

In the opinion of Dorsey & Whitney LLP, Special Tax Counsel, according to existing law, assuming compliance with certain covenants, interest on the Series 2002 Bonds is not includable in gross income for federal income tax purposes and is not an item of tax preference in determining the federal alternative minimum tax applicable to individuals. (See "Tax Exemption and Related Considerations.")

\$14,300,000
NEWTON COUNTY PUBLIC FACILITY CORPORATION
LEASE REVENUE BONDS, SERIES 2002

Date of Original Issue: Date of Delivery

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

\$2,295,000 7.0% Term Bonds due March 1, 2007 to Yield 7.25%
\$1,815,000 7.625% Term Bonds due March 1, 2010 to Yield 7.85%
\$10,190,000 8.0% Term Bonds due March 1, 2019 to Yield 8.20%

The Lease Revenue Bonds referred to above (the "Series 2002 Bonds" or the "Bonds") are being issued by Newton County Public Facility Corporation, a nonprofit public corporation and instrumentality of Newton County, Texas (the "Issuer") as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof, of single maturities. Interest on the Series 2002 Bonds is payable semiannually on March 1 and September 1 of each year commencing September 1, 2002 to the persons appearing as registered owners on the registration books kept by U.S. Bank National Association, as trustee (the "Trustee"), as registrar, as of the close of business on the fifteenth (15th) day of the calendar month immediately preceding such interest payment date. The Series 2002 Bonds will be registered in the name of CEDE & CO., as nominee for The Depository Trust Company, New York, New York ("DTC"), as securities depository for the Series 2002 Bonds. Purchasers of the Series 2002 Bonds will not receive physical delivery of the Series 2002 Bonds. The principal or redemption price of and interest on the Series 2002 Bonds are payable by wire transfer to DTC which, in turn, will remit such principal, redemption price or interest to DTC Participants for subsequent disbursements to the Beneficial Owners of the Series 2002 Bonds, as more fully discussed herein. See "The Series 2002 Bonds—Book-Entry Only System."

The Series 2002 Bonds are being issued to refinance a project that consisted of the acquisition of a public facility (the "Improvements") located on certain real property (the "Land") in the City of Newton, Texas in Newton County (the Land and the Improvements are hereinafter collectively referred to as the "Project"), which is currently being leased by the Newton County, Texas, a political subdivision of the State of Texas (the "County") from Diversified Municipal Services of Texas, Inc. pursuant to a Lease Agreement For a Detention Facility Acquisition Project dated as of June 1, 1990 and a Lease Agreement For a Detention Facility Acquisition Project-Phase II dated as of December 1, 1990. The proceeds of the Series 2002 Bonds will be used to fund the redemption and prepayment, in advance of their maturity, of all of the outstanding Certificates of Participation in the Refunded Leases issued to finance the Project. The Issuer will lease the Project to the County pursuant to a Lease Agreement (With Option to Purchase) dated as of the date hereof (the "Lease") which Lease will require the County to make Rental Payments thereunder in amounts and at times sufficient to pay the principal of, premium, of any, on and interest on the Series 2002 Bonds when due. The Series 2002 Bonds will be payable from and secured by a pledge of (i) all of the right, title and interest of the Issuer in all Leases, including, without limitation, the Lease (except for the Issuer's rights to indemnification and reimbursement of expenses) and all Project Revenues pledged by the County, and all Rental Payments due thereunder; and (ii) a first lien on and pledge of the money and investments in certain amounts deposited in the funds and accounts established pursuant to a Trust Indenture, dated as of February 1, 2002, between Trustee and Issuer. The County's obligation to make Rental Payments under the Lease is payable solely from revenues derived from the operation of the Project (the "Project Revenues"). The Series 2002 Bonds are further secured by a mortgage of the Project given by the Issuer for the benefit of the Trustee.

THE OBLIGATION OF THE ISSUER TO PAY PRINCIPAL OF AND INTEREST ON THE SERIES 2002 BONDS DOES NOT CONSTITUTE AN OBLIGATION OF THE ISSUER FOR WHICH THE ISSUER IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE ISSUER HAS NO TAXING POWER. THE SERIES 2002 BONDS ARE LIMITED, SPECIAL OBLIGATIONS PAYABLE BY THE ISSUER SOLELY FROM THE RENTAL PAYMENTS, WHICH ARE IN TURN PAYABLE BY THE COUNTY SOLELY FROM THE PROJECT REVENUES, AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE FULL FAITH AND CREDIT OF THE COUNTY ARE NOT PLEDGED TO THE PAYMENT OF THE RENTAL PAYMENTS. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, THE COUNTY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2002 BONDS. (See "Security for the Bonds" and "Risk Factors" herein.)

The Series 2002 Bonds are subject to optional and mandatory redemption as described herein.

The Series 2002 Bonds are offered when, as and if delivered and received by the Underwriters, subject to the receipt of the approving legal opinion of the Attorney General of the State of Texas and of Jenkins & Gilchrist, a Professional Corporation, Dallas, Texas, Bond Counsel, and the opinion as to federal tax exemption of the interest thereon by Dorsey & Whitney LLP, Minneapolis, Minnesota, Special Tax Counsel to the Underwriters. Certain legal matters will be passed upon for the County and the Issuer by Orgain, Bell & Tucker, L.L.P., Beaumont, Texas. The Series 2002 Bonds will be available for delivery through DTC on or about February 26, 2002.

The Underwriters intend to engage in secondary market trading in the Bonds, subject to applicable securities laws. However, the Underwriters are not obligated to repurchase any of the Series 2002 Bonds at the request of any holder thereof. For information with respect to the Underwriters, see "Underwriting" herein.

HERBERT J. SIMS & CO., INC.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

Dated: February 26, 2002

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE COUNTY, THE ISSUER OR THE UNDERWRITER 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 ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE SERIES 2002 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE COUNTY, THE ISSUER AND CERTAIN OTHER SOURCES WHICH ARE BELIEVED TO BE ACCURATE AND RELIABLE BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS. STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT WHICH INVOLVE ESTIMATES, FORECASTS, OR OTHER MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED HEREIN, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT. FURTHER, THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN ARE SUBJECT TO COMPLETION OR AMENDMENT.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY, WITHOUT NOTICE, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2002 BONDS OFFERED AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY WITHOUT NOTICE BE DISCONTINUED AT ANY TIME, AND, IF DISCONTINUED, MAY BE RECOMMENCED AT ANY TIME.

THIS OFFICIAL STATEMENT HAS BEEN "DEEMED FINAL" BY THE ISSUER PURSUANT TO RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION PROMULGATED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

THE SERIES 2002 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SECTION 3(A)(2) OF SUCH ACT. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE COUNTY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 2002 BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF THE JURISDICTIONS IN WHICH THE SERIES 2002 BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2002 BONDS AS AN INVESTMENT OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

\$14,300,000

NEWTON COUNTY PUBLIC FACILITY CORPORATION

LEASE REVENUE BONDS, SERIES 2002

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices, is to provide certain information concerning the offering by Newton County Public Facility Corporation, a nonprofit public corporation and instrumentality of Newton County, Texas (the "Issuer"), of its Lease Revenue Bonds, Series 2002 (the "Series 2002 Bonds" or the "Bonds") in the aggregate principal amount of \$14,300,000. The Issuer is issuing the Series 2002 Bonds pursuant to and in accordance with Chapter 303, Texas Local Government Code, as amended (the "Act"), other applicable laws of the State of Texas (the "State"), a resolution of Newton County, Texas (the "County") adopted January 29, 2002, and a resolution of the Issuer adopted January 29, 2002. The Series 2002 Bonds and any Additional Bonds issued on a parity therewith under the Indenture are referred to herein as "Bonds."

The Bonds are being executed and delivered by the Issuer pursuant to a Trust Indenture dated as of February 1, 2002 (the "Indenture"), between the Issuer and U.S. Bank National Association, Denver, Colorado, as trustee (the "Trustee"), in order to provide funds (i) to refinance a project that consists of the acquisition of a public facility (the "Improvements") located on certain real property (the "Land") in the City of Newton in Newton County (the Land and the Improvements are hereinafter collectively referred to as the "Project"), which is currently being leased by the Newton County, Texas, a political subdivision of the State of Texas (the "County") from Diversified Municipal Services of Texas, Inc. pursuant to a Lease Agreement For a Detention Facility Acquisition Project dated as of June 1, 1990 and a Lease Agreement For a Detention Facility Acquisition Project-Phase II dated as of December 1, 1990, (ii) to establish a reserve fund (the "Reserve Fund") for the payment of the Series 2002 Bonds, and (iii) to pay costs of issuing the Series 2002 Bonds. See "Sources and Uses of Funds." The Series 2002 Bonds are payable from and secured by a pledge of all of the Issuer's right, title and interest to a Lease Agreement (With Option to Purchase), dated as of February 1, 2002 (the "Lease"), between the Issuer, as lessor, and the County, as lessee, including the right to receive the rental payments (the "Rental Payments") and other amounts due thereunder, and certain amounts deposited in the Reserve Fund and other funds and accounts established under the Lease and the Indenture. See "Security for the Bonds" and "The Indenture." The County is required under the Lease to pay to the Trustee, solely from the Project Revenues, Rental Payments which are sufficient, in both time and amount, to pay, when due, the principal of, premium, if any, and interest on the Series 2002 Bonds. The County is also required to pay Operation and Maintenance Costs of the Project from the Project Revenues. To secure payment of its obligations under the Lease, the County has pledged, assigned and granted a security interest to the Issuer and its assigns in the Project Revenues. All Project Revenues will be credited to a separate fund held by the Trustee and designated as the Project Revenue Fund and allocated first to the payment of Rental Payments and then to Operation and Maintenance Costs and other purposes of the Project. See "The Lease—Project Revenue Fund" and "Security for the Bonds-Flow of Funds." The Series 2002 Bonds are further secured by a Deed of Trust and Security Agreement dated as of February 1, 2002 (the "Deed of Trust") given by the Issuer, whereby the Issuer has granted, assigned and conveyed the Mortgaged Property for the benefit of the Trustee on behalf of the registered owners of the Series 2002 Bonds. See "The Deed of Trust."

THE OBLIGATION OF THE ISSUER TO PAY PRINCIPAL OF AND INTEREST ON THE SERIES 2002 BONDS DOES NOT CONSTITUTE AN OBLIGATION OF THE ISSUER FOR WHICH THE ISSUER IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE ISSUER HAS NO TAXING POWER. THE SERIES 2002 BONDS ARE LIMITED, SPECIAL OBLIGATIONS PAYABLE BY THE ISSUER SOLELY FROM THE RENTAL PAYMENTS, WHICH IN TURN ARE PAYABLE BY THE COUNTY SOLELY FROM THE PROJECT REVENUES AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE FULL FAITH AND CREDIT OF THE COUNTY ARE NOT

PLEGDED TO THE PAYMENT OF THE RENTAL PAYMENTS. THE SERIES 2002 BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, THE COUNTY, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE COUNTY, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2002 BONDS. See “Security for the Bonds” and “Risk Factors.”

The Project, Newton County Correctional Center, is located in Newton, Texas, approximately 140 miles northeast of Houston, Texas and approximately 240 miles southeast of Dallas, Texas. It has a capacity for 872 inmates as defined by the Texas Commission on Jail Standards (“TCJS”) and contains all necessary support space as well as areas for inmate education, recreation and vocational programs. Three agencies, the Texas Department of Criminal Justice (“TDCJ”), the Immigration and Naturalization Service (“INS”) and the County currently use the Project. The facility is operated by Correctional Services Corporation, Sarasota, Florida (the “Operator”), pursuant to an Operations and Management Agreement, dated as of February 1, 2002 (the “Operating Agreement”), between the County and the Operator. See “The Operator” and “The Operating Agreement” for more information regarding the Operator and the Operating Agreement and the term of the Operating Agreement. The Operator currently operates similar facilities for Dickens and Jefferson Counties in Texas as well as correctional facilities in other states. The Project provides bed space on a fee basis and has maintained a high level of occupancy through bed use contracts with the aforementioned agencies. See “Risk Factors—Restrictions on Eligible Prisoners.” The County may house prisoners under its direct jurisdiction in the Project, but the Project is not expected to be used primarily to house such County prisoners. Pursuant to the Operating Agreement, the County may house up to 20 County prisoners in the Project for a fee of \$25 per prisoner per day payable from general County money. TDCJ, who currently provides the majority of the Project’s prisoners, pays a fee of \$39.75 per day, and INS pays a fee of \$52 per day.

The Lease requires that the revenues to be derived by the County and any other revenues received with respect to the Project (the “Project Revenues”) will be paid directly to the Trustee (or a local repository bank to the extent the amount held by such local repository bank does not exceed \$100,000), for credit to the Project Revenue Fund established and maintained by the Trustee. Project Revenues will be credited or transferred on a monthly basis by the Trustee to the various accounts in the Project Revenue Fund to the extent available in order to pay, in the following priority, (i) the County’s monthly Rental Payment Deposits and semiannual Rental Payments then due or past due, and any amounts necessary to restore the balance in the Reserve Fund to the Reserve Requirement, for deposit to the Rental Account; (ii) Operation and Maintenance Costs of the Project, including a fee to the County of \$50,000 plus \$1.50 for each non-County Inmate per day during the previous month, payable only if sufficient Project Revenues are received to pay such amount, for deposit to the Operating Account; (iii) any Operator Fee (Cost-Plus); and (iv) an amount equal to \$15,000 or such lesser amount as is necessary to cause the balance in the Operating Reserve/Repair/Contingency Account to equal \$200,000, for deposit to the Operating Reserve/Repair/Contingency Account. Project Revenues remaining after the foregoing distributions, if any, will be deposited to the Surplus Account. See “The Lease—Project Revenue Fund” and “Security for the Bonds – Flow of Funds.” GSA, Limited, Durham, North Carolina, has prepared an analysis of the potential continued economic viability of the Project dated January 28, 2002 (the “Market Analysis”). See Appendix A—“The Market Analysis.” Due to a number of risk factors, there can be no assurance that the Project Revenues will be sufficient to pay the County’s Rental Payments and Operation and Maintenance Costs and, correspondingly, that the Issuer will have sufficient funds with which to pay the principal of and interest on the Series 2002 Bonds. See “Risk Factors.”

There follows in this Official Statement a brief description of the County, the Operator, the Issuer and the Project, as well as summaries of the terms of the Series 2002 Bonds, the Indenture, the Lease, the Deed of Trust, the Operating Agreement and certain other documents. All references herein to any such documents are qualified in their entirety by reference to each such document, copies of which may be obtained from the Underwriters prior to the issuance of the Series 2002 Bonds. Also included in the Appendices to this Official Statement is a copy of the Market Analysis.

RISK FACTORS

Purchase of the Series 2002 Bonds offered hereby requires the investor to assume certain risks. In particular, the following risk factors should be considered before making any such purchase.

Damage or Destruction Risk

The Project Revenues will be diminished during any period in which by reason of damage or destruction or eminent domain proceedings there is substantial interference with the use and possession of the Project. Such diminution will end with the substantial completion of replacement, repair or reconstruction of the Project. Pursuant to the Lease the County will maintain business interruption insurance in an amount at least equal to Operation and Maintenance Costs and the Rental Payments due during a period of one year, the proceeds of which will be available to the County to pay such Operation and Maintenance Costs and Rental Payments during such period. See "The Lease—Insurance."

Accreditation Risk

The Project will be under the regulatory jurisdiction of the Texas Commission on Jail Standards (the "TCJS"). The Project is currently approved by the TCJS but is subject to an annual review to maintain such approval.

Insufficiency of Project Revenues

Since the Issuer is only obligated to pay principal of and interest on the Series 2002 Bonds from the Rentals, including the Rental Payments payable by the County pursuant to the Lease, and the County is only obligated to make Rental Payments and pay Operation and Maintenance Costs from the Project Revenues, the failure of the County to derive sufficient Project Revenues from incarceration fees to make the Rental Payments and to pay Operation and Maintenance Costs would materially impair the Issuer's ability to continue to pay principal and interest on the Series 2002 Bonds when due. The Project was 62.5% occupied with inmates of TDCJ, INS and the County as of November, 2001; average occupancy over the past three years was 72%. See "Risk Factors—Assumptions Regarding Occupancy and Per Diem Rates." If there is a shortfall in Project Revenues, the County will be unable to pay the Rental Payments in full and to pay the Operation and Maintenance Costs. The Operator has agreed to advance its own funds to pay Operation and Maintenance Costs in the event Project Revenues are insufficient to pay Operation and Maintenance Costs after the monthly Rental Payment Deposit has been paid.

Ability to Sell or Lease the Project

In the event of a default in payment of principal of and interest on the Series 2002 Bonds, a remedy available to the Trustee or the holders of a majority in principal amount of the Bonds then Outstanding is to foreclose on the Deed of Trust and attempt to sell the Project or to lease the Project to another lessee. There can be no assurances that the Trustee or the Issuer will be able to find a willing purchaser or lessee for the Project or that there will be a continued demand for the Project in the future. The failure to sell or re-lease the Project for a sale price or Rentals that would generate amounts, after payment of certain costs and expenses, sufficient to pay principal and interest on the Series 2002 Bonds then Outstanding will materially adversely affect the ability of the Trustee to pay the Series 2002 Bonds in full. Any sale or lease of the Project may require compliance with the laws of the State applicable thereto. Such compliance may be difficult, time-consuming and/or expensive.

The Project is specifically constructed for prison purposes and is not readily adaptable to other, non-prison, revenue generating uses. As a result, in the event of a sale of the Project pursuant to the Deed of Trust, the number of uses which could be made of the property and the number of entities which would be interested in purchasing the Project would be limited, and the sale price would thus be affected. Even if the Trustee should acquire title to the Project pursuant to its remedies under the Deed of Trust, the ability of the Trustee to lease or resell the Project to third parties, thereby liquidating the investment, would be limited as a result of the nature of the Project. For these reasons no assurance can be made that the amount realized upon any forced sale of the Project will be fully

sufficient to pay and discharge the Series 2002 Bonds. In particular, there can be no representation that the cost of the property included in the Project constitutes a realizable amount upon any forced sale thereof.

Assumptions Regarding Occupancy

The County has retained GSA, Limited, Durham, North Carolina, to prepare the Market Analysis, a copy of which is reproduced herein as Appendix A. The Market Analysis contains information material to a decision to purchase the Series 2002 Bonds and should be read in its entirety. The Market Analysis contains, among other things, (a) historical cash flows of the Project, and (b) an analysis of the potential future market for the Project. The Market Analysis sets forth a number of assumptions on which the projected potential future market for the Project is based, including but not limited to, the projected needs of the Transferring Entities for bed space for their inmates. Such assumptions are based on present circumstances and information currently available which was furnished by the County and other sources. Such information may be incomplete and may not necessarily disclose all material facts that might affect the Project and the analysis contained in the Market Analysis. Accordingly, prospective investors should carefully evaluate the assumptions and other information in the Market Analysis in the light of the circumstances then prevailing. The Market Analysis has been included herein in reliance upon the knowledge and experience of GSA, Limited in reporting on and preparing such market analysis. The accuracy of the Market Analysis is dependent on the occurrence of specified assumptions and other future events which cannot be assured, and therefore, the actual results achieved during the period will vary from those projected and those differences may be material. See Appendix A—“The Market Analysis.” Neither the Issuer, the County, nor either of the Underwriters has independently verified the statistical data included therein and none of such parties makes any representations or gives any assurances that such data are complete or correct.

Further, neither the Issuer, the County nor either of the Underwriters makes any representations or gives any assurances that the assumptions incorporated in the Market Analysis are valid. The ability of the County to achieve financially sustaining levels of occupancy at the Project is subject to a number of factors. See “Risk Factors—Future Supply of Bed Space” below. The Project was 62.5% occupied with inmates of TDCJ, INS and the County as of January , 2002.

Future Supply of Bed Space

The continuing demand for the beds in the Project is predicated on the assumption that demand for jail space, in the aggregate, will continue to exceed the supply of available space. However, due to economic, social, and political factors, it is impossible to predict whether this assumption will hold true. In general, the closer the supply of bed space comes to meeting or exceeding the demand therefor, the more difficult it will be for the County to house inmates at an occupancy level and at per diem rates which will generate Project Revenues sufficient to pay the Rental Payments and to pay Operation and Maintenance Costs.

Alternative Sentencing Programs

In addition to the traditional methods of incarcerating convicted criminals in state prisons and local jails, or probating or deferring the adjudication of their sentences, new alternative sentencing programs are being developed at the state and local level to help reduce the overcrowding in the prisons and jails. Alternatives include work release programs and allowing convicted persons to perform community service or submit themselves to confinement and electronic monitoring in lieu of incarceration. The implementation of these various sentencing alternatives could negatively impact the supply of prisoners which could be incarcerated in the Project.

Performance by the Operator

The Operator has been chosen as such in part because of its reputation in the field of privatized detention and jail facilities. However, the initial term of the Operating Agreement is for only five years, with 2 five-year options to renew, from the date of acquisition of the Project by the Issuer. No assurances can be given that the Operator will continue to operate the Project after the initial term, or that the Operator will remain financially able to perform its obligations under the Operating Agreement. In such event the County's ability to continue to lease the Project and house inmates would in large part be dependent upon the County's ability to operate, manage, and

maintain the Project itself or to contract with another company competent to operate, manage, and maintain the Project. The failure of the County to operate the Project, either itself or by contracting with another company to operate the Project, would materially adversely affect the County's ability to generate Project Revenues sufficient to make the Rental Payments and to pay Operation and Maintenance Costs.

