000	77.5
2005	9,000	79.5
2006	9,000	81.7
2007	9,000	83.7
2008	9,000	86.0
2009	9,000	88.1
2010	9,000	90.5

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Source: Texas Workforce Commission

TABLE 5

STATE OF TEXAS
UNEMPLOYMENT INSURANCE TAX RATES[1]
1994-2003

Year	Minimum Tax Rate	Maximum Tax Rate	Average Tax Rate	Average Experience Tax Rate[2]
1994	0.34%	6.59%	1.42%	1.21%
1995	0.31	6.57	1.35	1.18
1996	0.28	6.28	1.22	1.04
1997	0.27	6.27	1.16	0.98
1998	0.27	6.27	1.12	0.93
1999	0.24	6.24	1.02	0.83
2000	0.30	6.30	1.02	0.85
2001	0.24	6.24	0.94	0.75
2002	0.30	6.54	1.03	0.85
2003	0.67	8.47	1.68	1.56

[1]The tax rates included in this table are composites of the General Tax Rate, the Replenishment Rate, and the Deficit Assessment.
[2]The average experience tax rate excludes the tax rate of employers which do not have experience with the unemployment compensation system.

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Source: Texas Workforce Commission

III. STATISTICS BY INDUSTRY SECTOR AND BUSINESS SIZE

Set forth below is a brief description of certain categories of information presented in Tables 6 through 9 hereunder:

"Quarterly Employment" is the average monthly number of employees for that particular calendar quarter.

For Table 8, "Employment" refers to jobs located in a given geographic area irrespective of where the job holder lives. This employment is the number of workers employed by employers subject to the Texas Unemployment Compensation Act.

"UI Accounts" represents the quarterly average number of Unemployment Insurance accounts that are covered under the Texas Unemployment Compensation Act.

For Table 9, "Total Wages" represents all wages payable to employees within a particular NAIC category.

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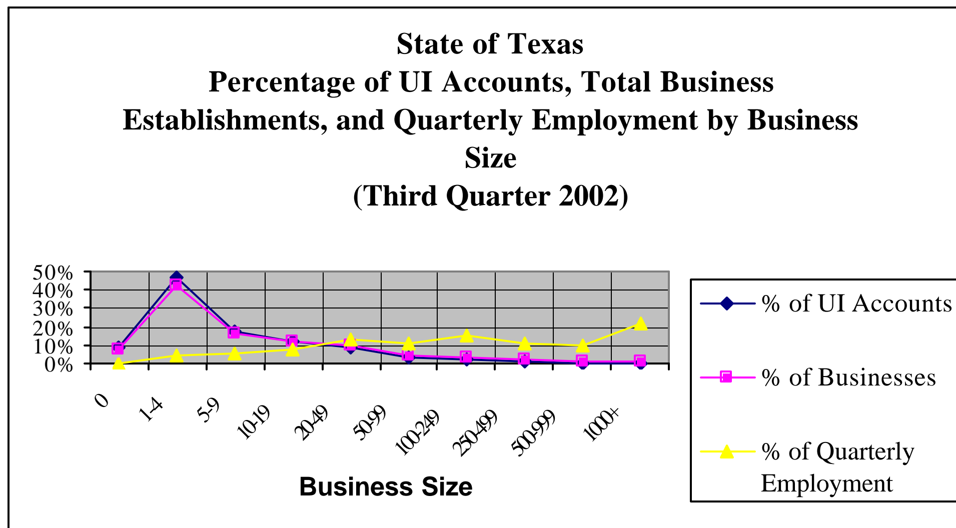
TABLE 6



Number of Employees[1]	UI Accounts	% of UI Accounts	Establishments	% of Establishments	Quarterly Employment	% of Quarterly Employment
0[2]	37,709	8.34%	37,923	7.59%	22,849	0.25%
1-4	211,481	46.79%	212,194	42.47%	441,404	4.77%
5-9	80,078	17.72%	81,532	16.32%	528,472	5.71%
10-19	54,197	11.99%	57,666	11.54%	733,973	7.93%
20-49	39,437	8.72%	47,448	9.50%	1,202,513	13.00%
50-99	15,018	3.32%	22,822	4.57%	1,035,989	11.20%
100-249	9,084	2.01%	18,909	3.78%	1,360,708	14.71%
250-499	2,872	0.64%	9,002	1.80%	979,860	10.59%
500-999	1,292	0.29%	5,768	1.15%	897,019	9.70%
1000+	843	0.19%	6,319	1.26%	2,047,464	22.13%

[1]As measured at the end of the quarter.
[2]Represents employers which had employees earlier in the quarter, but did not have any employees at the end of the quarter.

