

**NEW ISSUE - BOOK-ENTRY-ONLY**

**RATINGS: S&P: "AAA"**  
**Fitch: "AA+"**  
**Moody's: "Aa1"**  
**See "RATINGS" herein**

*In the opinion of Vinson & Elkins L.L.P. and Bickerstaff Heath Delgado Acosta LLP, Co-Bond Counsel, under existing law, interest on the Series 2010A Bonds (as defined below) is excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein, and is not a specific preference item or included in a corporation's adjusted current earnings for purposes of the alternative minimum tax. See "TAX MATTERS" herein for a discussion of the opinion of Co-Bond Counsel.*



**TEXAS PUBLIC FINANCE AUTHORITY**

**\$1,110,415,000**  
**UNEMPLOYMENT COMPENSATION**  
**OBLIGATION ASSESSMENT**  
**REVENUE BONDS, SERIES 2010A**



**Interest Accrues from Delivery Date**

**Due: As shown on the inside cover**

The Texas Public Finance Authority (the "Authority" or the "Issuer") is issuing the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010A (the "Series 2010A Bonds") on behalf of the Texas Workforce Commission (the "Commission") for the purposes described below. As a separate issuance under Texas law and pursuant to a separate official statement, the Authority also expects to issue the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010B (the "Series 2010B Bonds") and the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010C (the "Series 2010C Bonds") on behalf of the Commission. The Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds are collectively referred to herein as the "2010 Bonds." The 2010 Bonds, together with any Additional Bonds (as hereinafter defined), are parity bonds and each series is payable from and secured solely by a lien on the "Pledged Revenues" (as defined herein). The 2010 Bonds are issued pursuant to the resolution adopted by the Board of Directors of the Authority (the "Board") on November 9, 2010 (the "Bond Resolution"), in which the Board delegated to certain designated officials (the "Pricing Committee") the authority to establish and approve the final terms of sale of the 2010 Bonds through the execution of a "Series 2010A Pricing Certificate," a "Series 2010B Pricing Certificate" and a "Series 2010C Pricing Certificate" (the Bond Resolution and each Pricing Certificate are collectively referred to herein as the "Resolution"). The Pricing Committee approved the sale of the Series 2010A Bonds through the execution and delivery of the Series 2010A Pricing Certificate and a Bond Purchase Contract with the Underwriters on November 18, 2010. **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 2010 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 2010 BONDS.** See "SECURITY FOR THE 2010 BONDS."

The proceeds from the sale of the 2010 Bonds will be used for the purposes of (i) repaying principal of and interest, if any, on advances from the federal unemployment trust fund; (ii) paying unemployment benefits by depositing the proceeds in the unemployment compensation fund; and (iii) paying costs of issuance. See "PLAN OF FINANCING - Purpose."

Interest on the Series 2010A Bonds will accrue from the Delivery Date (defined below), will be payable on July 1, 2011, and on each January 1 and July 1 thereafter until maturity or prior redemption (each an "Interest Payment Date"), and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2010 Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. The 2010 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. Beneficial ownership of the 2010 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the 2010 Bonds will be made to the initial purchasers named below (the "Underwriters") or the beneficial owners of the 2010 Bonds. Principal of and interest on the 2010 Bonds will be payable by the Authority (which will act as the initial Paying Agent/Registrar) to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the 2010 Bonds. See "DESCRIPTION OF THE 2010 BONDS - Book-Entry-Only System."

The Series 2010A Bonds are subject to optional redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2010 BONDS - Optional Redemption of Series 2010A Bonds."

**MATURITY SCHEDULE**

(See inside cover page)  
 CUSIP Prefix: 882756

The Series 2010A 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 Bickerstaff Heath Delgado Acosta LLP, Co-Bond Counsel. Certain legal matters will be passed upon for the Authority by its Disclosure Counsel, Fulbright & Jaworski L.L.P. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Andrews Kurth LLP and Bates & Coleman, P.C. The Series 2010A Bonds are expected to be available for delivery through the facilities of DTC on or about December 15, 2010 (the "Delivery Date").

**BOFA MERRILL LYNCH**

**ESTRADA HINOJOSA & COMPANY, INC.**

**GOLDMAN, SACHS & Co.**

**MORGAN KEEGAN**

**RBC CAPITAL MARKETS**

**JEFFERIES & COMPANY**

**MORGAN STANLEY**

**CITI**

**LOOP CAPITAL MARKETS**

**J.P. MORGAN**

**RAYMOND JAMES & ASSOCIATES, INC.**

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

**MATURITY SCHEDULE**

**\$1,110,415,000**  
**TEXAS PUBLIC FINANCE AUTHORITY**  
**UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT**  
**REVENUE BONDS, SERIES 2010A<sup>(1)</sup>**

| <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Initial Yield</u> | <u>CUSIP No.<sup>(2)</sup></u> |
|----------------------|-------------------------|----------------------|----------------------|--------------------------------|
| 07/01/2011           | \$ 93,000,000           | 2.00 %               | 0.30 %               | 882756N70                      |
| 01/01/2012           | 25,000,000              | 3.00                 | 0.52                 | 882756N88                      |
| 07/01/2012           | 7,260,000               | 3.00                 | 0.96                 | 882756N96                      |
| 07/01/2012           | 8,500,000               | 4.00                 | 0.96                 | 882756Q44                      |
| 07/01/2012           | 105,480,000             | 5.00                 | 0.96                 | 882756Q51                      |
| 01/01/2013           | 5,770,000               | 3.00                 | 1.19                 | 882756P29                      |
| 01/01/2013           | 20,000,000              | 5.00                 | 1.19                 | 882756Q69                      |
| 07/01/2013           | 7,495,000               | 3.00                 | 1.26                 | 882756P37                      |
| 07/01/2013           | 25,000,000              | 4.00                 | 1.26                 | 882756Q77                      |
| 07/01/2013           | 91,000,000              | 5.00                 | 1.26                 | 882756Q85                      |
| 01/01/2014           | 3,915,000               | 4.00                 | 1.60                 | 882756P45                      |
| 01/01/2014           | 26,890,000              | 5.00                 | 1.60                 | 882756Q93                      |
| 07/01/2014           | 9,110,000               | 4.00                 | 1.75                 | 882756R27                      |
| 07/01/2014           | 120,075,000             | 5.00                 | 1.75                 | 882756R35                      |
| 01/01/2015           | 5,950,000               | 4.00                 | 1.94                 | 882756P60                      |
| 01/01/2015           | 30,840,000              | 5.00                 | 1.94                 | 882756R43                      |
| 07/01/2015           | 21,070,000              | 4.00                 | 2.04                 | 882756P78                      |
| 07/01/2015           | 115,000,000             | 5.00                 | 2.04                 | 882756R50                      |
| 01/01/2016           | 14,925,000              | 4.00                 | 2.21                 | 882756P86                      |
| 01/01/2016           | 28,865,000              | 5.00                 | 2.21                 | 882756R68                      |
| 07/01/2016           | 143,200,000             | 5.00                 | 2.31 <sup>(3)</sup>  | 882756R76                      |
| 01/01/2017           | 1,735,000               | 4.00                 | 2.52 <sup>(3)</sup>  | 882756Q28                      |
| 01/01/2017           | 49,470,000              | 5.00                 | 2.52 <sup>(3)</sup>  | 882756R84                      |
| 07/01/2017           | 150,865,000             | 5.00                 | 2.63 <sup>(3)</sup>  | 882756S26                      |

(Interest to accrue from the Delivery Date)

**Optional Redemption.** The Authority reserves the right to redeem Series 2010A Bonds having stated maturities on and after July 1, 2016, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on January 1, 2016, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption; provided, however, no Series 2010A Bonds may be redeemed on any date on which the Series 2010C Bonds are still Outstanding. See "DESCRIPTION OF THE 2010 BONDS – Optional Redemption of Series 2010A Bonds."

<sup>(1)</sup> The Authority also expects to issue approximately \$554,735,000 of Series 2010B Bonds and approximately \$300,000,000 of Series 2010C Bonds as Parity Bonds (as defined herein) which are payable from Pledged Revenues. Such par amounts are preliminary and subject to change. The Series 2010B Bonds and Series 2010C Bonds are expected to be delivered through the facilities of DTC on or about December 16, 2010.

<sup>(2)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. None of the Authority, the Commission, the Financial Advisor nor the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.

<sup>(3)</sup> Yield shown is yield to first optional call date, January 1, 2016.

## 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 respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of, any Series 2010A 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Authority's and the Commission's respective undertakings to provide certain information on a continuing basis.

### Marketability

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010A BONDS AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

THE SERIES 2010A BONDS 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 Series 2010A 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 Series 2010A Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2010A 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 Series 2010A Bonds under the securities laws of any jurisdiction in which the Series 2010A Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Series 2010A Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

**THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.**

# TEXAS PUBLIC FINANCE AUTHORITY

## Board of Directors

| <u>Name</u>                      | <u>Term Expiration<br/>(February 1)</u> |
|----------------------------------|---|
| Gary E. Wood – Chair             | 2015                                    |
| Ruth C. Schiermeyer – Vice-Chair | 2013                                    |
| D. Joseph Meister – Secretary    | 2013                                    |
| Gerald Alley – Member            | 2013                                    |
| Rodney K. Moore – Member         | 2015                                    |
| Robert T. Roddy, Jr. – Member    | 2011                                    |
| Massey Villarreal – Member       | 2011                                    |

## Certain Appointed Officials

| <u>Name</u>     | <u>Title</u>       |
|-----------------|--------------------|
| Dwight D. Burns | Executive Director |
| Susan K. Durso  | General Counsel    |
| John Hernandez  | Deputy Director    |

# TEXAS WORKFORCE COMMISSION

## Commissioners

| <u>Name</u>          | <u>Representing</u> | <u>Term Expiration<br/>(February 1)</u> |
|----------------------|---------------------|---|
| Tom Pauken, Chairman | Employers           | 2015                                    |
| Ronald G. Congleton  | Labor               | 2011                                    |
| Andres Alcantar      | The Public          | 2013                                    |

## Certain Appointed Officials

| <u>Name</u>     | <u>Title</u>              |
|-----------------|---------------------------|
| Larry E. Temple | Executive Director        |
| H.E. Crump, Jr. | Deputy Executive Director |
| Paul N. Jones   | General Counsel           |

## Consultants and Advisors

|                          |  |
|--------------------------|--|
| Financial Advisor.....   | First Southwest Company  |
| Co-Bond Counsel.....     | Vinson & Elkins L.L.P.<br>Bickerstaff Heath Delgado Acosta LLP |
| Disclosure Counsel ..... | Fulbright & Jaworski L.L.P.                                    |

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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).

|  |   |
|--|---|
| <b>The Issuer</b>  | The Texas Public Finance Authority (the "Authority" or the "Issuer") is authorized to issue bonds on behalf of the Texas Workforce Commission (the "Commission") pursuant to Subchapters C and F, Chapter 203, Texas Labor Code, as amended, in accordance with Chapters 1232 and 1371, and other applicable provisions of Title 9 of the Texas Government Code, as amended. See "THE AUTHORITY."   |
| <b>The Commission</b>                                      | The Commission is an agency of the State of Texas (the "State") which administers the State's unemployment insurance program. See "THE COMMISSION."   |
| <b>The Series 2010A Bonds</b>                              | The Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010A (the "Series 2010A Bonds") mature in the years and in the principal amounts set forth on page ii hereof. Interest on the Series 2010A Bonds accrues from the Delivery Date and is payable initially on July 1, 2011, and on each January 1 and July 1 thereafter until the earlier of maturity or prior redemption.  |
| <b>The Series 2010B Bonds &amp; The Series 2010C Bonds</b> | As a separate issuance under Texas law and pursuant to a separate official statement, the Authority also expects to issue the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010B (the "Series 2010B Bonds") and the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010C (the "Series 2010C Bonds" or "Super Sinker Bonds"). The Series 2010B Bonds and the Series 2010C Bonds are expected to be issued as Parity Bonds payable from the Pledged Revenues and are expected to be delivered through the facilities of DTC on or about December 16, 2010.  |
| <b>Authority for Issuance</b>                              | Pursuant to a request by the Commission, the 2010 Bonds are issued pursuant to Chapters 1232 and 1371 and other applicable provisions of Title 9, Texas Government Code, as amended, Chapter 203, Texas Labor Code, as amended, and a resolution adopted by the Board of Directors of the Authority (the "Board") on November 9, 2010 (the "Bond Resolution"), in which the Board delegated to certain designated officials (the "Pricing Committee") the authority to establish and approve the final terms of sale of the 2010 Bonds through the execution of a "Series 2010A Pricing Certificate," a "Series 2010B Pricing Certificate" and a "Series 2010C Pricing Certificate" (the Bond Resolution and each Pricing Certificate are collectively referred to herein as the "Resolution"). The Pricing Committee approved the sale of the Series 2010A Bonds through the execution and delivery of the Series 2010A Pricing Certificate and a Bond Purchase Contract with the Underwriters on November 18, 2010. In addition, on November 9, 2010, the Texas Bond Review Board approved the issuance of the 2010 Bonds as required by law. |
| <b>Source of Payment</b>                                   | The 2010 Bonds, together with any Additional Bonds (as hereinafter defined), constitute special obligations of the Authority and the Commission payable solely from the Pledged Revenues (as defined herein) pledged thereto pursuant to the Bond Resolution. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, NOR ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2010 BONDS.  |
| <b>Redemption</b>  | The Series 2010A Bonds are subject to optional redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2010 BONDS – Optional Redemption of Series 2010A Bonds."   |
| <b>Use of Proceeds</b>                                     | Proceeds from the sale of the 2010 Bonds will be used for the purposes of (i) repaying principal of and interest, if any, on advances from the federal unemployment trust fund; (ii) paying unemployment benefits by depositing the proceeds in the unemployment compensation fund; and (iii) paying costs of issuance. See "PLAN OF FINANCING – Purpose."  |
| <b>Ratings</b>   | Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Fitch Ratings and Moody's Investors Service, Inc. have assigned ratings of "AAA", "AA+" and "Aa1", respectively, to the Series 2010A Bonds. See "RATINGS."   |

**Legality**

The issuance of the Series 2010A Bonds is subject to the approval of the Attorney General of the State and the opinion of Vinson & Elkins L.L.P. and Bickerstaff Heath Delgado Acosta LLP, Co-Bond Counsel, as to the validity of the issuance of the Series 2010A Bonds under the Constitution and laws of the State. *See* "LEGAL MATTERS."

**Book-Entry-Only System**

The 2010 Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to a book-entry-only system (as described herein). No physical delivery of the 2010 Bonds will be made to the beneficial owners of the 2010 Bonds. Interest on and principal of the 2010 Bonds will be paid to Cede & Co., which will distribute the payments to the participating members of DTC for remittance to the beneficial owners of the 2010 Bonds. *See* "DESCRIPTION OF THE 2010 BONDS – Book-Entry-Only System."

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## OFFICIAL STATEMENT

relating to

**\$1,110,415,000**

### **TEXAS PUBLIC FINANCE AUTHORITY UNEMPLOYMENT COMPENSATION OBLIGATION ASSESSMENT REVENUE BONDS, SERIES 2010A**

#### INTRODUCTION

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" or the "Issuer"), on behalf of the Texas Workforce Commission (the "Commission"), of the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010A (the "Series 2010A Bonds"). As a separate issuance under Texas law and pursuant to a separate official statement, the Authority also expects to issue the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010B (the "Series 2010B Bonds") and the Texas Public Finance Authority Unemployment Compensation Obligation Assessment Revenue Bonds, Series 2010C (the "Series 2010C Bonds") on behalf of the Commission. The Series 2010B Bonds and the Series 2010C Bonds are expected to be delivered through the facilities of DTC on or about December 16, 2010. The Series 2010A Bonds, the Series 2010B Bonds and the Series 2010C Bonds are collectively referred to herein as the "2010 Bonds." The 2010 Bonds, together with any Additional Bonds (as hereinafter defined), are parity bonds and each series is payable from and secured solely by a lien on the "Pledged Revenues" (as defined herein). See "SECURITY FOR THE 2010 BONDS." The Authority is authorized to issue the 2010 Bonds on behalf of the Commission pursuant to the Authorizing Law (as defined below). Capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings assigned to such terms in the Bond Resolution.

This Official Statement contains summaries and descriptions of the plan of financing, the Series 2010A 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 15<sup>th</sup> Street, Room 608, Austin, Texas 78778, (512) 463-7902. 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.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Authority's and the Commission's respective undertakings to provide certain information on a continuing basis.

#### PLAN OF FINANCING

##### **Authority for Issuance**

The Series 2010A Bonds are being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), specifically Chapter 203, Subchapters C and F, Texas Labor Code, as amended (the "Act"); the Texas Public Finance Authority Act, Chapter 1232, Texas Government Code, as amended and any regulations promulgated by the Authority thereunder; the Public Security Procedures Act, Chapter 1201, Texas Government Code, as amended; and Chapter 1371, Texas Government Code, as amended (collectively the Act and such statutes and regulations are herein referred to as the "Authorizing Law"), and additionally pursuant to a resolution adopted by the Board of Directors of the Authority (the "Board") on November 9, 2010 (the "Bond Resolution"), in which the Board delegated to certain designated officials (the "Pricing Committee") the authority to establish and approve the final terms of sale of the 2010 Bonds through the execution of a "Series 2010A Pricing Certificate," a "Series 2010B Pricing Certificate" and a "Series 2010C Pricing Certificate," each a "Pricing Certificate" (the Bond Resolution and each Pricing Certificate are collectively referred to herein as the "Resolution"). The Pricing Committee approved the sale of the Series 2010A Bonds through the execution and delivery of the Series 2010A Pricing Certificate and a Bond Purchase Contract with the Underwriters on November 18, 2010.

Pursuant to the Bond Resolution and the Authorizing Law, the Authority has the exclusive authority to issue, on behalf of the Commission, one or more series of 2010 Bonds in an aggregate principal amount not to exceed \$3.5 billion and not to exceed \$2 billion for any separate issuance of bonds under State law.

**Purpose**

Proceeds from the sale of the 2010 Bonds will be used for the purposes of (i) repaying principal of and paying interest, if any, on advances from the federal unemployment trust fund (“Federal Advances”); (ii) paying unemployment benefits by depositing the proceeds in the unemployment compensation fund (the “UC Fund”); and (iii) paying costs of issuance.

**Sources and Uses of Proceeds**

The proceeds of the Series 2010A Bonds will be applied approximately as follows<sup>(1)</sup>:

|  |                            |
|--|----------------------------|
| Sources:   |                            |
| Principal Amount                                   | \$ 1,110,415,000.00        |
| Original Issue Premium                             | <u>104,583,356.85</u>      |
| Total  | <u>\$ 1,214,998,356.85</u> |
| Uses:  |                            |
| Deposit to Program Account <sup>(2)</sup>          | \$ 1,209,686,000.00        |
| Underwriters Discount                              | 4,529,560.60               |
| Deposit to Cost of Issuance Account <sup>(2)</sup> | 782,373.16                 |
| Deposit to Debt Service Account <sup>(3)</sup>     | <u>423.09</u>              |
| Total  | <u>\$ 1,214,998,356.85</u> |

- (1) The proceeds from the Series 2010B Bonds and the Series 2010C Bonds will be used for the same purposes, as further described in the Official Statement relating to such bonds.
- (2) Such accounts are within the Program Fund.
- (3) Debt Service Account is within the Obligation Trust Fund.