Remedies; Enforceability Risk

Purchasers of the Series 2002 Bonds should understand that in the event of a default or other termination of the Lease, or in the event of a default under the Indenture or the Deed of Trust, the remedies provided in the Lease, the Indenture and the Deed of Trust may be unenforceable due to the application of principles of equity or state and federal laws relating to bankruptcy, moratorium, reorganization and creditors' rights generally. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and sale or leasing with respect thereto.

The enforcement of any remedies provided in the Lease, the Indenture and the Deed of Trust could prove both expensive and time consuming. The Lease provides that the Issuer may take possession of the Project and sell or lease it in total if there is a default by the County or if the County terminates the Lease due to its failure to appropriate the Project Revenues. The Lease also provides that the Issuer and the Trustee may have such rights of access to the Project as may be necessary to exercise any remedies. See "The Lease—Defaults and Remedies." The Deed of Trust provides that the Trustee, through the deed of trust trustee or otherwise, may lease, operate or foreclose and sell the Project if an event of default occurs under the Lease, the Indenture or the Deed of Trust. See "The Deed of Trust—Defaults and Remedies."

Early Prepayment Risk

Early prepayment of the Series 2002 Bonds may occur (i) if the County exercises its right to pay the Purchase Price of the Project, in whole, on certain Interest Payment Dates on and after March 1, 2012; (ii) in whole, on the next succeeding Interest Payment Date for which notice can be given, if the Project is lost, destroyed, condemned or damaged; or (iii) in whole, and at the option of the County, upon a Determination of Taxability. In such case, the Outstanding Series 2002 Bonds will be paid prior to the scheduled maturity date.

Potential Environmental Risk

There are potential risks relating to environmental liability associated with the ownership of, or secured lending with respect to, any property. If hazardous substances are found to be located on property, owners of, or secured lenders regarding, such property may be held liable for costs and other liabilities relating to such hazardous substances. In the event of repossession, purchase or participation in the management of the Project by the holders of the Series 2002 Bonds, such holders may be held liable for costs and other liabilities relating to hazardous substances, if any, on the site of the Project on a strict liability basis and such costs might exceed the value of such property. Certified Environmental Inspectors, Fort Worth, Texas, has performed a Phase I environmental assessment with respect to the Land which has not revealed the presence on the Land of any such hazardous substances.

SECURITY FOR THE BONDS

Source of Payment of the Bonds

The Series 2002 Bonds represent special, limited obligations of the Issuer payable, together with any Additional Bonds issued under the Indenture on a parity therewith, solely from and to the extent of the money, property and other assets pledged to the Trust Estate under the Indenture including (i) all of the right, title and interest of the Issuer in all Leases, including, without limitation, the Lease (except for the Issuer's rights to indemnification and reimbursement of expenses) and all Project Revenues pledged by the County, and all Rental Payments due pursuant to the Indenture; and (ii) a first lien on and pledge of the money and investments in certain amounts deposited in the funds and accounts established pursuant to the Indenture; and (iii) any other Rentals. The

Rental Payments payable by the County pursuant to the Lease are in an amount sufficient to pay, when due, the principal of and interest on the Series 2002 Bonds.

Principal and interest on the Series 2002 Bonds will be paid from the Rental Payments payable by the County for the use and possession of the Project. The Rental Payments are payable by the County solely from Project Revenues, including Net Proceeds received in respect of the Project to the extent that such Net Proceeds are not used for repair or replacement, interest or other income derived from the investment of the funds held by the Trustee for the Issuer pursuant to the Indenture, and, in certain instances, from the Reserve Fund established by the Indenture.

The County is obligated to pay Rental Payments and Rental Payment Deposits solely from the Project Revenues and the other sources set forth in the preceding paragraph. The County will not be obligated to pay Rental Payments and Rental Payment Deposits from any other source of funds. The Operator is currently operating the Project. The County will covenant in the Lease to operate the Project as a correctional facility and use its best efforts to impose and collect reasonable rates, fees and charges for the operation of the Project calculated to produce Net Revenues in an amount at least equal to 125% of the amount necessary to pay all Rental Payments and Rental Payment Deposits when due under the Lease and all amendments thereto payable from Project Revenues, and such Project Revenues will be pledged and appropriated to the payment of Rental Payments and other amounts due under the Lease. If any State or federal law, rule or regulation should not allow the County to produce such a level of Net Revenues, the County will be obligated to maintain rates, fees and charges which will produce the maximum permissible Net Revenues.

THE OBLIGATION OF THE ISSUER TO PAY PRINCIPAL OF AND INTEREST ON THE SERIES 2002 BONDS DOES NOT CONSTITUTE AN OBLIGATION OF THE ISSUER FOR WHICH THE ISSUER IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE ISSUER HAS NO TAXING POWER. THE SERIES 2002 BONDS ARE LIMITED, SPECIAL OBLIGATIONS PAYABLE BY THE ISSUER SOLELY FROM THE RENTAL PAYMENTS, WHICH IN TURN ARE PAYABLE BY THE COUNTY SOLELY FROM THE PROJECT REVENUES AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE FULL FAITH AND CREDIT OF THE COUNTY ARE NOT PLEDGED TO THE PAYMENT OF THE RENTAL PAYMENTS. THE SERIES 2002 BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, THE COUNTY, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE COUNTY, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2002 BONDS. See "Security for the Bonds" and "Risk Factors."

The Deed of Trust

As security for the Series 2002 Bonds, the Issuer, by the Deed of Trust, has granted, assigned, bargained and conveyed the Mortgaged Property for the benefit of the Trustee, subject to Permitted Encumbrances. See "The Deed of Trust."

Action on Default

Should the Issuer default, the Trustee or the owners of a majority in principal amount of Bonds Outstanding may exercise any and all remedies set forth in the sections herein entitled "The Lease—Defaults and Remedies," "The Indenture—Defaults and Remedies" and "The Deed of Trust—Defaults and Remedies."

Insurance

The Project is insured to the extent set forth in the section herein entitled "The Lease—Insurance." Net Proceeds of casualty insurance shall be used to replace or repair the Project or, if the County so elects, such Net Proceeds will be applied to pay the Purchase Price and redeem the Bonds in whole, on the next succeeding Interest Payment Date for which notice of redemption can be given, at a redemption price equal to the principal amount thereof, together with accrued interest. Net Proceeds of business interruption insurance shall be used to pay Operation and Maintenance Costs and Rental Payments during the period when Project Revenues are insufficient to pay such amounts due to damage or destruction of the Project.

Reserve Fund

A Reserve Fund is established by the Indenture and is required to be funded from the proceeds of the Series 2002 Bonds in an amount equal to \$1,406,672.56 representing the Reserve Requirement upon the issuance of the Series 2002 Bonds. Amounts in the Reserve Fund are to be used only to make payments of debt service of the Bonds to the extent amounts in the Bond Fund are insufficient; and on the final Interest Payment Date or any date on which the Bonds are to be redeemed in whole, to pay the principal of and interest on, or the redemption price of, the Bonds, as the case may be. All interest or income received on the investment of the Reserve Fund shall be transferred to the Bond Fund. See "The Indenture—Reserve Fund."

Rental Payments

The County has agreed to pay Rental Payments commencing September 1, 2002 and continuing through March 1, 2019 in amounts equal to the principal and interest due on such dates on the Series 2002 Bonds. In order to ensure that there will be sufficient money available in the Bond Fund to pay the Rental Payments when due, the County has agreed to pay the Rental Payment Deposits on the first day of each month during the Lease Term. Each Rental Payment Deposit is in an amount equal to one-sixth of the interest portion of the Rental Payment due on the next Payment Date and one-twelfth of the principal portion of the Rental Payments due on the next two Payment Dates. The Rental Payments and Rental Payment Deposits will be assigned and are to be transmitted directly to the Trustee. The Indenture requires that the Rental Payments and Rental Payment Deposits are to be deposited in the Bond Fund and applied to make principal and interest payments when due with respect to the Series 2002 Bonds. The County shall receive a credit against the Rental Payment Deposits equal to interest income on money in the Reserve Fund transferred semiannually to the Bond Fund, and, with respect to the final six Rental Payment Deposits, from amounts transferred from the Reserve Fund to the Bond Fund. The County shall receive a credit against the Rental Payment due equal to amounts transferred by the Trustee from the Rental Account in the Project Revenue Fund established and held by the Trustee as Rental Payment Deposits, interest income on moneys in the Bond Fund and interest income on moneys in the Reserve Account transferred semiannually to the Bond Fund.

Flow of Funds

Pursuant to the Lease, the County has agreed to deposit all Project Revenues to the Project Revenue Fund established and held by the Trustee (or a local bank acting as a repository to the extent that the amount held by such local bank does not exceed \$100,000). Each month after the Trustee has set aside sufficient money from Project

Revenues to pay the Rental Payment Deposit next coming due in the Rental Account of the Project Revenue Fund, the Trustee will deposit or distribute the remaining Project Revenues to the following accounts in the Project Revenue Fund in the following priority, (i) to the Operating Account, an amount which, together with any amount then on deposit therein, equals Operation and Maintenance Costs then due and payable or due and payable within the next month, including, without limitation, the Operator Fee (All-Inclusive), if applicable, and the fee of the County in an amount equal to \$50,000 plus \$1.50 for each non-County Inmate per day during the previous month (but only to the extent sufficient Project Revenues are available after paying all other Operation and Maintenance Costs), (ii) to the Operator Fee Account the amount of any Operator Fee (Cost-Plus), which is the type of fee which will be paid to the Operator pursuant to the Operating Agreement, to be used to pay the Operator, (iii) to the Operating Reserve/Repair/Contingency Account an amount equal to \$15,000 or such lesser amount as is necessary to cause the balance therein to equal \$200,000 (the Operating Reserve/Repair/Contingency Account will be initially fully funded with proceeds of the Series 2002 Bonds), and (iv) to the Surplus Account any remaining Project Revenues (less an additional amount payable to the Operator as a part of its fee). See "The Lease—Project Revenue Fund." Pursuant to the terms of the Indenture, all Rental Payments and Rental Payment Deposits received by the Trustee pursuant to the Lease and any other money required to be deposited therein pursuant to the Lease or the Indenture shall be deposited in the Bond Fund, except that payments of additional rentals made by the County to replenish the Reserve Fund shall be deposited in the Reserve Fund. See "The Lease—Project Revenue Fund" and "Security for the Bonds—Reserve Fund."

The Trustee will withdraw from the Bond Fund on or before each Interest Payment Date, an amount sufficient to pay the interest on the Series 2002 Bonds due and payable on such date, and shall cause the same to be applied to the payment of interest due with respect to the Series 2002 Bonds on such dates. The Trustee will withdraw from the Bond Fund on or before each March 1, commencing March 1, 2003, an amount sufficient to pay the principal of the Series 2002 Bonds due and payable or subject to redemption on such date, and shall cause the same to be applied to the payment of principal of the Series 2002 Bonds.

Payments of the Purchase Price received by the Trustee and in certain cases Net Proceeds of insurance or condemnation, shall be deposited in the Bond Fund and applied to redemption of Bonds.

THE SERIES 2002 BONDS

General Provisions

The Series 2002 Bonds will be dated, as originally issued, as of their date of delivery, shall mature on the dates and in the amounts, and shall bear interest at the annual rates, as shown on the cover page hereof. Interest on the Series 2002 Bonds, which accrues commencing on their date of delivery, shall be payable semiannually on March 1 and September 1 of each year to the date of maturity or redemption, whichever is earlier, commencing on September 1, 2002. The principal of the Series 2002 Bonds shall be payable upon presentation and surrender thereof at the operations center of the Trustee in Denver, Colorado. Interest on the Series 2002 Bonds shall be payable by check or draft of the Trustee mailed to the persons appearing as registered owners at the addresses shown on the registration records maintained by the Trustee as of the close of business on the fifteenth day of the month, whether or not a business day, immediately preceding each Interest Payment Date, or by wire transfer to owners of at least \$1,000,000 in aggregate principal amount of Series 2002 Bonds, pursuant to a written agreement between such owner and the Trustee.

The Series 2002 Bonds are issued in fully registered form in the denomination of \$5,000 or any integral multiple of \$5,000. The Series 2002 Bonds may be transferred at the principal corporate trust office of the Trustee. The Series 2002 Bonds may be exchanged for an equal aggregate principal amount of registered Series 2002 Bonds of the same maturity of other authorized denominations in accordance with the terms of the Indenture. For every such exchange or transfer of Series 2002 Bonds, the Trustee shall make a charge sufficient to reimburse it for any tax, fee or other governmental charges required to be paid with respect to such exchange or transfer. The Trustee is not required to transfer or exchange Series 2002 Bonds subsequent to the fifteenth day of the month preceding the month in which an Interest Payment Date occurs or after the date on which any Series 2002 Bonds are selected for redemption.

However, the Series 2002 Bonds are initially to be registered in the name of Cede & Co., as nominee for The Depository Trust Company, as securities depository for such Series 2002 Bonds. Purchases by Beneficial Owners are to be made in book-entry form in the principal amount of \$5,000 or any integral multiple thereof. Payments to Beneficial Owners are to be made as described below in "Book-Entry Only System" herein.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series 2002 Bonds. The ownership of one fully registered bond for each maturity as set forth on the cover hereof, each in the aggregate principal amount of such maturity of each series, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of securities brokers and dealers, banks, and other financial institutions (the "DTC Participants"), some of whom (and/or their representatives) own DTC, and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Ownership interests in the Series 2002 Bonds may be purchased by or through DTC Participants. Such DTC Participants and the persons for which such DTC Participants as nominees acquire interests in the Series 2002 Bonds will not receive certificated Series 2002 Bonds, but each DTC Participant will receive a credit balance in the records of DTC in the amount of the DTC Participant's interest in the Series 2002 Bonds, which will be confirmed by an initial-transaction statement stating the details of the Series 2002 Bonds in which such DTC Participant has an interest. Each Beneficial Owner for which a DTC Participant acquires an interest in the Series 2002 Bonds, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have all notices of redemption or other communications to DTC, which may affect such Beneficial Owner, to be forwarded in writing by such DTC Participant and to have notification made of all interest payments.

NEITHER THE ISSUER, THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF THE SERIES 2002 BONDS, REFERENCES HEREIN TO THE BONDHOLDERS OF THE SERIES 2002 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2002 BONDS.

DTC will receive payments from the Trustee to be remitted to the DTC Participants for the benefit of the Beneficial Owners. The ownership interest of each Beneficial Owner in the Series 2002 Bonds will be recorded through the records of the DTC Participants and a computerized book-entry system operated by DTC.

Principal and interest payments on the Series 2002 Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Series 2002 Bonds. Disbursement of such payments to the Beneficial Owners is the responsibility of DTC, the DTC Participants and the Indirect Participants. Upon receipt of payment, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings as shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in the name of a nominee, and will be the responsibility of DTC Participants or Indirect Participants and not of DTC or the Issuer, the County or the Trustee, subject to any statutory and regulatory requirements which may be in effect from time to time.

Reference herein to any action which is required or permitted to be taken by the Beneficial Owners shall relate only to action by such Beneficial Owner or those permitted (by statute, regulation or otherwise) to act on behalf of such Beneficial Owner for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

Beneficial Owners will receive a written confirmation of their purchase detailing the terms of the ownership interest in the Series 2002 Bonds acquired. Transfers of ownership interests in the Series 2002 Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of the Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interest in the Series 2002 Bonds. Interest and principal will be paid by the Trustee to DTC, then paid by DTC to the DTC Participants and thereafter paid by the DTC Participants to the Indirect Participants or Beneficial Owners.

For every transfer and exchange of the ownership interests in the Series 2002 Bonds, the Trustee may charge DTC (and DTC may charge the Beneficial Owner) a sum sufficient to cover any tax, fee or governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its services with respect to the Series 2002 Bonds at any time by giving notice to the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is not a successor securities depository), bond certificates are required to be delivered as described in the Indenture. The Beneficial Owner, upon registration of such Series 2002 Bonds in the Beneficial Owner's name, will become the registered owner.

The Issuer may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners of the Series 2002 Bonds. In such event, bond certificates will be required to be delivered to the Beneficial Owners as described in the Indenture.

The information in this section concerning DTC and DTC's Book-Entry System has been obtained from DTC and neither the Issuer, the County nor either of the Underwriters takes any responsibility for the accuracy, sufficiency or completeness thereof.

Determination of Taxability; Redemption

In the event that a Determination of Taxability occurs, the interest rate applicable to the Series 2002 Bonds will increase to an annual rate equal to the rate set forth on the cover page of this Official Statement plus five percent (5%). Such rate will increase effective on the effective date of the Determination of Taxability. The Series 2002 Bonds also will be subject to redemption, in whole, at the option of the County, on the next succeeding Interest Payment Date following the Determination of Taxability for which notice of redemption can be given, at a redemption price equal to 108% of the principal amount thereof plus accrued interest to the redemption date.

Extraordinary Redemption

The Series 2001 Bonds are subject to redemption as a whole, on any Interest Payment Date for which notice of redemption can be given, without premium, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, upon the election by the County to apply the Net Proceeds of any insurance claim or condemnation award, together with other amounts available to the County, to the payment of the Purchase Price applicable to the Project when the Project is destroyed or is damaged by fire or other casualty, or title to, or the temporary use of the Project is taken under the exercise of the power of eminent domain. In each such case, the amount payable by the County shall be an amount to be calculated, as follows: the sum of (a) the Rental Payment then due for the Project, plus (b) the Purchase Price specified for a redemption due to damage, destruction or condemnation (as set forth in the Lease), minus (c) the amounts, if any, held under the Indenture and available therefor. The Trustee shall apply such moneys to the redemption of the Series 2002 Bonds on the next occurring Interest Payment Date.

Optional Redemption

The Series 2002 Bonds are also subject to redemption as a whole, on any Interest Payment Date on or after March 1, 2012, upon the election by the County to purchase the Project. If called for redemption, the Series 2002 Bonds will be redeemed at a redemption price equal to their principal amount, plus accrued interest to the redemption date, plus a premium (expressed as a percentage of their principal amount) as follows:

<u>Redemption Date</u>	<u>Premium</u>
March 1, 2012 and September 1, 2012	102%
March 1, 2013 and September 1, 2013	101%
March 1, 2014 and thereafter	100%

Mandatory Redemption

The Series 2002 Bonds maturing on March 1, 2007 shall be redeemed in installments on March 1, 2003 and on each March 1 thereafter to and including March 1, 2006 at a price equal to their principal amount with accrued interest to the redemption date, from amounts deposited in the Bond Fund, in the years and in the aggregate principal amounts set forth below:

<u>Payment Date</u>	<u>Principal Amount</u>	<u>Payment Date</u>	<u>Principal Amount</u>
March 1, 2003	\$390,000	March 1, 2005	\$460,000
March 1, 2004	\$430,000	March 1, 2006	\$490,000

The Series 2002 Bonds maturing on March 1, 2010 shall be redeemed in installments on March 1, 2008 and on each March 1 thereafter to and including March 1, 2009 at a price equal to their principal amount with accrued interest to the redemption date, from amounts deposited in the Bond Fund, in the years and in the aggregate principal amounts set forth below:

<u>Payment Date</u>	<u>Principal Amount</u>	<u>Payment Date</u>	<u>Principal Amount</u>
March 1, 2008	\$560,000	March 1, 2009	\$605,000

The Series 2002 Bonds maturing on March 1, 2019 shall be redeemed in installments on March 1, 2013 and on each March 1 thereafter to and including March 1, 2018 at a price equal to their principal amount with accrued interest to the redemption date, from amounts deposited in the Bond Fund, in the years and in the aggregate principal amounts set forth below:

<u>Payment Date</u>	<u>Principal Amount</u>	<u>Payment Date</u>	<u>Principal Amount</u>
March 1, 2011	\$700,000	March 1, 2015	\$955,000
March 1, 2012	\$755,000	March 1, 2016	\$1,030,000
March 1, 2013	\$820,000	March 1, 2017	\$1,115,000
March 1, 2014	\$885,000	March 1, 2018	\$1,200,000

Selection of Bonds to be Redeemed

If less than all of the Series 2002 Bonds of like maturity shall be called for redemption, the particular Series 2002 Bonds or portions thereof to be redeemed shall be selected by lot by the Trustee in such manner as the Trustee shall determine. The Trustee shall call for redemption as many Bonds or portions thereof as will, as nearly as practicable, exhaust the moneys available therefor. If Bonds of denominations greater than \$5,000 are called for redemption, if less than all of such Bonds then Outstanding are to be called for redemption, then for all purposes in connection with redemption, each \$5,000 of principal amount shall be treated as though it was a separate Bond of the denomination of \$5,000 bearing one of the numbers borne by such fully registered Bond. Interest on Series 2002 Bonds so redeemed shall be paid from the amount then available to redeem Series 2002 Bonds.