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Source: Texas Workforce Commission

TABLE 7

STATE OF TEXAS
TOTAL NONAGRICULTURAL WAGE AND SALARY
AVERAGE ANNUAL EMPLOYMENT BY INDUSTRY SECTOR
(Not Seasonally Adjusted)
(1993-2003[1])

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Nonfarm	7,481,500	7,750,900	8,022,600	8,256,100	8,608,000	8,940,200	9,159,300	9,433,400	9,518,400	9,426,900	9,420,917
.Total Private	6,105,500	6,337,200	6,576,900	6,798,400	7,124,800	7,436,000	7,624,500	7,871,500	7,932,200	7,802,700	7,761,067
..Goods Producing	1,452,900	1,499,300	1,554,500	1,604,100	1,672,800	1,742,500	1,740,900	1,778,400	1,760,500	1,667,200	1,637,833
...Natural Resources and Mining	155,200	153,600	149,500	149,900	159,400	159,800	140,500	143,300	153,000	145,600	141,783
...Construction	355,400	379,500	409,700	437,400	468,300	505,400	537,100	567,100	580,500	570,300	573,167
...Manufacturing	942,200	966,200	995,300	1,016,900	1,045,100	1,077,300	1,063,300	1,068,000	1,026,800	951,200	922,883
..Service-Providing	6,028,600	6,251,600	6,468,100	6,652,000	6,935,300	7,197,600	7,418,400	7,655,000	7,757,900	7,759,700	7,783,083
...Trade, Transportation, and Utilities	1,626,200	1,677,900	1,725,400	1,762,700	1,808,000	1,873,200	1,927,500	1,986,600	1,997,900	1,965,200	1,937,050
...Information	178,000	183,400	195,100	205,900	227,100	239,800	251,600	272,200	269,900	248,800	236,067
...Financial Activities	457,200	469,800	472,400	484,100	506,100	535,700	558,200	567,900	577,800	580,500	583,167
...Professional and Business Services	687,000	738,700	782,300	830,300	909,900	984,000	1,035,500	1,096,400	1,093,400	1,054,500	1,046,050
...Educational and Health Services	780,200	812,300	852,500	888,600	935,000	961,900	977,800	1,003,400	1,041,700	1,085,200	1,116,533
...Leisure and Hospitality	638,200	661,500	690,500	709,700	742,000	767,200	793,800	819,100	836,000	845,300	846,183
...Other Services	285,900	294,400	304,200	313,000	324,000	331,600	339,300	347,400	354,700	355,500	358,183
...Government	1,376,000	1,413,700	1,445,700	1,457,700	1,483,300	1,504,200	1,534,800	1,561,900	1,586,200	1,624,200	1,659,850

[1]As of June, 2003.

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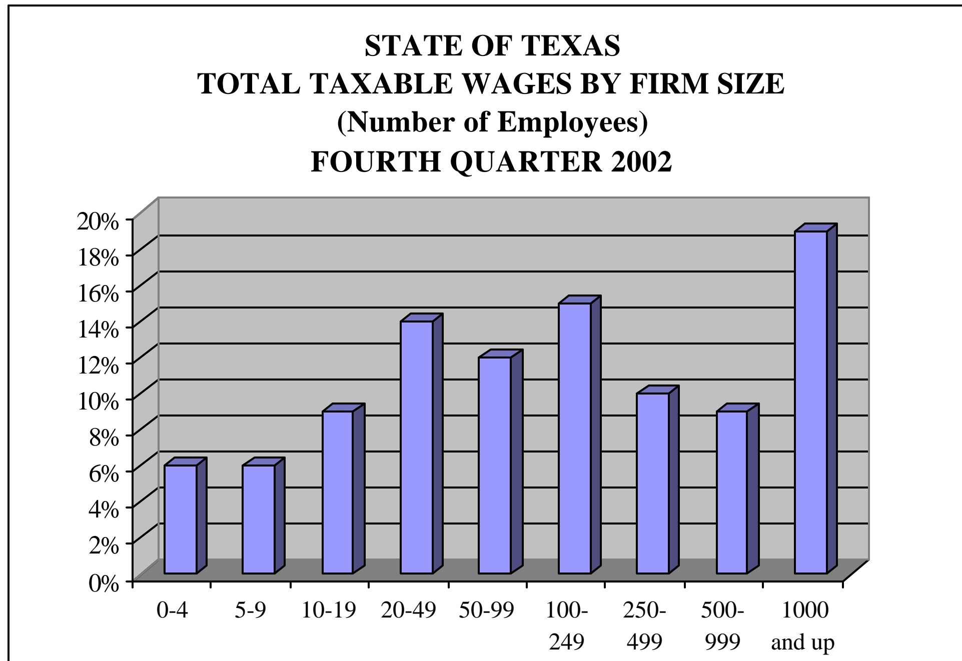
Source: Texas Workforce Commission