## DEBT SERVICE AND COVERAGE SCHEDULES

### Debt Service Schedule for the Series 2010A Bonds

| Bond<br>Year<br>(Ending January 1) | Principal                      | Interest                     | Annual Debt<br>Service         |
|------------------------------------|--------------------------------|------------------------------|--------------------------------|
| 2011                               | \$ -                           | \$ -                         | \$ -                           |
| 2012                               | 118,000,000                    | 52,251,231                   | 170,251,231                    |
| 2013                               | 147,010,000                    | 45,392,300                   | 192,402,300                    |
| 2014                               | 154,300,000                    | 38,415,875                   | 192,715,875                    |
| 2015                               | 165,975,000                    | 30,843,275                   | 196,818,275                    |
| 2016                               | 179,860,000                    | 22,582,800                   | 202,442,800                    |
| 2017                               | 194,405,000                    | 13,666,150                   | 208,071,150                    |
| 2018                               | <u>150,865,000</u>             | <u>3,771,625</u>             | <u>154,636,625</u>             |
| <b>TOTAL</b>                       | <b><u>\$ 1,110,415,000</u></b> | <b><u>\$ 206,923,256</u></b> | <b><u>\$ 1,317,338,256</u></b> |

### Coverage Schedule<sup>(1)</sup>

| Date         | Series 2010A<br>Bonds<br>Debt Service | Projected Series<br>2010B&C Bonds<br>Debt Service <sup>(1)(2)</sup> | Annual Total<br>Projected Debt<br>Service <sup>(1)(2)</sup> | Projected<br>Minimum<br>Obligation<br>Assessment<br>Revenues<br>(1.5x Coverage) <sup>(3)</sup> | Projected<br>Accelerated<br>Retirement<br>of Debt <sup>(2)(4)</sup> | Projected<br>Outstanding<br>Balance <sup>(2)</sup> |
|--------------|---------------------------------------|---|---|--|---|--|
|              | \$ -                                  | \$ -  | \$ -  | \$ -   | \$ -  | \$ 1,965,150,000                                   |
| 07/01/2011   | 120,722,131                           | 19,492,823  | -   | -  | 56,785,000  | 1,815,365,000                                      |
| 01/01/2012   | 49,529,100                            | 17,993,375  | 207,737,429   | 311,606,144  | 62,930,000  | 1,727,435,000                                      |
| 07/01/2012   | 145,394,100                           | 17,993,375  | -   | -  | 56,690,000  | 1,549,505,000                                      |
| 01/01/2013   | 47,008,200                            | 17,993,375  | 228,389,050   | 342,583,575  | 57,065,000  | 1,466,670,000                                      |
| 07/01/2013   | 144,146,650                           | 17,993,375  | -   | -  | 55,450,000  | 1,287,725,000                                      |
| 01/01/2014   | 48,569,225                            | 17,993,375  | 228,702,625   | 343,053,938  | 57,065,000  | 1,199,855,000                                      |
| 07/01/2014   | 146,198,675                           | 17,993,375  | -   | -  | 55,465,000  | 1,015,205,000                                      |
| 01/01/2015   | 50,619,600                            | 17,993,375  | 232,805,025   | 349,207,538  | 57,080,000  | 921,335,000  |
| 07/01/2015   | 149,009,600                           | 17,993,375  | -   | -  | 55,465,000  | 729,800,000  |
| 01/01/2016   | 53,433,200                            | 17,993,375  | 238,429,550   | 357,644,325  | 57,080,000  | 628,930,000  |
| 07/01/2016   | 151,823,075                           | 17,993,375  | -   | -  | 55,465,000  | 430,265,000  |
| 01/01/2017   | 56,248,075                            | 17,993,375  | 244,057,900   | 366,086,850  | 57,080,000  | 321,980,000  |
| 07/01/2017   | 154,636,625                           | 17,993,375  | -   | -  | 55,465,000  | 115,650,000  |
| 01/01/2018   | -                                     | 77,053,375  | 249,683,375   | 374,525,063  | 56,590,000  | -  |
| 07/01/2018   | -                                     | 166,516,875   | -   | -  | -   | -  |
| 01/01/2019   | -                                     | 58,441,875  | 224,958,750   | 337,438,125  | -   | -  |
| 07/01/2019   | -                                     | 161,625,000   | -   | -  | -   | -  |
| 01/01/2020   | -                                     | 157,875,000   | 319,500,000   | 479,250,000  | -   | -  |
| 07/01/2020   | -                                     | 304,125,000   | -   | -  | -   | -  |
| 01/01/2021   | -                                     | -   | <u>304,125,000</u>  | <u>456,187,500</u>   | -   | -  |
| <b>TOTAL</b> | <b><u>\$ 1,317,338,256</u></b>        | <b><u>\$ 1,161,050,448</u></b>                                      | <b><u>\$ 2,478,388,704</u></b>                              |  | <b><u>\$ 795,675,000</u></b>  |  |

(1) Preliminary, subject to change. Interest on the Series 2010B Bonds and the Series 2010C Bonds projected solely for purposes of illustration in this Official Statement.

(2) All such numbers are projections and only intended for illustrative purposes. Actual numbers may vary. Actual debt service coverage for the Series 2010B Bonds and Series 2010C Bonds will not be known until such bonds price on or about December 7, 2010.

(3) Such obligation assessment revenues are projections and subject to change. On November 8, 2010, the Commission established an Unemployment Obligation Assessment rate for calendar year 2011 which is intended to generate approximately \$370 million. Assessment revenues for 2011 will be collected over the first two Bond Years; therefore, projected assessment revenues for the first Bond Year assume that only 85% of the \$370 million of assessment revenues will be received in 2011.

(4) Projected accelerated retirement of debt reflects the expected reduction in debt service from redemptions in debt and the corresponding change in the minimum annual Unemployment Obligation Assessment from lower debt service.

## DESCRIPTION OF THE 2010 BONDS

### General

The 2010 Bonds (including the Series 2010A Bonds) will be issued only as fully registered bonds, without coupons, and will accrue interest from their respective Delivery Dates. Interest on the 2010 Bonds is payable on July 1, 2011, and on January 1 and July 1 of each year thereafter (each an "Interest Payment Date"), until maturity or prior redemption, and is calculated on the basis of a 360-day year composed of twelve 30-day months. The Series 2010A Bonds mature in the years and in the principal amounts set forth on page ii hereof. The Record Date for the 2010 Bonds is December 15 and June 15 which is the fifteenth (15<sup>th</sup>) day of the month immediately preceding each Interest Payment Date or such other date(s) so designated in the applicable Pricing Certificate. The 2010 Bonds (including the Series 2010A 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 2010 Bonds is not a Business Day, such payment may be made on the next succeeding Business Day without additional interest and with the same force and effect as if made on the specified date for such payment. "Business Day" means any day other than a Saturday, Sunday, legal holiday or other day on which banking institutions in New York, New York or Austin, Texas are generally authorized or obligated by law or executive order to close or a day on which the New York Stock Exchange is closed or a day on which the Comptroller or Paying Agent/Registrar is closed.

### Payment of Bond Obligations

The Paying Agent/Registrar will calculate the amount of Bond Obligations from time to time payable on the Series 2010A Bonds (other than a Book-Entry Bond) and make timely payment of the Bond Obligations thereon from the funds available therefor under the Bond Resolution. The payment of Bond Obligations with respect to Book-Entry Bonds will be made in accordance with the Blanket Issuer Letter of Representations or comparable instrument under any subsequent book-entry system and the Funds Management Agreement. Interest on the Series 2010A Bonds will be paid to the Person who is the Bond Owner at the close of business on the Record Date. The Paying Agent/Registrar will maintain proper records of all payments of Bond Obligations.

### Optional Redemption of Series 2010A Bonds

The Authority reserves the right to redeem Series 2010A Bonds having stated maturities on and after July 1, 2016, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on January 1, 2016, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption; provided, however, no Series 2010A Bonds may be redeemed on any date on which the Series 2010C Bonds are still Outstanding. The Series 2010A Bonds maturing prior to July 1, 2016 are not subject to optional redemption prior to maturity.

### Super Sinker Redemptions

The Series 2010C Bonds (the "Super Sinker Bonds") are subject to special mandatory redemption prior to maturity, in whole or in part, at a redemption price equal to the principal amount thereof to be redeemed, plus interest accrued thereon to the date fixed for redemption, on each Interest Payment Date from Excess Pledged Revenues (as defined below). Redemptions of Super Sinker Bonds are not scheduled amortization payments and are to be made only from, and to the extent the Authority determines there are, such Excess Pledged Revenues as provided in the Bond Resolution. See "DEBT SERVICE AND COVERAGE SCHEDULES – Coverage Schedule."

### Determining Excess Pledged Revenues

*June Determination of Excess Revenues.* On each June 1 or such other date prior to the Super Sinker Redemption Notice Date (such date to be a "Projection Date"), the Commission shall provide a certified projection to the Authority determining whether Expected Pledged Assessments equal or exceed the Required Coverage Amount (hereinafter, the "Certified Commission Projection"). If the Certified Commission Projection equals or exceeds the Required Coverage Amount and after all required transfers through the Projection Date have been made pursuant to the Bond Resolution, the Authority shall declare and determine (or, if no Super Sinker Bonds are Outstanding, may at its option declare and determine) that all money remaining on deposit in the Obligation Trust Fund in excess of Retained Pledged Revenues constitutes "Excess Pledged Revenues" and such Excess Pledged Revenues shall be transferred to the Redemption Account as set forth below. If the Certified Commission Projection is less than the

Required Coverage Amount, the Commission may prepare an alternate projection determining whether Expected Pledged Assessments together with Additional Retained Pledged Assessments equal or exceed the Required Coverage Amount (hereinafter, the "Alternate Certified Commission Projection"). If the Alternate Certified Commission Projection equals or exceeds the Required Coverage Amount and after all required transfers through the Projection Date have been made pursuant to the Bond Resolution, the Authority shall declare and determine (or, if no Super Sinker Bonds are Outstanding, may at its option declare and determine) that all money remaining on deposit in the Obligation Trust Fund in excess of Retained Pledged Revenues and Additional Retained Pledged Revenues constitutes Excess Pledged Revenues and such Excess Pledged Revenues shall be transferred to the Redemption Account as set forth below.

*December Determination of Excess Pledged Revenues.* On each December 1 or such other date prior to a Super Sinker Redemption Notice Date, after all required transfers have been made as described above pursuant to the Bond Resolution, the Authority shall declare and determine (or, if no Super Sinker Bonds are Outstanding, may at its option declare) that all money remaining on deposit in the Obligation Trust Fund which has not been allocated to any of the accounts established therein shall constitute Excess Pledged Revenues, and the Authority shall direct (or, if no Super Sinker Bonds are Outstanding, the Authority may at its option direct) that such Excess Pledged Revenues be transferred and deposited to the Redemption Account on the Transfer Date to be applied solely for the redemption of 2010 Bonds in the priority set forth below.

*Transfer of Excess Pledged Revenues to Redemption Account.* Upon a determination of Excess Pledged Revenues pursuant to the two paragraphs above, so long as any Super Sinker Bonds remain Outstanding, the Authority shall direct that such Excess Pledged Revenues be transferred and deposited to the Redemption Account on the Transfer Date to be applied solely for redemption of certain of the 2010 Bonds in the priority set forth below under "Priority of Redemption". When no Super Sinker Bonds are Outstanding, the Authority may at its option make the transfer described in the immediately preceding sentence to redeem 2010 Bonds in accordance with the applicable provisions of the Bond Resolution.

*Priority of Redemption.* Upon deposit of Excess Pledged Revenues to the Redemption Account, the Authority will, in consultation with the Commission, take all necessary steps, including providing notice of redemption as provided in the Series 2010 Form of Bond, to apply Excess Pledged Revenues first to redeem the Super Sinker Bonds so long as such bonds are Outstanding. When all the Super Sinker Bonds have been paid or otherwise deemed to be paid with amounts on deposit in the Redemption Account, the Authority may, in consultation with the Commission, apply Excess Pledged Revenues to redeem or defease the 2010 Bonds subject to optional redemption (the "Series 2010 Callable Bonds") or any other 2010 Bonds then Outstanding.

### **Selection of 2010 Bonds for Redemption**

*Series 2010 Callable Bonds.* If less than all of the Series 2010 Callable Bonds are to be redeemed, the Authority may select the maturities of the Series 2010 Callable Bonds to be redeemed. If less than all of the Series 2010 Callable Bonds of any single maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Series 2010 Callable Bonds are in book-entry-only form) shall determine by lot or other customary method the Series 2010 Callable Bonds, or portions thereof, within such maturity to be redeemed. If a Series 2010 Callable Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2010 Callable Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

*Super Sinker Bonds.* The Super Sinker Bonds will be redeemed in order of maturity, with the latest dated maturities being redeemed first. If the Super Sinker Bonds are registered in book-entry-only form, and so long as DTC or a successor securities depository is the sole registered owner of such Super Sinker Bonds, if less than all of the Super Sinker Bonds of a maturity are called for redemption, the particular Super Sinker Bonds or portions thereof to be redeemed shall be selected by lot or other customary method selected by the Paying Agent/Registrar.

### **Notice of Redemption**

Unless waived by the Bond Owner, notice of any redemption will be given at least thirty (30) days (or, in the event of a special mandatory redemption of Super Sinker Bonds, at least 15 days) prior to the date fixed for redemption by first class mail, addressed to the Bond Owners of each 2010 Bond to be redeemed in whole or in part at the address

shown on the books of registration kept by the Paying Agent/Registrar at the close of business on the Business Day next preceding the date of mailing. Such notice will state the redemption date, the redemption price, the place at which such 2010 Bonds are to be surrendered for payment and, if less than all of the 2010 Bonds outstanding are to be redeemed, the numbers of the 2010 Bonds or portions thereof to be redeemed. So long as the 2010 Bonds remain Book-Entry Bonds, the Authority shall only be required to mail such notice of redemption to the DTC (or its nominee). See "DESCRIPTION OF THE 2010 BONDS – Book-Entry-Only System."

#### **Selected Definitions from Bond Resolution**

"Additional Retained Pledged Assessments" means, solely for the purpose of determining Excess Pledged Revenues, an amount of Pledged Assessments designated in the Alternate Certified Commission Projection that allows the Commission to certify that Expected Pledged Assessments plus such designated amount equals or exceeds the Required Coverage Amount.

"Bond Administration Expenses" means the expenses incurred to administer the Parity Bonds issued under the Bond Resolution, including fees for paying agents, tender agents, remarketing agents, authentication agents, financial advisors and attorneys, and for other professional services necessary to ensure compliance with applicable State or federal law.

"Bond Year" means January 2, 2011 through and including January 1, 2012, and every January 2 through January 1 of each succeeding year thereafter.

"Commission Program" means the funding of any or all of the purposes authorized to be funded with the 2010 Bonds under the Act, including: (i) repayment of the principal and interest of previous advances from the federal trust fund; (ii) payment of unemployment benefits by depositing the proceeds in the Unemployment Compensation Fund; (iii) payment of costs of issuance; (iv) providing a debt service reserve fund or account, if any; and (v) paying capitalized interest, if any, on the bonds for a period not to exceed two years.

"Costs of the Commission Program" means all amounts required to fund and implement the Commission Program.

"Expected Pledged Assessments" means those Pledged Assessments that are, as of the Projection Date and as determined in the Certified Commission Projection, expected to be collected during the period between the June Date of Calculation and the December Date of Calculation relating to a determination of Excess Pledged Revenues as set forth in Section 4.04(b) of the Bond Resolution.

"Required Coverage Amount" means an amount not less than (a) 1.50 times the amount of the January Required Semiannual Debt Service Deposit required within the then current Bond Year, plus (b) the amount necessary to make an interest payment on a current advance from the federal trust fund due within the then current Bond Year; plus (c) the estimated amount of Bond Administration Expenses due within the next 12 months.

"Retained Pledged Revenues" means, solely for the purpose of determining Excess Pledged Revenues, Pledged Revenues in the amount \$25,000,000 to be retained in the Obligation Trust Fund upon the determination of Excess Pledged Revenues pursuant to Section 4.04(b) of the Bond Resolution.

"Super Sinker Redemption Notice Date" means the date which is at least 15 days prior to a redemption date for Super Sinker Bonds, the deadline to provide notice of redemption of such to Bondholders (e.g. June 15, for a July 1 redemption date and December 15, for a January 1 redemption date).

"Transfer Date" means a date which is at least one (1) Business Day prior to the Super Sinker Redemption Notice Date.

#### **Paying Agent/Registrar**

The Authority will serve as the initial Paying Agent/Registrar for the 2010 Bonds and perform all duties and functions required to be performed by the Paying Agent/Registrar with respect to the 2010 Bonds under the Bond Resolution; provided, however, that the Authority must appoint a third-party Paying Agent/Registrar if any series of the 2010 Bonds cease to be Book-Entry Bonds.

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 Bond Resolution; and (2) is subject to supervision or examination by a federal or state governmental authority with jurisdiction over financial institutions.

While any 2010 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 will maintain a register for the 2010 Bonds (the "Register") at its principal office. A transfer of a 2010 Bond is not effective until entered in the Register. The transfer of a 2010 Bond will be made by the Paying Agent/Registrar upon the surrender to the Paying Agent/Registrar of the 2010 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. To effect a transfer, the Authority will execute and the Paying Agent/Registrar will authenticate and deliver to the transferee a new 2010 Bond or Bonds (each in an authorized denomination) of the same tenor and aggregate principal amount and interest rate as the 2010 Bond or Bonds surrendered for transfer. A transfer of a 2010 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 2010 Bond(s) may be exchanged for a new 2010 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 2010 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 2010 Bond or Bonds in exchange for the surrendered 2010 Bond(s). A Bond Owner exchanging any 2010 Bond(s) shall pay an amount sufficient to reimburse any out-of-pocket expenses incurred by the Authority or the Paying Agent/Registrar in connection with making the exchange, and any tax or other governmental charge imposed with respect to the exchange. The Paying Agent/Registrar is not required to transfer or exchange any 2010 Bond: (1) between a Record Date and the related Interest Payment Date; (2) during the 30-day period preceding the maturity date of such 2010 Bond; or (3) which has been selected for redemption in whole or in part.

### **Book-Entry-Only System**

This section describes how ownership of the 2010 Bonds is to be transferred and how the principal of, premium, if any, and interest on the 2010 Bonds are to be paid to and accredited by The Depository Trust Company, New York, New York ("DTC"), while the 2010 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority, the Commission and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Authority, the Commission and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the 2010 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the 2010 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to

DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the each series of the 2010 Bonds. The 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered 2010 Bond will be issued for each maturity of the 2010 Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

To facilitate subsequent transfers, all 2010 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 2010 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 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2010 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.

Purchases of 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2010 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2010 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 2010 Bonds, except in the event that use of the book-entry system for any series of the 2010 Bonds is discontinued.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents governing the 2010 Bonds or each series as the case may be. For example, Beneficial Owners of 2010 Bonds may wish to ascertain that the nominee holding the 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2010A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.



Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Authority or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to any series of the 2010 Bonds at any time by giving reasonable notice to the Authority or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, the 2010 Bonds, or the respective series for which DTC services have been discontinued, are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository) for any series of the 2010 Bonds. In that event, 2010 Bonds, or the respective series for which DTC services have been discontinued, will be printed and delivered as required by the Bond Resolution.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, but the Authority, the Commission and the Underwriters take no responsibility for the accuracy thereof.

THE COMMISSION AND THE AUTHORITY, SO LONG AS THE DTC BOOK-ENTRY SYSTEM IS USED FOR ANY SERIES OF THE 2010 BONDS, WILL SEND ANY NOTICE OF PROPOSED AMENDMENT TO THE BOND RESOLUTION OR OTHER NOTICES WITH RESPECT TO SUCH 2010 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 2010 BONDS OR THE PROVIDING OF NOTICE TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

#### **Definition of Bond Obligations**

"Bond Obligations" means, with respect to any particular Bond Year and any series of 2010 Bonds and any Additional Bonds issued on a parity with the 2010 Bonds (collectively, the "Parity Bonds"), 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 is due and payable during such period, plus (c) premium, if any, due and payable on such Parity Bonds during such period, plus (d) the amount, if any, 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 (1) the calculation of Bond Obligations, (2) the requirement in the Bond Resolution regarding the deposit of sufficient Pledged Assessments to the Debt Service Account to fund anticipated Bond Obligations during any such Bond Year, or (3) the determination of Excess Pledged Revenues, the following rules will apply:

- (A) (i) Interest 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 due to (x) scheduled payment of principal on the due date thereof, (y) scheduled redemption from amounts set aside in the Redemption Account or (z) projected redemption (based on schedules provided by the Authority's financial advisor)

from amounts on deposit in the Obligation Trust Fund during the six months following the date of calculation and (ii) principal for any series of Parity Bonds shall be calculated on the assumption that no Parity Bonds Outstanding on the date of calculation will cease to be Outstanding except due to scheduled payment of principal on the due date thereof; provided, however, during the final Bond Year interest and principal shall be calculated on the assumption that no Parity Bonds Outstanding on the date of calculation will cease to be Outstanding except due to (x) scheduled payment of principal on the due date thereof or (y) projected redemption (based on schedules provided by the Authority's Financial Advisor) from amounts on deposit in the Obligation Trust Fund during the six months following the date of calculation.

(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 Parity 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 Parity Bonds that bear interest at variable rates or that will at some future date bear interest at a rate or rates to be determined or that 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 Credit Agreements (as defined in the Bond Resolution) may be combined with payments of Bond Obligations on any Series of Parity Bonds to which the Credit 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 Credit 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 Credit Agreement against interest payable on related Parity Bonds. Any remaining (i.e., not offset) payment obligations of the Authority under the Credit Agreement, excluding any termination payments arising under such Credit Agreement, will be treated as payments of interest for purposes of computing Bond Obligations and will be calculated at the rate provided in such Credit 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 Credit Agreements will include only the net amount payable and/or receivable for purposes of computing Bond Obligations.

(E) Interest accruing 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 Bond Year or other period of calculation will reduce Bond Obligations on Parity Bonds during such Bond Year or other period of calculation.

## **Defeasance**

The lien on Pledged Revenues will be of no further force and effect when the Bond Obligations on the 2010 Bonds have been discharged and all other amounts payable under the Bond Resolution have been paid, or arrangements satisfactory to the Person to whom such payment is due for making such payment have been made. The Bond Obligations on any 2010 Bonds will be deemed discharged when (1) such Bond Obligations have: (A) been paid in accordance with the terms of such 2010 Bonds; or (B) become due (whether at stated maturity or otherwise) and an amount of money sufficient for the payment thereof has been deposited in the Debt Service Account, with the Paying Agent/Registrar; (2) such 2010 Bonds have been canceled or surrendered to the Paying Agent/Registrar for cancellation; or (3) such Bond Obligations have been discharged by a deposit of Sufficient Assets pursuant to the Resolution.

The benefits of the Resolution, and the covenants of the Authority contained therein in support of any 2010 Bonds, shall be deemed redeemed and discharged with respect to such 2010 Bonds when the following requirements have been satisfied: (1) 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, which deposit will be held in trust in a separate escrow account and will be applied exclusively to the payment of the Bond Obligations; (2) the Authority has received an opinion of Co-Bond Counsel to the effect that (A) such deposit of Sufficient Assets will not constitute an Event of Taxability and complies with State law, and (B) all conditions precedent to such Bond Obligations being deemed discharged have been satisfied; (3) all other payments due, or reasonably estimated by the Paying Agent/Registrar to become due, under the Bond Resolution, have been made or provided for, and (4) the Paying Agent/Registrar has received all documentation and assurance regarding such discharge as it may reasonably 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 Commission Program as authorized by the Act, or for the purpose of refunding any outstanding Parity 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 Parity 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 of the Authority 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 Funds Management Agreement, any other Related Document, the Bond Resolution, or any resolution authorizing outstanding Parity 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 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 Parity Bonds, including the Additional Bonds then proposed to be issued, and sufficient to pay all other Bond Administration Expenses of the Authority related to the outstanding Parity Bonds and the Additional Bonds then being issued. Each series of Additional Bonds issued will be equally and ratably secured under the Bond Resolution with the Parity Bonds and all other series of Additional Bonds, if any, issued, without preference, priority, or distinction of any Parity Bonds over any other thereof.

## **Amendments**

Except as otherwise provided therein, the Bond Resolution may not be amended without the consent of the Bond Owners of at least a majority in aggregate principal amount of the outstanding Parity Bonds affected by such amendment. The Bond Resolution may be amended without consent of or notice to the Bond Owners of outstanding Parity Bonds if the Authority's Executive Director first receives (1) Co-Bond Counsel's opinion to the effect that such amendment will not constitute an Event of Taxability under the Bond Resolution and (2) Co-Bond Counsel's opinion or written advice of the Attorney General of Texas to the effect that such amendment will not violate the terms of the Authorizing Law or other applicable State or federal law or adversely affect the rights of the Bond Owners of the outstanding Parity Bonds under the Transaction Documents (as defined in the Bond Resolution).

Notwithstanding the foregoing, nothing contained in the Bond Resolution or any Transaction Document permits or is to be construed to permit, without the approval of the Bond Owners of all of the outstanding Parity Bonds, the amendment of the terms and conditions of any Transaction Document or in any Parity Bond so as to: (1) make any change in the maturity of the outstanding Parity Bonds; (2) reduce the rate of interest borne by any of the outstanding Parity Bonds; (3) reduce the amount of the principal payable on the outstanding Parity Bonds; (4) modify terms of payment of principal, premium (if any), or interest on the outstanding Parity Bonds, or impose any conditions with respect to such payment; (5) affect the rights of the Bond Owners of less than all of the Parity Bonds then Outstanding; (6) change the minimum percentage of the principal amount of the Parity Bonds necessary for consent to such amendment; or (7) change the Pledged Revenues (other than to designate additional revenues as Pledged Revenues as permitted under the Bond Resolution).

No amendment to the Bond Resolution will take effect until the Executive Director of the Authority (1) obtains an opinion of bond counsel or the written advice of the Attorney General of Texas to the effect that such amendment will not violate the Bond 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 Bond Resolution for such amendment; and (2) obtains an opinion of bond counsel to the effect that such amendment will not adversely affect the excludability of interest on any Parity Bond, unless such Parity Bond was issued as a taxable Parity Bond, from the gross income of the Bond Owner thereof for federal income tax purposes.

The Financing and Pledge Agreement and the Funds Management Agreement will not be amended unless (1) the Executive Director of the Authority receives an opinion of bond counsel to the effect that such amendment will not violate the Bond Resolution, the Authorizing Law or other applicable law; and (2) either of the following requirements is satisfied: (a) the Executive Director of the Authority receives an opinion of bond counsel to the effect that such amendment will not constitute an Event of Taxability and an opinion of bond counsel to the effect that such amendment will not adversely affect the rights of the Bond Owners under the Bond Resolution; or (b) the Bond Owners of at least a majority in aggregate principal amount of the Outstanding Parity Bonds affected by such amendment consent thereto, except that the consent of the Bond Owner of each Outstanding Parity 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.

## **SECURITY FOR THE 2010 BONDS**

### **Pledge Under the Bond Resolution and Financing and Pledge Agreement**

The 2010 Bonds and any Additional Bonds issued on a parity with the 2010 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) all revenues derived from the levy of the Unemployment Obligation Assessment to pay Bond Obligations and Bond Administration Expenses or for any other purpose specified under the Act (the "Pledged Assessments"); (2) all monies on deposit in the Obligation Trust Fund and accounts created therein and in the Program Fund (hereinafter defined), including all investment income derived therefrom (the "Pledged Funds"); and (3) any additional revenues deposited into the Obligation Trust Fund which are lawfully available to pay Bond Obligations or Bond Administration Expenses.

In the Financing and Pledge Agreement, the Commission covenants that:

(1) so long as the 2010 Bonds (and any Additional Bonds) are Outstanding, it will annually impose the Unemployment Obligation Assessment according to the requirements of the Authorizing Law at a rate that will provide assessments in the Bond Year, as applicable, in an amount not less than:

- (A) 1.50 times the amount of Bond Obligations due in the next Bond 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 Bond Administration Expenses due in the next calendar year;
- and
- (2) it will collect and deposit all Pledged Assessments into the Obligation Trust Fund.

In addition, the Authority covenants to transfer, semiannually, on each June 1 and December 1, Pledged Revenues 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 required to pay any interest to become due and payable on Outstanding Parity Bonds on any Interest Payment Date occurring within six (6) months of the Date of Calculation; and any principal scheduled to become due and payable on Outstanding Parity Bonds occurring within six (6) months of the Date of Calculation; and

(B) any amounts due on Credit Agreements and other amounts due as Bond Obligations occurring within six (6) months of the Date of Calculation.

To the extent sufficient Pledged Revenues are not available on June 1 or December 1, as applicable, to fund the amounts required above, the Authority will transfer, upon deposit of such Pledged Revenues in the Obligation Trust Fund, additional Pledged Revenues to the Debt Service Account and other accounts until such accounts attain the balance required above. After the transfers described above have been made, the Authority may transfer from the Obligation Trust Fund to the Commission Pledged Revenues in amounts needed to make payments of interest due on Federal Advances.

After Pledged Revenues have been transferred as described above, Excess Pledged Revenues will be used for the purposes and in the priorities described in the Bond Resolution, including: (i) redemption or purchase of Outstanding Parity Bonds; (ii) payment of Bond Obligations payable in the subsequent year; or (iii) to pay principal and interest on Federal Advances. No Parity Bonds will be redeemed prior to their final maturity (other than mandatory sinking fund redemptions) unless there are Excess Pledged Revenues available for such purpose. See "DESCRIPTION OF THE 2010 BONDS—Determining Excess Pledged Revenues." If there are no Parity Bonds Outstanding and all Bond Administration Expenses have been paid, the Commission will transfer the balance of the Obligation Trust Fund to the UC Fund.

Further, the Commission irrevocably pledges and assigns to the Authority the Pledged Assessments to be deposited into the Obligation Trust Fund, and the Authority pledges and assigns all of its right, title, and interest in the Financing and Pledge Agreement and the Pledged Revenues for the sole benefit of the Bond Owners as security for payment of the Bond Obligations and Bond Administration Expenses. See "THE FINANCING AND PLEDGE AGREEMENT" herein. Said pledge constitutes a first and exclusive lien on such Pledged Revenues for the payment of the Parity Bonds in accordance with the Bond Resolution. The lien on and pledge of the Pledged Revenues becomes effective as of the earliest Delivery Date of any of the 2010 Bonds.

**THE 2010 BONDS ARE NOT GENERAL OBLIGATIONS OF THE STATE OF TEXAS, OR ANY AGENCY, POLITICAL CORPORATION, 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 2010 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 2010 BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE 2010 BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES.**

#### **Funds Created Under the Bond Resolution; Flow of Funds**

##### *Obligation Trust Fund*

The Obligation Trust Fund is created under the Act and confirmed pursuant to the Bond Resolution. The Obligation Trust Fund is maintained as a dedicated trust fund outside of the State Treasury, in the custody of the Comptroller, and shall be held in trust for the sole benefit of the Bond Owners. Within the Obligation Trust Fund, the Obligation Trust Fund Debt Service Account (the "Debt Service Account") is created for the deposit of Pledged Assessments received by the Commission for the payment of Bond Obligations for each Bond Year; the Obligation Trust Fund Bond Administration Expenses Account (the "Bond Administration Account") is created for the deposit of Pledged Assessments received by the Commission for the payment of Bond Administration Expenses associated with the 2010 Bonds; and the Obligation Trust Fund Redemption Account (the "Redemption Account") is created for the

deposit of Excess Pledged Revenues (hereinafter defined) to be used for the redemption of Parity Bonds. In the Bond Resolution, the Authority reserves the right to create such additional accounts or subaccounts or take other actions as may be necessary for the receipt and application of Pledged Assessments; provided such creation of accounts or other actions in no way alter the pledge of Pledged Revenues.

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, the Authority will deposit into the Debt Service Account, Pledged Revenues in an amount which, when added to other amounts in the Debt Service Account, equals the amount required to pay Bond Obligations on all Parity Bonds (the "Required Semiannual Debt Service Deposit"), as follows: (i) any interest to become due and payable on Outstanding Parity Bonds on any Interest Payment Dates occurring within six months of the Date of Calculation; and, (ii) any principal scheduled to become due and payable on Outstanding Parity Bonds occurring within six months of the Date of Calculation; and (iii) any amounts due on Credit Agreements and any other amounts due as Bond Obligations occurring within six months of the Date of Calculation.

To the extent sufficient Pledged Revenues are not available on the Date of Calculation to fund the Required Semiannual 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 Pledged Revenues to the Debt Service Account until the Debt Service Account attains the balance equal to the Required Semiannual Debt Service Deposit for such Date of Calculation.

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

On each Date of Calculation, or any date prior to the next Date of Calculation, but solely to the extent that any 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 such amounts needed to pay interest on such Federal Advances.

On each Date of Calculation or any date prior to the next Date of Calculation and provided that all Super Sinker Bonds are no longer Outstanding, and to the extent that any principal and interest are due on any Federal Advances, and after payments and transfers in the paragraphs above have been fully funded, the Authority may transfer to the Commission such amounts needed to pay principal and interest on such Federal Advances.

Excess Pledged Revenues. For a discussion of the determination of Excess Pledged Revenues, see "DESCRIPTION OF THE 2010 BONDS – Determining Excess Pledged Revenues."

Debt Service Account. Unless provision for payment has been made with the Paying Agent/Registrar, there will be paid out of the Debt Service Account on or before each Interest Payment Date for any of the Parity Bonds, the amount required to pay Bond Obligations on such date. On or before any redemption date for Parity Bonds to be redeemed, if applicable, 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 such Parity Bonds then to be redeemed; such amount will be transferred from the Redemption Account from funds determined to be Excess Pledged Revenues. On or before any other payment date set forth in any resolution, there will also be paid out of the Debt Service Account the amounts required to be paid on any Credit Agreements on such payment date. The Authority will apply amounts available in the Debt Service Account, or from other Pledged Revenues, for the payment of any scheduled mandatory or sinking fund redemptions on any Parity Bonds issued as "term bonds" to pay the purchase price (including any brokerage and other charges) for any Parity Bond subject to such mandatory or sinking fund redemption provided that such purchase price will not exceed the applicable mandatory redemption price of such Parity Bond. Upon any such purchase, the purchased Parity Bonds will be delivered to the Paying Agent/Registrar for cancellation and the principal amount of such Parity 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 Account any amounts required to pay Bond Administration Expenses pertaining to the 2010 Bonds.

Redemption Account. To the extent that the Authority determines that Excess Pledged Revenues are available, the Authority will transfer Excess Pledged Revenues into the Redemption Account to be used to redeem 2010 Bonds eligible for redemption in the manner set forth in the Bond 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 Bond Resolution provides for the creation of the Program Fund in a dedicated trust fund outside the State Treasury in the custody of the Comptroller into which the proceeds of the 2010 Bonds will be deposited for all payments relating to the Commission Program. The Bond Resolution provides that the Authority may create additional accounts within the Program Fund from time to time as may be necessary to account properly for the Costs of the Commission Program financed thereunder. Subject to the restrictions provided in the Bond Resolution and the Financing and Pledge Agreement, the Program Fund will be used to finance the Costs of the Commission Program. All interest earned on the Program Fund will be available to finance the Costs of the Commission Program or to be transferred to the Debt Service Account for payment of interest on 2010 Bonds next coming due, provided that once interest earnings have been transferred and deposited in the Debt Service Account, such interest earnings will accrue therein for the benefit of the Bond Owners, provided that the amount so transferred will not exceed the amount of such payment then coming due.

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.

The Program Fund and any accounts created therein are otherwise governed by the Funds Management Agreement. See "THE FUNDS MANAGEMENT AGREEMENT" herein.

#### *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. The Authority will remit from the Rebate Fund to the Secretary of the Treasury of the United States (or such other payee as required by the Regulations) the amount of the most recently calculated rebate amount (if any) in accordance with the applicable regulations relating to the Code. The Rebate Fund will otherwise be governed by the Funds Management Agreement. See "THE FUNDS MANAGEMENT AGREEMENT" herein.

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.

### **THE FINANCING AND PLEDGE AGREEMENT**

The Financing and Pledge Agreement, dated as of December 1, 2010 and entered into by the Authority and the Commission, governs, together with the Bond Resolution, the use of 2010 Bond proceeds by the Commission; the assessment, pledge, deposit, and use of the Unemployment 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 2010 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.*

For a discussion and description of the arrangements between the Authority and the Comptroller relating to funds and accounts described herein, see "THE FUNDS MANAGEMENT AGREEMENT."

The Financing and Pledge Agreement provides that the net proceeds of the 2010 Bonds are to be deposited into the Program Fund in accordance with the terms of the Financing and Pledge Agreement and of the Bond Resolution. At or before delivery of the 2010 Bonds, the Commission is required to provide written requests to the Authority

regarding the application of proceeds of the 2010 Bonds. Proceeds of the 2010 Bonds may be used (i) to repay principal and interest on Federal Advances; (ii) to pay unemployment benefits to be deposited into the Program Fund and transferred to the UC Fund; and (iii) to pay Costs of Issuance, capitalized interest, if any, or fund any Reserve Fund Requirement as set forth in the Bond Resolution and each Pricing Certificate. As stated above, it is not contemplated that 2010 Bond proceeds will be used for capitalized interest or a reserve fund. See "PLAN OF FINANCING – Purpose." Any excess proceeds remaining after the specified purposes have been satisfied may be used to purchase or redeem Outstanding Parity Bonds if eligible for redemption by depositing such proceeds into the Redemption Account. If there are no Outstanding Parity Bonds, excess proceeds are to be deposited into the UC Fund.