Notice of Redemption

When redemption of Series 2002 Bonds is required pursuant to the Indenture, the Trustee shall give notice of the redemption of such Series 2002 Bonds, which notice shall describe the Series 2002 Bonds to be redeemed, the redemption date and the redemption price. On such redemption date there shall become due and payable upon each Series 2002 Bond to be redeemed the principal thereof, or the principal amount of the specified portions thereof in the case of Series 2002 Bonds to be redeemed in part only, the premium, if any, thereon, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail a copy of such notice, by first class mail, not more than 60 or less than 30 days before the redemption date, to the owners of any Series 2002 Bonds or portions thereof which are to be redeemed, at their last addresses appearing upon the registry books.

Additional Bonds

The County, in its discretion and in compliance with the requirements of the Lease, may enter into an amendment to the Lease, and the Issuer in turn may cause to be issued Additional Bonds to provide funds for additions or further improvements to the Project. See "The Lease—Parity Obligations." Any such Additional Bonds shall be authorized and described in a supplemental indenture executed by the Issuer and the Trustee and, when so issued, authorized and delivered, shall be secured by the Indenture and the Trust Estate on a parity with the Bonds then Outstanding under the Indenture provided no such Additional Bonds shall be issued under the Indenture or secured by the Trust Estate on a parity with the Outstanding Bonds unless the following conditions are met:

(a) The Trustee shall have been furnished with a certificate of an authorized officer of the Issuer and of an authorized officer of the County to the effect that the Lease is in effect and no "event of default," as such term is defined in the Lease, shall exist thereunder; and

(b) The Trustee shall have been furnished an opinion of an attorney or firm of attorneys nationally recognized as bond counsel that the issuance of the Additional Bonds will not adversely affect the exemption from federal income taxation of the interest on any Outstanding Bonds; and

(c) There shall have been furnished to the Trustee an amendment to the Lease providing for additional Rental Payments sufficient to pay the principal of and interest on the Additional Bonds when due; and

(d) There shall have been furnished to the Trustee a certificate of an authorized officer of the County to the effect that the proceeds of the Additional Bonds, together with any additional funds supplied or to be supplied from any source will be sufficient to pay the cost of the improvement; and

(e) There shall be given to the Trustee evidence of compliance with the requirements of Section 6.4(i) of the Lease relating to the issuance of Additional Bonds and such other certificates, affidavits, documents or opinions as the Trustee may reasonably request. See "The Lease—Parity Obligations."

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series 2002 Bonds and other funds are to be applied as follows:

Total Sources of Funds

Principal Amount of Series 2002 Bonds	\$14,300,000.00
Original Issue Discount	(233,274.40)
Current Balances in Other Accounts	<u>1,728,321.50</u>
TOTAL SOURCES	\$15,795,047.10

Uses of Funds

Refund Certificates of Participation	\$12,861,346.18
Underwriter's Discount	822,250.00
Reserve Fund	1,406,672.56
Costs of Issuance ⁽¹⁾	504,778.36
Operating Reserve/Repair/Contingency Account	<u>200,000.00</u>
TOTAL USES	\$15,795,047.10

(1) Includes Legal fees, Trustee fees, Financial Advisor Fees, title insurance, appraisal, survey, Phase I environmental assessment, cash flow study and other fees and expenses.

DEBT SERVICE REQUIREMENTS

The table below sets forth the debt service requirements on the Series 2002 Bonds under the Indenture:

Date	Principal	Interest	Period Total	Annual Total
9/1/2002		\$572,597.48	\$572,597.48	
3/1/2003	\$390,000.00	557,121.88	947,121.88	\$1,519,719.36
9/1/2003		543,471.88	543,471.88	
3/1/2004	430,000.00	543,471.88	973,471.88	1,516,943.75
9/1/2004		528,421.88	528,421.88	
3/1/2005	460,000.00	528,421.88	988,421.88	1,516,843.75
9/1/2005		512,321.88	512,321.88	
3/1/2006	490,000.00	512,321.88	1,002,321.88	1,514,643.75
9/1/2006		495,171.88	495,171.88	
3/1/2007	525,000.00	495,171.88	1,020,171.88	1,515,343.75
9/1/2007		476,796.88	476,796.88	
3/1/2008	560,000.00	476,796.88	1,036,796.88	1,513,593.75
9/1/2008		455,446.88	455,446.88	
3/1/2009	605,000.00	455,446.88	1,060,446.88	1,515,893.75
9/1/2009		432,381.25	432,381.25	
3/1/2010	650,000.00	432,381.25	1,082,381.25	1,514,762.50
9/1/2010		407,600.00	407,600.00	
3/1/2011	700,000.00	407,600.00	1,107,600.00	1,515,200.00
9/1/2011		379,600.00	379,600.00	
3/1/2012	755,000.00	379,600.00	1,134,600.00	1,514,200.00
9/1/2012		349,400.00	349,400.00	
3/1/2013	820,000.00	349,400.00	1,169,400.00	1,518,800.00
9/1/2013		316,600.00	316,600.00	
3/1/2014	885,000.00	316,600.00	1,201,600.00	1,518,200.00
9/1/2014		281,200.00	281,200.00	
3/1/2015	955,000.00	281,200.00	1,236,200.00	1,517,400.00
9/1/2015		243,000.00	243,000.00	
3/1/2016	1,030,000.00	243,000.00	1,273,000.00	1,516,000.00
9/1/2016		201,800.00	201,800.00	
3/1/2017	1,115,000.00	201,800.00	1,316,800.00	1,518,600.00
9/1/2017		157,200.00	157,200.00	
3/1/2018	1,200,000.00	157,200.00	1,357,200.00	1,514,400.00
9/1/2018		109,200.00	109,200.00	
3/1/2019	2,730,000.00	109,200.00	2,839,200.00	2,948,400.00
	----- \$14,300,000	----- 12,908,944.36	----- 27,208,944.36	

THE ISSUER

The Issuer is a nonprofit public corporation and instrumentality of the County formed on behalf of the County pursuant to the Act and an Order Approving and Authorizing the Creation of the Newton County Public Facility Corporation of the Commissioners Court of the County (the "Commissioners Court") adopted on November 28, 2001. The Issuer was formed for the purpose of financing for and on behalf of the County eligible jail, criminal detention and correctional facility projects and other public buildings and facilities for use by the County. The Issuer currently has no unencumbered assets other than its interest in the Project and its rights under the Lease. Its rights under the Lease will be assigned, and its interest in the Project will be pledged, to the Trustee for the benefit of the owners of the Series 2002 Bonds upon the initial delivery of the Series 2002 Bonds.

Pursuant to the bylaws of the Issuer, the Issuer is governed by a five-member board of directors, all of whom are appointed by the Commissioners Court of the County. In addition, the Commissioners Court has the right at any time to dismiss any director, for cause, or at will, and to appoint a successor to take his or her place. The directors serve without compensation for six-year terms. The initial directors and their occupations are as follows:

<u>Director</u>	<u>Occupation</u>
Truman Dougharty	County Judge
William L. Fuller	Commissioner, Precinct 1
Thomas T. Gill	Commissioner, Precinct 2
Prentiss L. Hopson	Commissioner, Precinct 3
Robert F. Green	Commissioner, Precinct 4

The Issuer will enter into the Deed of Trust and the Indenture, and will take and retain legal title to the Project, to facilitate the financing of the Project to be leased to the County. The Issuer's obligation with respect to the payment of debt service on the Series 2002 Bonds is a special, limited, non-recourse obligation payable solely from Rentals, including the Rental Payments payable by the County pursuant to the Lease. The Issuer has no authority to levy taxes for the payment of debt service on the Series 2002 Bonds. The Series 2002 Bonds do not constitute an obligation, either special, general or moral of the County, the State, or any other political subdivision thereof.

THE COUNTY

Newton County was formed as Jasper County and was divided in April 1846. The County seat changed from Newton (1845) to Burkeville (1848) then back to Newton in 1855. Newton is one of 254 counties located within the State of Texas. It is the easternmost County in the State and has the City of Newton, Texas as its county seat. The estimated population of the County is approximately 15,072 (December, 2001).

The County is authorized, among other things, to lease real and personal property, to operate an incarceration facility or contract with a private contractor to operate and manage such a facility, to contract with other governmental jurisdictions to provide housing, care and control of prisoners, and to secure its obligations to make Rental Payments with respect to the Project by revenues received in connection with the operation or lease of the Project. The County's only obligation with respect to the payment of the Series 2002 Bonds is its indirect obligation to pay the Rental Payments to the Trustee pursuant to the Lease from the Project Revenues. The County has no authority to levy taxes for the payment of the Rental Payments. The Lease is a special, limited, non-recourse obligation of the County payable solely from Project Revenues and in no way constitutes an obligation, either special, general, or moral, of the State or any other political subdivision thereof.

The County currently leases the Project from Diversified Municipal Services of Texas, Inc. The Project was constructed in 1991 and has capacity for 872 inmates, with a mix of single cells and dorms containing 24, 12 and 8 beds. Since October 2001, an average of approximately 605 prisoners under the jurisdiction of the County, TDCJ and INS has been held in the Project. The County Sheriff, in addition to his regular law enforcement duties with respect to the County's current jail facility, performs regular, on-site monitoring of the Project pursuant to the Operating Agreement.

Pursuant to State law, the County is governed by the Commissioners Court which is composed of a county judge, who is presiding officer, and four commissioners. The county judge is elected by the members of the County at-large and each commissioner is elected by the eligible voters residing within such commissioner's precinct. The members of the Commissioners and their terms of office, as well as other current officials of the County are as follows:

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
County Judge	Truman Dougharty	12-31-02
Commissioner, Precinct 1	William L. Fuller	12-31-04
Commissioner, Precinct 2	Thomas T. Gill	12-31-02
Commissioner, Precinct 3	Prentiss L. Hopson	12-31-04
Commissioner, Precinct 4	Robert F. Green	12-31-02
County Clerk	Mary Cobb	
Criminal District Attorney	A. W. Davis	12-31-02
County Treasurer	Bettie Cobb	12-31-02
County Sheriff	Wayne Powell	12-31-04

Access to the County is provided by U.S. Highway 190; and State Highways 87, 63 and 12. The County is also served by United Parcel Service.

The County has 75 full-time employees in the areas of general governmental administration, road and bridge, and law enforcement. Fire-fighting services in the County are provided by 6 volunteer Fire Departments.

The ten major employers in the County are:

<u>Name</u>	<u>Product/Service</u>	<u>Number of Employees</u>
Southern Forest Industries	Sawmill	50
Newton County Government	County Government	80
Louisiana-Pacific Corp.	Plywood Mill	
Newton County Correctional Center	Jail-Prison	140
Intergen-Cottonwood Project	Electric Generation	450
Burkeville ISD	School	42
Newton ISD	School	111
Deweyville ISD	School	65
Shady Acres	Nursing Home	80
First National Bank of Newton	Banking	73

Three public school districts serve the County's residents: Burkeville Independent School District, Deweyville Independent School District and Newton Independent School District. The three districts together enrolled 2,576 students in the 00/01 school year in three elementary schools, three junior high schools and three high schools.

The County is served by Old Hospital in Newton, Texas which is located on Main Street, South Newton, Texas near Highway 87 and has 1 private nursing home with 84 beds.

THE OPERATOR

Correctional Services Corporation, a Delaware corporation, is one of the nation's leading developers and operators of adult correctional facilities, operating twelve facilities representing approximately 4,300 beds. The Operator operates six facilities in the state of Texas representing over 2,800 beds and is one of the largest providers of services to the Texas Department of Criminal Justice.

The Operator operates a wide range of correctional facilities targeted toward solving the specialized needs of governmental agencies. In its secure adult facilities, the Operator not only provides adult inmates with housing but also with other basic services, including health care, transportation and food service. In addition, the Operator is committed to providing a variety of rehabilitative and educational services, including community service and recreational programs where appropriate.

In June 1998, the County entered into a five-year Operations Management Agreement with Correctional Services Corporation. Pursuant to such agreement, Correctional Services Corporation provides for the operation management and maintenance of the Project for a monthly management fee of \$500,000 a month; payable only after the debt service payments of \$190,000 per month, deposited in the Tax Escrow Account to cover property taxes and the County's fee of \$1.52 per non-county inmate have been deducted. Any remaining revenues from the operation of the facility are split with the Correctional Services Corporation and the County in accordance with a formula outlined in such agreement. As of February 26, 2002, the County shall enter into an Amended and Restated Operations Management Agreement with Correctional Services Corporation, a summary of which is described herein under "The Operating Agreement."

THE PROJECT

The Project consists of a multi-classification secure correctional facility, built to house up to 872 prisoners. The Project is located two miles north of the City of Newton in the eastern part of Texas. The Project currently houses offenders and detainees of the County, INS, Shelby County and TDCJ.

The Project is comprised on two primary housing buildings and several support and special purpose buildings, all contained with a secured fenced perimeter. The two primary housing buildings reflect a two-phased construction program and offer the opportunity to house and segregate several population types. The Project provides a mix of single cells and dorms containing 24, 12 and 8 beds. Each of TDCJ, INS and Newton County currently use the Project averaging a total of 605 inmates since October 2001.

THE APPRAISAL

Ben Boothe and Associates, Inc. (the "Appraiser") prepared an appraisal of the Project, dated May 30, 2001 (the "Appraisal").

The Appraisal is subject to the assumptions and conditions set forth therein. The Appraisal concludes that the estimated market value of the real estate portion in the Project is \$15,900,000. A copy of the Appraisal may be reviewed in the office of the Underwriters upon request.

THERE IS NO ASSURANCE THAT THE "MARKET VALUE" SET FORTH IN THE APPRAISAL WOULD BE REALIZED IN THE EVENT OF THE FORECLOSURE OR FORCED SALE OF THE PROJECT.

THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary does not purport to be comprehensive or definitive and investors should refer to the Indenture for a complete recital of its terms.

Trust Estate

By the Indenture, the Issuer grants to the Trustee, in trust to secure the payment of the Bonds, a security interest in the Trust Estate.

Issuer's Covenants

In the Indenture, the Issuer has covenanted to perform all of its obligations under each of the Leases, including the Lease.

Acquisition Fund

The Indenture creates a special trust fund referred to as the "Acquisition Fund." Proceeds of the sale of the Series 2002 Bonds deposited in the Acquisition Fund are to be set aside and then applied to pay the costs of the acquisition of the Project and costs of issuance of the Series 2002 Bonds. See "The Project" for a description of the Project and its use.

The Trustee shall disburse money to pay the costs of acquisition of the Project and costs of issuance of the Series 2002 Bonds from the Acquisition Fund. No such payment shall be made until the Trustee shall have received a requisition signed by the Issuer.

Bond Fund

The Indenture creates a special trust fund referred to as the "Bond Fund." All Rental Payments, Rental Payment Deposits and all other moneys received by the Trustee and required to be deposited therein by the Lease or the Indenture shall be deposited in the Bond Fund by the Trustee immediately upon their receipt. Moneys in the Bond Fund are to be applied to payments of principal and interest due, or subject to redemption, on the Series 2002 Bonds on each Interest Payment Date.

Reserve Fund

The Indenture creates a special trust fund referred to as the "Reserve Fund." Proceeds of the Series 2002 Bonds equal to the initial Reserve Requirement shall be deposited therein on the date of execution and delivery of the Series 2002 Bonds. If on any Interest Payment Date, the amount of all payments due and payable with respect to the Series 2002 Bonds exceeds the amount on hand in the Bond Fund, the Trustee shall transfer from the Reserve Fund to the Bond Fund an amount sufficient to make up the deficiency. If any amount is so transferred, the Issuer shall repay such amount within twelve months. Amounts on deposit in the Reserve Fund will be available for payment of all Bonds. For a further description of the amounts to be deposited into the Reserve Fund and the application of such amounts, see "Security For The Bonds—Reserve Fund."

Rebate Fund

In order that the Issuer and the County may comply with their covenants in the Lease and the Indenture to maintain the interest payable with respect to the Series 2002 Bonds as not includable in gross income of the recipient for federal income tax purposes, there is created under the Indenture a special trust fund referred to as the "Rebate Fund." All money held in the Rebate Fund is held in trust to satisfy the amount required to be rebated to the United States under the Code, and neither the Issuer nor any registered owner will have any right or claim to such money. The Issuer will make or cause to be made annually the computation of the required deposit to the Rebate Fund and must notify the Trustee within thirty (30) days of the end of each bond year whether a transfer is required. The Trustee shall upon receipt of direction from the Issuer transfer moneys from the Project Revenue Fund or moneys representing interest income from the Acquisition Fund or the Bond Fund, as directed by the Issuer, to the Rebate Fund in the amount of the required deposit. If such transfers are not sufficient to meet the rebate requirements of the Code, the Issuer shall pay to the Trustee an amount sufficient to eliminate the deficiency for deposit in the Rebate Fund. The Trustee shall pay required rebate to the United States from amounts on deposit in the Rebate Fund as required by the Code.

Project Revenue Fund

In the Indenture the Trustee agrees to establish and maintain the Project Revenue Fund as a special trust fund and to hold and administer such fund in accordance with the provisions of the Lease. See "The Lease—Project Revenue Fund."

Investments of Certain Funds

(i) Moneys held in the Bond Fund and Reserve Fund upon the request and written direction of an Issuer Representative shall be invested and reinvested by the Trustee in any Qualified invested by the Trustee which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such funds.

Events of Default; Remedies

Each of the following events is an "Event of Default" under the Indenture:

(a) If payment of principal of, or premium, if any, on the Series 2002 Bonds shall not be made when otherwise due and payable (whether at maturity or early redemption);

(b) If payment of interest on the Series 2002 Bonds shall not be made when otherwise due and payable;

(c) The occurrence of an "event of default" under the Lease or the Deed of Trust; or

(d) If default shall be made by the Issuer in the performance of any of the covenants, agreements or conditions of the Indenture and such default shall continue for a period of thirty (30) days after notice thereof to the Issuer as provided in the Indenture.

Upon the occurrence of any Event of Default under the Indenture, the Trustee may, and upon the written request of the registered owners of a majority in principal amount of the Bonds then Outstanding shall, declare the principal of the Bonds and interest accrued thereon immediately due and payable.

Upon the occurrence of an Event of Default under the Indenture the Trustee may, and upon the written request of the registered owners of a majority in principal amount of the Bonds then Outstanding shall, proceed to enforce payment of the Bonds, to enforce application to such payment of the funds appropriated thereto by the Indenture, to enforce rights given under the Deed of Trust, to enforce rights given under the Leases, and to enforce any other appropriate legal or equitable remedy, provided that the registered owners of the Bonds shall have provided for the Trustee's costs, expenses and liabilities.

All moneys received by the Trustee pursuant to any such action taken under the Indenture, the Deed of Trust, or the Lease shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and expenses and liabilities and advances incurred or made by the Trustee (including attorneys' fees), be applied as follows:

(a) Unless the principal of the Bonds shall have become due and payable, such moneys shall be applied:

(i) First to the installments of interest then due on the Bonds, in order of maturity, and if the amounts available are insufficient therefor, then to the payment ratably, according to amounts due on any such installment, to the registered owners entitled thereto; and

(ii) Second, to the payment of unpaid principal of any Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys held pursuant to the provisions of the Indenture), in order of their due dates, and if amounts available are insufficient therefor, then to the payment ratably, according to the amount of principal due on any date, to the registered owners entitled thereto.

(b) If the principal on all Bonds shall have become due, such moneys shall be applied to the payment of unpaid principal and interest on all Bonds, without preference of principal over interest or interest over principal or of any Bond over any other Bond, ratably, according to amounts due respectively for principal and interest.

Whenever all Bonds and interest thereon have been paid under the Indenture and all expenses and charges of the Trustee have been paid, any balance remaining shall be paid to the persons entitled to receive the same, and if no person shall be entitled thereto, then any such balance shall be paid to the Issuer.

Defeasance

If the Issuer shall:

(a) pay or cause to be paid the principal of and premium, if any, and interest on the Bonds as provided in the Indenture; or

(b) provide for the payment of the principal of and premium, if any, and interest on the Bonds by depositing with the Trustee cash or investments authorized by the Indenture which when due and payable or redeemable by the holder shall be sufficient to pay the entire amount due or to become due thereon for such principal and premium, if any, and interest on the Bonds Outstanding; or

(c) provide for the giving of notice of redemption of all Outstanding callable Bonds as provided in the Indenture and deposit prior to the date of redemption the entire redemption price, including accrued interest and premium, if any, either in cash or in investments authorized by the Indenture in such face amount, bearing interest at such rates and maturing on such dates as shall be sufficient for the payment of the redemption price on the date such Bonds are to be redeemed, or on such prior date when principal of and interest on the Outstanding Bonds is due; or

(d) surrender to the Trustee for cancellation all Bonds for which payment is not provided and pay all other amounts payable hereunder by the Issuer,

then the Trust Estate shall revert to the Issuer and the County as their interests may appear and the entire estate of the Trustee and the registered owners of the Bonds shall cease.