TABLE 8



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Source: Texas Workforce Commission

TABLE 9

STATE OF TEXAS
TOTAL WAGES BY NAIC CATEGORY
(Private Sector Only)
Fourth Quarter 2002

NAIC Category	Percent of Total Wages
Retail trade	9.68%
Manufacturing	15.92
Administrative and waste services	5.31
Health care and social assistance	11.49
Construction	7.89
Accommodation and food services	3.72
Professional and technical services	11.25
Wholesale trade	8.77
Finance and insurance	7.67
Transportation and warehousing	4.88
Information	4.51
Real estate rental and leasing	2.27
Mining	4.29
Other services (excluding public administration)	2.34

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Source: Texas Workforce Commission

IV. STATISTICS ON CONTRIBUTIONS, COLLECTION RATES, BENEFIT PAYMENTS, AND UC FUND BALANCES

Set forth below is a brief description of categories of information presented in Tables 10 and 11 hereunder.

"Contributions" demonstrates the Contributions received from Contributing Employers, net of any refunds sent to such employers.

"Regular Benefits" shows the aggregate amount of regular unemployment compensation paid each year to eligible unemployed workers formerly employed by Contributing Employers.

"UC Fund Balance" shows the balance in the UC Fund as of the date shown. Negative balances indicate the extent to which Federal Advances were required to pay Benefits.

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TABLE 10

STATE OF TEXAS
UNEMPLOYMENT TAXES:
PERCENTAGE OF TAX COLLECTED
(1998-2002)

Period	% of Tax Collected[1]
First Quarter 1998	99.63%
Second Quarter 1998	99.51
Third Quarter 1998	99.43
Fourth Quarter 1998	99.33
First Quarter 1999	99.44%
Second Quarter 1999	99.30
Third Quarter 1999	99.30
Fourth Quarter 1999	99.24
First Quarter 2000	99.51%
Second Quarter 2000	99.35
Third Quarter 2000	99.25
Fourth Quarter 2000	99.23
First Quarter 2001	99.43%
Second Quarter 2001	99.23
Third Quarter 2001	99.08
Fourth Quarter 2001	99.10
First Quarter 2002	99.40%
Second Quarter 2002	99.20
Third Quarter 2002	98.97
Fourth Quarter 2002	98.77
First Quarter 2003	98.18%

[1]As of August 18, 2003

Source: Texas Workforce Commission

For unemployment taxes due in any calendar quarter, the process of collecting the taxes due in that particular quarter continues over time until the Commission collects as much of the tax due as possible. Therefore, collection rates will increase over time. For example, as of August 18, 2003, the Commission collected 98.18% of taxes due in the first calendar quarter of 2003, and in the next calendar quarter expects to collect up to at least 99% of the taxes due during that first calendar quarter of 2003.

The collection rate for the Obligation Assessment is expected to approximate that of the aggregate taxes shown in this table. Rate notices sent to Contributing Employers show a composite tax rate due, and Contributing Employers are required to pay the entire amount due. If Contributing Employers pay less than the full amount due, the amount paid is allocated among the composite tax and assessment rates in accordance with any one tax or assessment rate's proportion to the composite tax rate.