Pursuant to the Financing and Pledge Agreement, the Commission will irrevocably pledge and assign to the Authority for the benefit of Bond Owners, the Pledged Assessments as may be assessed and collected while there are any Outstanding Parity Bonds. The Commission also acknowledges, agrees and authorizes the Authority to pledge and assign the Pledged Revenues, which include Pledged Assessments, to secure the payment of Bond Obligations and Bond Administration Expenses relating to the Parity Bonds. The Authority is also required to notify the Commission of the amount of Bond Obligations and the estimated amount of Bond Administration Expenses each year, in sufficient time to allow the Commission to calculate and impose the Unemployment Obligation Assessment for the upcoming calendar year.

In the Financing and Pledge Agreement, the Commission and the Authority enter into the following covenants with respect to the Unemployment Obligation Assessment:

(a) The Commission covenants that: (1) so long as the 2010 Bonds (and any Additional Bonds) are Outstanding, it will annually impose the Unemployment Obligation Assessment according to the requirements of the Authorizing Law at a rate that will provide assessments in the Bond Year, as applicable, in an amount not less than:

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

and  
(2) it will collect and deposit all Pledged Assessments into the Obligation Trust Fund.

(b) The Authority covenants to transfer, semiannually, on each June 1 and December 1, Pledged Revenues 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 required to pay Bond Obligations on the Parity Bonds as follows: any interest to become due and payable on Outstanding Parity Bonds on any Interest Payment Date occurring within six (6) months of the Date of Calculation; and any principal scheduled to become due and payable on Outstanding Parity Bonds occurring within six (6) months of the Date of Calculation; and

(B) any amounts due on Credit Agreements and other amounts due as Bond Obligations occurring within six (6) months of the Date of Calculation.

To the extent sufficient Pledged Revenues are not available on June 1 or December 1, as applicable, to fund the amounts required above, the Authority will transfer, upon deposit of such Pledged Revenues in the Obligation Trust Fund, additional Pledged Revenues to the Debt Service Account and other accounts until such accounts attain the balance required above. After the transfers described above have been made, the Authority may transfer from the Obligation Trust Fund to the Commission Pledged Revenues in amounts needed to make payments of interest due on Federal Advances.

After Pledged Revenues have been transferred as described above, Excess Pledged Revenues will be used for the purposes and in the priorities described in the Bond Resolution, including: (i) redemption or purchase of Outstanding Parity Bonds, (ii) payment of Bond Obligations payable in the subsequent year; or (iii) payment of principal and interest on Federal Advances. No Parity Bonds will be redeemed prior to their final maturity (other than mandatory sinking fund redemptions) unless there are Excess Pledged Revenues available for such purpose. If



there are no Parity Bonds Outstanding and all Bond Administration Expenses have been paid, the Commission will transfer the balance of the Obligation Trust Fund to the UC Fund. For a discussion of the determination of Excess Pledged Revenues, see "DESCRIPTION OF THE 2010 BONDS – Determining Excess Pledged Revenues."

The Commission also agrees to comply with federal tax law provisions governing the tax-exemption of the interest due on any of the 2010 Bonds which are issued as tax-exempt bonds. In addition, the Commission and the Authority agree to provide certain financial information and notice of certain events with respect to the 2010 Bonds for so long as such 2010 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."

## STATE UNEMPLOYMENT COMPENSATION PROGRAM

*This following is a summary of certain relevant historical events and certain provisions of the State Unemployment Compensation Program (the "State UC Program"). This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the statutes, rules, and regulations governing the State UC Program, including, but not limited to, Title 4, Subtitle A of the Texas Labor Code, as amended (the "Texas Unemployment Compensation Act" or "TUCA"). Additional information on the State UC Program may be obtained from the Commission's website at <http://www.twc.state.tx.us/>.*

### Federal Unemployment Tax Act

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 Treasury of the United States of America (the "United States Treasury"), are available to pay administrative costs of state UC Programs and half of extended unemployment benefits and are 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 (the "Secretary of Labor") certifies that a state UC Program meets certain criteria, contributing employers of that state are eligible to receive a tax credit of 5.4% (the "FUTA Tax Credit") 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 that provide funds to cover costs of administering its UC Program. According to the United States Department of Labor, the State and the State UC Program have never been decertified.

Title XII of the Social Security Act provides that Unemployment Trust Fund 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 that remain unpaid as of the November 9 following the second consecutive January 1, the FUTA Tax Credit to employers within such state may be reduced by 0.3%. In the succeeding year the FUTA Tax Credit will 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 FUTA 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 FUTA 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 FUTA 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 2010 is 4.36%. 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. Under provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), all Federal Advances received under ARRA, which include all those received by the Commission since July 22, 2009, will not begin to accrue interest until January 1, 2011. According to the United States Department of Labor, the State had outstanding Federal Advances of \$1.628 billion as of October 28, 2010.

### **Texas Unemployment Compensation Act**

The Commission administers the State UC Program in accordance with TUCA. TUCA sets out qualifying requirements, benefit levels, and disqualification provisions for unemployed workers, and the State's financing structure for the State UC Program. For certain statistical information regarding the State's UC Program, see "APPENDIX B – CERTAIN INFORMATION REGARDING THE STATE UNEMPLOYMENT COMPENSATION PROGRAM" herein.

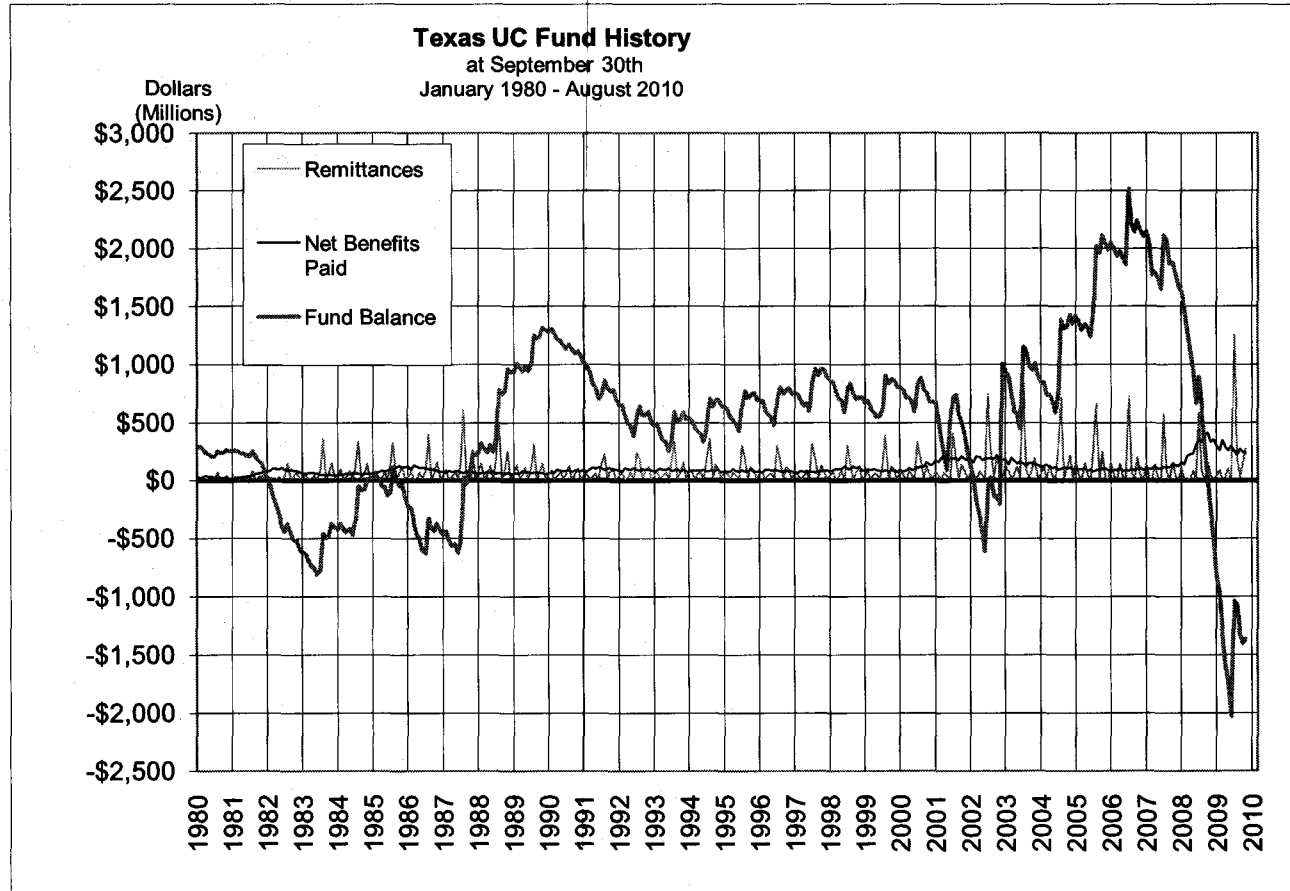
Pursuant to TUCA, the State's portion of the State UC Program is financed through an unemployment tax ("Contribution") on the taxable wage base portion of an employer's payroll. Contributions so collected are deposited into the State's unemployment compensation fund maintained by the State in the State Treasury (the "UC Fund"). Within the UC Fund, a clearing account, federal trust fund account, and a benefit account have been established. On receipt of any money payable to the UC Fund, the Commission will forward the money to the Texas Comptroller of Public Accounts (the "Comptroller") who will deposit the Contributions into the clearing account. After the Comptroller notifies the Commission that the money has cleared, it will be deposited with the United States Secretary of the Treasury in the State's account in the Unemployment Trust Fund. The Commission requisitions amounts from the State's federal trust fund account, as needed, for the payment of benefits. This money is deposited into the 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 the greater of \$400 million or one percent of total taxable wages for the four calendar quarters preceding June 30<sup>th</sup>), then the Deficit Assessment (hereinafter described) can be triggered to bring the balance of the UC Fund up to the floor. The Commission has authority under Section 204.067 of TUCA to judiciously manage the Deficit Assessment. The "ceiling" of the UC Fund is two percent of total taxable wages for the four calendar quarters preceding June 30<sup>th</sup>. If the UC Fund balance rises above the ceiling, then the Commission may use all or part of the surplus to pay outstanding bond obligations, if any, by transferring all or part of the surplus to the Obligation Trust Fund as described below, or, if such surplus is not used to pay outstanding bond obligations, then the Commission may then use the surplus to provide qualifying Contributing Employers (as defined below) with either a tax credit (a "Surplus Credit") or an annual surplus credit rate (a "Surplus Credit Rate") to be applied against their required Contributions for the following year. See "STATE UNEMPLOYMENT COMPENSATION PROGRAM – Contributions; Unemployment Taxes" herein for descriptions of the Deficit Assessment, the Surplus Credit and the Surplus Credit Rate.

### **History of the UC Fund**

The State 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 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 was 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 Surplus Credit for 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 Surplus Credit or Deficit Assessment more than nine (9) times between 1990 and 2010, and has continued to receive periodic Federal Advances to pay Benefit Obligations.

# UC Fund Remittances, Net Benefits & Balances



Source: Texas Workforce Commission

In 2003, the UC Fund balance was estimated to be \$838.4 million below the floor on October 1, 2003, and there was a projected need of approximately \$251 million to keep the UC Fund balance at or above the floor on October 1, 2004. As a result, an amount of approximately \$1,382 million, in addition to estimated Contributions, was projected to be needed on September 30, 2003 to repay outstanding Federal Advances and avoid a Deficit Assessment for 2004 and 2005. Additionally, the Commission obtained approximately \$292.6 million in Federal Advances to pay Benefit Obligations which were scheduled to become due on September 25, 2003. On September 9, 2003, the Authority, on behalf of the Commission, issued \$776,720,000 in revenue bonds and \$600,000,000 in revenue variable rate demand bonds (collectively, the "2003 Bonds") to pay the principal and interest on the Federal Advances and to fund the UC Fund in order to pay Benefit Obligations. See "STATE UNEMPLOYMENT COMPENSATION PROGRAM – The Authorizing Law" below for a description of changes to the TUCA which authorized the Authority to issue, at the request of the Commission, bonds and other obligations to correct the UC Fund balance deficit and to pay Federal Advances. Following the issuance of the 2003 Bonds, the Commission implemented the Unemployment Obligation Assessment as described below. In 2007, the Texas Legislature amended the Texas Labor Code to allow the Commission to use any surplus funds above the UC Fund ceiling to pay debt service. This additional statutory tool assisted in the early repayment of the 2003 Bonds in December of 2007. Because no interest was due on Federal Advances and there were no longer any outstanding bonds, there was not an Unemployment Obligation Assessment rate for calendar years 2008, 2009, and 2010. The Commission believes that the issuance of the 2003 Bonds was a successful undertaking resulting in the following benefits: (1) repayment of Federal Advances with no interest charges; (2) avoidance of requiring additional Federal Advances with interest rates exceeding those of the 2003 Bonds; (3) avoidance of an automatic and significant deficit assessment tax to employers which, at the time, the Commission had no authority to moderate and the Commission believes the avoidance of such tax contributed positively to the economic recovery; and (4) expanded the number of years allowed for replenishment of the UC Fund and thereby reducing the overall annual burden on employers.

Because of the severity of the recent economic downturn and the sharp rise in the number of unemployed Texans receiving unemployment benefits, the UC Fund, which contained \$1.8 billion at the beginning of fiscal year 2009, became insolvent on July 22, 2009. The Commission began drawing Federal Advances on July 22, 2009 which totaled \$1,327.8 million as of December 31, 2009. Under provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), all Federal Advances received under ARRA, which include all those received by the Commission since July 22, 2009, will not begin to accrue interest until January 1, 2011. According to the United States Department of Labor, the State had outstanding Federal Advances of \$1,628 million as of October 28, 2010.

### **The Authorizing Law**

In response to the 2003 UC Fund balance deficit and the costs of paying interest on the Federal Advances, the Texas Legislature, during its 78<sup>th</sup> Regular Session in 2003, enacted Article 6 in Senate Bill 280 ("SB 280") 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. SB 280 also added Subchapter F to TUCA (codified at Sections 203.251-203.262) which authorizes the Authority, upon request by the Commission, to issue 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 to pay costs of issuance, administration expenses related to the borrowing, and capitalized interest relating to the obligations. SB 280 also abolished the Advance Interest Trust Fund and created the "Obligation Trust Fund" (codified at Section 203.102) as a dedicated trust fund outside of the State Treasury in the custody of the Comptroller. Additional SB 280 amendments to TUCA (codified at Section 203.258) grant the Commission the authority to impose the Unemployment Obligation Assessment on Contributing Employers, to be deposited into the Obligation Trust Fund for the payment of (1) bond obligations and bond administrative expenses and (2) principal and interest on Federal Advances. SB 280 also provides the Commission with the authority, in its discretion, to use any Unemployment Obligation Assessment revenue collected each year that exceeds the amount of debt service on bond obligations or bond expenses payable in that year, along with interest earned on the Obligation Trust Fund, for (1) the payment of bond obligations due in the subsequent year to offset the amount of the Unemployment Obligation Assessment that would otherwise have to be levied for the subsequent year; (2) the redemption or purchase of outstanding bonds payable from the Unemployment Obligation Assessment; (3) deposit to the UC Fund to pay Benefit Obligations; or (4) the payment of principal and interest on Federal Advances (codified at Section 203.258). For more information on the Unemployment Obligation Assessment, see "STATE UNEMPLOYMENT COMPENSATION PROGRAM – Contributions; Unemployment Taxes" below.

## **Benefit Obligations**

An unemployed worker's eligibility for unemployment benefits is based upon three general criteria: prior earnings, the reason for separation from employment, and the unemployed worker being "able, available, and looking for work." 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, 2010, the maximum weekly benefit amount is \$406.00. For the 12 months beginning October 1, 2010, the maximum weekly benefit amount is \$415.00.

In accordance with federal law, the TUCA allows for extended benefits during periods of high unemployment. The triggers set by federal law for this permanent program are such that Texas has not met them during the last 20 years. **All extended benefit programs in Texas during the last 20 years have been created through special federal legislation, and have been fully federally-funded.**

On June 30, 2008, the federal Supplemental Appropriations Act of 2008 was signed into law to provide "Emergency Unemployment Compensation" (EUC) benefits for eligible claimants in all states in response to the economic slowdown. EUC makes unemployment benefits available to workers experiencing long-term joblessness and was initially implemented without unemployment rate triggers; however, more recent extensions (Tiers III and IV) depend on a state's unemployment rate. EUC benefits paid to claimants in fiscal year 2009 under the Supplemental Appropriations Act of 2008 was federally funded and does not affect the employer tax rates or Chargebacks discussed below. Provisions in ARRA also allowed for 100% federal funding of Extended Benefits normally funded by 50% federal and 50% state funds. The 81<sup>st</sup> Texas Legislature passed a provision allowing Texas to adopt an alternate, temporary trigger that enabled Texas to take advantage of 100% federal financing for Extended Benefits. Texas is currently paying EUC and Extended Benefits. The most recent Congressional amendments allow a "run-out" period for EUC through April 30, 2011, though claimants must qualify to receive EUC by the last week of November 2010. All Extended Benefits payments will cease on December 4, 2010. 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 that is levied on the first \$9,000 of taxable wages earned by each employee of a Contributing Employer (the "taxable wage base"). The State unemployment tax consists of the assessment of a General Tax, a Replenishment Tax, a Deficit Assessment, and an Employment and Training Investment Assessment ("ETIA"). Additionally, if on 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 (described below), then the tax will also consist of an Unemployment Obligation Assessment. The unemployment tax may be reduced by a tax credit in certain circumstances. The tax rate for most employers is computed on October 1 each year to be effective for wages paid in the next calendar year. Each employer's total rate varies based on the employer's 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 on obligations payable from the Unemployment Obligation Assessment anticipated for the next year. For statistical information regarding Contributions, see "APPENDIX B – CERTAIN INFORMATION REGARDING THE STATE UNEMPLOYMENT COMPENSATION PROGRAM" herein.

*General Tax:* Each employer whose account has been chargeable with benefits throughout four or more consecutive quarters becomes an "Experience Rated Employer." 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 that were overpaid, and benefits paid that are repayable from reimbursing employers, the federal government, or any other governmental entity are excluded from this computation. 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 2010 is 1.53%.

Replenishment Tax: The Replenishment Tax is a flat tax imposed on all Experience Rated 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. In 2008, the Commission approved a one-year suspension of the Replenishment Tax for 2008 due to an estimated \$738 million dollar surplus in the UC Fund under authority provided by Section 204.067 of TUCA. The computed Replenishment Tax rate for calendar year 2009 was 0.16% and for calendar year 2010 is 0.50%.

Deficit Assessment. The Deficit Assessment may be imposed on all Experience Rated Employers if on October 1 of any year the balance of the UC Fund is below the floor (described above). The Commission has authority under Section 204.067 of TUCA to judiciously manage the Deficit Assessment. The Deficit Assessment rate is equal to the "Deficit Ratio" multiplied by the sum of the Contributing Employer's General Tax rate, Replenishment Tax rate, and Deficit Assessment rate for the preceding year. The Deficit Ratio is equal to the difference between the UC Fund balance, considering any Federal Advance, and the floor on October 1, divided by the revenue received from the General Tax and the Replenishment Tax in the previous year, rounded to the nearest hundredth. The Deficit Assessment rate may not exceed 2% for any particular Contributing Employer.