Supplemental Indentures

The Issuer and the Trustee may enter into indentures supplemental to the Indenture without the consent of any registered owner, but with prior notice to each registered owner of at least \$1,000,000 in principal amount of Bonds then Outstanding, for any of the following purposes:

(a) to correct the description of the property pledged under the Indenture, or to subject additional properties of the Issuer or the County to the lien of the Indenture for the equal benefit of the registered owners of the Bonds;

(b) to add to the agreements of the Issuer in the Indenture other agreements to be observed, or to surrender any right or power of the Issuer;

(c) to evidence the succession of any other body to the Issuer and the assumption by such body of the obligations of the Issuer with respect to the Bonds and the Indenture, or the appointment of any trustee or paying agent;

(d) to cure any ambiguity or to correct or supplement any provision of the Indenture which is defective or inconsistent or to make provisions for matters the Issuer may deem necessary or desirable, are not inconsistent with the Indenture and do not impair the security of the Indenture;

(e) to modify provisions of the Indenture to qualify under the Trust Indenture Act of 1939, as amended, or similar Federal statute, or to add such provisions as may be expressly permitted by such Trust Indenture Act of 1939, as amended, excluding Section 316(a)(2) thereof; or

(f) to provide for the issuance of Additional Bonds as provided in the Indenture;

provided that prior to entering into such supplemental indenture the Trustee shall obtain an opinion of independent counsel that the Trustee is permitted by the Indenture to enter into such supplemental indenture without the consent of the registered owners and that the execution and delivery of the supplemental indenture will not adversely affect the exemption from gross income of interest on the Bonds.

The registered owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right to consent to such indentures supplemental to the Indenture as shall be deemed necessary or desirable to the Issuer, provided that nothing shall permit, without the consent of the registered owners of all Bonds then Outstanding, (i) an extension of the maturity of any Bond, (ii) a reduction in principal amount of, or premium or interest payable on, any Bond, (iii) the creation of a lien or pledge of revenues ranking prior to or on parity with the lien or pledge of the Indenture, (iv) a preference or priority of any Bond or Bonds over any other Bond or Bonds, (v) a reduction in aggregate principal amount of Bonds required to consent to supplemental indentures or amendments to the Lease or the Deed of Trust, or (vi) a reduction in aggregate principal amount of the Bonds required to waive an Event of Default.

Amendments to Lease and Deed of Trust

The Issuer may enter into, and the Trustee may consent to, any amendment to the Lease or the Deed of Trust, without the consent of the holders of the Bonds, but with prior notice to each registered owner of at least \$1,000,000 in principal amount of Bonds then Outstanding, as may be required (a) by the provisions of the Lease, the Deed of Trust or the Indenture, (b) in connection with the issuance of Additional Bonds, (c) in connection with the financings of additions to or expansions of the Project, (d) to cure any ambiguity or formal defect or omission, or (e) in connection with any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or holders of the Bonds; provided that the Trustee may not consent to any such amendment unless it obtains an opinion of independent counsel that the Trustee is permitted by the Indenture to consent to such amendment without the consent of the registered owners and that the execution and delivery of the amendment will not adversely affect the exemption from federal gross income of interest on the Bonds. With the consent of the holders of a majority in principal amount of Bonds Outstanding, the Lease and the Deed of Trust may be amended in any respect, but no such amendment shall ever affect the obligation of the County to make Rental Payments as they become due and payable or reduce the security given under the Deed of Trust.

THE LEASE

The following is a summary of certain provisions of the Lease. This summary does not purport to be comprehensive or definitive and investors should refer to the Lease for a complete recital of its terms.

General

The Lease will be entered into by the Issuer and the County. The Lease contains the terms and conditions under which the Project will be leased and sold to the County. Under the Lease, the Issuer agrees to provide evidence of good title to the Project, subject to Permitted Encumbrances.

Lease Term

The Lease Term will commence on the date of execution of the Lease and will expire on the earliest of the following events:

(a) the exercise by the County of its option to purchase the Project (in the event of damage, destruction or condemnation of the Project, in the event of a determination by the County to prepay or defease the Bonds or upon a Determination of Taxability);

(b) a default by the County and the Issuer's election to terminate the Lease; or

(c) the payment by the County of all Rental Payments and other amounts required to be paid under the Lease.

Rental Payments and Rental Payment Deposits

On each Payment Date, the County shall pay to the Trustee, in lawful money of the United States of America, the Rental Payment for such Payment Date, less any credits provided for under the provisions of the Indenture. In order to ensure that sufficient moneys are available on each Payment Date to pay the Rental Payment then due, on each Rental Payment Deposit Date the County shall pay to the Trustee the Rental Payment Deposit due on such Rental Payment Deposit Date. The obligation of the County to make Rental Payments and all other payments under the Lease is absolute and unconditional and will not be subject to any right of set-off or counterclaim; provided that all Rental Payments, Rental Payment Deposits and other amounts payable by the County under the Lease are payable solely from Project Revenues or moneys otherwise available therefor under the Indenture. The County does not intend to appropriate any money other than Project Revenues for the payment of Rental Payments or other amounts payable with respect to the Lease or the Project.

Additional Payments

The Lease also requires the County to pay the following additional payments, as additional rental: (i) the fees and expenses of the Trustee; and (ii) amounts required to be paid by the Issuer to replenish the Reserve Fund. All such additional payments shall be payable to Trustee at its address specified herein, in lawful money of the United States of America.

Determination of Taxability

"Determination of Taxability" means a determination that interest on the Bonds no longer qualifies as being excluded from gross income of the recipient thereof under Section 103(a) of the Code ("exempt interest"), which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

(a) the date on which nationally recognized bond counsel retained by the Trustee at the request of one or more registered owners of the Bonds and reasonably acceptable to the County and the Issuer delivers to the Trustee an opinion to the effect that the interest on the Bonds is not, or is no longer, exempt from federal income tax as stated in the Special Tax Counsel opinion delivered upon the original delivery date of the Bonds; or

(b) the date on which, in an opinion of nationally recognized bond counsel reasonably satisfactory to the registered owners of a majority in principal amount of the Bonds then Outstanding, any change in law or regulation becomes effective with the effect, or on which the Internal Revenue Service issues any private ruling, technical advice or any other written communication to the effect, that the interest on the Bonds is not exempt from federal income tax as stated in the Special Tax Counsel opinion delivered upon the original delivery date of the Bonds; or

(c) the date on which the Issuer or the County is notified by the Internal Revenue Service that the interest on the Bonds is not exempt from federal income tax as stated in the Special Tax Counsel opinion delivered upon the original delivery date of the Bonds; or

(d) the date on which the Trustee is notified by (i) the Internal Revenue Service that the interest on the Bonds is not exempt from federal income tax as stated in the opinion delivered upon the original delivery date of the Bonds, (ii) a registered owner or former owner that the Internal Revenue Service has issued a thirty-day letter or other notice asserting that the interest on the Bonds is not exempt from federal income tax as stated in the Special Tax Counsel opinion delivered upon the original delivery date of the Bonds.

Upon the occurrence of a Determination of Taxability, the Rental Payments payable by the County pursuant to the Lease, with respect to which such Determination of Taxability is applicable, shall be increased such that the interest component thereof is sufficient to pay interest on the Bonds at rates per annum equal to the rates set forth in the Indenture plus five percent (5%), and the Rental Payment Deposits shall be increased such that each Rental Payment Deposit is in an amount equal to one-sixth of the interest portion of the next succeeding Rental Payment and one-twelfth of the principal portion of the next two succeeding Rental Payments. Such rate will increase effective on the effective date of the Determination of Taxability.

Project Revenue Fund

So long as the County's obligation to pay Rental Payments and any other amounts due under the Lease is outstanding, all Project Revenues are pledged by the County to the Project Revenue Fund. The Project Revenue Fund shall be a separate and special trust fund established and maintained by the Trustee. In the Project Revenue Fund shall be maintained the following accounts:

Rental Account. In the Project Revenue Fund there is created the Rental Account. During each month of the Lease Term, all Project Revenues are to be credited to the Rental Account until the amount on deposit therein equals the Rental Payment Deposit next due, less any credits to Rental Payment Deposits provided in the Indenture, plus any amount required by the Indenture to be transferred to the Reserve Fund to restore a deficiency therein. See "The Indenture—Reserve Fund." Upon exercise by the County of its purchase option, the amounts in the Rental Account may be used for such purpose.

Operating Account. In the Project Revenue Fund there is created the Operating Account. All Project Revenues in excess of the requirements of the Rental Account shall be credited thereto. The Operating Account shall be used to pay Operation and Maintenance Costs. A subaccount shall be created in the Operating Account to pay the fees of the Trustee and the expenses of the County in performing their duties under the Indenture and the Lease, respectively. Another subaccount shall be created therein to pay to the County a fee equal to an amount for each Inmate per day based on occupancy of the Project for the previous month to the extent funds are available therefor after paying all other Operation and Maintenance Costs.

Operator Fee Account. In the Project Revenue Fund there is created the Operator Fee Account. The Operator Fee Account shall be used only to pay the Operator Fees which do not constitute Operations and Maintenance Costs. To this account shall be credited Project Revenues available in excess of those currently needed for the Rental Account and the Operating Account in the amount of the Operator Fees which do not constitute Operations and Maintenance Costs payable during that month.

Operating Reserve/Repair/Contingency Account. In the Project Revenue Fund there is created the Operating Reserve/Repair/Contingency Account. To this account shall be credited Project Revenues available in excess of the requirements of the Rental Account, the Operating Account and the Operator Fee Account in the amount of \$15,000, or such lesser amount as is necessary to cause the amount on deposit therein to equal \$200,000. Funds on deposit in the Operating Reserve/Repair/Contingency Account may be used, upon the request of the Issuer and the County, solely to pay costs which under generally accepted accounting principles constitute capital costs necessarily incurred for the maintenance and betterment of the Project, including but not limited to buildings, structures and equipment; the costs of all architectural, engineering, legal and other professional services; and other capital costs reasonably necessary and incidental thereto; provided, that money on hand in the Operating Reserve/Repair/Contingency Account may be applied by the County or the Trustee to restore a current deficiency in the Rental Account or to pay the applicable Purchase Price of the Project.

Surplus Account. In the Project Revenue Fund there is created the Surplus Account. Any Project Revenues remaining after the required deposits have been made to the Rental Account, the Operating Account, the Operator Fee Account and the Operating Reserve/Repair/Contingency Account shall be credited to the Surplus Account. Amounts in the Surplus Account shall be used to restore a current deficiency in the other accounts in the Project Revenue Fund and, when not required for such purposes, may be used to exercise the County's option to purchase the Project by payment of the Purchase Price or to pay for repairs of or for construction and installation of improvements or additions to the Project.

Parity and Subordinate Lien Obligations

The County may amend the Lease to provide for additional Rental Payments with respect to additional improvements to the Project, payable from the Rental Account on a parity with the Rental Payments presently owing upon the following conditions:

(i) upon such amendment there shall be deposited in the Reserve Fund the amount necessary to cause the balance therein to equal the Reserve Requirement taking into account the execution of such Lease amendment; and

(ii) the proceeds of the Lease amendment are used to finance improvements to the Project, additions thereto or the acquisition and installation of equipment therein, the County obtains the consent of the owners of a majority in principal amount of the Bonds then Outstanding, and (A) the County obtains a written report from an independent consultant, approved by the original purchasers of the Series 2002 Bonds, who is qualified to study operations of prison facilities stating that the estimated ratio of Net Revenues to the maximum amount of Rental Payments thereafter coming due during the Lease Term (including the proposed amendment thereto but excluding the last Rental Payment) for each of the three fiscal years following the fiscal year in which it is estimated the improvements, additions or equipment financed are to be placed in service, will be not less than 1.50; or (B) the County obtains a written report of an independent certified public accountant stating that the ratio of Net Revenues of the Project to the maximum amount of Rental Payments thereafter coming due during the Lease Term (not including the proposed amendment thereto) was not less than 1.25 for each of the two most recently ended fiscal years of the County, and a written report of an independent consultant, approved by the original purchasers of the Series 2002 Bonds, who is qualified to study operations of prison facilities stating that the estimated ratio of Net Revenues to the maximum amount of Rental Payments thereafter coming due during the Lease Term (including the proposed amendment thereto, but excluding the last Rental Payment), for each of the three complete fiscal years of the County following the fiscal year in which it is estimated the improvements, additions or equipment financed are to be placed in service, will be not less than 1.25.

The County may issue additional obligations for the purpose of financing improvements or additions to the Project or equipment for the Project without satisfying the requirements of (i) above if the application of the Project Revenues to the payment of amounts due on such additional obligations is expressly made subordinate to the application of the Project Revenues to the Rental Account.

Imposition of Charges

The County covenants to impose and collect reasonable rates, fees and charges for use of the Project calculated to produce Net Revenues in the amount of 125% of the amount necessary to pay all Rental Payments and Rental Payment Deposits due under the Lease and all amendments thereto payable from Project Revenues, and such Project Revenues are hereby irrevocably pledged to the payment of Rental Payments and other amounts due under the Lease. If any law, rule or regulation should not allow the County to produce such a level of Net Revenues, the County shall maintain rates, fees and charges which will produce the maximum permissible Net Revenues.

Damage, Destruction and Condemnation

If prior to the termination of the Lease Term, the Project or any part thereof is destroyed or is damaged by fire or other casualty, or title to, or the temporary use of the Project or any part thereof shall be taken under the exercise of the power of eminent domain, the County shall cause the Net Proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration or replacement of the Project or to the payment of the Purchase Price applicable thereto. Any balance of the Net Proceeds remaining after the payment of such Purchase Price shall be paid to the County.

Additional Provisions

The County agrees that at all times during each Lease Term, the County will, as Operation and Maintenance Costs, maintain, preserve and keep the Project in good repair, working order and condition, and that the County will from time to time make or cause to be made all necessary and proper repairs, replacements and

improvements thereto. The Issuer shall have no responsibility in any of these matters, or for the making of improvements or additions to the Project. The County is also responsible, as Operation and Maintenance Costs, for the payment of all property and excise taxes and governmental charges, levied or assessed with respect to or upon the Project or any part thereof when the same shall become due; provided the County shall not be responsible for any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock or corporate or similar tax payable by the Issuer.

During the Lease Term, the Issuer shall have the right to examine and inspect the Project for the purpose of assuring that the Project is being properly maintained, preserved, and kept in good repair, working order and condition. Also, the Issuer shall have such rights of access to the Project as may be reasonably necessary to cause the proper maintenance of the Project in the event of failure by the County to perform its obligations under the Lease.

During the Lease Term, title to the Project, and any and all additions, repairs, replacements or modifications shall be in the name of the Issuer. In the event of termination of the Lease Term for the Project (i) prior to the payment of all Rental Payments scheduled therefor and (ii) without the payment of the then applicable Purchase Price, the County shall surrender possession of the Project to the Issuer. In the event of termination of the Lease Term for the Project upon payment by the County of all scheduled Rental Payments or the applicable Purchase Price, the Issuer shall deliver to the County all necessary documents to transfer title to the Project to the County.

The Lease provides that the Issuer has made no warranty or representation, either express or implied, as to the value, design, condition, merchantability, or fitness for a particular purpose or fitness for use contemplated by the County of the Project, or any other representation or warranty with respect thereto. In no event shall the Issuer be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease or the existence, furnishing, functioning or the County's use of the Project.

Insurance

As Operation and Maintenance Costs, the County is responsible for any loss to the Project. The County shall procure and maintain continuously and in effect all risk insurance, including coverage for riots, sufficient in each case to pay the then-applicable Purchase Price. The County also will obtain business interruption insurance sufficient to protect against the loss of Project Revenues sufficient to pay Operation and Maintenance Costs and Rental Payments due hereunder for a period of one year.

Defaults and Remedies

The following are events of default under the Lease:

(a) failure by the County to pay any Rental Payment, Rental Payment Deposit or other payment required to be paid under the Lease at the time and in the manner specified therein; provided that such failure to pay a Rental Payment or Rental Payment Deposit is not an event of default if such failure is due solely to an insufficiency of Project Revenues and, in the case of a failure to pay a Rental Payment or Rental Payment Deposit, the amount in the Reserve Fund is not less than such Rental Payment or Rental Payment Deposit and any other then delinquent Rental Payments or Rental Payment Deposits;

(b) failure by the County to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in (a) above, and other than the failure by the County to observe and perform the covenants, conditions or agreements which result solely in a Determination of Taxability, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the County by the Issuer, unless the Issuer shall agree in writing to an extension of such time prior to its expiration, provided, however, if the failure specified in the notice cannot be corrected within the applicable period, the Issuer will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within the applicable period and diligently pursued until the default is corrected;

(c) the discovery by the Issuer that any material statement, representation or warranty made by the County in the Lease is false, misleading or erroneous in any material respect;

(d) filing by the County of a voluntary petition in bankruptcy, or failure by the County promptly to lift any execution, garnishment, or attachment of such consequences as would impair the ability of the County to carry on operations at the Project, or adjudication of the County as a bankrupt, or assignment of the County for benefit of creditors, or entry by the County into agreement of composition with creditors or the approval of a court of jurisdiction of a petition applicable to the County in proceedings instituted under the Federal Bankruptcy Statute or similar acts; or

(e) if the County disposes of any portion of the Project (or any interest therein) without the consent of Trustee, or if any event occurs or any condition exists the effect of which is to cause a lien to be placed on the Project or the County's interest in the Project, other than Permitted Encumbrances.

When an event of default as contemplated by (a), (b), (c), (d) or (e) above, has happened and is continuing, the Issuer shall have the right, at its option, to take any one or more of the following actions:

(1) with or without terminating the Lease, to the extent permitted by State law, re-enter and take possession of the Project and exclude the County from using it; provided that if the Lease has not been terminated, the Issuer shall return possession of the Project to the County when the event of default is cured; and provided further that the County shall continue to be responsible for Rental Payments due hereunder for which an appropriation has been made; and

(2) with or without terminating the Lease, reenter and take possession of the Project and sell or lease the Project; provided that the proceeds of such sale or lease shall be retained by the Trustee subject to the terms of the Lease and applied pursuant to the terms of the Indenture; and

(3) terminate the Lease and declare all Rental Payments due and other payments due but unpaid and all the Rental Payments due during the fiscal year then in effect to be immediately due and payable; and

(4) take whatever action at law or in equity may appear necessary or desirable to collect any Rental Payments or other amounts then due and thereafter to become due during the fiscal year of the County then in effect or to enforce performance of any other obligation, agreement or covenant of the County under the Lease.

Defaults and remedies under the Lease are subject to the limitation that if by reason of Force Majeure, the County is unable in whole or in part to carry out its obligations under the Lease with respect to the Project, other than the obligation of the County to pay Rental Payments which shall be payable when due notwithstanding the limitation on Force Majeure, the County shall not be deemed in default during the continuance of such inability or during any other delays which are a direct consequence of the force majeure inability. The County shall agree, however, to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its obligations under the Lease.

All amounts payable by the County pursuant to the exercise of the Issuer's remedies under the Lease are payable only from Project Revenues and money otherwise available under the Indenture, and not from any other funds of the County.

Purchase Option

Provided that the County is not in default under the Lease and provided that there is not then existing an event which with notice or lapse of time, or both, could become an event of default under the Lease, the County has the option on certain Payment Dates set forth in the Lease to purchase the Project, upon sixty (60) days prior written notice to the Issuer, for a purchase price equal to the Rental Payment due on such date and the Purchase Price specified in the Lease.

Assignment

The County may not assign or sublease the Lease without the Issuer's written consent. Under the Indenture, the Issuer has assigned, pledged and granted all its rights, interests and privileges in, to and under the Lease and the Rental Payments due under the Lease to and in favor of the Trustee to secure payment of the Bonds. The payments to be made under the Lease will be paid directly to the Trustee and, together with amounts available in the funds created under the Indenture, will be sufficient, if paid promptly and in full, to enable the Trustee to make the required payments of the principal of, premium, if any, and interest on the Bonds as the same become due. Pursuant to the Indenture, the Trustee is authorized to exercise the rights of the Issuer and to enforce the obligations of the County under the Lease.

THE DEED OF TRUST

General

In order to secure further the Series 2002 Bonds, the Issuer has granted, bargained, sold and conveyed the Mortgaged Property for the benefit of the Trustee pursuant to the Deed of Trust. The Deed of Trust grants to the Trustee, for the equal and ratable benefit of the registered owners of the Series 2002 Bonds, a lien on the Mortgaged Property free, clear and discharged of all liens, charges, encumbrances and restrictions except for Permitted Encumbrances.

The Deed of Trust also constitutes a security agreement and fixture financing statement and grants to the Trustee, for the equal and ratable benefit of the owners of the Series 2002 Bonds, a security interest in any portion of the Improvements constituting personal property or fixtures.

Defaults and Remedies

The following are events of default under the Deed of Trust:

- (a) the occurrence of an event of default under the Lease;
- (b) the occurrence of an event of default under the Indenture;
- (c) the failure by the Issuer to perform any obligation under the Deed of Trust for a period of fifteen (15) days after written notice specifying such failure and requesting that it be remedied has been given to the Issuer by the Trustee unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Issuer within the applicable period and diligently pursued until the default is corrected;
- (d) if any representation or warranty made by the Issuer in the Deed of Trust is false or misleading in any material respect;
- (e) the occurrence of certain events of voluntary or involuntary insolvency or bankruptcy of the Issuer;
- (f) if the Issuer shall dissolve, terminate or liquidate, or merge with or be consolidated into any other entity;
- (g) if the Issuer, without the prior written consent of the Trustee creates or permits to be created a lien against the Mortgaged Property, other than Permitted Encumbrances; or
- (h) if the Issuer sells, leases, assigns, transfers or otherwise disposes of the Mortgaged Property (or any interest therein) without the prior written consent of the Trustee.