TABLE 11

STATE OF TEXAS
CONTRIBUTIONS, BENEFIT PAYMENTS, AND TRUST FUND BALANCES
(1982-2003)

Year	Contributions[2] ($million)	Regular UI Benefits[3] ($million)	Trust Fund Interest Earned ($million)	Distributions, Transfers & Adjustments[4] ($million)	End of Year Balance ($million)
1982	$241.6	$649.4	$23.0		$-142.5
1983	402.7	954.0	0.4	$1.7	-691.8
1984	862.0	584.3	0.0	-1.8	-415.9
1985	881.4	666.1	1.0	203.7 [5]	4.2
1986	849.0	1,233.5	4.0	9.0	-367.3
1987	943.3	1,092.7	1.3	2.4	-513.0
1988	1,515.1	781.3	4.0	9.4 [6]	264.2
1989	1,386.4	739.3	44.3	-0.1	955.5
1990	961.1	768.8	96.5	-0.6	1,243.8
1991	552.0	992.8	103.6	-4.0	902.6
1992	750.8	1,162.8	68.8	-3.0	556.4
1993	880.1	1,087.9	42.3	9.6	400.5
1994	1,036.9	1,025.6	32.7	0.6	445.1
1995	1,049.8	985.9	39.0	-1.9	546.0
1996	989.4	976.6	44.5	-4.6	598.7
1997	965.1	942.7	46.9	1.0	669.0
1998	991.6	954.1	54.5	0.7	761.7
1999	908.9	1,219.5	51.7	107.9 [7]	610.7
2000	993.3	1,016.6	48.7	64.3 [8]	700.5
2001	968.9	1,579.4	49.4	228.1 [9]	367.5
2002	1,116.6	2,290.2	32.1	588.0 [10]	-186.1
2003[1]	1,490.4	1,515.0	3.8	0.8	-206.0

[1]Calendar year-to-date, through August 31, 2003
[2]Includes reimbursements & payments for prior periods
[3]Regular Texas benefits only (no federal programs or extended benefits)
[4]Reed Act distributions, FUTA tax credits, and other transfers.
[5]Includes $86.6 million transfer from Advance Interest Fund and a FUTA tax credit.
[6]Includes $37 million transfer from Advance Interest Fund
[7]Includes $102.1 million Smart Jobs transfer
[8]Includes $64 million Smart Jobs Transfer
[9]Includes $227.5 million Smart Jobs Transfers
[10]Includes $596.4 million Reed Act distribution

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Source: Texas Workforce Commission

APPENDIX C

RULE REGARDING COMPUTATION OF OBLIGATION ASSESSMENT RATE

§815.132. Computation of Unemployment Obligation Assessment.

(a) Texas Labor Code §203.105, V.T.C.A. provides that the Commission shall collect an unemployment obligation assessment, also referred to as an assessment, from each employer eligible for an experience tax rate if, after January 1 of a year, an interest payment on an advance from the federal trust fund will be due and the estimated amount necessary to make the interest payment is not available in the obligation trust fund or available otherwise; or bond obligations are due and the amount necessary to pay in full those obligations, including bond administration expenses, is not available in the obligation trust fund or available otherwise.

(b) When the Commission determines that an assessment as referred to in the paragraph above will be due after January 1 of a year, the Commission shall compute the assessment rate using the formulas set out below in this section, before November 20th of the year prior to the year of the assessment. This rate shall be published in the Texas Register.

(c) The calculation for the unemployment obligation assessment rate is the sum of subsection (d) and (e) of this section.

(d) The rate for the portion of the assessment that is to be used to pay an interest payment on federal loans shall not exceed two tenths of one percent. The rate shall be calculated by dividing two hundred percent (200%) of the additional amount estimated to be needed to pay interest due, as determined by the Agency, by the estimated total taxable wages for the 1st and 2nd quarters of the year in which the interest is due, and rounded up to the next hundredth.

(e) The rate for the portion of the assessment that is to be used to pay a bond obligation is a percentage of the product of the unemployment obligation assessment ratio and the sum of the employer's prior year general tax rate, the replenishment tax rate and the deficit tax rate. The percentage, to be determined by Commission resolution, shall not exceed 200%.