Employment and Training Investment Assessment. In 2005, the Texas Legislature during its 80<sup>th</sup> Regular Session, passed HB 2421 which added Subchapter G to Chapter 204 of TUCA and created the Employment and Training Investment Assessment ("ETIA") as a means of providing financing for skills development programs and job creation initiatives through local economic development programs. The ETIA is imposed on all Contributing Employers and is imposed as a separate assessment equal to one-tenth of one percent (0.1%) of wages paid by the employer. The Replenishment Tax and the new employer initial tax rate are reduced by the 0.1% so there is no increase in the total effective rate to employers. The ETIA is due at the same time, collected in the same manner, and is subject to the same penalties and interest as the other state unemployment taxes. Revenue collected from the ETIA is deposited into the ETIA Holding Fund; and, if on September 1 of each year the Commission determines that the amount in the UC Fund exceeds 100% of the designated floor, then the ETIA revenue may be transferred from the ETIA Holding Fund by the Commission on October 1 of that year to certain designated funds for specified purposes in accordance with TUCA. However, if on September 1 of each year, the balance in the UC Fund is at or below 100% of its floor, then the Commission is required to transfer the ETIA revenue from the ETIA Holding Fund to the UC Fund as needed to raise the amount in the UC Fund to 100% of its floor, up to and including the entire amount held in the ETIA Holding Fund. As of September 2010, the amount transferred from the ETIA Holding Fund to the UC Fund was \$82.6 million.

Unemployment Obligation Assessment: The "Unemployment Obligation Assessment," which was authorized by the Texas Legislature in 2003 by SB 280 as described above, is imposed on Experience Rated Employers if, after January 1 in any particular year, an interest payment on a Federal Advance will be due or principal and/or interest is owed on bonds issued by the Authority to fund the UC Fund, and the amount needed to make such payments is not available in the Obligation Trust Fund.

The portion of the Unemployment 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 Unemployment 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 Unemployment Obligation Assessment Ratio and the sum of the employer's prior year's General Tax rate, the Replenishment Tax rate, and the Deficit Assessment rate. The Unemployment Obligation Assessment Ratio is equal to the total principal, interest, and administration expenses to be due during the next calendar 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 30<sup>th</sup> from Contributing Employers with Chargebacks. **Other than the portion of the Unemployment Obligation Assessment rate that will be**

**needed to pay interest on Federal Advances, the Unemployment Obligation Assessment rate is not capped.** The Unemployment Obligation Assessment collections for calendar years 2004, 2005, 2006, 2007, and 2008 were \$276 million, \$330 million, \$331 million, \$328 million, and \$31 million respectively. In 2007, the Texas Legislature amended the Texas Labor Code to allow the Commission to use any surplus funds above the UC Fund ceiling to pay debt service. This additional statutory tool assisted in the early repayment of the 2003 Bonds in December of 2007. Because no interest was due on Federal Advances and there were no longer any outstanding bonds, there was not an Unemployment Obligation Assessment rate for calendar years 2008, 2009, and 2010. The Unemployment Obligation Assessment rate for 2011 was set by the Commission on November 8, 2010, at an amount intended to generate approximately \$370 million of Unemployment Obligation Assessment revenue. Such collected revenue should be sufficient to pay interest due on Federal Advances, if any; principal and interest due on the 2010 Bonds in 2011; Bond Administration Expenses relating to the 2010 Bonds expected to be incurred in 2011; and to provide an additional amount equal to 50% of the principal and interest due on the 2010 Bonds in 2011, all as required by the Financing and Pledge Agreement dated as of December 1, 2010, 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 Unemployment Obligation Assessment in any given year are expected to be available on or before June 30 of each calendar year to pay the annual debt service due on all Outstanding Parity Bonds. See "APPENDIX C -RULE REGARDING COMPUTATION OF UNEMPLOYMENT OBLIGATION ASSESSMENT RATE."

Surplus Credit: If the UC Fund balance rises above the ceiling (as described under "Texas Unemployment Compensation Act" above), then the Commission may use all or part of that surplus to pay outstanding bond obligations; but, to the extent that any surplus is not used to pay outstanding bond obligations, the Commission may use the surplus to provide a Surplus Credit or an annual Surplus Credit Rate to Contributing Employers to be applied the following year. Surplus Credits are based on the "surplus ratio" (which is determined by subtracting the ceiling of the UC Fund from the balance of the UC Fund and subtracting from that amount any amount used to pay bond obligations and dividing the difference by the amount of Contributions due from the four calendar quarters ending the preceding September 30 from Experience-Rated Employers) multiplied by the employer's Contributions due for the four calendar quarters ending the preceding September 30. The Surplus Credit may not be applied against delinquent taxes or applied in any manner until the Contributing Employer has paid any delinquent taxes it owes. Alternatively, if the Commission does not compute a Surplus Credit, then the Commission may use any of the surplus that is not used to pay bond obligations, if any, to compute an annual Surplus Credit Rate for Experience-Rated Contributing Employers. The Surplus Credit Rate is computed by multiplying the "surplus ratio" by the Contributing Employer's General Tax rate and Replenishment Tax rate for the preceding year and then subtracting the product from the Contributing Employer's General Tax and Replenishment Tax rates. The remainder may not be less than zero. If a Contributing Employer has any delinquent contributions, then the Contributing Employer is ineligible to receive a Surplus Credit Rate until any such delinquent contributions are paid, after which time the Contributing Employer will be eligible for a Surplus Credit rate beginning on the next calendar quarter.

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 Contributing 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 Unemployment 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**

The Commission has a strong track record for collecting unemployment insurance taxes. 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 September 22, 2010, the Commission had collected 98.38% of taxes due in the second calendar quarter of 2010, and in the next calendar quarter expects to collect up to at least 99% of the taxes due during that second calendar quarter of 2010. 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 1999 through 2009.

The collection rate for the Unemployment Obligation Assessment should mirror that of the 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.

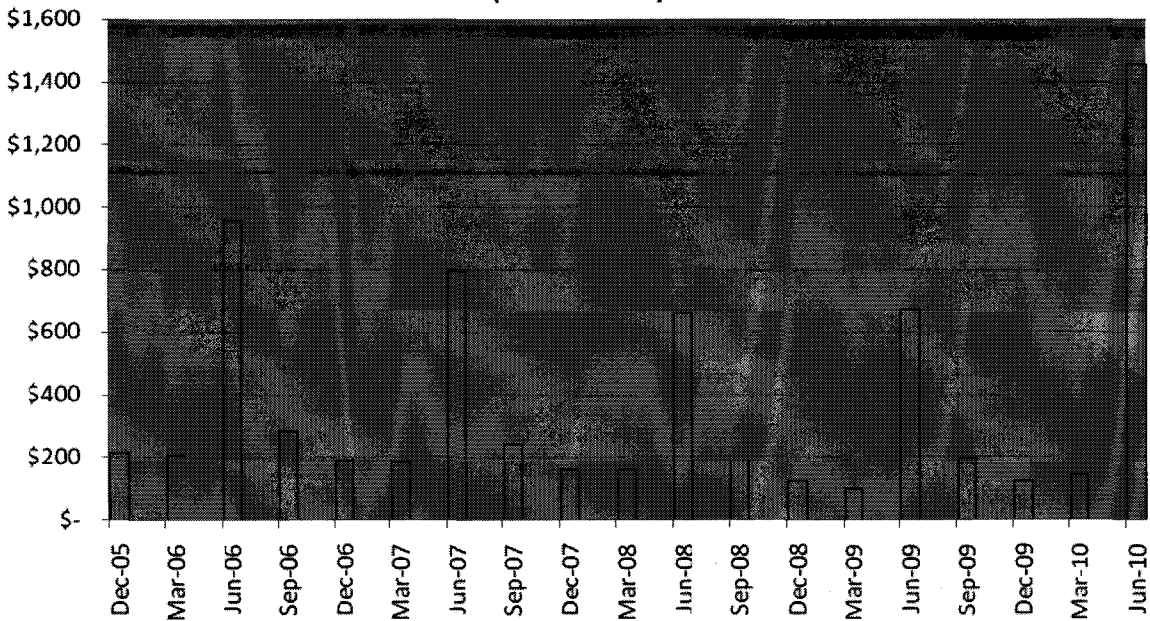
| <b>STATE OF TEXAS<br/>UNEMPLOYMENT TAXES:<br/>PERCENTAGE OF TAX COLLECTED</b> |   |
|---|---|
| <u>Period</u>   | <u>% of Tax Collected<sup>(1)</sup></u> |
| First Quarter 2005  | 99.77%                                  |
| Second Quarter 2005   | 99.54%                                  |
| Third Quarter 2005  | 99.51%                                  |
| Fourth Quarter 2005   | 99.56%                                  |
| First Quarter 2006  | 99.87%                                  |
| Second Quarter 2006   | 99.67%                                  |
| Third Quarter 2006  | 99.69%                                  |
| Fourth Quarter 2006   | 99.71%                                  |
| First Quarter 2007  | 99.84%                                  |
| Second Quarter 2007   | 99.56%                                  |
| Third Quarter 2007  | 99.54%                                  |
| Fourth Quarter 2007   | 99.47%                                  |
| First Quarter 2008  | 99.70%                                  |
| Second Quarter 2008   | 99.40%                                  |
| Third Quarter 2008  | 99.32%                                  |
| Fourth Quarter 2008   | 99.34%                                  |
| First Quarter 2009  | 99.68%                                  |
| Second Quarter 2009   | 99.38%                                  |
| Third Quarter 2009  | 99.08%                                  |
| Fourth Quarter 2009   | 99.15%                                  |
| First Quarter 2010  | 99.37%                                  |
| Second Quarter 2010   | 98.38%                                  |

<sup>(1)</sup> As of September 2010. For calendar years 2004-2007, the Commission collected an Unemployment Obligation Assessment with respect to the 2003 Bonds at the same percentages.  
Source: Texas Workforce Commission

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 30<sup>th</sup> 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).



## STATE OF TEXAS UNEMPLOYMENT INSURANCE EMPLOYER CONTRIBUTIONS BY CALENDAR QUARTER (in millions)



Source: Texas Workforce Commission.

The Unemployment Insurance Tax Department, along with the Regulatory Integrity Division, within the Commission is responsible for assisting employers with compliance with TUCA provisions. The Commission's Collections Section maintains delinquent charges, verifies billing notices, reviews all collection activities, and takes enforcement action as required. The Collection 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. Account examiners also review employer reports to locate underreported or over-reported wages or false information relating to ownership, partners, and corporate officers. The Status Section 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 Comptroller of Public Accounts to determine if any new employers have been created that may be liable for unemployment taxes but which have not registered with the Commission. Additionally, the Status Section computes employer tax rates. The Field Tax Operations Section provides employer education services 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 Tax Department, as well as processes refunds and maintains accounts to correct errors in taxes and wages reported.

The Commission will administer the same billing and collection processes for the collection of the Unemployment 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 on 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 Unemployment 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 Unemployment Obligation Assessment. The rate of the Unemployment 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 Unemployment Obligation Assessment rate in December of the

preceding year. The Unemployment Obligation Assessment will be paid by Contributing Employers each calendar quarter. The Unemployment Obligation Assessment revenues will be collected each year while the 2010 Bonds are Outstanding in accordance with the Bond Resolution and the Financing and Pledge Agreement.

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

### **THE FUNDS MANAGEMENT AGREEMENT**

The Authority and the Comptroller will enter into a Funds Management Agreement with respect to the 2010 Bonds. *The following is a summary of certain provisions of the Funds Management Agreement providing for the administration of the proceeds of the 2010 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 Authority's office.*

The Funds Management Agreement provides for the deposit and use of 2010 Bond proceeds into the Program Fund in the same manner as directed by the Bond 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 required to deposit, from money that is lawfully available for such purpose pursuant to the Act, immediately available money into the Debt Service Account in an amount that (taking into account other money, if any, on deposit in the Debt Service Account) is necessary to pay the Bond Obligations next coming due. Prior to the opening of business of the Paying Agent/Registrar on each day on which Bond Obligations come due on 2010 Bonds that are not Book-Entry Bonds, the Comptroller, upon receipt of a warrant presented by or on behalf of the Authority drawn on the Debt Service Account, 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, upon receipt of a warrant drawn on 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 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 Act 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 Bond Resolution is to be invested (and reinvested) by the Comptroller in investments authorized by law to be used by the Comptroller for such purposes and in a manner consistent with the requirements of the Act. The investments of each such fund must be made under conditions that will provide money sufficient to timely 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, which 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 Program Fund, the Comptroller represents and warrants that the price for which the investment is purchased or sold will be the "fair market value" determined in accordance with Treasury regulations and that the Comptroller will maintain records that adequately support such determination. Any profits or losses from investment of any fund will be credited or charged, respectively, on a pro rata basis among the funds 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 AUTHORITY

### General

Under the TPFA Enabling Act, the Authority's power is limited to financing and refinancing project costs for State agencies and institutions and does not affect the power of the relevant State agency or institution to carry out its statutory authority, including its authority to construct buildings. The TPFA Enabling Act directs State agencies and institutions to carry out their authority regarding projects financed by the Authority as if the projects were financed by legislative appropriation.

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

The Authority has issued revenue bonds on behalf of the Texas Parks & Wildlife Department, the Texas Facilities Commission, the State Preservation Board, the Texas Department of Criminal Justice, the Texas Health & Human Services Commission, the Texas Department of Agriculture, the Texas Department of State Health Services, the Texas Workforce Commission, the Texas State Technical College System, the Texas Military Facilities Commission, the Texas Historical Commission, Midwestern State University, Texas Southern University and the Stephen F. Austin State University. It has also issued general obligation bonds for the Texas Parks & Wildlife Department, the Texas Facilities Commission, the Texas Department of State Health Services, the Texas Department of Criminal Justice, the Texas Department of Aging and Disability Services, the Texas Department of Public Safety, the Texas Youth Commission, the Texas National Research Laboratory Commission, the Texas Historical Commission, the Texas School for the Blind and Visually Impaired, the Texas School for the Deaf, the Texas Department of Agriculture, the Adjutant General's Department, the Texas Department of Transportation, the Texas Juvenile Probation Commission, and the CPRIT.

Before the Authority may issue bonds for the acquisition or construction of a building, the Legislature must have authorized the specific project for which the bonds are to be issued and the estimated cost of the project or the maximum amount of bonded indebtedness that may be incurred by the issuance of bonds. The Texas Supreme Court, in *Texas Public Building Authority v. Mattox*, 686 S.W.2d 924 (1985), ruled that revenue bonds issued by the Authority do not constitute debt of the State within the meaning of the State Constitution. As set forth in the TPFA Enabling Act, revenue obligations issued thereunder are not a debt of the State or any State agency, political corporation or political subdivision of the State and are not a pledge of the full faith and credit of any of them.

### Authority Executives

The Authority is currently governed by the Board, which is composed of seven members appointed by the Governor with the advice and consent of the State Senate. 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 Board until a successor therefor has qualified for office. The current members of the Board, the office held by each member and the date on which each member's term expires are as follows:

| <u>Name</u>          | <u>Position</u> | <u>Term Expires<br/>(February 1)</u> |
|----------------------|-----------------|--------------------------------------|
| Gary E. Wood         | Chair           | 2015                                 |
| Ruth C. Schiermeyer  | Vice-Chair      | 2013                                 |
| D. Joseph Meister    | Secretary       | 2013                                 |
| Gerald Alley         | Member          | 2013                                 |
| Rodney K. Moore      | Member          | 2015                                 |
| Robert T. Roddy, Jr. | Member          | 2011                                 |
| Massey Villarreal    | Member          | 2011                                 |

The Authority employs 13 employees, including an Executive Director, a General Counsel and a Deputy Director. The Executive Director is charged with managing the affairs of the Authority, subject to and under the direction of the Board.

*Dwight D. Burns, Executive Director.* Dwight Burns was appointed Executive Director of the Authority in May 2009. Previously, he was Vice President/Senior Analyst at Moody's Investors Service, where he served as primary bond credit analyst for several major governmental entities in the southwestern U.S. Mr. Burns also worked with financial advisors at Southwest Securities, helping municipalities issue bonds. In addition to Mr. Burns' public finance experience, he has also worked as a policy advisor for the Austin City Council and as an analyst for the Texas State Senate. He holds a bachelors degree in government from the University of Texas, and a masters from the University of Texas Lyndon B. Johnson School of Public Affairs.

*Susan Durso, General Counsel.* Susan Durso, a native of Port Arthur, Texas, graduated from the University of Texas at Austin with a BA in Government and from the University of South Carolina with a J.D. and Masters of Public Administration. She has worked as an attorney for over twenty years. Ms. Durso has served the State of Texas as legal counsel in a variety of positions, including as the General Counsel for the Public Utility Commission, the General Counsel for the Texas Residential Construction Commission, and since September 2009, as the General Counsel for the Authority.

*John Hernandez, Deputy Director.* Mr. Hernandez has served as Deputy Director of the Authority since 1999. He leads the Finance and Accounting Team, which is responsible for debt service budgeting, arbitrage rebate compliance, the State of Texas Master Lease Program, general ledgers, financial reporting, and information technology. Mr. Hernandez and his team also provide support for new debt issuance of fixed rate and variable rate debt. Mr. Hernandez holds a B.A. in finance from St. Edwards University in Austin.

### **Sunset Review**

In 1977, the State 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 next scheduled review of the Authority is during the Texas legislative session in 2011. The TPFA Enabling Act, as amended by the 80th Legislature, provides that if the Authority is not continued in existence, the Authority will cease to exist as of September 1, 2011; however, the Texas Sunset Act also provides, unless otherwise provided by law, that the Authority will exist until September 1 of the following year (September 1, 2012) in order to conclude its business.

Pursuant to the Sunset Act, the Texas Legislature specifically recognizes the State's continuing obligation to pay bonded indebtedness and all other obligations incurred by various State agencies, including the Authority. Accordingly, in the event that a future sunset review were to result in the Authority being abolished, the Governor would be required by law to designate an appropriate State agency that would continue to carry out all covenants contained in the 2010 Bonds and in all other obligations, including lease, contract and other written obligations of the Authority. The designated State agency would provide payment from the sources of payment of the 2010 Bonds in accordance with the terms of the 2010 Bonds and would provide payment from the sources of payment of all other obligations in accordance with their terms, whether from a State general obligation pledge, revenues or otherwise, until the principal of and interest on the 2010 Bonds are paid in full and all other obligations, including lease, contract and other written obligations, are performed and paid in full. Moreover, amounts sufficient to pay debt service on the 2010 Bonds would be automatically appropriated pursuant to the Texas Constitution and the revenue pledge securing the payment of principal of and interest on the 2010 Bonds would remain in full force and effect.

In connection with the 2011 sunset review of the Authority, the Sunset Advisory Commission, which is comprised of members of the Texas Senate and the Texas House of Representatives as well as public members, by a decision dated June 2010, has recommended that the Authority be continued as an independent agency for 12 years. The continuation of the operations of the Authority must be accomplished through legislation filed and enacted by the 82nd Legislature, which will convene in January 2011.

## **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 2010 Bonds and for monitoring federal tax and securities law compliance.