If one or more events of default shall have occurred and be continuing, the Trustee at its election and by or through the deed of trust, trustee or otherwise may, to extent permitted by law, (i) foreclose on the Mortgaged Property and sell the Project at public auction, (ii) enter and take possession of the Mortgaged Property or any part thereof with or without termination of the Lease and exclusion of the Issuer from possession of the Mortgaged Property, (iii) hold, lease, manage or operate the Mortgaged Property or any part thereof for the account of the Issuer, (iv) apply to a court of competent jurisdiction for the appointment of a receiver, or (v) exercise any remedies granted under the Deed of Trust, Lease or Trust Indenture or existing in equity or at law. With respect to clause (ii) above, unless an event of default has occurred under the Lease, the County will have the right to use and occupy the Project in accordance with the terms of the Lease.

THE OPERATING AGREEMENT

Agreement to Operate; Term of the Operating Agreement

Pursuant to the terms of the Operating Agreement, the Operator has agreed to manage, supervise and operate the Project for the County and to provide all materials and personnel necessary for the operation, maintenance and management of the Project for the care, custody and treatment of the inmates therein.

The term of the Operating Agreement will be for a period of five years from the effective date thereof. The Operator may terminate the Operating Agreement in its sole discretion, upon 180 days' notice to the County.

Duties of the Operator

The Operator has the duty to operate, manage and provide services with respect to the Project in accordance with applicable State and federal constitutional requirements, laws and court orders, the applicable rules and regulations promulgated by TCJS and as necessary to maintain the licenses necessary to operate the Project. The Operator has agreed, with the County's assistance, (i) to maintain in full force all licenses, (ii) to maintain and keep the Project in good repair and purchase all necessary replacements, (iii) to hire, train, fire and schedule employees and determine their salaries and benefits, (iv) to supervise the provision of medical services, and (v) to provide security for all inmates at the Project and during routine medical appointments and emergencies. All expenses of performing the above duties and maintaining insurance with respect to the Project as hereinafter set forth will be paid from Project Revenues as Operation and Maintenance Costs.

Compensation of the Operator

As compensation for its services, the County has agreed to pay the Operator \$4,800,000 annually, payable in monthly installments of \$400,000, subject to change beginning January 1, 2003 based on changes in the Consumer Price Index. Such fee constitutes an Operator Fee (Cost-Plus) within the meaning of such term in the Lease. The fee is payable monthly during each year of the term of the Operating Agreement. In addition, the County has agreed to pay the Operator an additional fee annually in the event Project Revenues are available after required transfers to the Operating Reserve/Repair/Replacement Account.

The Operator has agreed to house up to twenty (20) County Inmates in the Project for a fee of \$25.00 per inmate per day.

Insurance

The Operator is required to maintain liability (minimum limit of \$5,000,000 per occurrence and \$10,000,000 aggregate), comprehensive property hazard, business interruption, employee workers compensation (or lawful alternative), automobile liability and any other normal and reasonable insurance typical for operation of a detention facility, at levels normal and reasonable by industry standards.

Indemnification

Pursuant to the Operating Agreement, the Operator has agreed to indemnify and hold harmless the County for any action arising out of the performance by the Operator of the Operating Agreement.

Events of Default

Each of the following will constitute an event of default under the Operating Agreement:

(a) a material failure by the Operator to keep, observe, perform, meet or comply with any covenant, agreement, term or provision of the Operating Agreement which is the duty of the Operator and which continues for a period of 45 days after the Operator has received written notice thereof;

(b) a material failure to meet or comply with any final and non-appealable court order, or federal or State requirement or law which continues for a period of 45 days after the Operator has received written notice thereof; and

(c) failure of the Operator to reimburse the County for utility expenses or supplies of the Project paid by the County.

Upon the occurrence of an event of default, and if the Operator believes that the default specified in the notice cannot be corrected within such forty-five-day period, and the Operator, through a diligent, ongoing and conscientious effort to correct the default believes the cure will take more than forty-five days, the Operator may submit a plan for cure for the County's approval, in its sole discretion.

CONTINUING DISCLOSURE

In order to permit the Underwriters to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (as in effect and interpreted from time to time, the "Rule"), the County will covenant and agree, for the benefit of the Underwriters and the record and beneficial owners from time to time of the Outstanding Series 2002 Bonds, in a Continuing Disclosure Agreement, executed by the County (the "Continuing Disclosure Agreement"), to provide annual reports of specified information, including audited financial statements, to each Nationally Recognized Municipal Securities Information Repository and any Texas information depository, and notice of the occurrence of certain events, if material, to the Municipal Securities Rulemaking Board and to any Texas information depository. See Appendix D—"Continuing Disclosure Agreement." The County is the only "obligated person" in respect of the Series 2002 Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. The County has not previously entered into any undertakings under the Rule.

TAX EXEMPTION AND RELATED CONSIDERATIONS

Tax Exemption

In the opinion of Dorsey & Whitney LLP, Special Tax Counsel, on the basis of laws in effect on the date of issuance of the Series 2002 Bonds, interest on the Series 2002 Bonds (including any accrued original issue discount) is not includable in gross income for federal income tax purposes. Certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), however, impose continuing requirements that must be met after the issuance of the Series 2002 Bonds in order for interest thereon to be and remain not includable in federal gross income. Noncompliance with such requirements by the County may cause interest on the Series 2002 Bonds to be includable in federal gross income, retroactive to the date of issuance of the Series 2002 Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained.

Original Issue Discount

The Series 2002 Bonds are being sold at a discount from the principal amount payable on such Series 2002 Bonds at maturity. The difference between the initial offering price at which a substantial amount of the Series 2002 Bonds of a given maturity is sold to the public and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that is deemed to accrue to a holder of a Series 2002 Bond under Section 1288 of the Code is excluded from gross income for federal income tax purposes to the same extent that stated interest on such Series 2002 Bond would be excluded from gross income. The amount of the original issue discount that is treated as accruing with respect to a Series 2002 Bond is added to the tax basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Series 2002 Bond (whether by sale, exchange, redemption or payment at maturity).

Interest in the form of original issue discount is treated under Section 1288 as accruing at a constant yield and compounding semiannually on days that are determined by reference to the maturity date of the Series 2002 Bond. The amount of original issue discount that is treated as accruing for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Series 2002 Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Series 2002 Bonds, over (2) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the initial offering price for such Series 2002 Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Series 2002 Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is to be appropriated in equal amounts among the days in such accrual period.

If a Series 2002 Bond is purchased for a cost that exceeds the sum of (1) the initial public offering price, plus (2) accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Series 2002 Bond.

No opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Series 2002 Bond may be taxable in the year of accrual, and may be deemed to accrue earlier than under federal law. Holders of Series 2002 Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning such Series 2002 Bonds.

Related Federal Tax Considerations

Interest on the Series 2002 Bonds is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers, but is includable in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax and the environmental tax imposed by Section 59A of the Code. Interest on the Series 2002 Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of interest on the Series 2002 Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Series 2002 Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Series 2002 Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2002 Bonds. Indebtedness may be allocated to the Series 2002 Bonds for this purpose even though not directly traceable to the purchase of the Series 2002 Bonds. Federal law also restricts the deductibility of other expenses allocable to the Series 2002 Bonds. In the case of a financial institution no deduction is allowed

under the Code for that portion of the holder's interest expense which is allocable to interest within the meaning of Section 265(b) of the Code.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Series 2002 Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income and the state and local tax rules in Texas and other states.

NONPAYMENT UNDER PRIOR LEASES

Pursuant to an agreement between the current holders of the Certificates of Participation with respect to the prior lease agreements in 1990 and the County, the County has not remitted lease payments due under such lease for the month of January and will not remit lease payments due during the month of February. The County has placed such amounts representing the lease payments due on January 15, 2001 in escrow pending the refinancing contemplated upon the issuance of the Bonds. Notwithstanding such agreement, the nonpayment of such lease payments technically constitutes a default under the lease agreements and the Trust Agreement Relating to a Detention Facility Acquisition Project, dated as of June 1, 1990, between the County, Diversified Municipal Services of Texas, Inc. and NCNB Texas National Bank, as Trustee and the Trust Agreement Relating to a Detention Facility Acquisition Project – Phase II, dated as of December 1, 1990, between the County, Diversified Municipal Services of Texas, Inc. and NCNB Texas National Bank, as Trustee.

AGREEMENT TO SEEK CREDIT RATING

The Issuer agrees that it will, no later than 60 days, after the Project has achieved stabilized occupancy (average census equaling 85% of available bed capacity) for two consecutive quarters, retain a Management Consultant to assess the likelihood of whether the Issuer could obtain from Standard & Poor's Ratings Service, Moody's Investors Service or Fitch, Inc. (each, a "Rating Agency") a rating of the certificates not less than the lowest "investment grade" rating of such Rating Agency. The County agrees to provide to the Management Consultant such information as it may reasonably request in order to assist in making such assessment. If the Management Consultant determines that such rating is obtainable, the Issuer agrees that it will, at its sole expense, solicit and make a good faith effort to obtain such rating. If the Issuer shall receive such rating, the requirements described under this caption shall be of no further force and effect so long as such rating is neither reduced below "investment grade" nor withdrawn.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, validity and enforceability of the Series 2002 Bonds are subject to the approving opinion of the Attorney General of the State of Texas and of Jenkins & Gilchrist, P.C., Dallas, Texas, Bond Counsel. Certain federal tax matters incident to the Series 2002 Bonds are subject to the approving opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Special Tax Counsel. See Appendix C—"Proposed Forms of Opinions." Certain legal matters regarding the County and the Issuer will be passed upon by Orgain, Bell & Tucker, L.L.P., Beaumont, Texas, counsel to the County and the Issuer. Copies of such opinions will be available at the time of delivery of the Series 2002 Bonds. Certain other matters will be passed upon for the Underwriters by Dorsey & Whitney LLP, Minneapolis, Minnesota.

UNDERWRITING

The Underwriters have agreed to purchase the Series 2002 Bonds offered hereby subject to the approval thereof by the Attorney General of the State of Texas, the opinion of Dorsey & Whitney LLP, Special Tax Counsel, the opinion of Jenkins & Gilchrist, a Professional Corporation, Bond Counsel, and certain other conditions, at a purchase price of \$13,244,475.60 representing approximately 92.619% of the aggregate principal amount thereof. Based on such purchase price and a reoffering price of the Series 2002 Bonds of approximately 98.369%, the Underwriters' compensation is \$822,250. The Underwriters have agreed to purchase all of the Series 2002 Bonds offered hereby if any of the Series 2002 Bonds are purchased. The Series 2002 Bonds are being offered for sale at

the prices set forth on the cover page of this Official Statement, which prices may be changed from time to time by the Underwriters without notice. The Series 2002 Bonds may be offered and sold to dealers, including the Underwriters and dealers acquiring Series 2002 Bonds for their own account or an account managed by them, at prices lower than the public offering prices.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof and which do not purport to be complete or definitive and reference is made to such documents or reports for full and complete statements of the contents thereof. U.S. Bank National Association, by acceptance of its duties as Trustee under the Indenture, has not reviewed this Official Statement and has made no representations as to the information contained herein, including but not limited to, any representations as to the financial feasibility of the Project or related activities.

NEWTON COUNTY PUBLIC
FACILITY CORPORATION

By /s/ Truman Dougharty
Its President

APPENDIX A

Market Analysis

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**An Analysis
of the
Potential Continued Economic Viability
of the
Newton County Correctional Center**

January 28, 2002

Prepared for Municipal Capital Markets

By

GSA, Limited

23 Lake Village Drive
Durham, NC 27713

919.572.9057

Since the early 1990's the Newton County Correctional Center (NCCC) has offered secure correctional beds to other governmental jurisdictions on a contract basis. Currently, the primary clients of the 872-bed facility are the Texas Department of Criminal Justice (TDCJ) and the Immigration and Naturalization Service (INS). The facility is owned by Newton County (County) and operated by Correctional Services Corporation (Operator), a firm that currently operates similar facilities for Dickens and Jefferson Counties in Texas as well as correctional facilities in other states. It is the intent of Newton County and Correctional Services Corporation to continue their relationship in the operation of the facility.

Constructed for the express purpose of providing bed space on a fee basis, the NCCC has, throughout its existence, served other governmental jurisdictions. Initially, its clients included the corrections departments of the States of Montana, Hawaii and Wyoming. At the present time, and for the past several years, the NCCC is housing TDCJ inmates and INS detainees. A small number of inmates in the custody of Newton County are also typically held with a daily fee paid by the County to the NCCC for each individual housed. As discussed in this analysis, the facility has maintained a high level of occupancy through bed use contracts with these agencies.

Current Operations

The NCCC is located in Newton, Texas, the seat of Newton County. It is in the area defined as southeast Texas with the County's eastern boundary coinciding with the Texas/Louisiana border. Newton is approximately 140 miles northeast of Houston and approximately 240 miles southeast of Dallas and easily accessed by mostly four lane divided highways.

The Facility

The Newton County Correctional Center has a capacity for 872 inmates as defined by the Texas Jail Standards Commission (TJSC) and contains all necessary support space as well as areas for inmate education, recreation and vocational programs. Structurally, the NCCC is comprised of two primary housing buildings and several support and special purpose buildings, all contained within a secure fenced perimeter. The two primary housing buildings reflect a two phased construction program and offer the opportunity to house and segregate several population types. This flexibility is enhanced by a design that provides a mix of single cells and dorms containing 24, 12 and 8 beds. With this flexibility the NCCC has been able, throughout its existence, to serve several different clients at any one time, an important consideration given that some correctional agencies typically prefer that their inmates be kept from contact with those under jurisdiction of other agencies.

Recent Population Levels

Three agencies – TDCJ, INS and Newton County -- currently use the NCCC. The relative level of use by these agencies is illustrated by the occupancy on November 16, 2001.

Agency	Inmates
TDCJ	489
INS	49
Newton County	7
Total	545

Table 1: Occupancy of the NCCC by using agency on November 16, 2001. Data supplied by the NCCC.

In January 2002 the NCCC population was averaging 558. Over the past three years the Facility has operated at a high level of capacity through a Housing Payment Agreement between the Texas Department of Criminal Justice (TDCJ) and the County and through bed contracts with the INS. The monthly average daily population over this period, as provided by the Operator is shown in the following table.

Month	Average Daily Population			
	1998	1999	2000	2001
January		389	532	759
February		430	536	789
March		407	488	812
April		500	496	754
May	435	628	724	723
June	457	619	795	734
July	579	615	808	637
August	492	555	822	554
September	532	502	800	570
October	607	556	804	582
November	617	511	797	559
December	377	520	784	527
Annual	512	519	699	666

Table 2: Average daily population by month May 1998 through December 2001. Data supplied by the Newton County Correctional Center. Annual average daily population for 1998 reflects the months for which data is shown.

A significant percentage of the average daily population shown in Table 2 has been comprised of inmates under custody of the TDCJ. INS detainees have represented a lesser portion of the population with Newton County inmates typically occupying a very small number of beds. The NCCC's TDCJ population change in 2001 is illustrated in the following table.

Month	TDCJ Inmates
January 1	765
April 1	741
May 1	718
November 1	522
November 16	545

Table 3: Average daily TDCJ population in the Newton County Correctional Center in 2001. Data provided by the TJSC except for November 16 which was provided by the NCCC.

As the occupancy level indicated in Table 3 shows, a 40% decrease in TDCJ average daily population has occurred since January 1, 2001. The significant decline indicated between May and November, the period of greatest change, reflects implementation by TDCJ of a policy to reduce contract use as a result of its declining total population statewide.

During the period shown in Table 2, the facility operated at between 59 to 80% of total capacity on a yearly basis. On a monthly basis during this period the population level represented between 43% and 94% of total capacity. Population exceeding 90% of capacity was reached during seven months of the 2000/2001 period. This is a significant occupancy level given that a population exceeding 90% of capacity represents a high level of occupancy consistent with allowance of vacant beds needed for proper inmate management. With 90 to 95% occupancy considered by corrections professionals as a safe limit allowing flexibility for inmate segregation populating spikes and maintenance downtime it can be said that the facility was functioning at full operational capacity during the first part of 2001.

A steady decline in average daily population has occurred since March 2001 when the occupancy level reached 93%. By the end of the year it had dropped to 60%. NCCC is not alone in experiencing this sudden population change. As a result of declining TDCJ population, produced by a current emphasis on the use of parole and probation, the State of Texas has reduced population in all of its contract facilities by approximately 40%. The implications of the recent TDCJ action are discussed in a section below.

Client Payment Agreements

Under terms of the Agreement with TDCJ, Newton County is paid \$39.75 per inmate day for each person assigned to the NCCC. INS places detainees in the facility on a space available basis and currently pays a daily rate of \$52. In addition, Newton County may, under its agreement with the Operator, use up to 20 beds on a space available basis at the rate of \$25. In the case of the INS, NCCC provides transportation to and from Houston for detainees placed in the facility. TDCJ and Newton County inmates are transported by those agencies.

Cash Flow

NCCC's monthly cash flow summary from September 2000 through September 2001, as provided by the Operator, is shown in the following table. The upper portion of Table 4 contains

a monthly tabulation of revenue and expense while the lower portion contains a total for the past 12 months along with average monthly revenue and expense for that period.

Revenue/Expense Category	12 Month	
	Total	Average
Contracted Beds	10,464	872
Mandays	264,922	22,077
Average Occupancy	8,715	726
Total Revenue	\$11,018,266	\$923,111
Total Operating Expenses		
Compensation	3,668,338	307,349
Payroll Taxes & Benefits	793,975	65,112
Resident Expenses	1,440,523	121,680
Employee Expenses	58,293	4,823
Professional & Consulting	279,768	23,315
Professional & Consulting	18,601	1,479
Occupancy	89,899	7,237
Utilities	421,354	34,943
Other Operating Expenses	121,450	10,013
Travel and Entertainment	28,251	2,269
Insurance	122,739	9,917
Taxes	198,799	16,218
Deprec/Amort/SU/DD/Other	101,906	8,476
Total Operating Expenses	7,084,227	586,384
Facility Based Cash Flow	\$3,934,039	\$333,716

Table 4: NCCC cash flow summary by month and year September 2000 through September 2001. Data provided by Correctional Services Corporation.

The Potential Future Market for the NCCC

Combined, TDCJ and the INS have represented a significant market for bed rental in Texas and a number of other Texas counties have constructed correctional facilities specifically to serve that demand. Other agencies with correctional responsibilities have, historically, also contracted with county and privately operated facilities in Texas for secure bed use. Several state correctional systems have been clients of Texas counties and the NCCC initially housed this type of inmate. Another significant user of for fee correctional facility beds in Texas has been the US Bureau of Prisons (BOP). Although the (BOP) has a substantial need for secure beds beyond those available in its own facilities and has placed a large number of inmates in correctional facilities in Texas, the NCCC has not contracted with that agency in the past. As a government owned facility, marketing its beds to the BOP is an option.

BOP makes use of facilities owned by local government jurisdictions that are operated by private companies and these agreements can encompass detainees of the US Marshals Service (USMS) and the Immigration and Naturalization Service (INS). In those instances, Intergovernmental Agreements (IGA's or IGA) are negotiated between BOP and the government owning the facility. The latter may maintain a separate agreement with a private company to provide day-to-day management. Thus, all agencies of the Federal Government with detention responsibility are potential sources of inmates for the NCCC. This defines a potential market for the facility that can include other state governments, the TDCJ, Federal agencies such as BOP, INS and USMS and possibly other local governments.

Although it is assumed by the County and the Operator that the Facility will continue to focus on serving its current clients, TDCJ and INS, the future market for the NCCC could potentially encompass four possible sources:

- The TDCJ
- The US Government
- Other State Departments of Correction
- Other Local Governments

The Texas Department of Criminal Justice

During its existence, the NCCC has served the TDCJ, as well as several other state departments of correction, and has over the past three years operated at a high occupancy level. Its future viability is contingent on maintaining a high degree of occupancy with per diem payment levels no less than what it has been receiving. Having enjoyed an apparent successful relationship with the TDCJ it can be assumed that that agency represents a logical continuing market. Recent projections of TDCJ needs based on events occurring within the past year, however, raise concerns for the immediate future.

On November 1, 2001 the TDCJ was housing 2,455 inmates under contract in 10 county and privately operated facilities located throughout the State. TDCJ inmate populations in these facilities ranged from 66 to 522 on the survey date with the NCCC holding the largest number.

Use of contract beds by the TDCJ is relatively long standing and the number of bed used has varied over time. For example, on January 1, 2001 the total number of beds contracted for by the TDCJ stood at 4,103. By May 1, 2001 the number had dropped to 3,753 and had reached 2,455 by November 2001. As these numbers show, a significant declining trend developed in 2001 and has continued into November.

Month	Contract Beds Occupied by TDJ Inmates
January 1, 2001	4,103
April 1, 2001	3,966
May 1, 2001	3,753
October 1, 2001	2,643
November 1, 2001	2,455

Table 5: Contract beds occupied by TDCJ inmates. From *Jail Population Report*, Texas Commission on Jail Standards, a monthly report issued on the first day of each month.

