

Municipal Credit > Investment Grade



State of Texas

Updated: Oct 31, 2015

Trade Idea:

- ▶ Buy state of Texas general obligation bonds.

Investment Rationale:

- ▶ Security: The bonds are general obligations to which the state of Texas pledges its full faith and credit.
- ▶ The state's general fund balance is solid with a balance of \$18 billion or 19% of general fund revenues for FY14.
- ▶ The state has considerable resources in its Rainy Day Fund (Economic Stabilization Fund), which had a \$7 billion balance at FYE14. In the November 2014 election, voters passed Proposition 1 which will divert a portion of the annual deposits into the Rainy Day Fund to the State Highway Fund for transportation related projects. This will limit the State's Rainy Day Fund's growth, but the law requires that the diversion of funds to the State Highway Fund stop if the balance in the Rainy Day Fund falls below an adequate level.
- ▶ Pensions are adequately funded and the state has broad legal authority to address its pension issues.
- ▶ On a combined basis, total tax-supported debt and unfunded pension liabilities equal 6% of 2013 personal income, in line with the national average.
- ▶ Revenues have declined due to the drop in oil prices. However, oil revenues account for less than 10% of general fund revenues, and the state is well-positioned to absorb some loss given its sizeable reserves. The state's budget could become less predictable if volatility in the oil market continues.

Recommendation(s):

View	Trade Horizon	Credit	Ratings: M/S&P/F	Internal Rating	Cusip	Maturity	Par Amount of Selected Maturity	Last Trade to AAA Curve	Next Expected Issuance
Buy	12 months	State of Texas	Aaa/AAA/AAA	AA+/Stable	88283LJF4	4/1/2034	173,205,000	+18	Ongoing