Payments on the 2010 Bonds are expected to be made solely from the Pledged Revenues. See "SECURITY FOR THE 2010 BONDS." Any default in payments on the 2010 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 (the "Bond Review Board") prior to their issuance. The Bond Review Board is composed of the Governor, the Lieutenant Governor, the Speaker of the House of Representatives, and the Comptroller of Public Accounts. The Governor is the Chairman of the Bond Review Board. Each member of the Bond Review Board may, and frequently does, act through a designee. An application relating to the 2010 Bonds was submitted to the Bond Review Board and the Bond Review Board approved the 2010 Bonds at its meeting held on November 9, 2010.

## **Retirement Plan of the Authority**

The Authority participates in joint contributory retirement plans of the State (collectively the "Plan") administered by the Employees Retirement System of Texas ("ERS"), which is operated by the State and which covers State employees and law enforcement and custodial officers. For more detailed information on the ERS and other State sponsored retirement plans, their respective funding and liabilities, see Appendix A attached hereto.

## **State Budget Reduction Request**

On January 15, 2010, the Governor, the Lieutenant Governor and the Speaker of the House Joe Straus issued a joint request to all executive, legislative, and judicial agencies of the State (individually, a "State Agency" and, collectively, the "State Agencies"), requesting that each State Agency submit a plan ("Savings Plan") to identify savings in priority increments totaling 5% of general revenue and general revenue-dedicated appropriations for the 2010-11 biennium. The request exempts (i) certain State programs and services and (ii) debt service payments on previously issued obligations.

With respect to the Authority, such 5% reduction equates to approximately \$56,360 for the 2010-11 biennium. In order to achieve the requested reductions, on February 15, 2010, the Authority submitted a plan identifying potential 5% reductions by proposing reductions in various areas, including administrative and support services, professional service contracts, equipment and maintenance renewals and staff salaries and benefits. The Authority transferred its identified savings into an appropriation reduction account at the State Treasury in August of 2010.

On May 27, 2010, the Governor, the Lieutenant Governor and the Speaker of the House issued a letter directing the process by which each State Agency would develop its legislative appropriations request for the 2012-2013 biennial budget. The letter also directed State Agencies to submit a supplemental schedule detailing how they would reduce their baseline request by an additional 10% (in 5% increments) in general revenue-related funding. Exceptions to the baseline request limitation include amounts necessary to satisfy debt service requirements for bond authorizations. The Authority submitted its legislative appropriations request with the proposed budget reductions on August 30, 2010.

**Pledged Revenues are not general revenue appropriations and the Obligation Trust Fund in which Pledged Revenues are deposited is held in the custody of the Comptroller outside of the State Treasury as specified by the Authorizing Law. Therefore, the budgetary requests would not apply to the UC Program revenues nor the debt service on the 2010 Bonds.**

## **Possible State General Revenue Shortfall for 2012-2013**

Texas, like many states, is facing a potential general revenue shortfall for its next fiscal biennium. On May 11, 2010, the Assistant Director of the Legislative Budget Board (the "LBB"), the budget agency of the State Legislature, reported at a hearing before the Texas House Appropriations Committee that the LBB's projected gap between State expenditures at then current levels and available general revenue funds for the upcoming biennium was then estimated by the LBB to be an aggregate of \$15 billion to \$18 billion for fiscal years 2012 and 2013. The Governor who is the chief budget officer of the State has questioned this estimation. On November 3, 2010, a special task force chaired by the Comptroller reported that State revenues for the current biennium were approximately \$2.5 billion less than originally projected. Such lower revenues may contribute to the possible State general revenue shortfall for 2012-2013. Further review by the State is necessary before any definitive projected revenue shortfall for the 2012-2013 biennium can be determined and such determination may not be possible until the Comptroller releases her revenue estimates in accordance with the requirements of the Texas Constitution (currently estimated to be in January 2011). The Texas Constitution requires that the State Legislature pass a balanced budget for each biennium. For a discussion of the State leadership's budget reduction request to State Agencies, see "THE AUTHORITY – State Budget Reduction Request" and "THE COMMISSION – State Budget Reduction Request."

Article III, Section 49-g of the Texas Constitution establishes the Economic Stabilization Fund ("rainy day fund") which can be used to help balance the State's budget. If an estimate of anticipated revenues for a succeeding biennium prepared by the Comptroller is less than the revenues that are estimated at the same time by the Comptroller to be available for the current biennium, the State Legislature may, by a three-fifths vote of the members present in each house, appropriate for the succeeding biennium from the Economic Stabilization Fund an amount not to exceed this difference. Pursuant to information made public by the Comptroller in August 2010, the Comptroller estimates that the ending balance in such rainy day fund will be approximately \$8.2 billion at the end of fiscal year 2011. No assurances can be given as to whether the State Legislature will appropriate all or a portion of the Economic Stabilization Fund to help balance the 2012-2013 budget or as to what type of savings plan or other actions the State Legislature may take during the 2011 Legislative Session to balance the budget and/or address any revenue shortfalls.

**The Pledged Revenues are not general revenue appropriations and the Obligation Trust Fund in which Pledged Revenues are deposited is held in the custody of the Comptroller outside of the State Treasury as specified by the Authorizing Law. Any potential State revenue shortfall would not directly affect the 2010 Bonds or the Authority's ability to make debt service payments thereon. The Authorizing Law prohibits the State from taking action that would limit or restrict the rights of the Commission to fulfill its obligations to repay the 2010 Bonds or to impair the rights or remedies of the Bondholders.**

## **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 3,600 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 245 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, Supplemental Nutrition Assistance Program ("SNAP"), and child care services.

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 and the Regulatory Integrity Division are responsible for the administration of this program. The Unemployment Insurance and Regulation Division responds to questions about unemployment on-line, and by telephone through the Commission's Unemployment Insurance Tele-Center network, which consists of five linked telephone call centers in Austin, El Paso, Fort Worth, McAllen, and San Antonio.

In addition, approximately 338 Unemployment Insurance Tax Department representatives are located in Austin and in 30 other tax offices throughout the State, plus there are approximately 53 Regulatory Integrity Division staff members located in Austin. The Unemployment Insurance Tax Department is responsible for assisting employers with compliance with TUCA provisions. The Unemployment Insurance Tax Department and Regulatory Integrity Division maintain delinquent charges, verify billing notices, review all collection activities, and take enforcement action as required. These entities use 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. Account examiners also review employer reports to locate underreported or over-reported wages or false information relating to ownership, partners, and corporate officers. These entities also register new employers, maintain files on employers, and make determinations on tax liability issues. The Status Section also works with the Internal Revenue Service and the Comptroller of Public Accounts to determine if any new employers have been created that may be liable for unemployment taxes but that have not registered with the Commission and computes employer tax rates. The Field Tax Operations Section maintains accounts to correct errors in taxes and wages reported, processes refunds, provides employer education services, 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 perspective 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 certain current appointed officials are as follows:

*Tom Pauken, Commissioner.* Tom Pauken is Chairman of the Commission, where he has served since being appointed by Governor Rick Perry in March 2008. Mr. Pauken represents employers and his appointment expires February 1, 2015. He brings decades of public service experience to the Commission, having held numerous leadership positions. In 2007, he served as Chairman of the Governor's Task Force on Appraisal Reform. He served in the White House Counsel's Office under President Reagan, and was appointed by the President to serve as Director of ACTION, where he founded the Vietnam Veterans Leadership Program. ACTION is now known as AmeriCorps. Mr. Pauken also was instrumental in the implementation of First Lady Nancy Reagan's *Just Say No to Drugs* campaign.

Chairman Pauken is a United States Army veteran. He received a commission in Military Intelligence and served in Vietnam as a Province Intelligence Officer and as a senior analyst for the Office of Strategic Research Analysis. Founder and President of Dallas-based TWP Inc., Chairman Pauken also has served as a board member of various

public and private companies. He is a member of the State Bar of Texas, the Knights of Columbus, and the Veterans of Foreign Wars.

Chairman Pauken is the author of two books: *The Thirty Years War: The Politics of the Sixties Generation* and his new book is entitled *Bringing America Home*. He holds a bachelor's degree from Georgetown University and a law degree from Southern Methodist University.

*Ronald G. Congleton, Commissioner.* Ronald G. Congleton is the Commissioner Representing Labor for the Texas Workforce Commission. Governor Rick Perry appointed him to the three-member Commission in October 2003. Governor Perry reappointed him on February 10, 2005. His appointment expires February 1, 2011.

Nearly 35 years of experience in negotiations and commitment to representing working Texans give Commissioner Congleton a strong background for his current role. Mr. Congleton joined the trucking industry as a driver in 1968 with Consolidated Forwarding and then transferred to McLean Trucking in 1970. While with McLean, he became head steward with Teamsters Local 745 in Dallas where he cultivated his leadership skills. Mr. Congleton remained head steward with Local 745 when he moved to Yellow Freight Systems in 1986, where he also was a registered hazardous material handler. He remained with Yellow Freight Systems until 1997. Mr. Congleton was chosen to be president of the 7,500-member Local 745 in 1997 and served in that capacity until his retirement in 2002. Prior to his retirement, he served as the chairman of the Southern Region Grievance Committee for nine southern states and was a member of the National Grievance Committee in Washington, D.C., from 2000 to 2002.

Before entering his career in trucking and serving Texas' workers, Commissioner Congleton served our nation in the U.S. Navy from 1963 to 1967. As a shipfitter, he served aboard the cruiser *U.S.S. Chicago* from 1963 to 1965. From 1965 until 1967, he served aboard the aircraft carrier *U.S.S. Enterprise* in Southeast Asia.

*Andres Alcantar, Commissioner.* Andres Alcantar is the Commissioner Representing the Public for the Texas Workforce Commission. Governor Rick Perry appointed him to the three-member Commission in August 2008. His Commission appointment expires February 1, 2013. Mr. Alcantar most recently served as Deputy Director of the Governor's Budget, Planning and Policy division, which advises the Governor on federal, state and local issues and provides executive oversight to state boards and commissions. His focus included workforce, business and economic development, competitiveness, and public and higher education issues. He also served as the Governor's Office's liaison to the Texas Workforce Commission and several other state agencies.

He previously was an advisor in Governor George W. Bush's Office of Budget and Planning on workforce and health and human service issues, and a director for the state Health and Human Services Commission. Mr. Alcantar received a bachelor's degree and a master's degree in public administration from Texas Tech University.

*Larry E. Temple, Executive Director.* Larry E. Temple has served as Executive Director of the Commission since 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. In 1997, he was named director of the Commission's Office of Welfare Reform. 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.

*H.E. (Gene) Crump, Jr., Deputy Executive Director.* H.E. (Gene) Crump serves as the Deputy Executive Director of the Commission where he assists the Executive Director in carrying out the policies and strategic direction of the full-time three-member Commission appointed by the Governor, as well as the day-to-day operations. The seven divisions of the Commission report directly to him, as well as the Human Resources, Finance, and Business Operations Departments. Mr. Crump previously served as the Director of Administrative Support of the Commission and has over 10 years of experience with the Commission.

Prior to joining the Commission, Mr. Crump was the Chief Financial Officer of the General Services Commission and has been in Texas State Government for 16 years. Mr. Crump is a retired Lieutenant Commander of the United States Navy. While a naval officer, he served in a variety of positions including Comptroller and Information Technology Director at various duty stations. Mr. Crump received his bachelor's degree in Business Administration from the University of North Carolina. He later earned his master's degree in Management from the United States



Naval Postgraduate School and his master's in National Security and Strategic Studies from the United States Naval War College. Mr. Crump is also a graduate of the Governor's Executive Development Program.

*Paul N. Jones, General Counsel.* Paul N. Jones serves as General Counsel of the Commission. As the Commission's chief legal advisor, Mr. Jones directs, plans, develops, coordinates, and manages all of the Commission's legal activities. Prior to becoming the General Counsel of the Commission, he was a Litigation Attorney in the Dallas office of the U.S. Department of Homeland Security, Immigration and Customs Enforcement Division. Mr. Jones also served as a Litigation Attorney for the U.S. Department of Energy in both Albuquerque, New Mexico and Washington, D.C.

Mr. Jones received his bachelor's degree in English and U.S. History from Menlo College in Atherton, California. He then attended the University of New Mexico in Albuquerque earning his Juris Doctorate in May 1999 and his Masters in Public Administration in May 2000. Mr. Jones received his Master of Laws in Litigation and Alternative Dispute Resolutions with Highest Honors in May 2003 from George Washington University, Washington, D.C.

### **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. Approximately 83% of the \$1,062 million appropriated to the Commission by the 81<sup>st</sup> Legislature for the 2010 Fiscal Year is funded through federal sources. The Commission provides block grants through allocation formulas of \$747 million (approximately 70% 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 2007 regular legislative session under the Texas Sunset Act, and the next scheduled review of the Commission is during the legislative session in 2013. 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, 2013; however, the Texas Sunset Act provides, unless otherwise provided by law, that the Commission will continue to exist until September 1 of the following year (September 1, 2014) in order to conclude its business.

Pursuant to the Sunset Act, the Texas Legislature specifically recognizes the State's continuing obligation to pay bonded indebtedness and all other obligations incurred by various State agencies, including the Commission. Accordingly, in the event that a future sunset review were to result in the Commission being abolished, the Governor would be required by law to designate an appropriate State agency that would continue to carry out all covenants contained in the 2010 Bonds and in all other obligations, including lease, contract and other written obligations of the Commission. The designated State agency would provide payment from the sources of payment of the 2010 Bonds in accordance with the terms of the 2010 Bonds and would provide payment from the sources of payment of all other obligations in accordance with their terms, until the principal of and interest on the 2010 Bonds are paid in full and all other obligations, including lease, contract and other written obligations, are performed and paid in full. Moreover, amounts sufficient to pay debt service on the 2010 Bonds would be automatically appropriated pursuant to the Texas Constitution and the revenue pledge securing the payment of principal of and interest on the 2010 Bonds would remain in full force and effect.

### **State Budget Reduction Request**

As discussed above with respect to the Authority, on January 15, 2010, the Governor, the Lieutenant Governor and the Speaker of the House Joe Straus issued a joint request to all executive, legislative, and judicial agencies of the State (individually, a "State Agency" and, collectively, the "State Agencies"), requesting that each State Agency submit a plan ("Savings Plan") to identify savings in priority increments totaling 5% of general revenue and general

revenue-dedicated appropriations for the 2010-11 biennium. The request exempts (i) certain State programs and services and (ii) debt service payments on previously issued obligations.

The Commission submitted a 5% reduction plan on February 11, 2010 that identified possible savings totaling \$15 million for the 2010-11 biennium. On May 17, 2010, the Legislative Budget Board and the Governor's Office of Budget Planning and Policy notified the Commission that the submitted plan had been adjusted to a reduction target of \$589,307 for the 2010-2011 biennium.

On May 27, 2010, the Governor, the Lieutenant Governor and the Speaker of the House issued a letter directing the process by which each State Agency would develop its legislative appropriations request for the 2012-2013 biennial budget. The letter also directed agencies to submit a supplemental schedule detailing how they would reduce their baseline request by an additional 10% (in 5% increments) in general revenue-related funding. Exceptions to the baseline request limitation include amounts necessary to satisfy debt service requirements for bond authorizations. **The potential general revenue budgetary limitations will not adversely affect the UC Program nor the Commission's ability to collect or transfer the Pledged Revenues.**

**Pledged Revenues are not general revenue appropriations and the Obligation Trust Fund in which Pledged Revenues are deposited is held in the custody of the Comptroller outside of the State Treasury as specified by the Authorizing Law. Therefore, these budgetary requests will not apply directly to the UC Program nor the debt service on the 2010 Bonds. The Authorizing Law prohibits the State from taking action that would limit or restrict the rights of the Commission to fulfill its obligations to repay the 2010 Bonds or to impair the rights or remedies of the Bondholders.**

## LEGAL MATTERS

### General

The delivery of the Series 2010A Bonds is subject to the Authority furnishing the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Series 2010A Bonds and the approving opinion of the Attorney General of Texas to the effect that the Series 2010A Bonds are valid and legally binding obligations of the Authority, and the approving legal opinion of Vinson & Elkins L.L.P. and Bickerstaff Heath Delgado Acosta LLP, Co-Bond Counsel, to the effect that the Series 2010A Bonds, issued in compliance with the provisions of the Resolution, are valid and legally binding obligations of the Authority, subject to applicable provisions of bankruptcy, reorganization and other similar matters affecting the rights of creditors or by general principles of equity that permit the exercise of judicial discretion, and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Series 2010A Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. The form of Co-Bond Counsel's opinion is attached hereto as Appendix D. Co-Bond Counsel was engaged by, and only represents, the Authority. In their capacity as Co-Bond Counsel, such firms have reviewed the statements and information appearing under the captions and subcaptions "PLAN OF FINANCING – Authority for Issuance," "DESCRIPTION OF THE 2010 BONDS" (other than under the subheading "Book-Entry-Only System"), "SECURITY FOR THE 2010 BONDS," "THE FINANCING AND PLEDGE AGREEMENT," "THE FUNDS MANAGEMENT AGREEMENT," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (other than under the subheading "Compliance with Prior Agreements"), and such firms are of the opinion that the statements and information contained under such captions and subcaptions provide an accurate and fair description of the Series 2010A Bonds and the Resolution and are correct as to matters of law. The legal fee to be paid to Co-Bond Counsel for services rendered in connection with the issuance of the Series 2010A Bonds is contingent upon the sale and delivery of the Series 2010A Bonds. Certain legal matters will be passed upon for the Authority by Fulbright & Jaworski L.L.P., Disclosure Counsel to the Authority, whose legal fees are contingent on the sale and delivery of the Series 2010A Bonds. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Andrews Kurth LLP and Bates & Coleman, P.C., whose legal fees are contingent on the sale and delivery of the Series 2010A Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2010A 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 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**

### **Tax Exemption**

In the opinion of Vinson & Elkins L.L.P. and Bickerstaff Heath Delgado Acosta LLP, Co-Bond Counsel, under existing law (i) interest on the Series 2010A Bonds is excludable from gross income for federal income tax purposes and (ii) interest on the Series 2010A Bonds is not (A) a specific preference item subject to the alternative minimum tax on individuals and corporations, or (B) included in a corporation's adjusted current earnings for purposes of the alternative minimum tax.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2010A 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 issuer file an information report with the Internal Revenue Service (the "Service"). The Issuer has covenanted in the Bond Resolution that it will comply with these requirements.

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series 2010A Bonds for federal income tax purposes and, in addition, will rely on representations by the Issuer, the Issuer's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the Underwriters, respectively, which Co-Bond Counsel has not independently verified. If the Issuer fails to comply with the covenants in the Bond Resolution or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Series 2010A Bonds could become includable in gross income from the date of delivery of the Series 2010A Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, 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 2010A Bonds.

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 their 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 Service; rather, such opinions represent Co-Bond Counsel's legal judgment based upon their 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 as to whether or not the Service will commence an audit of the Series 2010A 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 2010A Bonds could adversely affect the value and liquidity of the Series 2010A Bonds regardless of the ultimate outcome of the audit.

### **Additional Federal Income Tax Considerations**

#### *Collateral Tax Consequences*

Prospective purchasers of the Series 2010A 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 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 2010A Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2010A Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2010A Bonds, received or accrued during the year.