The declining use of rental beds in the first ten months of 2001 is reflective of an overall decline in the total TDCJ correction population during that period. In contrast to this recent trend, a study prepared by the Texas Criminal Justice Planning Council (CJPC) in June 2000, and summarized in the following table, indicated the potential for a growing bed deficiency in the TDCJ system.

Period End of	Capacity			Population			
	TDCJ	Contract	Total	Operational	Correctional	Transitional	Duty to Accept
Aug 2000	150,996	4,661	155,657	151,766	151,579	4,001	0
Aug 2001	150,996	4,661	155,657	151,766	155,269	3,977	3,503
Aug 2002	150,996	4,661	155,657	151,766	157,587	4,007	5,821
Aug 2003	150,996	4,661	155,657	151,766	159,444	4,028	7,678
Aug 2004	150,996	4,661	155,657	151,766	162,514	4,089	10,748
Aug 2005	150,996	4,661	155,657	151,766	166,428	4,073	14,662

Table 6: Bed need and availability - TDCJ. From *Adult Correctional Population Projection for Fiscal Year 2000 - 2005*, Criminal Justice Policy Council, State of Texas, June 2000. Total capacity is defined as the total number of beds available to the system while operational capacity reflects the legal operating level. Transitional population is those individuals in the process of transfer from local facilities to the State system. Duty to Accept represents individuals who have been sentenced to TDCJ but remain in local facilities beyond 45 days waiting transfer.

As can be seen in Table 6, the TDCJ correctional population was projected to increase from its August 2000 correctional level of 151,579 to 166,428 in 2005 with correctional level defined as the total number of persons the system is responsible for housing. With no increase in the bed inventory projected during that period, only 151,766 TDCJ and contracted beds were projected to be available, assuming capacity at 97.5% of available beds. This was projected to produce a backlog of 14,662 inmates housed in local jails who have exceeded a 45-day local stay and for whom the TDCJ has a duty to accept into the system. Moreover, approximately 4,000 additional individuals were projected to be in transitional status waiting transfer to a TDCJ facility.

A relatively rapid change from the situation existing at the time of the study where a small excess capacity existed to a large deficiency is shown in the CJPC projection. Within the following year (2001), according to this projection, a need for 3,503 additional beds would develop to accommodate that number of persons in duty to accept status.

At the time of the study in 2000, the TDCJ contracted for 4,661 beds in county and private facilities. Currently contract capacity is 4,109.

A number of options to manage prison population growth were proposed by the CJPC in the June 2000 study. These included:

- Expand prison capacity or contract for beds.
- Reduce time served in prison for low risk offenders.
- Expand alternatives to parole revocations for technical violations.
- Expand probation diversion programs.
- Improve the effectiveness of rehabilitation and supervision programs.
- Scrutinize the need for new increases in prison punishments.
- Expand juvenile justice early intervention and prevention programs.

The CJPC recommended that emphasis be placed on alternatives to parole and probation violations resulting in a return to prison. This was seen as potentially impacting significantly on the bed need projections in light of the fact that 41% of State Jail admissions at that time were for probation revocations and 62% of those were for technical reasons. Counterbalancing these impacts, according to the CJPC, would be a possible reduction in the maximum time before duty to accept comes into play from 45 to 38 days. With the projections showing that approximately 4,000 persons will be in transitional status at any time, reduction by seven days in the time allowed before the TDCJ is obligated to take jurisdiction could add a significant number of those persons to the duty to accept classification, thereby increasing the bed need.

In a report to the Legislature dated April, 2001, the CJPC presented recent TDCJ population figures suggesting that the projections presented in its June 2000 study may be moderating and attributes this change to the impact of new parole policies which have produced significantly higher levels of releases. The following table shows the actual change in the TDCJ correction population between September 2000 and November 2001.

Month	TDCJ Correctional Population
September 2000	150,664
October 2000	150,737
November 2000	150,470
December 2000	149,516
January 2001	148,636
February 2001	147,796
March 2001	147,457
April 2001	147,104
November 2001	147,500
Change since Oct 2000	-3,237
Percent Change	-2.15%

Table 7: Recent TDCJ correction population. From *Report to Senate Finance-House Appropriations Conference Committee, Criminal Justice Planning Council, April 2001*. November 2001 added to reflect population change since the referenced study was published.

A critical measure of the potential need for TDCJ beds is the number of persons housed in county jails awaiting transfer into the State system. These are persons who have been convicted and who have received sentences. They are defined by State terminology as in Duty to Accept status. A comparison of the projected Duty to Accept backlog in county jails is shown in the following table. This compares the TDCJ projections used in the June 2000 and February 2001 reports prepared by the CJPC.

Fiscal Year	Duty to Accept Backlog	
	June 2000 Projection	February 2001 Projection
2001	3,503	0
2002	5,821	0
2003	7,678	0
2004	10,748	0
2005	14,662	332

Table 8: Comparison of Duty to Accept backlog projections by the TDCJ. From *Adult Correctional Population Projection for Fiscal 2000-2005 and Long Term Planning Options, Criminal Justice Planning Council, June 8, 2000* and *Texas Correctional Population Changes in Historical Perspective: Long Term Planning Issues to Consider, Criminal Justice Planning Council, February 27, 2001*.

The February 2001 projection reflects the declining population resulting from increased use of parole and discretionary mandatory supervision (DMS) and assumes that the current number of contract beds will not change.

At the time of CJPC study in February 2001, the total bed capacity in State facilities was 150,861. Additionally 4,661 beds were available in privately operated State Jails and county and private contract facilities yielding a total capacity of 155,522 beds. With a population of 147,796 at the end of that month, the system had a reserve capacity of 7,726. This is reduced to 3,954 if an operational capacity limitation of 97.5% is applied to State facilities. Based on the total capacity, including contract beds, reserve capacity represents 2.5% of total capacity. This may be defined as appropriate to accommodate demand fluctuations.

A projection of TDCJ population and a schedule for elimination of contract beds was presented by the CJPC in its April 2001 report. This shows that the system will have eliminated all contract beds by March 2002 and will, at that time, have a reserve capacity of 6,688 beds.

That analysis supports the projection in Table 8 that shows no additional capacity, will be needed by the TDCJ in the near future and that it is unlikely that a need for additional capacity will occur within the next four years. The CJPC, however, cautions in its February 2001 study that "periods of increases in release rates have historically been countered by a decrease in releases" and that "prior attempts to have a progressive sanctions policy for parole violations produced a decline that was not sustained over time". With that statement, the CJPC warned that a reverse in the near future is possible. It emphasized the fact that the revised projections represent the experience of an historical period of approximately one year.

This warning by the CJPC is supported by the fact that historically TDCJ has implemented major building programs and, when completed, bed deficiency has dropped only to rise again in a relatively short period of time. It is also important to note that the recent decline in population has been the result of increased use of probation and parole. Significantly, on a national level, parole violations now account for one-third of prison admissions and nearly one-third of the released inmates are returned as the result of a new conviction¹. Similar to the cycles that have occurred with construction programs, release program emphasis, historically, has been followed in a relatively short period of time with population growth. It should also be noted that the CPCJ has prepared several projections of TDCJ population demand over the past ten years. Each of these has shown a higher projection than the previous one and in each instance the projection was rapidly exceeded by actual occupancy.

A longer-term historical perspective supports these statements. As can be seen in the following table the overall pattern from 1995 to 2000 was one of steady increase. With the dramatic increase in probation and parole use beginning in 2000 and continuing into 2001 a declining trend can be seen.

¹ June 2001, *From Prison to Home, The Dimensions and Consequences of Prisoner Reentry*, Jeremy Travis, Amy L. Solomon, Michelle Wau, Urban Institute Policy Center.

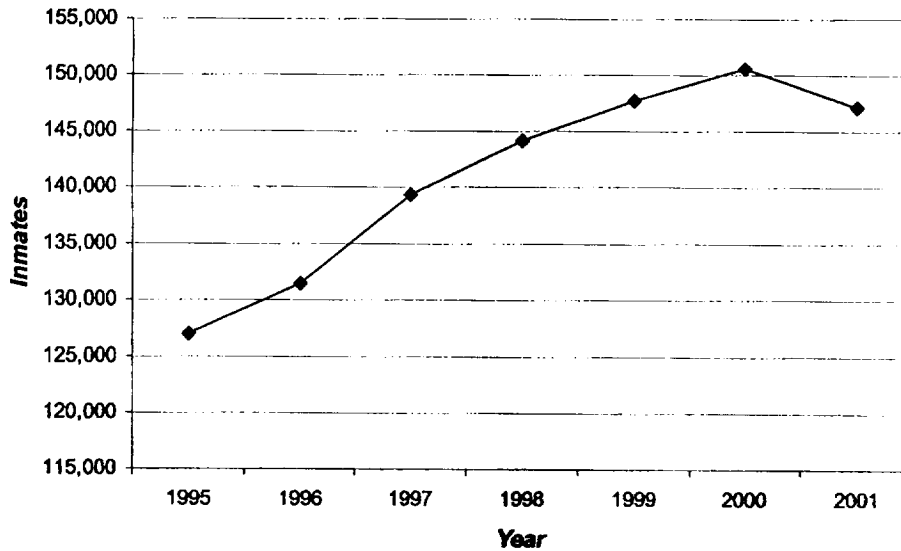


Figure 1: TDCJ population 1995-2001. From Texas Correctional Population changes in Historical Perspective: Long Term Planning Issues to Consider, Criminal Justice Planning Council, February 27, 2001.

An examination of the trend over the past year in paper ready inmates (inmates in Duty to Accept status) housed in county jails and parole violators offers the suggestion that the short-term population trend may be reversing as warned by the CJPC. As tabulated in the following table a decline was seen in each of these categories during much of the year but steady increase is shown since July.

Date	Paper Ready	Parole Violators	
	Inmates	Blue Warrants	New Charge
November 1, 2000	3,105	2,066	2,601
January 1, 2001	2,617	2,000	2,450
March 1, 2001	3,311	2,093	2,587
May 1, 2001	2,868	1,939	2,618
July 1, 2001	2,291	2,303	2,755
September 1, 2001	2,614	2,252	2,805
October 1, 2001	2,973	2,502	2,942
November 1, 2001	2,770	2,516	3,006

Table 9: Change in the number of persons in paper ready and parole violator status. Data from the Texas Jail Standards Commission monthly reports for the indicated months.

The pattern of change in the number of persons in paper ready and parole violator status defined in the above table can be seen graphically in Figure 2. Fluctuations occurring in the number of paper ready inmates undoubtedly reflect procedural time variations in moving inmates into the system. Parole violation numbers, however, reflect violations by persons in parole status, violations that most likely result into a return to prison.

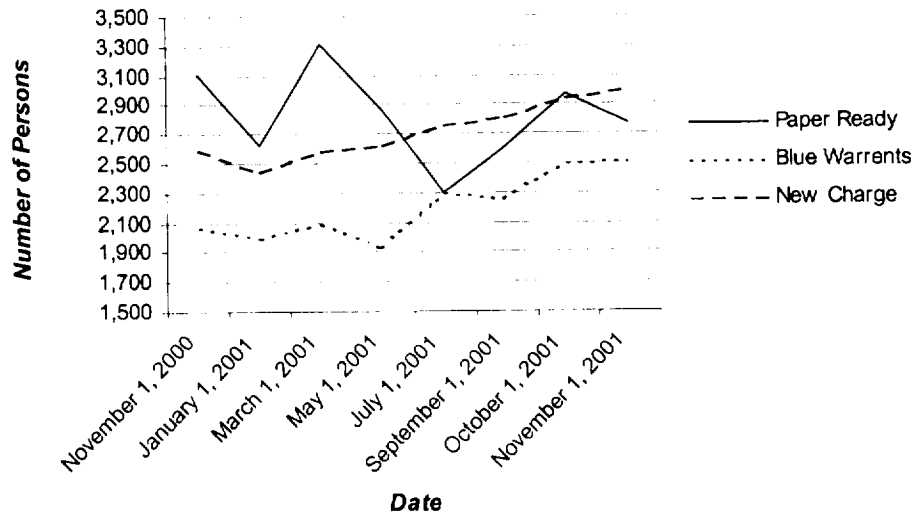


Figure 2: Pattern of change in the number of persons in paper ready and parole status. From Table 9.

This analysis, in general, suggests that in the short term the TDCJ is not likely to increase its use of the facility. If, however, the pattern defined by the longer-term historical records and the most recent trend in numbers of persons in paper ready and parole violator status continues as shown in Table 9, TDCJ bed need can likely again increase over available capacity.

The Immigration and Naturalization Service

The INS makes use of beds in local secure facilities to house individuals awaiting adjudication or deportation. Length of stay in a facility is generally short and the number of individuals housed on a given day is highly variable.

This agency has been, and continues to be, a user of the NCCC. It is anticipated to remain a client. Although using a small percentage of the facility's capacity, the per diem payment received by the NCCC from the INS is significantly higher than that paid by TDCJ.

Although INS detainees housed in the NCCC can be brought from anywhere in the United States the number of individuals apprehended in what the INS defines as the Southwest Border is indicative of the volume of detainees under jurisdiction of the INS and the potential for NCCC to continue serving this market. Recent historical totals as well as projections are shown in the following table.

Year	Southwest Border Apprehensions
1997	1,368,707
1998	1,516,680
1999	1,537,000
2000	1,643,679
2001	1,235,717
2002	1,418,662
2003	1,404,764
2004	1,390,866
2005	1,376,968

Table 10: INS Southwest Border apprehensions. Southwest Border apprehension data from *Southwest Border Apprehension Annual Report*, Immigration and Naturalization Service, US Department of Justice 2000.

As the figures in Table 10 illustrate a high number of apprehensions have occurred in the Southwest Border area in recent years. Although some decline is projected in the next few years the total in 2005 is anticipated to be higher than projected for the current year. Recent events that have brought illegal entry into the United States into public notice suggest that the projections may be low. This is further reinforced by organizational change currently underway to improve the effectiveness of INS law enforcement efforts.

The US Bureau of Prisons

Although the BOP is not viewed by the Operator as a target client for the NCCC an evaluation of the anticipated need of that agency is useful in identifying a potential client agency that can be considered a source of inmates if TDCJ continues to experience a declining need for contract beds.

The BOP operates a system of 98 institutions located throughout the United States. In addition, the BOP contracts for detention services with eleven facilities operated by local governments and private companies. A number of specialized facilities are also used by the Agency. Individuals housed in these facilities have been convicted of, or are accused of, Federal law violation. Sentences imposed range from less than one year to life.

In July 2001, 153,308 inmates were in BOP custody. This represented an increase of 24,169 inmates since September 30, 1999. Of the total inmates in BOP custody on July 2001, 129,336 were confined to the 96 BOP operated facilities located throughout the country. The balance of 23,972 was assigned to a variety of community corrections centers, detention centers, contract facilities, privately managed prisons and home confinement.

At the end of FY 1999, occupancy of the BOP system was 31% over capacity. By June 2000, the overcrowding rate had reached 34%. Projections by BOP indicate that by 2005 its total inmate population will reach 194,687, an increase of 41,379 inmates in the next four years.

The most recently available data on inmates by security level shows that 23% of the BOP population is classified as minimum security and another 35% is classified as low security, the more likely type of inmate that would be assigned to the facility.

Federal Prison Population Over Time

Since 1970 the Federal prison population has grown at a steady pace. With a total population of 21,266 in 1970 the system saw a 621% increase to 153,308 inmates in July 2001.

Change in the Federal prison population housed in BOP owned and operated facilities between 1970 and 2000 is shown in the following table.

Year	Population	
	Total	Sentenced
1970	21,266	20,686
1980	24,252	19,023
1990	54,613	46,575
2000	122,750	111,885

Table 11: Total population of BOP facilities. Excludes contract facilities, home confinement, community corrections centers and short-term detention.

The impact of drugs on crime and the level of incarceration is readily seen by the percentage of the sentenced prisoners who are drug offenders. In 1970 that percentage was 16.3%, by 1990 it had increased to 52.2% and in 2000 it stood at 56.9%.

Recent Change in the Total BOP Inmate Population

A dramatic increase in the BOP population has occurred since 1995. In 1995, a total of 89,528 persons were in the custody of BOP. By June 2001 that number had grown to 153,308. Concurrently, a significant increase in the number of BOP inmates housed in privately managed and contract facilities also occurred. The change in the past seventeen months is illustrated in the following table.

Date	Total BOP Population			Total
	BOP Facilities	Private Facilities	Contract	
February 29, 2000	120,322	3,731	6,252	130,305
March 8, 2001	126,726	5,651	7,477	139,854
April 18, 2001	127,268	6,254	7,830	141,352
June 21, 2001	129,237	7,057	7,939	144,233
July 6, 2001	129,336	7,384	7,880	144,600
November 8, 2001	131,419	8,090	9,374	148,883

Table 12: BOP population change February 2000 to November 2001. Excludes home confinement, community correction centers and short-term detention. From *Weekly Population Report*, Federal Bureau of Prisons, US Department of Justice, for the indicated weeks.

Over this approximately twenty-one month period BOP's total incarcerated population increased 14.26 percent. However, the population in BOP operated facilities grew at the lesser rate of 9.22 percent. Use of private facilities increased dramatically by 116.83 percent while contract facility use grew by 49.94 percent. Numerically, the two categories of rental use grew from 8.30 percent of the total BOP population in 2000 to 11.73 percent in July 2001. This illustrates a continuing trend by BOP to use supplementary facilities. Moreover, a steep growth trend in total population is clearly indicated.

Current Use of Long-Term Contract Beds by BOP in Texas

In November 2001 BOP was contracting for inmate housing with four local governments in Texas. A facility in Big Spring was housing 2,530 inmates while 1,269 inmates were being housed in Eden. An additional 986 inmates were confined in Garza County and 1,979 beds were being used in Reeves County.

Recent change in the BOP population housed in Texas long-term contract facilities is shown in the following table. During the approximately 21-month period shown in the table BOP has increased its use of contract beds in Texas by 1,555.

Facility	BOP Inmates Housed Under Contract in Texas					
	Feb 00	March 01	April 01	June 01	July 01	Nov 01
Big Spring	2,592	2,323	2,414	2,382	2,395	2,530
Eden	1,325	1,206	1,128	1,256	1,205	1,269
Garza	241	982	990	1,004	1,018	986
Reeves	1,051	1,614	1,802	1,953	1,918	1,979
Total	5,209	6,125	6,334	6,595	6,536	6,764

Table 13: BOP inmates housed under contract in Texas facilities, change from February 2000 to November 2001. From *Weekly Population Report*, Federal Bureau of Prisons, US Department of Justice for the indicated weeks.

Use of long-term contract beds nationally by BOP increased by 49.94 percent during the 21-month period indicated in Table 12. In comparison, use of long-term contracts by BOP in Texas grew by 29.85 percent during that same period.

New Construction Planned by BOP

BOP defines new construction as a key element of its strategy for meeting its bed space needs. Four new facilities containing a total rated capacity of 3,901 beds have been identified by the Bureau to become fully operational in the current year. Projections indicate that six new facilities will be completed in FY 2001-2002. These six institutions will add a capacity of 6,046 beds. By 2003 or 2004 according to the BOP, seven additional facilities are expected to begin activation, adding 7,744 beds. If this schedule is met 17,691 new beds will be added to the BOP system nationwide by 2004.

Planning is also underway for 17 new BOP facilities that are expected to add 19,200 beds in FY 2005 and subsequent years. As currently defined, BOP projects to add 36,891 beds to its system in this decade. Use of contracts also continues to grow. Contracts have recently been awarded to Corrections Corporation of American for operation of 2,048 beds in California and 1,012 beds in New Mexico. BOP is also increasing the use of IGA's. Expansions to facilities currently operated under IGA's have been approved for 544 beds in Big Spring, Texas and for 1,000 beds in Reeves County, Texas. IGA's have recently been negotiated for 1,094 beds in Garza County, Texas and for 1,000 beds in Greensville, Virginia. BOP is also authorized to seek appropriate privatized beds to house low security inmates.

BOP's potential bed availability in its own facilities is summarized in the following table.

<i>Planning Period</i>	<i>Beds Added</i>
2001	3,901
2002	6,046
2004	7,744
2005 + Beyond	19,200
Total Projected	36,891

Table 14: Beds projected to be added to the BOP owned and operated system. Source: *Strategic Plan 2000 – 2005*, US Department of Justice.

BOP Overcrowding

BOP is currently experiencing overcrowding in its facilities and has exhibited this situation for a number of years. Although a significant number of new beds have been added to BOP's facility

inventory overcrowding has continued. The following table illustrates the pattern of overcrowding since 1998.

Year	Bed Added	% Overcrowding by Security Level		
		High	Medium	Low
1998	3,029	56%	48%	27%
1999	3,530	51%	51%	36%
2000	6,695	69%	58%	36%
2001	3,765	78%	47%	26%

Table 15: Overcrowding in BOP facilities, 1998 – 2001. Source: *Fiscal Year Performance Report and Fiscal Year 2002 Performance Plan*, US Department of Justice.

As can be seen in the above table the level of overcrowding at the high security level has increased significantly over the past four years while overcrowding at the medium and low security levels has declined slightly. However, the degree of overcrowding at those levels remains significantly high. Overall, the level of overcrowding is approximately 34%.