(1) The Unemployment Obligation Assessment Ratio is computed by:

(A) dividing the numerator computed under paragraph (2) of this subsection by the denominator described in paragraph (3) of this subsection; and

(B) rounding that result up to the next hundredth.

(2) The numerator is computed by adding the total principal, interest and administration expenses on all outstanding bonds determined to be due during the next year. However, if the Commission determines that there will be excess funds available in the obligation trust fund that are not anticipated to be expended for the purposes set out in Texas Labor Code, §203.258 (2)-(4), the numerator may be reduced by the amount of that excess.

(3) The denominator is the amount of contributions due under the general tax rate and the replenishment tax rate for the four calendar quarters ending the preceding June 30 from employers entitled to an experience rate on the tax rate computation date.

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APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

VINSON & ELKINS L.L.P.
2300 FIRST CITY TOWER
1001 FANNIN STREET
HOUSTON, TEXAS 77002-6760

DELGADO, ACOSTA,
BRADEN & JONES, P.C.
221 N. KANSAS, SUITE 2000
EL PASO, TEXAS 79901

September ___, 2003

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

> TEXAS PUBLIC FINANCE AUTHORITY UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT REVENUE BONDS, SERIES 2003A, dated as of the date of delivery, in the total authorized amount of $256,235,000 (the "Series A Bonds");
>
> TEXAS PUBLIC FINANCE AUTHORITY UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT REVENUE BONDS, SERIES 2003B (Taxable), dated as of the date of delivery, in the total authorized amount of $520,485,000 (the "Series B Bonds");
>
> TEXAS PUBLIC FINANCE AUTHORITY UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT REVENUE VARIABLE RATE DEMAND BONDS, SERIES 2003C (Taxable), dated as of the date of delivery, in the total authorized amount of $400,000,000 (the "Series C Bonds"); and
>
> TEXAS PUBLIC FINANCE AUTHORITY UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT REVENUE VARIABLE RATE DEMAND BONDS, SERIES 2003D (Taxable), dated as of the date of delivery, in the total authorized amount of $200,000,000 (the "Series D Bonds").

The Bonds mature, bear interest and may be transferred and exchanged as set out in the Bonds and the resolution adopted by the Board of Directors (the "Board") of the Authority authorizing their issuance (the "Resolution") and in the Pricing Certificates of the Pricing Committee. The Bonds are being issued to provide funds for the purpose of funding the Commission Program (as described in the Resolution).

WE HAVE ACTED as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas (the "State"), and with respect to the exclusion of interest on the Series A Bonds from

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

IN OUR CAPACITY as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Authority and the Commission, customary certificates of officers, agents and representatives of the Authority and the Commission and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. ____ of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State presently effective, and that therefore the Bonds constitute valid and legally binding special obligations of the Authority payable solely from the sources provided therefor in the Resolution.

(2) The Bonds are payable from and secured solely by a first lien on and pledge of the Pledged Revenues, which include assessments derived from the levy of an Unemployment Obligation Assessment, all as defined and further described in the Resolution.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion. The Bonds are secured solely by a lien on and pledge of the Pledged Revenues as described above and do not constitute an indebtedness or general obligation of the Authority or the State. Owners of the Bonds shall never have the right to demand payment of principal and interest out of any funds raised or to be raised by taxation.

THE AUTHORITY HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL BONDS, which shall be on parity with the Bonds, for the purpose of financing, in whole or in part, the Commission Program as authorized by the Act (as such terms are defined in the Resolution), or for the purpose of refunding any outstanding Bonds. The Authority has also reserved the right to issue any bonds, notes, or other obligations that are secured with a pledge junior and subordinate to the pledge of Pledged Revenues.

IT IS OUR FURTHER OPINION that, based on the foregoing and subject to the matters set forth below:

(1) Interest on the Series A Bonds is excludable from gross income for federal income tax purposes under existing law.

(2) The Series A Bonds are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Series A Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Series A Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

(3) Interest on the Series B Bonds, the Series C Bonds and the Series D Bonds is not exempt from federal income tax.

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

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

It is to be understood that the rights of holders of the Bonds and the enforceability of the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

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

“branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Series A Bonds).

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

APPENDIX E

FORM OF SPECIMEN BOND INSURANCE POLICY
FOR THE SERIES A BONDS

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