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

The issue price of all of the Series 2010A Bonds exceeds the stated redemption price payable at maturity of such Series 2010A Bonds. Such Series 2010A Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

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

### **LEGAL INVESTMENTS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the 2010 Bonds are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), the 2010 Bonds may have to be assigned a rating of at least "A" or its equivalent as to the investment quality by a national rating agency before the 2010 Bonds are eligible investments for sinking funds or other public funds of such political subdivisions.

No representation is made that the 2010 Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Commission and the Authority have made no investigation of other laws, rules, regulations, or investment criteria that might apply to any such persons or entities or that might otherwise limit the suitability of the 2010 Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the 2010 Bonds for such purposes. Neither the Authority nor the Commission have made any review of laws in other states to determine whether the 2010 Bonds are legal investments for various institutions in those states.

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

No registration statement relating to the Series 2010A Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Series 2010A Bonds have not been approved or disapproved by the United States Securities and Exchange Commission, nor has the United States Securities and Exchange Commission passed upon the accuracy or adequacy of the Official Statement. The Series 2010A Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and have not been registered or qualified under the securities acts of any other jurisdiction. The Authority does not assume any responsibility for registration or qualification of the Series 2010A Bonds under the securities laws of any jurisdiction in which the Series 2010A Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Series 2010A 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.

#### **RATINGS**

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), Fitch Ratings ("Fitch") and Moody's Investors Service, Inc. ("Moody's") have assigned ratings of "AAA", "AA+" and "Aa1", respectively, to the Series 2010A Bonds. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations 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 or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such revision or withdrawal of such ratings, or either of them, may have an effect on the market price of the Series 2010A Bonds.

#### **CONTINUING DISCLOSURE OF INFORMATION**

In the Financing and Pledge Agreement, the Commission, as the obligated party on the 2010 Bonds, has agreed to provide certain updated statistical information and operating data annually, and timely notice of specified 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 2010 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 events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system or such other location as may be designated by the MSRB or the United States Securities and Exchange Commission (the "SEC").

#### **Annual Reports**

Pursuant to the Financing and Pledge Agreement, the Commission will provide certain updated statistical information and operating data to the Authority. 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 the table entitled "Coverage Schedule" under the caption "DEBT SERVICE AND COVERAGE SCHEDULES" herein and in APPENDIX B. Any statistical information to be provided shall be (1) prepared in accordance with the accounting principles that the Commission may be required to employ from time to time pursuant to State law or regulation, and (2) audited, if the Commission commissions an audit of such statements. The Commission will update and provide this information to the Authority within five months after the end of each Fiscal Year ending in or after 2010 and the Authority will make this information available within six months after

the end of each Fiscal Year ending in or after 2010. The Commission will provide the updated information to the Authority and the Authority will provide such information to the MSRB through its EMMA system or such other location as may be designated by the MSRB or the SEC. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC, as permitted by SEC Rule 15c2-12 (the "Rule").

The Commission's current Fiscal Year end is August 31. If the Commission changes its Fiscal Year, the Commission will notify the Authority and the Authority will then notify the MSRB of the change.

### **Event Notices**

The Authority, on behalf of the Commission, will also provide notices in a timely manner, not in excess of ten business days after the occurrence of the event relating to the 2010 Bonds, to the MSRB through its EMMA system. The Authority will provide notice of any of the following events with respect to the 2010 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2010 Bonds, or other material events affecting the tax status of the 2010 Bonds; (7) modifications to rights of holders of the 2010 Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the 2010 Bonds, if material; (11) rating changes, (12) bankruptcy, insolvency, receivership or similar event of the Authority or the Commission; (13) the consummation of a merger, consolidation, or acquisition involving the Authority or Commission, or the sale of all, or substantially all, of the assets of the Authority or the Commission, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. For these purposes, any event described in the immediately preceding item (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer. In addition, the Authority, on behalf of the Commission, will provide timely notice of any failure by the Commission to provide the required annual financial information and notices of material events in accordance with its agreement described above under "Annual Reports."

### **Availability of Information**

The Commission and the Authority have agreed to provide the foregoing financial and operating information only as described above. The Commission and the Authority will be required to file their respective continuing disclosure information using the MSRB's EMMA system. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

### **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 2010 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 2010 Bonds may seek a writ of mandamus to compel the Commission or the Authority to comply with this agreement.

The Authority and the Commission may amend their 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 Authority or the Commission, but only if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell 2010 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 Bond Resolution that authorizes such an amendment) of the 2010 Bonds then outstanding consent to the amendment or (b) any person unaffiliated with the Authority (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 2010 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.

The Authority and the Commission may also amend or repeal the provisions of the 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, and the Authority may also amend the provisions in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the 2010 Bonds in the primary offering of the 2010 Bonds, giving effect to (1) such provisions as so amended and (2) any amendments or interpretations of the Rule. If the Authority and the Commission so amend the provisions of their continuing disclosure agreement, they shall include with any amended statistical information or operating data next provided in accordance with this continuing disclosure agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of statistical information or operating data so provided.

#### **Compliance with Prior Agreements**

During the last five years, the Authority and the Commission have complied in all material respects with all continuing disclosure agreements made by them in accordance with the Rule, except as follows: in certain limited instances, the Authority has agreed to file information provided by State agencies for whom the Authority has issued bonds ("client agencies"). The Authority's ability to make such filings in a timely manner is dependent on the Authority's receipt of information from the client agency. The Authority has determined that, during the past five years, information was not provided in a timely manner by two client agencies which resulted in late filings by the Authority; however, neither of such late filings related to a continuing disclosure agreement entered into by the Commission. The Authority has since filed the required information and developed procedures to reduce the likelihood of such late filings in the future.

#### **UNDERWRITING**

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the Underwriters, has agreed, on behalf of the Underwriters, subject to certain conditions, for the Underwriters to purchase the Series 2010A Bonds from the Authority. The purchase price of the Series 2010A Bonds is \$1,210,468,796.25 (which represents the par amount of the Series 2010A Bonds, plus an original issue premium of \$104,583,356.85 and less an underwriting discount of \$4,529,560.60). The Underwriters will be obligated to purchase all of the Series 2010A Bonds if any Series 2010A Bonds are purchased. The Series 2010A Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2010A Bonds into investment trusts) at prices lower than the public offering prices of the Series 2010A Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

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

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the 2010 Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer,

Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of the 2010 Bonds.

Goldman, Sachs & Co. ("Goldman Sachs"), one of the Underwriters of the 2010 Bonds, has entered into a master dealer agreement (the "Master Dealer Agreement") with Incapital LLC ("Incapital") for the distribution of certain municipal securities offerings, including the 2010 Bonds, to Incapital's retail distribution network at the initial public offering prices. Pursuant to the Master Dealer Agreement, Incapital will purchase 2010 Bonds from Goldman Sachs at the initial public offering price less a negotiated portion of the selling concession applicable to any 2010 Bonds that Incapital sells.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the 2010 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the 2010 Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase 2010 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2010 Bonds that such firm sells.

### **FINANCIAL ADVISOR**

First Southwest Company is acting as Financial Advisor to the Authority in connection with the issuance of the 2010 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the 2010 Bonds is contingent upon the issuance and delivery of the 2010 Bonds. First Southwest Company, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2010 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Authority has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **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 Series 2010A Bonds or the validity of the Series 2010A 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 Series 2010A Bonds by the Authority, (ii) to levy or collect the Unemployment Obligation Assessment or use the Unemployment Obligation Assessment to pay debt service due on the Series 2010A 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.



## APPENDIX A

### STATE OF TEXAS

The Bond Appendix dated November 2010 is currently on file with the MSRB and is hereby incorporated by reference and made a part of this Official Statement. The Bond Appendix may also be obtained (i) using the MSRB's internet website, [www.emma.msrb.org](http://www.emma.msrb.org), by using the muni search function and entering the term "State of Texas Comptroller" and (ii) from the Comptroller's website at: <http://www.window.state.tx.us/treasops/bondapp.html> and will be updated from time to time by the Comptroller.

**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 2010 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 2010 BONDS.**

**THE LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS IN TABLES A-16, A-17, AND A-18 AS PROVIDED BY THE STATE COMPTROLLER IN THE BOND APPENDIX MAY VARY IN METHOD OF CALCULATION AND TIMING FROM SIMILAR STATISTICS PRESENTED IN APPENDIX B HEREOF AS CALCULATED BY THE COMMISSION. FOR PURPOSES OF THIS OFFICIAL STATEMENT, INVESTORS SHOULD RELY ON THE LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS AS PRESENTED BY THE COMMISSION IN APPENDIX B 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 THAT ARE REQUIRED TO PAY UNEMPLOYMENT TAXES OR, WITH THE EXCEPTION OF TABLE 2 HEREIN, THE NUMBER OF EMPLOYEES THAT 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") and the data reflected in the following tables is based on a calendar year 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 A and B and Tables 1 through 5 in this section:

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

"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 employed.

"Gross State Product" is the value added in production by the labor and property located in a state.

"Personal Income" is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and personal current transfer receipts.

"Seasonally adjusted" data is data that has been modified to eliminate seasonal fluctuations.

"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.

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

"Wage and Salary Disbursements" consists of the monetary remuneration of employees, including corporate officer salaries and bonuses, commissions, pay-in-kind, incentive payments, and tips. It reflects the amount of payments disbursed, but not necessarily earned, during the year.

**Set forth below is a brief description of the current status of Texas employment**

The Texas annual Gross State Product (GSP) for all industries was \$1,231.1 billion in 2009, an amount that expanded by over 84% in the past decade. The Texas Comptroller's Office projects Texas GSP to grow by 34.1 percent through 2015 to \$1,650.8 billion. GSP is a measure of the total output or the value added in production by labor and property within the State. Personal Income, a measure of the income received by Texas residents from all sources, was estimated to total \$907.2 billion for 2009, and is projected to grow by 35.1 percent to \$1,225.3 billion by 2015. With this growth, Wage and Salary Disbursements to workers in Texas rose from a 1999 level of \$310.5 billion to \$494.6 billion in 2009. Disbursements are expected to reach \$664.3 billion by 2015. On an annual average basis, there were 10,311,100 payroll workers receiving wage and salary disbursements in the State during 2009, an increase of 12.6% from a level of 9,160,200 in 1999. By 2015, payroll employment is expected to increase to 11,609,700 workers.

The unemployment tax is levied on the taxable wage base of the first \$9,000 of taxable wages earned by each employee, and in 2009 taxable wages were estimated to be \$84.0 billion resulting in \$1,091.6 million in employer unemployment tax contributions. Taxable wages are expected to rise to \$93.5 billion in 2015.

During the 2008-2010 economic recession, the nation experienced skyrocketing unemployment rates reaching nearly ten (10) percent. The national unemployment rate in August 2010 was 9.6 percent. Texas was not immune from these recessionary forces. While remaining a full percentage point below the national average, Texas unemployment rates rose from pre-recession levels in September 2008 of 5.2% to an unemployment rate that has averaged 8.2% in the first eight months of 2010. The number of unemployed Texans has averaged just over a million workers during this same first eight months of 2010. The average number of unemployment compensation benefit recipients for the first eight (8) months of 2010 was 199,225 receiving Regular benefit payments of \$2,052.5 million. Several consecutive quarters of national Gross Domestic Product growth led the National Bureau of Economic Research to declare the recession officially ended in the second quarter of 2009, but growth in output and employment have been anemic as the recovery begins.

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**TABLE 1**

**STATE OF TEXAS  
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT STATISTICS: 1990-2009  
(Actual Series)**

| <u>Year</u> | <u>Civilian Labor Force</u> | <u>Employment</u> | <u>Unemployment</u> | <u>Rate</u> |
|-------------|-----------------------------|-------------------|---------------------|-------------|
| 1990        | 8,593,724                   | 8,041,859         | 551,865             | 6.4%        |
| 1991        | 8,752,200                   | 8,139,722         | 612,478             | 7.0%        |
| 1992        | 8,991,315                   | 8,307,176         | 684,139             | 7.6%        |
| 1993        | 9,203,082                   | 8,543,207         | 659,875             | 7.2%        |
| 1994        | 9,395,679                   | 8,778,660         | 617,019             | 6.6%        |
| 1995        | 9,572,436                   | 8,985,635         | 586,801             | 6.1%        |
| 1996        | 9,736,646                   | 9,175,983         | 560,663             | 5.8%        |
| 1997        | 9,926,594                   | 9,395,279         | 531,315             | 5.4%        |
| 1998        | 10,097,882                  | 9,600,982         | 496,900             | 4.9%        |
| 1999        | 10,250,025                  | 9,766,299         | 483,726             | 4.7%        |
| 2000        | 10,347,847                  | 9,896,002         | 451,845             | 4.4%        |
| 2001        | 10,519,335                  | 9,991,920         | 527,415             | 5.0%        |
| 2002        | 10,803,187                  | 10,115,299        | 687,888             | 6.4%        |
| 2003        | 10,964,756                  | 10,228,640        | 736,116             | 6.7%        |
| 2004        | 11,051,912                  | 10,385,318        | 666,594             | 6.0%        |
| 2005        | 11,150,684                  | 10,551,547        | 599,137             | 5.4%        |
| 2006        | 11,317,350                  | 10,760,645        | 556,705             | 4.9%        |
| 2007        | 11,421,105                  | 10,921,706        | 499,399             | 4.4%        |
| 2008        | 11,635,095                  | 11,059,298        | 575,797             | 4.9%        |
| 2009        | 11,930,847                  | 11,020,226        | 910,621             | 7.6%        |

Sources: Labor Market and Career Information Department, Texas Workforce Commission (09/10)

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**TABLE 2**  
**STATE OF TEXAS**  
**AVERAGE NUMBER OF BENEFIT RECIPIENTS**  
**1995-2009**

| <u>Year</u> | <u>Number</u> |
|-------------|---------------|
| 1995        | 109,622       |
| 1996        | 106,616       |
| 1997        | 100,284       |
| 1998        | 93,678        |
| 1999        | 109,439       |
| 2000        | 90,122        |
| 2001        | 130,824       |
| 2002        | 175,777       |
| 2003        | 172,600       |
| 2004        | 131,357       |
| 2005        | 97,774        |
| 2006        | 81,155        |
| 2007        | 79,728        |
| 2008        | 104,332       |
| 2009        | 238,804       |

Source: Texas Workforce Commission

**TABLE 3**  
**STATE OF TEXAS**  
**PROJECTED ANNUAL CIVILIAN LABOR FORCE, EMPLOYMENT,**  
**AND UNEMPLOYMENT STATISTICS**  
**(2010-2020)**

| <u>Year</u> | <u>Civilian Labor Force</u> | <u>Employment</u> | <u>Unemployment</u> | <u>Unemployment Rate</u> |
|-------------|-----------------------------|-------------------|---------------------|--------------------------|
| 2010        | 12,199,700                  | 11,215,800        | 983,700             | 8.1%                     |
| 2011        | 12,332,200                  | 11,392,400        | 939,700             | 7.6%                     |
| 2012        | 12,429,200                  | 11,532,500        | 896,500             | 7.2%                     |
| 2013        | 12,527,200                  | 11,685,900        | 841,100             | 6.7%                     |
| 2014        | 12,639,900                  | 11,835,900        | 803,900             | 6.4%                     |
| 2015        | 12,770,800                  | 11,977,100        | 793,600             | 6.2%                     |
| 2016        | 12,913,700                  | 12,131,800        | 781,900             | 6.1%                     |
| 2017        | 13,056,500                  | 12,292,200        | 764,200             | 5.9%                     |
| 2018        | 13,192,700                  | 12,455,600        | 737,100             | 5.6%                     |
| 2019        | 13,330,600                  | 12,623,000        | 707,500             | 5.3%                     |
| 2020        | 13,467,200                  | 12,811,200        | 655,900             | 4.9%                     |

Source: Texas Comptroller of Public Accounts, Fall 2009 Economic Forecast

**TABLE 4**

**STATE OF TEXAS  
ANNUAL TAXABLE WAGES  
2000-2009 (ACTUAL); 2010 – 2020 (PROJECTED)<sup>(1)</sup>**

| <u>Year</u> | <u>Taxable Wage Base</u> | <u>Taxable Wages<br/>(In Billions)</u> |
|-------------|--------------------------|--|
| 2000        | \$ 9,000                 | \$ 76.7                                |
| 2001        | 9,000                    | 77.0                                   |
| 2002        | 9,000                    | 75.3                                   |
| 2003        | 9,000                    | 74.5                                   |
| 2004        | 9,000                    | 76.0                                   |
| 2005        | 9,000                    | 79.3                                   |
| 2006        | 9,000                    | 84.2                                   |
| 2007        | 9,000                    | 88.0                                   |
| 2008        | 9,000                    | 89.7                                   |
| 2009        | 9,000                    | 84.0                                   |
| 2010        | 9,000                    | 80.1                                   |
| 2011        | 9,000                    | 84.0                                   |
| 2012        | 9,000                    | 86.4                                   |
| 2013        | 9,000                    | 89.3                                   |
| 2014        | 9,000                    | 91.7                                   |
| 2015        | 9,000                    | 93.5                                   |
| 2016        | 9,000                    | 95.4                                   |
| 2017        | 9,000                    | 97.6                                   |
| 2018        | 9,000                    | 100.0                                  |
| 2019        | 9,000                    | 102.4                                  |
| 2020        | 9,000                    | 105.5                                  |

(1) Subject to change; projections are calculated based in part on the Texas Comptroller of Public Account's unemployment and civilian labor force predictions which are subject to semiannual revision.

Source: Texas Workforce Commission

**TABLE 5**

**STATE OF TEXAS  
UNEMPLOYMENT INSURANCE TAX RATES<sup>(1)</sup>  
2000-2010**

| <u>Year</u> | <u>Minimum Tax Rate</u> | <u>Maximum Tax Rate</u> | <u>Average Tax Rate</u> | <u>Average Experience<br/>Tax Rate<sup>(2)</sup></u> |
|-------------|-------------------------|-------------------------|-------------------------|--|
| 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%  |
| 2004        | 0.67%                   | 8.26%                   | 1.74%                   | 1.64%  |
| 2005        | 0.58%                   | 8.02%                   | 1.74%                   | 1.63%  |
| 2006        | 0.40%                   | 7.64%                   | 1.51%                   | 1.37%  |
| 2007        | 0.29%                   | 7.70%                   | 1.30%                   | 1.13%  |
| 2008        | 0.10%                   | 6.10%                   | 0.92%                   | 0.65%  |
| 2009        | 0.26%                   | 6.26%                   | 0.99%                   | 0.78%  |
| 2010        | 0.72%                   | 8.60%                   | 1.83%                   | 1.74%  |

<sup>(1)</sup> The tax rates included in this table are composites of the General Tax rate, the Replenishment Tax rate, the Unemployment Obligation Assessment rate, the ETIA, and the Deficit Assessment.

<sup>(2)</sup> The average experience tax rate excludes the tax rate of employers that do not have experience with the unemployment compensation system.

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 6, “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.