Projected BOP Population

Increase in the number of persons for whom the BOP is responsible is expected to continue for the foreseeable future. The Bureau of Justice Statistics (BJS) has prepared a five-year projection of the total national prison and jail population that serves as a source for estimating the potential BOP population through 2005. The three projection scenarios defined by that forecast are shown in the following table. Local jail inmates are not shown.

Year	Number of State and Federal Inmates by Scenario		
	Assumption 1	Assumption 2	Assumption 3
12/31/00	1,325,400	1,326,400	1,323,500
12/31/01	1,366,800	1,371,200	1,359,200
12/31/02	1,408,300	1,418,600	1,390,100
12/31/03	1,449,700	1,468,800	1,401,500
12/31/04	1,491,200	1,521,800	1,435,000
12/31/05	1,532,600	1,578,300	1,448,300

Table 16: Projection of State and Federal Prison Population. From *Prison and Jail Inmates at Midyear 2000*. Bureau of Justice Statistics, Office of Justice Programs, US Department of Justice, March 2001.

As illustrated in the above table the number of persons in custody of the Federal Bureau of Prisons and the 50 state prison systems may increase by 11 to 23 percent within the next five years.

The projection scenarios shown in Table 16 do not separate state from Federal inmates; however, a projection of the potential BOP population can be derived through an analysis of the historical percentage of BOP population to the total state and Federal prison population. This is illustrated in the following table.

<u>Year</u>	<u>BOP % of Total State/Federal Population</u>
1990	7.9
1991	8.1
1992	8.5
1993	8.9
1994	8.6
1995	8.3
1996	8.4
1997	8.6
1998	9.0
1999	9.8
2000	10.0

Table 17: BOP inmates as a percentage of the national state and Federal prison population. Calculated by GSA, Limited from tables contained in *Jail and Prison Inmates at Mid Year 2000*, Bureau of Justice Statistics, Office of Justice Programs, US Department of Justice, March 2001.

Applying the average annual rate of increase of BOP population as a percent of the total state and Federal inmate population to the projections contained in Table 16 yields the following forecast of BOP population.

<u>Year</u>	<u>Number of BOP Inmates by Projection Scenario</u>		
	<u>Assumption 1</u>	<u>Assumption 2</u>	<u>Assumption 3</u>
2001	141,054	141,508	140,269
2002	149,984	151,081	148,046
2003	159,322	161,412	154,025
2004	169,102	172,572	162,729
2005	179,314	184,661	169,451

Table 18: Projected number of BOP inmates. Calculated by GSA, Limited from projections of the total number of state and Federal inmates prepared by the US Bureau of Justice Statistics.

The forecasts shown in Table 18 suggest that the BOP population will be between approximately 169,451 and 184,661 in 2005, an increase of between 16,143 and 31,353 within the next four years. An estimate prepared by BOP, however, forecasts that the population will reach 194,687 by 2005, approximately 10,000 inmates more than the high scenario derived from the BJS projection.

BOP Population and Bed Increase Projections Compared

The most conservative projection of BOP population (Assumption 3) suggests that the number of inmates for which POB is responsible will grow to 169,451 by 2005. With 10.80 percent of the BOP population typically not housed in prisons it can, thus, be derived that a prison population increase of 6,541 can be expected. During this same period BOP estimates that it will add 17,691 beds. Not taking into account current overcrowding this leaves an increase in added capacity over demand of 11,150 beds. If Assumption 2, the high projection, is used the increased demand will be 20,109 leaving a deficiency of 2,418 beds. It should be noted that the 2001 count used by the Bureau of Justice Statistics as the projection base is roughly 4,000 lower than the July 6, 2001 actual count, thus these estimates must be viewed as conservative.

Projected BOP Contract Population in Texas

With a national population housed in BOP facilities, private facilities and contract facilities of 144,600 in July 2001, BOP was housing approximately 14% of its population in Texas with 4.24% of the total population assigned to contract facilities in the State.

Using 4% of the BOP population as the possible market for contract facilities in Texas yields the following potential numbers of BOP inmates that could be assigned to facilities not directly operated by the BOP in Texas.

<i>BOP Inmates</i>		
<i>Year</i>	<i>National Total</i>	<i>Contract In Texas</i>
2002	151,081	6,406
2003	161,412	6,844
2004	172,572	7,317
2005	184,661	7,830

Table 19: Projected use of contract beds in Texas by BOP. National total projection from Table 18 reflecting Assumption 2, the high range projection.

The projection shown in Table 19 uses the high range projection developed from a projection prepared by the Bureau of Justice Statistics. Use of this projection may offer a conservative estimate reflecting the fact the Bureau of Justice Statistics used a 2001 baseline that is approximately 4,000 inmates less than the actual count by BOP at the midpoint of that year. As the projection shows contract bed use in Texas by BOP could grow from the current 6,125 beds to 7,603 in 2005, an increase of 1,478.

The defined projections of potential BOP need in Texas shown in the following table are likely to be conservative due to a projection baseline that is less than actual population. Countering that, the projections include an addition of 960 beds at the Reeves Detention Center. These beds are likely to be constructed and are equally likely to be offered to the BOP. It is possible, however, that some of these beds could be made available to the USMS given the high level of need by that agency in the Pecos District, in which the Reeves Detention Center is located, and the location of a Federal courthouse in Pecos City.

<u>Year</u>	<u>Available Beds</u>	<u>Need</u>	<u>Unmet Need</u>
2002	6,125	6,406	281
2003	7,085	6,844	-241
2004	7,085	7,317	232
2005	7,085	7,830	745

Table 20: Potential demand for BOP contract beds in Texas. Based on the assumption that the current percentage of BOP contract beds in Texas will remain constant.

Although need projections are not available for the period after 2005, the BOP projects it will add an additional 19,200 beds in 2005 and beyond. Even if the BOP adds all of the projected, and as yet unfunded, additional beds, the system may still be operating at over 100% of its rated capacity.

Other State Governments

Texas counties have a relatively long history providing beds for rent to other state departments of correction. Many states including Hawaii, Montana, Wyoming, Oregon, Virginia, Missouri and Wisconsin have sent sizeable numbers of inmates to county jails in Texas. Today, however, that use has diminished dramatically with the TCJS reporting that in May 2001 the only non-Federal out-of-state inmates being held in Texas were 79 from the State of Arkansas being held in Texarkana.

Other state departments of correction have declined as a market for a variety of reasons. Chief among these has been the building programs of other states and the development of contract facilities in other states. The cost of housing out-of-state combined with political pressure to keep money at home has also contributed.

Projections indicate that the total population of the Nation's state prison systems is expected to increase by approximately 95,000 to 209,000 over the next four years. Fiscal problems being faced by state and local governments today suggest that construction programs to meet this possible demand will be difficult to achieve. At the same time the factors mentioned above should work to encourage development of beds within the states in which they are needed. Consequently, bed demand exceeding availability is likely in other states but it is equally likely that out-of-state housing will not be considered by most states.

Other Local Governments

It is common practice for county governments to contract with other jurisdictions to house some or all of the inmates being held in their custody. Overcrowding at the county level has been

common throughout the United States for many years and many counties have had limitations placed on their jail use because of physical conditions as well as the lack of ability to meet necessary standards.

Because most inmates held in local jails are in trial status, necessitating frequent appearances in court, or serving relatively short sentences, housing at a distance is not cost effective. Most local governments will attempt to find space in close proximity. Consequently, it is likely that if the NCCC were to obtain inmates from other local jurisdictions they would be from adjacent counties.

An analysis of the bed capacity and inmate population of counties within an approximate 90-minute drive of the City of Newton is shown in the following table.

County	Jail Capacity	Population 11/01/01	% Capacity
Angelina	111	103	92.79%
Hardin	127	104	81.89%
Jasper	50	33	66.00%
Jefferson	1,244	945	75.96%
Orange	327	162	49.54%
Polk	119	94	78.99%
Sabine	17	12	70.59%
San Augustine	30	7	23.33%
Shelby	66	37	56.06%
Tyler	43	41	95.35%
Total	2,134	1,538	72.07%

Table 21: Current capacity and occupancy of county jails within approximately 90 minutes driving time of the City of Newton. From, *Daily Population Report*, Texas Jail Standards Commission, November 1, 2001.

On the surface it may appear that a relatively substantial excess number of beds is available in the ten County area described in Table 21. If operational capacity is defined, as suggested by the Texas Commission on Jail Standards, as 90% of the total bed capacity then there were 383 beds available in the region on November 1, 2001. On that day, two counties were operating at between 92 and 95% while all others were well below an ideal operational capacity of 90%.

This analysis suggests that counties in the immediate proximity of Newton cannot be considered as potential clients. At the same time the number of available beds in each of the counties, with the exception of Jefferson, is not sufficient to suggest that they would offer significant competition to the NCCC. Jefferson may, however, be defined as having a marketable number of excess beds. This excess has developed primarily because it is a contract facility for TDCJ and has experienced the same cut back percentages, as has NCCC. Significantly, the same firm operates Jefferson and NCCC.

Summary of Bed Use Potential

TDCJ's projected bed need based on the experience of the past year is diminishing and would appear to be available in the State's own facilities through approximately 2005. This then suggests that a complete withdrawal of all TDCJ inmates from the NCCC is possible. Factors such as the ability of the TDCJ to adequately staff its own facilities and political pressures from the counties in which contract facilities are located could, however, work to limit a 100% withdrawal from contract facilities. It is impossible to measure the impact of these factors but it can be reasonably assumed that proper staffing of TDCJ facilities and large-scale movement of inmates requires time and incurs a cost. This is underscored by statements in a letter to the County Judges of Newton, Dickens and Jefferson Counties dated August 6, 2001 from the TDCJ stating that the agency will attempt to keep the daily population levels in those facilities as close to 100% as possible.

Long term patterns in TDCJ population suggest that the trend indicated over a relatively limited time period may be inconsistent with past cycles when a large number of beds were constructed and rapidly filled necessitating another round of construction, a pattern that has occurred since the 1980's. Moreover, the fact that the recent decline is reflective of increased emphasis on parole and probation could, in itself, produce a rapid increase in jail and prison commitments as individuals on release commit crimes or violate the conditions of their release. Preliminary evidence of this can be seen in the rising numbers of persons in parole violation status exhibited since July 1, 2001 as shown in Table 9 and Figure 2.

Also indicative of the likelihood that demand on the system will increase is the growth in paper ready inmates since July 2001. When a system's bed capacity is limited sentencing and sentence length along with law enforcement emphasis tends to be reduced. When beds are available these actions intensify.

Statistical projections and historical events aside, several factors support an argument that the NCCC will be able to sustain a viable TDCJ population level. The TDCJ budget for the fiscal years ending August 31, 2002 and 2003 states that it is the intent of the Legislature that "full consideration be given to utilizing existing correctional facilities located in the State of Texas and currently owned and operated by federal or local governments". Further, the budget document states "Appropriations to the Department may be used for the purpose of leasing, purchasing or contracting for operations if agreements can be reached which can be beneficial to the State". These statements suggest a continued interest in contractual services. Authority in the budget document to permit transfer of funds within the budget adds emphasis to that assumption.

Adding to an apparent recognition that bed capacity need will continue at a possible higher level is the \$18,000,000 and \$78,000,000 budgeted in 2002 and 2003, respectively, for facility construction and lease purchase of facilities to provide adequate housing to ensure that inmates are accepted by TDCJ within 45 days of reaching paper ready status. This implies the potential need for increased capacity as well as the possibility that funds may be reallocated to bed

contracts if construction and staffing cannot keep pace. The budget also assumes that the number of contract and State Jail beds will remain constant at 11,375 through the two-year budget period with a \$10,000,000 funding increase in 2003 over 2002.

A clear concern on the part of the Texas legislature that adequate capacity must be maintained and that contract facilities are a part of its strategy can be seen in a policy defined in the budget document directing that TDCJ review its contracts with local facilities to ensure that an adequate rate is being paid. It specifically directs that facilities receiving the lowest rate and those not having a rate increase for the longest period of time be reviewed first.

These factors, in total, suggest that complete withdrawal of TDCJ inmates from contract facilities may not occur and that the TDCJ will maintain a capability to use these beds if needed. Combined, these statements also suggest a legislative commitment to continued use of contract beds and a financial incentive to ensure that beds will be available to the State as needed.

Continued availability of INS bed contracts appears likely. Although the highly variable nature of INS bed use makes it difficult to project specific numbers of detainees on a daily basis several factors suggest a continued, and possibly increasing, use level:

- The NCCC is located in reasonable proximity to Houston with its federal courts and its international airport used for air transfer of detainees and the NCCC provides an inmate transfer service to INS.
- Projections by INS of Southwest Border Apprehensions prepared over one year ago show a modest annual decline through 2005 but the level remains higher than that projected for 2001 and higher than the actual number in 1997. With the recent focus on the number of illegal aliens at large in the United States it can be expected that, at least in the short term, INS will increase its apprehension level. Using the recent INS population in the NCCC and the INS apprehension projections for the next four years suggests an average daily population of approximately 56 is possible.

Although other state correctional systems are potential clients, trends suggest that in those states where a bed deficiency exists the state will develop facilities or private companies or other government entities to meet the need in the state will construct contract facilities. The fact that the NCCC is available, has a history of serving other states and is operated by a multi-facility operator does, however, indicate a potential to attract contracts from other states on an interim basis. This has not been a market for the NCCC in recent years and officials of the Operator do not see it as a priority.

It can be seen in Table 19 that the potential bed need of BOP in Texas is increasing. Several factors, however, suggest that this may be a conservative estimate:

- The total national BOP population derived from the Bureau of Justice statistics projection of total state and Federal inmates falls well short of BOP's own projection. A 2005 estimate of 184,661 inmates can be derived from the BJS high estimate while the BOP estimate is 194,687. If the latter were applied in Table 19 the unmet need in 2005 would be 1,170.

- The estimate presented in Table 19 does not reflect a reduction in BOP overcrowding. With its stated goal of reducing overcrowding it can be assumed that BOP will utilize contract beds as a part of that effort.
- The BOP's planned construction program nationally compared to the Assumption 2 projection of its national population shows a deficiency of approximately 2,400 beds in 2005. Again, this does not reflect reduction in overcrowding and is based on a current population baseline of approximately 4,000 less than the current population level today.

BOP has not been a market for the NCCC and is, as are other states, not viewed by the Operator as a market priority. These figures do, however, suggest that there is potential to approach BOP if the facility's target markets are unable to produce the necessary occupancy. As mentioned earlier, the physical structure of the NCCC allows for housing multiple populations with separation.

Figures presented in Table 21 suggest that local governments in the region surrounding NCCC cannot be viewed as potential clients. At the same time, with the exception of the Jefferson Correctional Center, these facilities do not represent potential competition.

Potential Cash Flow

Uncertainty exists relative to the level of occupancy and the mix of client agencies that the NCCC will be able to sustain in the future. The analysis presented above, however, suggests that a number of indicators define the likelihood that the current clients of the facility will continue to use its beds. Change in the mix may occur with the TDCJ using fewer beds while INS use increases. With a significantly higher rate paid by INS this could be a positive direction in terms of cash flow.

Because of the uncertainty in projecting occupancy numbers and client agency mix, an analysis of several occupancy levels illustrates the potential cash flow picture. These are shown in the following table. Several assumptions were made in developing this analysis. First, the recent level of facility use by the INS and Newton County is held constant. The discussion of potential use of the facility presented previously suggests that INS use could increase and if this occurs, the revenue stream would improve due to the higher rate paid by that agency. However, for purposes of this analysis the INS occupancy is held constant because of the difficulty in establishing a supportable projection of use level.

A second assumption used as a base for the cash flow analysis is that staff, resident and occupancy costs will reduce with a lower population level while all other costs will remain constant. It is further assumed that if the cash flow reaches a negative position, man-day fee payments to Newton County will be suspended. No change in the current per diem rate schedule is assumed.

Table 22 illustrates this analysis with a projection of cash flow based on the TDCJ population level remaining at its current level. Projections of the TDCJ population levels needed to break-even with and without the County man-day fee are also presented in the table. Debt service is calculated based on a 17 year retirement period.

As Table 22 shows, if TDCJ makes no further population reductions the facility will operate with a positive cash flow inclusive of continued payment of man day fees to Newton County. The break-even point for the Facility would occur at a TDCJ average daily population of 327 including payment of the County man-day fee. If the County forgoes that fee, break-even would reduce to a TDCJ average daily population of 289. In all cases it is assumed that INS and County average daily population remains constant consistent with past history.

Revenue/Expense Category	Daily Rate	Current Level		Break Even		Break Even	
		Annual Man-days	Cash Flow	With County Fee Annual Man-days	With County Fee Cash Flow	W/O County Fee Annual Man-days	W/O County Fee Cash Flow
Revenue							
Contracted Beds							
TDCJ	\$39.75	178,485	\$7,094,779	119,506	\$4,750,365	105,785	\$4,204,967
INS	52.00	17,885	930,020	17,885	930,020	17,885	930,020
Newton County	25.00	2,555	63,875	2,555	63,875	2,555	63,875
Total Bed Rental		198,925	\$8,088,674	139,946	\$5,744,260	126,225	\$5,198,862
Other Revenue			\$215,002		\$151,256		\$136,426
Subtotal Revenue			\$8,303,675		\$5,895,516		\$5,335,288
Less County Man-day Fee			\$296,398		\$208,520		
Adjusted Revenue			\$8,007,277		\$5,686,996		\$5,335,288
Total Operating Expenses							
Compensation			\$2,769,504		\$1,948,378		\$1,757,354
Payroll Taxes & Benefits			596,181		419,420		\$378,299
Resident Expenses			1,081,662		760,962		\$686,355
Employee Expenses			43,771		30,793		\$27,774
Professional & Consulting			210,073		147,788		\$133,299
Professional & Consulting			13,967		9,826		\$8,863
Occupancy			67,579		47,542		\$42,881
Utilities			316,387		222,582		\$200,759
Other Operating Expenses			121,450		121,450		121,450
Travel and Entertainment			28,251		28,251		28,251
Insurance			122,739		122,739		122,739
Taxes			198,799		198,799		198,799
Deprec/Amort/SU/DD/Other			101,905		101,905		101,905
Total Operating Expenses			\$5,672,268		\$4,160,436		\$3,808,728
Facility Based Cash Flow			\$2,335,009		\$1,526,560		\$1,526,560
Debt Service							
17 Year			\$1,526,560		\$1,526,560		\$1,526,560
Net Annual Income			\$808,449		\$0		\$0

Table 22: Cash flow projections for the NCCC. Debt service amount provided by Municipal Capital Markets. Operating expenses, other revenue and County man-day fee provided by the Operator and adjusted by the Consultant to reflect per bed cost.

The break-even point, with the County man-day fee payment continuing and a 17-year debit retirement schedule, represents 37.55% of total capacity occupied by TDCJ. With the man-day fee deferred the break-even level represents 33.24% TDCJ occupancy. If TDCJ occupancy were to be reduced to 0%, an average daily occupancy of 210 INS detainees would produce a break even, assuming no County man-day fee payment and debt retirement over 17 years.

Ability of the NCCC to Retain the Necessary Occupancy

Although the NCCC has recently experienced a drop in population as a result of the TDCJ moving inmates to its own facilities and projections of that agency's population indicate that its population is declining, several factors suggest that the level of occupancy that can be provided by TDCJ and INS will remain at a level necessary to meet the facility's cash flow needs. Moreover, the cash flow analysis presented above indicates that a substantial reduction in TDCJ occupancy is possible before the break-even point is reached and a relatively low level of occupancy would be needed if the facility were to serve INS exclusively.

With CSC continuing as the operator, the facility gains the advantage of that company's multiple operations in Texas. This gives the company the ability, contingent on acceptance by the counties with which it works, to move inmates among its facilities. Additionally, the experience of the NCCC in serving the INS and the location of the facility within an area where a high level of INS demand exists defines the potential opportunity to attract increased use by that agency.

In summary, it is difficult to tabulate specific numbers of inmates potentially available from other sources particularly in light of the recent fluctuations in TDJS population and the events currently driving change in the INS. However, the potential list of agencies that could possibly use the NCCC offers a significant degree of flexibility. Key to these agencies offering the needed inmates is the ability of CSC to achieve flexibility in coordinating the use of its multiple facilities in Texas.

Appendix A

Qualifications of GSA, Limited and the Principal Consultant

Based in Durham, North Carolina GSA, Limited specialized exclusively in facility and service delivery planning and needs assessment for government. Although working with the full spectrum of government operations, the justice system represents a significant focus of the Firm's work. GSA, Limited serves the justice system nationally preparing detention and correction beds needs assessments, court system projections, facility programs, court staffing studies, courtroom utilization analyses, law enforcement workload projections and facility location studies. The firm is an organization dedicated to developing objective determinations of justice system needs derived from operational and functional analysis. Staff understands justice system operations and the financial realities of local government.

With a corporate background extending back to 1949, GSA brings the experience of working with more than 400 city, county and state justice systems and governments in virtually every state. Court system clients have ranged in size from the City of New York to Nye County, Nevada (one judge). Geographically the location of systems served has extended from San Diego County, California to Bergen County, New Jersey. Similarly, the firm's work with detention and corrections encompasses detention systems as large as Orange County, Florida with over 3,000 beds to county jails as small as 16 beds.

