

Texas Permanent School Fund

Originally created in 1854 by an act of the Texas Constitution, the Permanent School Fund, "PSF", was appropriated \$2 million for the benefit of Texas public schools. The Constitution of 1876 further stipulated that certain lands (46.5 million acres, including 7.1 million acres of mineral interests) and all proceeds from the sale of these lands should also constitute the PSF. In 1954, the U.S. Congress gave Texas clear title to its submerged coastal land to a distance of 10.35 miles and all lands lying within that limit became Texas PSF lands. The approval of a constitutional amendment in 1983 authorized the Permanent School Fund to guarantee school district bonds.

Income for the fund is generated by realized capital gains, sale or rental of PSF lands, including lease rentals, bonuses and royalty payments. After the approval of the 2003 Constitutional Amendment, interest, dividends, and other income produced by the Fund investments provide additional revenue using a total-return-based formula. Previously, all of the earned income by investments was distributed to the Fund. The corpus is to remain intact to provide income to fund public education. Since 1961, the fund has grown from \$454 million fair value to \$27.66 billion (Figures as of August 31, 2006), while income has grown from \$13.77 million to \$2.2 billion (Figures as of August 31, 2005).

School districts must be state accredited, have a bond rating below Aaa, and receive approval of their applications by the Commissioner of Education in order to be guaranteed by the PSF. Since its inception through August 31, 2005, the PSF has guaranteed a total par amount of \$56.79 billion, representing 3,128 school district bond issues. As of August 31, 2006, outstanding guarantees total 2,265 issues representing a total of \$37.79 billion in par amount.

Two statutes limit the PSF's guaranty capacity. First, state laws impose a limit of outstanding par guaranteed at no greater than 2.5x the lower of book or fair market value of the fund's assets. As of August 31, 2005, the ratio of guaranteed debt outstanding to book value was 1.90:1 and the ratio of guaranteed debt to fair value was 1.36:1. The second limitation is a result of IRS arbitrage restrictions which recently have been modified (March 31, 2005) to limit the size of the program to 250% of the lower of historical book or current fair value (effectively the same as the State limit).

Should a school district fail to make a scheduled debt service payment for any bond guaranteed by the PSF, the PSF will make the scheduled debt service payment, but will not accelerate the total bond issue. Any state funds subsequently due to the district will instead be paid to the PSF until all debt service claims are replaced, with interest. Since no Texas school district has defaulted since the Great Depression, the PSF has never had to pay a claim.

Source: Texas Permanent School Fund Annual Report Year ending August 31, 2005 and Texas Permanent School Fund Bond Guarantee Program Summary Fiscal Year 2006 Month Ending August 31, 2006.

This was prepared for informational purposes only. It is not an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on returns. Past performance is not indicative of future results. Price/availability is subject to change without notice. Additional information is available on request. This is neither an offer to sell nor a solicitation of an offer to buy a new issue security. For further information on a new issue, including a prospectus, please contact your Raymond James salesperson.

Below is a chart that quantifies the benefit of PSF insurance versus other debt issuance options available to most Texas Independent School Districts in the current capital market place:

Texas Independent School District				
Assumed \$100 Million Project Fund Proceeds*				
	AAA Rated PSF Insured	AAA Rated Private Insured	A Rated Uninsured	Baa Rated Uninsured
Par Amount	\$97,605,000	\$98,110,000	\$98,690,000	\$99,495,000
Total Debt Service	\$171,957,444	\$172,844,713	\$175,386,259	\$178,343,963
Average Annual Debt Service	\$6,677,959	\$6,712,416	\$6,811,117	\$6,925,979
Maximum Annual Debt Service	\$6,680,125	\$6,714,850	\$6,813,988	\$6,928,250
Yield Range	3.55%-4.69%	3.55%-4.69%	3.70%-4.89%	3.85%-5.09%
Total Interest Cost	4.56%	4.61%	4.75%	4.91%
Net Interest Cost	4.61%	4.61%	4.78%	4.92%
Cost Difference Compared to PSF Insured				
	AAA Rated Private Insured	A Rated Uninsured	Baa Rated Uninsured	
Par Amount	\$505,000	\$1,085,000	\$1,890,000	
Total Debt Service	\$887,269	\$3,428,816	\$6,386,519	
Average Annual Debt Service	\$34,457	\$133,158	\$248,020	
Maximum Annual Debt Service	\$34,725	\$133,863	\$248,125	
Yield Range	0.00%-0.02%	0.15%-0.20%	0.30%-0.40%	
Total Interest Cost	0.05%	0.19%	0.35%	
Net Interest Cost	0.00%	0.17%	0.31%	
Cost of Insurance	\$518,534	N/A	N/A	

* Assumes: 25 year level amortization of a Texas ISD issue; market interest rates as of 10/16/06. For illustrative purposes only. Bond insurance cost assumed at 30 basis points of total debt service; \$10 per bond issuance cost.

This was prepared for informational purposes only. It is not an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on returns. Past performance is not indicative of future results. Price/availability is subject to change without notice. Additional information is available on request. This is neither an offer to sell nor a solicitation of an offer to buy a new issue security. For further information on a new issue, including a prospectus, please contact your Raymond James salesperson.