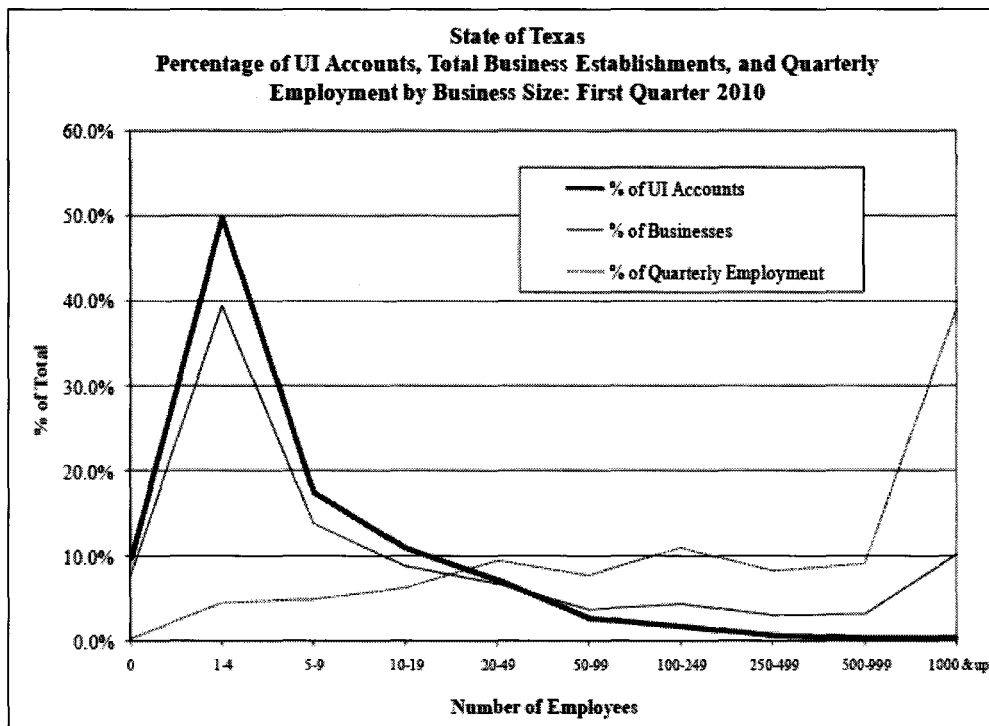
“UI Accounts” represents the quarterly average number of Unemployment Insurance accounts that are covered under the Texas Unemployment Compensation Act.

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

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TABLE 6



State Of Texas  
**Percentage of Total UI Accounts, Business Establishments, and Quarterly Employment by Business Size  
 First Quarter 2010**

| <u>Number of Employees<sup>(1)</sup></u> | <u>UI Accounts<sup>(3)</sup></u> | <u>% of UI Accounts</u> | <u>Establishments</u> | <u>% of Establishments</u> | <u>Quarterly Employment</u> | <u>% of Quarterly Employment</u> |
|--|----------------------------------|-------------------------|-----------------------|----------------------------|-----------------------------|----------------------------------|
| 0 <sup>(2)</sup>                         | 48,497                           | 10.9%                   | 48,692                | 8.6%                       | 18,106                      | 0.2%                             |
| 1-4                                      | 222,607                          | 50.2%                   | 222,669               | 39.1%                      | 440,175                     | 4.4%                             |
| 5-9                                      | 73,197                           | 16.5%                   | 73,402                | 12.9%                      | 475,523                     | 4.7%                             |
| 10-19                                    | 45,534                           | 10.3%                   | 46,751                | 8.2%                       | 607,632                     | 6.1%                             |
| 20-49                                    | 30,716                           | 6.9%                    | 36,646                | 6.4%                       | 920,488                     | 9.2%                             |
| 50-99                                    | 11,002                           | 2.5%                    | 18,995                | 3.3%                       | 754,607                     | 7.5%                             |
| 100-249                                  | 7,067                            | 1.6%                    | 24,286                | 4.3%                       | 1,068,961                   | 10.7%                            |
| 250-499                                  | 2,329                            | 0.5%                    | 15,741                | 2.8%                       | 794,172                     | 7.9%                             |
| 500-999                                  | 1,269                            | 0.3%                    | 17,398                | 3.1%                       | 883,991                     | 8.8%                             |
| 1000 & UP                                | 1,183                            | 0.3%                    | 64,910                | 11.4%                      | 4,066,149                   | 40.5%                            |

<sup>(1)</sup> As measured at the end of the quarter.

<sup>(2)</sup> Represents employers that had employees earlier in the quarter, but did not have any employees at the end of the quarter.

<sup>(3)</sup> Unemployment Insurance accounts.

Source: Labor Market and Career Information Department, Texas Workforce Commission (09/10)

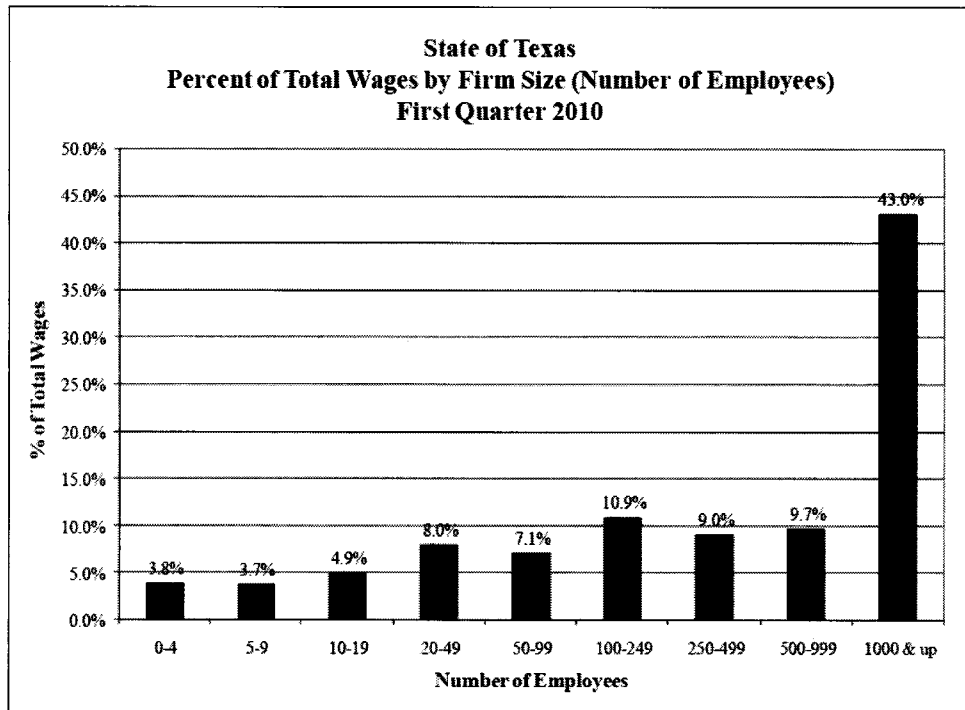
**TABLE 7**  
**STATE OF TEXAS**  
**TOTAL NONAGRICULTURAL WAGE AND SALARY**  
**AVERAGE ANNUAL EMPLOYMENT BY INDUSTRY SECTOR**  
**(Not Seasonally Adjusted)**  
**(2000-2009)**

|   | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total Nonfarm</b>                        | 9,431,800   | 9,513,900   | 9,416,000   | 9,370,000   | 9,497,100   | 9,740,500   | 10,066,200  | 10,395,100  | 10,607,000  | 10,311,100  |
| <b>Total Private</b>                        | 7,869,900   | 7,927,700   | 7,790,000   | 7,724,000   | 7,841,600   | 8,056,400   | 8,359,400   | 8,660,200   | 8,828,100   | 8,491,300   |
| <b>Goods Producing</b>                      | 1,777,300   | 1,759,300   | 1,661,100   | 1,597,600   | 1,587,900   | 1,629,900   | 1,715,400   | 1,789,900   | 1,827,900   | 1,641,400   |
| ...Mining And Logging                       | 143,200     | 153,000     | 145,300     | 146,000     | 153,000     | 166,000     | 185,900     | 207,600     | 230,200     | 205,900     |
| Construction                                | 566,800     | 580,200     | 567,800     | 551,600     | 544,500     | 567,100     | 605,600     | 648,100     | 673,300     | 595,500     |
| Manufacturing                               | 1,067,200   | 1,026,000   | 948,000     | 899,300     | 890,400     | 896,800     | 924,000     | 934,100     | 924,400     | 840,000     |
| <b>Service-Providing</b>                    | 7,654,500   | 7,754,700   | 7,754,800   | 7,772,400   | 7,909,200   | 8,100,600   | 8,350,800   | 8,605,200   | 8,779,100   | 8,669,700   |
| ...Trade, Transportation, And<br>Utilities  | 1,976,700   | 1,985,800   | 1,948,500   | 1,915,800   | 1,945,300   | 1,993,900   | 2,049,200   | 2,113,600   | 2,143,100   | 2,063,800   |
| ...Information                              | 272,000     | 269,700     | 249,300     | 233,700     | 224,900     | 223,100     | 221,700     | 221,000     | 217,200     | 205,200     |
| ...Financial Activities                     | 567,500     | 577,500     | 579,700     | 585,500     | 595,400     | 609,500     | 628,200     | 643,900     | 647,000     | 629,100     |
| ...Professional And Business<br>...Services | 1,108,300   | 1,104,000   | 1,066,300   | 1,058,700   | 1,100,700   | 1,161,700   | 1,241,100   | 1,302,400   | 1,336,300   | 1,249,300   |
| ...Educational And Health<br>...Services    | 1,002,600   | 1,041,000   | 1,082,400   | 1,118,900   | 1,149,600   | 1,183,800   | 1,215,700   | 1,253,900   | 1,287,200   | 1,335,000   |
| ...Leisure And Hospitality                  | 818,400     | 835,300     | 846,600     | 858,700     | 884,600     | 906,600     | 940,300     | 980,200     | 1,006,300   | 1,006,400   |
| <b>Other Services</b>                       | 347,100     | 354,400     | 356,100     | 355,300     | 353,300     | 347,900     | 347,900     | 355,300     | 363,100     | 361,000     |
| ...Government                               | 1,561,900   | 1,586,200   | 1,626,000   | 1,655,500   | 1,655,500   | 1,684,000   | 1,706,800   | 1,734,900   | 1,778,900   | 1,819,800   |

Source: Labor Market and Career Information Department, Texas Workforce Commission (09/10)

\* All estimates are subject to revision.

**TABLE 8**



Source: Texas Workforce Commission

**TABLE 9**  
**STATE OF TEXAS**  
**TOTAL WAGES BY NAICS CATEGORY**  
**(Private Sector Only)**  
**First Quarter 2010**

| <u>NAICS Code</u> | <u>NAICS Category</u>   | <u>Percent of Total<br/>Private Wages</u> |
|-------------------|---|---|
| 11                | Agriculture, Forestry, Fishing And Hunting                                  | 0.4%                                      |
| 21                | Mining, Quarrying And Oil And Gas Extraction                                | 6.8%                                      |
| 22                | Utilities   | 1.3%                                      |
| 23                | Construction  | 6.6%                                      |
| 31                | Manufacturing   | 13.1%                                     |
| 42                | Wholesale Trade   | 8.6%                                      |
| 44                | Retail Trade  | 7.4%                                      |
| 48                | Transportation And Warehousing  | 4.6%                                      |
| 51                | Information   | 3.6%                                      |
| 52                | Finance And Insurance   | 8.8%                                      |
| 53                | Real Estate And Rental And Leasing  | 2.0%                                      |
| 54                | Professional, Scientific, And Technical Services                            | 10.2%                                     |
| 55                | Management Of Companies And Enterprises                                     | 2.1%                                      |
| 56                | Administrative And Support And Waste Management And Remediation<br>Services | 5.5%                                      |
| 61                | Educational Services  | 1.2%                                      |
| 62                | Health Care And Social Assistance   | 11.2%                                     |
| 71                | Arts, Entertainment, And Recreation   | 0.8%                                      |
| 72                | Accommodation And Food Services   | 3.6%                                      |
| 81                | Other Services  | 2.1%                                      |
| 99                | Unclassified  | 0.1%                                      |

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**

| <u>Period</u>       | <u>% of Tax Collected<sup>(1)</sup></u> |
|---------------------|---|
| First Quarter 2005  | 99.77%                                  |
| Second Quarter 2005 | 99.54%                                  |
| Third Quarter 2005  | 99.51%                                  |
| Fourth Quarter 2005 | 99.56%                                  |
| First Quarter 2006  | 99.87%                                  |
| Second Quarter 2006 | 99.67%                                  |
| Third Quarter 2006  | 99.69%                                  |
| Fourth Quarter 2006 | 99.71%                                  |
| First Quarter 2007  | 99.84%                                  |
| Second Quarter 2007 | 99.56%                                  |
| Third Quarter 2007  | 99.54%                                  |
| Fourth Quarter 2007 | 99.47%                                  |
| First Quarter 2008  | 99.70%                                  |
| Second Quarter 2008 | 99.40%                                  |
| Third Quarter 2008  | 99.32%                                  |
| Fourth Quarter 2008 | 99.34%                                  |
| First Quarter 2009  | 99.68%                                  |
| Second Quarter 2009 | 99.38%                                  |
| Third Quarter 2009  | 99.08%                                  |
| Fourth Quarter 2009 | 99.15%                                  |
| First Quarter 2010  | 99.37%                                  |
| Second Quarter 2010 | 98.38%                                  |

<sup>(1)</sup> As of September 2010. For calendar years 2004-2007, the Commission collected an Unemployment Obligation Assessment with respect to the 2003 Bonds at the same percentages.

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.

The collection rate for the Unemployment 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**  
**(1990-2009)<sup>(1)</sup>**

| <u>Year</u> | <u>Contributions<sup>(2)</sup></u><br><u>(\$Million)</u> | <u>Regular UI</u><br><u>Benefits<sup>(3)</sup></u><br><u>(\$Million)</u> | <u>Trust Fund</u><br><u>Interest</u><br><u>Earned</u><br><u>(\$Million)</u> | <u>Distributions,</u><br><u>Transfers &amp;</u><br><u>Adjustments<sup>(4)</sup></u><br><u>(\$Million)</u> | <u>End Of Year</u><br><u>Balance</u><br><u>(\$Million)</u> |
|-------------|--|--|---|---|--|
| 1990        | 961.1  | 768.8  | 102.9   | -0.2  | 1,271.9  |
| 1991        | 552.0  | 992.8  | 95.6  | -3.7  | 923.0  |
| 1992        | 750.8  | 1,162.8  | 60.6  | -2.7  | 569.0  |
| 1993        | 880.1  | 1,087.9  | 38.7  | 9.6   | 409.4  |
| 1994        | 1,036.9  | 1,025.6  | 33.0  | 0.6   | 454.2  |
| 1995        | 1,049.8  | 985.9  | 40.6  | -1.9  | 556.8  |
| 1996        | 989.4  | 976.6  | 45.1  | -4.6  | 610.1  |
| 1997        | 965.1  | 942.7  | 48.1  | 1.0   | 681.7  |
| 1998        | 969.8  | 932.2  | 56.4  | 0.6   | 776.2  |
| 1999        | 878.7  | 1,189.4  | 48.7  | 108.0 <sup>(5)</sup>  | 622.3  |
| 2000        | 965.5  | 988.7  | 50.1  | 64.3 <sup>(6)</sup>   | 713.4  |
| 2001        | 935.0  | 1,545.5  | 46.5  | 228.1 <sup>(7)</sup>  | 377.5  |
| 2002        | 1,067.7  | 2,241.4  | 25.8  | 588.0 <sup>(8)</sup>  | -182.3   |
| 2003        | 1,706.2  | 2,204.4  | 16.0  | 1,379.8 <sup>(9)</sup>  | 715.4  |
| 2004        | 1,627.1  | 1,655.9  | 48.8  | 0.8   | 736.2  |
| 2005        | 1,742.4  | 1,241.1  | 58.3  | 0.9   | 1296.7   |
| 2006        | 1,625.4  | 1,069.9  | 84.1  | -0.4  | 1,935.9  |
| 2007        | 1,373.2  | 1,110.2  | 100.2   | -527.6 <sup>(10)</sup>  | 1,771.5  |
| 2008        | 1,124.4  | 1,552.6  | 83.5  | -117.0 <sup>(11)</sup>  | 1,309.7  |
| 2009        | 1,091.6  | 3,844.4  | 19.5  | 95.7 <sup>(12)</sup>  | -1327.8  |

(1) Calendar years through 2009 may not add due to rounding.

(2) Includes reimbursements and 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 \$102.1 million Smart Jobs transfer.

(6) Includes \$64 million Smart Jobs transfer.

(7) Includes \$227.5 million Smart Jobs transfer.

(8) Includes \$596.4 million Reed Act distribution.

(9) Represents 2003 Series Bond proceeds of \$1.379 billion.

(10) Reflects \$213.7 million early payment of 2003 Bonds and Surplus Credits as described in footnote 11 below.

(11) Reflects May 2007-April 2009 Surplus Credits of \$467.3 million due to the UC Fund balance exceeding statutory ceiling.

(12) Includes \$104.8 million Employment Training Investment Assessment Holding Fund transfer.

Source: Texas Workforce Commission

## APPENDIX C

### RULE REGARDING COMPUTATION OF UNEMPLOYMENT OBLIGATION ASSESSMENT RATE

#### Section 815.132. Computation of Unemployment Obligation Assessment

- (a) Texas Labor Code Section 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, Section 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 CO-BOND COUNSEL'S OPINION**

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December \_\_\_\_, 2010

WE HAVE ACTED as co-bond counsel to the Texas Public Finance Authority (the "Authority") in connection with the issuance on this date of bonds (the "Bonds") described as follows:

TEXAS PUBLIC FINANCE AUTHORITY UNEMPLOYMENT  
COMPENSATION OBLIGATION ASSESSMENT REVENUE BONDS,  
SERIES 2010A, issued in the original aggregate principal amount of  
\$1,110,415,000.

The Bonds mature, bear interest and may be transferred and exchanged as set forth in the Bonds, the resolution adopted by the Board of Directors of the Authority authorizing their issuance and in the Pricing Committee's Pricing Certificate (collectively, the "Resolution"). Capitalized terms used and not otherwise defined herein have the meanings assigned to them 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 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 prepared for use in connection with the offer and 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 authorization and issuance of 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 such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the

Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined a specimen of the form of registered bond of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

- (1) the transcript of certified proceedings referenced above evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State presently effective, and that therefore the Bonds constitute legal, valid and binding special obligations of the Authority payable solely from the sources provided therefor in the Resolution; and
- (2) the Bonds are payable from and secured solely by a first lien on and pledge of the Pledged Revenues, 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 special limited obligations of the Authority 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 or any State agency or political corporation or political subdivision of 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 by the State or any State agency or political corporation or political subdivision of the State.

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). 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 pertaining to the Bonds.

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

- (1) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and
- (2) interest on the Bonds is not (A) a specific preference item subject to the alternative minimum tax on individuals and corporations or (B) included in a corporation's adjusted current earnings for purpose of the alternative minimum tax.

In providing such opinions, we have relied on representations of the Authority, the Commission, the Authority's financial advisor, and the Series 2010 Underwriters, with respect to matters solely within the knowledge of the Authority, the Commission, the Authority's financial advisor, and the Series 2010 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 Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Authority fails to comply with the foregoing provisions of the Resolution, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

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

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

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

Very truly yours,

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