Preparation of independent feasibility analyses of proposals to construct correctional facilities using revenue bond financing evolved as a specialty service offered by the Firm in the early 1990's. To date 20 such studies have been prepared by the Firm for projects proposed in Texas, Georgia, Alabama, Louisiana, New Mexico and Arizona.

Law enforcement agencies served by GSA, Limited have included the City of Charlotte, NC; Metro Dade, FL; the New Jersey State Police; the City of Cocoa, FL; Sacramento, CA; Broward County, FL; Montgomery County, MD and Lexington-Fayette Urban County, KY.

The following are some of the **judicial systems** GSA, Limited has served:

San Diego County, CA	Caswell County, NC
San Joaquin County, CA	Cumberland County, NC
State of Colorado	Davidson County, NC
City and County of Denver, CO	Durham County, NC
Douglas County, CO	Guilford County, NC
Dade County, FL	Haywood County, NC
Orange County, FL	Transylvania County, NC
Cook County, IL	Allegheny County, PA
Kane County, IL	Blair County, PA
McHenry County, IL	Lawrence County, PA
Winnebago County, IL	Northampton County, PA
City of Carson City, NV	Colleton County, SC
Nye County, NV	State of Utah
Bergen County, NJ	Arlington County, VA
Camden County, NJ	Charles City County, VA
Mercer County, NJ	Loudoun County, VA
Middlesex County, NJ	Prince William County, VA
Morris County, NJ	Rockingham County, VA
City of New York, NY	Clark County, WA
Alamance County, NC	Ozaukee County, WI
Beauford County, NC	City of Baltimore, MD

Detention and corrections clients served by GSA, Limited include:

Hood County, TX	Guilford County, NC
City of New York, NY	Durham County, NC
Kankakee County, IL	Cook County, IL
Northampton County, PA	Colleton County, SC
Baltimore County, MD	San Joaquin County, CA
Douglas County, CO	Garza County, TX
Delaware County, PA	Prince William County, VA
City of Jonesboro, LA	Nye County, NV
Monroe County, PA	Haywood County, NC
Walworth County, WI	City of Pecos, TX
State of North Carolina	Coleman County, TX
Zapata County, TX	Cumberland County, NC
State of Virginia	Haskell County, TX
The Navajo Nation, AZ	Wake County, NC
Dougherty County, GA	City of Monahans, TX
Orange County, FL	Dickens County, TX

Law enforcement clients served by GSA, Limited include:

City of Charlotte, NC	City of Sacramento, CA
Lexington Fayette Urban County, KY	City of Cocoa, FL
Broward County, FL	Maryland State Police
City/County of Denver, CO	Montgomery County, MD
Arlington County, VA	Howard County, MD
City of Dublin, OH	City of Gaffney, SC
Boston Metropolitan Police, MA	City of Hilliard, OH
Metro Dade, FL	Orange County, FL

The background of the principal consultant for this study is as follows:

Resume of Howard R. Geisler, Justice Facility Planner

As a specialist in government operational needs planning, Mr. Geisler has more than thirty five years consulting experience that includes a varied background in demographic analysis, staff needs projection, space programming, facility use problem solving, and government service delivery planning.

Mr. Geisler has served in planning positions with both city and county government. He was previously employed as a senior staff member with two consulting firms serving government clients throughout the United States. He has conducted a wide range of planning, management and facility use and operations studies for over four hundred governmental jurisdictions.

Although he works with a wide range of local government service delivery and operations issues, the justice system represents a significant element of Mr. Geisler's work. He has directed a wide range of studies for detention/correction, law enforcement and court systems throughout the United States. His work with detention and corrections facilities has included more than 100 bed needs assessments and space and architectural programs. It has also encompassed post analyses, staffing plan preparation and policy and procedure manual development. An extensive range of jurisdictional size has been included in this work. He has completed studies for detention systems with over 8,000 beds and for systems as small as 16 beds.

Detention and Corrections projects completed by Mr. Geisler include architectural programs for 1,500 and 500 bed maximum-security state institutions for the Commonwealth of Virginia. Other examples of completed projects include an architectural program and staffing plan for a 600-bed jail for Dougherty County (GA), an architectural program and policy manual for a 125-bed jail for Collection County (SC), a bed need analysis for a 6,000 bed system in Orange County (FL) and a needs assessment for the Cook County (IL) detention and criminal courts system. His corrections work has also included a warehouse system plan for the New York City Department of Corrections and a needs assessment for the City's court system (five counties), a needs assessment for the Haywood County (NC) justice system and a needs assessment for the Durham County (NC) justice system.

Mr. Geisler has prepared feasibility studies for 20 revenue producing correctional facilities. These have included recent studies for Zapata, Coleman, Hood, Karnes and Dickens Counties as well as the cities of Pecos City and Monahans, all in Texas, and for the City of Jonesboro, in Louisiana, relative to the feasibility of constructing correctional facilities for contract use. He has also recently completed a feasibility study for a unique contract correction facility being planned by the Navajo Nation in Arizona.

Resume of Howard R. Geisler, Justice Facility Planner (continued)

He also works extensively with courts and law enforcement. His experience with the court system has included preparation of needs assessments and master plans for the City of New York (NY), Randolph County (NC), Denver (CO), Bergen County (NJ), Transylvania County (NC) and Dade County (FL). He has prepared law enforcement facility master plans for more than 60 jurisdictions including Charlotte (NC), Brookline (MA), Cathedral City (CA), Cocoa (FL), Metro Dade (FL) and the New Jersey State Police.

Mr. Geisler has also worked extensively with the juvenile justice system and has completed a master plan and operational budget for a twelve county regional juvenile detention center in South Carolina, space needs plans for five North Carolina State Training Schools, a study of juvenile detention needs in a 20 county area in Texas and a juvenile justice center for Northampton County (PA). He has also prepared bed need studies and space plans for juvenile justice systems in Colorado, Oregon, Washington and Utah.

Mr. Geisler's background also includes experience working as part of a program manager's team as well as serving as an advisor to counties implementing justice system needs assessments.

Relevant Detention and Corrections Project Experience

Durham County, NC
Cook County, IL
Baltimore County, MD
Walworth County, WI
Warren County, VA
Wake County, NC
Botetourt County, VA
Colleton County, SC
Nye County, NV
Douglas County, CO
City of New York
Delaware County, PA
Monroe County, PA
Jackson County, NC
Beaufort County, NC
Guilford County, NC
Davidson County, NC
Orange County, FL
Coleman County, TX
Hood County, TX
The City of Jonesboro, LA
Dickens County, TX

Garza County, TX
Isleta Del Sol Nation, TX
Jackson County, TX
Liberty County, GA
Clark County, WA
Douglas County, OR
Flathead County, MT
Dougherty County, GA
State of Virginia
Buncombe County, NC
Henry County, VA
Prince William County, VA
Franklin County, NC
Hertford County, NC
Karnes County, TX
The Navajo Nation, AZ/NM/UT
Zapata County, TX
Kankakee County, IL
Wake County, NC
Sandusky County, OH
Haywood County, NC
Pecos City, TX

Resume of Howard R. Geisler, Justice Facility Planner (continued)

Relevant Law Enforcement Project Experience

- Town of Castle Rock, CO
- City of Frederick, MD
- City of Cocoa, FL
- City of Charlotte, NC
- City of Hendersonville, TN
- City of Atlantic City, NJ
- City of South Lake Tahoe, CA
- City of Overland Park, KS
- City of Wilmington, DE
- El Dorado County, CA
- Ventura County, CA
- Montgomery County, MD
- City of Newton, MA
- City of Hayward, CA
- City of Revere, MA
- Sacramento County, CA
- City of Harrisonburg, VA
- Village of Buffalo Grove, IL
- US Secret Service
- Alamance County, NC
- Washington County, NC
- Bergen County, NJ
- Town of Brookline, MA
- Frederick County, MD
- Town of Hampstead, MD
- Mecklenburg County, NC
- Township of Cherry Hill, NJ
- City of Beloit, WI
- City of Roseville, MN
- Metro-Dade County, FL
- Broward County, FL
- Maryland State Police
- MD Public Safety Training Cntr
- City of Bloomington, MN
- Howard County, MD
- Boston Metropolitan Police, MA
- City of Sacramento, CA
- Arlington County, VA
- Borough of Hollidaysburg, PA
- Cumberland County, NC
- Borough of S. Plainfield, NJ
- Haywood County, NC
- Davidson County, NC
- Bureau of Alcohol, Tobacco & Firearms

Relevant Court System Project Experience

- Ozaukee County, WI
- Sandusky County, OH
- Haywood County, NC
- Mercer County, NJ
- Dade County, FL
- Alamance County, NC
- San Diego County, CA
- Cumberland County, NC
- Burlington County, NJ
- Randolph County, NC
- District Court of Maryland
- City/County of Denver, CO
- Nye County, NV
- Winnebago County, IL
- Olmsted County, MN
- Durham County, NC
- City of New York, NY
- Cook County, IL
- San Joaquin County, CA
- Maricopa County, AZ
- Middlesex County, NJ
- Winnebago County, IL
- Northampton County, PA
- Lawrence County, PA
- Douglas County, CO
- Bergen County, NJ

Prior to establishing his specialty in government service delivery planning, Mr. Geisler served as a city and county planner in California responsible for preparation and administration of community development plans, ordinances, and capital improvement programs.

A graduate of UCLA in geography with a specialization in urban and regional planning, Mr. Geisler attended graduate programs in planning at California State University, Northridge, and Los Angeles. He is a member of the American Planning Association and the Association of American Geographers.

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APPENDIX B

Certain Definitions

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CERTAIN DEFINITIONS

The following are the definitions of certain terms used in this Official Statement:

Acquisition Fund: The Acquisition Fund established by the Trustee pursuant to the Indenture.

Additional Bonds: Any additional bonds issued by the Issuer pursuant to the terms of the Indenture.

Bond Fund: The Bond Fund established pursuant to the Indenture.

Bonds: The Series 2002 Bonds and any Additional Bonds issued pursuant to the terms of the Indenture.

Code: The Internal Revenue Code of 1986, as now or hereafter amended, and the regulations and revenue rulings and procedures issued pursuant thereto from time to time.

County: Newton County, Texas.

County Inmate: An inmate under the jurisdiction of the County.

Deed of Trust: The Deed of Trust and Security Agreement dated as of February 1, 2002, given by the Issuer for the benefit of the Trustee.

Determination of Taxability: See "The Lease--Determination of Taxability."

Force Majeure: Without limitation, acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or any of its departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals; or any other cause or event not reasonably within the control of Lessee and not resulting from Lessee's negligence.

Government Obligations: Bills, certificates of indebtedness, notes, bonds or similar securities which are direct obligations of, or the principal and interest of which are unconditionally guaranteed by, the United States of America.

Improvements: The improvements (including furniture, fixtures, and equipment) which are located on the Land which are generally described in Exhibit A to the Lease, and any other improvements or equipment purchase with Project Revenues.

Indenture: The Trust Indenture dated as of February 1, 2002, by and between the Issuer and the Trustee.

Inmate Day: Each calendar day or part thereof during which an inmate is housed in the Project, which for each day will be determined by the Midnight Count Report; provided that for purposes of this definition "inmates" shall not include County Inmates.

Interest Payment Date: Any date on which interest is due on the Series 2002 Bonds, including February 15 and August 15 of each year commencing on August 15, 2002 and ending on February 15, 2019.

Issuer: Newton County Public Facility Corporation, a nonprofit public corporation and instrumentality of the County.

Land: The real property described on Exhibit A to the Lease upon which the Improvements are located.

Lease: The Lease Agreement (With Option to Purchase) dated as of February 1, 2002, between the Issuer, as lessor, and the County, as lessee, as the same may be amended pursuant to the Lease.

Leases: The Lease and any other leases, subleases, licenses, concessions, tenancies, management agreements, operating agreements and any other agreements creating the right of possession or the right of use without a transfer of title, whether written or oral, now or hereafter existing, and covering all or any part of the Project, together with any and all security deposits made thereunder, all extensions, amendments, modifications, renewals and replacements of any kind thereof.

Lessor: Newton County Public Facility Corporation, a nonprofit public corporation and instrumentality of the County.

Market Analysis: "An Analysis of the Potential Continued Economic Viability of the Newton County Correctional Center" dated January 28, 2002, conducted by GSA, Limited, Durham, North Carolina.

Midnight Count Report: The official numerical count of the number of inmates present at the Project at the end of each day, which for purposes of the Lease shall be determinative of the number of inmates present at the Project for the day just ended. In the event an inmate is processed into and out of the Project in less than twenty-four hours and is not in the Project at midnight, such inmate's presence shall be made a part of the official numerical count for the day such inmate arrived at the Project.

Mortgaged Property: The Land, Improvements, Fixtures, Personalty, Plans, Leases and Rents, now or hereafter acquired, together with:

(i) all rights, privileges, tenements, hereditaments, rights-of-way, easements, appendages and appurtenances in anywise appertaining thereto, and all right, title and interest, if any, of the Issuer in and to any streets, ways, alleys, strips of gores of land adjoining the Land or any part thereof;

(ii) all betterments, improvements, additions, alterations, appurtenances, substitutions, replacements and revisions thereof and thereto and all reversions and remainders therein;

(iii) all of the Issuer's right, title and interest in and to any awards, remunerations, reimbursements, settlements or compensation heretofore made or hereafter to be made by any Governmental Authority pertaining to the Land, Improvements, Fixtures or Personalty, including but not limited to those for any vacation of, or change in grade in, any streets affecting the Land or the Improvements and those for municipal utility district or other utility costs incurred or deposits made in connection with the Land; and

(iv) any and all other security and collateral of any nature whatsoever, now or hereafter given for the payment, performance and discharge of the Obligations.

As used in the Deed of Trust, the term "Mortgaged Property" is expressly defined as meaning all or, where the context permits or requires, any portion of the above and all or, where the context permits or requires, any interest therein.

Net Proceeds: Any insurance proceeds, condemnation award or sale or lease proceeds paid with respect to the Project remaining after payment therefrom of all expenses incurred in the collection thereof.

Net Revenues: For a specified period, the Project Revenues less Operation and Maintenance Costs.

Operating Account: The Operating Account within the Project Revenue Fund established pursuant to the Lease and held by the Trustee pursuant to the Indenture.

Operating Agreement: The Operations and Management Agreement dated as of February 26, 2002, between the Operator and the County.

Operating Reserve/Repair/Contingency Account: The Operating Reserve/Repair/Contingency Account within the Project Revenue Fund established pursuant to the Lease and held by the Trustee pursuant to the Indenture.

Operation and Maintenance Costs: All costs and expenses, on a monthly accounting basis, obligated to be paid by or on behalf of the County and directly arising out of the operation and maintenance of the Project by or on behalf of the County, or any portion thereof, including but not limited to, repair, upkeep and maintenance of the Project; Project staff procurement, payroll, training, certification and logistic support; procurement, purchase, production or provision of food and beverages, clothing and uniforms, bookkeeping and financial accounting staffing and services, equipment and furnishings, legal services, facility and operation standards reports and audits, and financial audits; prisoner medical care and educational and recreational programs; taxes; insurance premiums; any Operator Fee (All-Inclusive); fees and expenses of the Trustee; and the fees of the County equal to Fifty Thousand Dollars (\$50,000) per month an amount (initially \$1.50) for each Inmate Day for the previous month. The term does not include any Operator Fee (Cost-Plus), any depreciation or amortization expense, interest on any debt or other obligation, the Rental Payments, or payments by the County to replenish advances from the Reserve Fund.

Operator: Correctional Services Corporation, a Delaware corporation, with its principal offices located in Sarasota, Florida.

Operator Fee (All-Inclusive): The fees payable to any manager or operator of the Project for the provision of management and operation services under a contract which provides that normal and necessary Operation and Maintenance Costs are required to be paid by such manager or operator without any reimbursement by the County.

Operator Fee (Cost-Plus): The fees payable to any manager or operator of the Project for the provision of management and operation services under a contract which provides that Operation and Maintenance Costs paid by such manager will be reimbursed by the County from Project Revenues.

Operator Fee Account: The Operator Fee Account within the Project Revenue Fund established pursuant to the Lease and held by the Trustee pursuant to the Indenture.

Outstanding: When used as of any particular time with reference to Bonds, means (subject to the provisions of Section 9.03 of the Indenture pertaining to Bonds held by the Issuer or the County) all Bonds theretofore authenticated and delivered by the Trustee under the Indenture except: (i) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds for the payment or redemption of which funds or direct obligations of or obligations fully guaranteed by the United States of America in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to Article III of the Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of Section 2.08 of the Indenture pertaining to replacement of Bonds.

Payment Date: The date upon which any Rental Payment is due and payable as provided in Section 6.1 hereof and as set forth on Exhibit B to the Lease.

Permitted Encumbrances: As of any particular time, (i) liens for taxes and assessments not then delinquent, or which the County may, pursuant to provisions of Article VII of the Lease, permit to remain unpaid, (ii) the Lease, (iii) the Deed of Trust, (iv) any mechanic's, laborer's, materialmen's, supplier's or vendor's lien or right not filed or perfected in the manner prescribed by law or being contested in accordance with the terms of the Deed of Trust, and (v) the outstanding liens, easements, restrictions and security interests set forth on Exhibit "B" to the Deed of Trust.

Project: The Land and the Improvements.

Project Revenue Fund: The Project Revenue Fund established pursuant to the Lease and to be held by the Trustee pursuant to the Indenture.

Project Revenues: All gross payments or transfers to Trustee from any sources whatsoever, including, without limitation, the County or another depository agent of the County, arising from the operation of the Project, including without limitation (i) payments for the incarceration, detention, or housing of inmates (including inmates

under the direct jurisdiction of the County) in the Project; (ii) gross revenues generated within the Project by the provision of goods and services to inmates or other persons; and (iii) Net Proceeds; provided that all revenues relating the operation of an inmate commissary and the inmate telephone system shall not be "Project Revenues."

Purchase Price: For each Payment Date when available, the amount set forth as the Purchase Price on Exhibit B to the Lease for purchase of the Project; provided that the Purchase Price relating to damage, destruction or condemnation of the Project and the Purchase relating to the option to purchase the Project may differ and are separately set forth on Exhibit B to the Lease; or, in the event of a Determination of Taxability, the amount described in Section 6.6(b) of the Lease.

Qualified Investments: The term "Qualified Investments" means, to the extent permitted by applicable law:

(a) Government Obligations;

(b) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are in one of the two highest rating categories by Standard & Poor's Ratings Service or Moody's Investors Service, or, upon the discontinuance of either or both of such rating agencies, any other nationally recognized rating service;

(c) negotiable or non-negotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any nationally or state-chartered bank (including the Trustee) or trust company or any savings and loan association, domiciled in the State, if either (i) the long-term obligations of such bank or trust company are rated in one of the two highest rating categories by Standard & Poor's Ratings Service or Moody's Investors Service, or, upon the discontinuance of either or both of such rating services, any other nationally recognized rating service or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation, or similar corporation chartered by the United States of America, (1) by lodging with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above or, with the approval of the Trustee, other marketable securities eligible as security for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States of America or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for the deposit of trust funds;

(d) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a nationally or state-chartered bank domiciled in the State (including the Trustee), trust company domiciled in the State or a broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation if (i) such obligations that are the subject of such repurchase agreement are delivered to the Trustee or are supported by a safekeeping receipt issued by a depository satisfactory to the Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the repurchase price, (ii) a prior perfected security interest in the obligations which are the subject of such repurchase agreement has been granted to the Trustee, and (iii) such obligations are free and clear of any adverse third-party claims;

(e) commercial paper rated in the highest rating category by Standard & Poor's Ratings Service or Moody's Investors Service, or, upon the discontinuance of either rating service or both of such rating services, any other nationally recognized rating service;

(f) money market mutual funds that invest solely in obligations listed in paragraphs (a), (b) or (c) above or rated in the highest category by Standard & Poor's Ratings Service;

(g) investment agreements continuously secured by the obligations listed in paragraphs (a), (b) or (c) above, or (i) below, with any nationally or state-chartered bank domiciled in the State, trust company domiciled in the State or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) which is a member of

the Securities Investors Protection Corporation if (i) such obligations are delivered to the Trustee or are supported by a safekeeping receipt issued by a depository satisfactory to the Trustee, provided that such investment agreements must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the amount deposited thereunder, (ii) a prior perfected security interest in the obligations which are securing such agreement has been granted to the Trustee, and (iii) such agreement has been granted to the Trustee, and (iv) such obligations are free and clear of any adverse third-party claims;

(h) investment agreements with any nationally or state-chartered bank, financial institution, insurance company or trust company, domiciled in the State, which has long-term debt obligations rated in one of the two highest rating categories by Standard & Poor's Ratings Service or Moody's Investors Service, or, upon the discontinuance of either rating service or both of such rating services, any other nationally recognized rating service;

(i) certificates or receipts issued by any nationally or state-chartered bank, domiciled in the State, trust company domiciled in the State or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation, organized and existing under the laws of the United States of America or any state thereof, the outstanding unsecured long-term debt of which is rated in either of the two highest rating categories by Standard & Poor's Ratings Service or Moody's Investors Service, or, upon the discontinuance of either rating service or both of such rating services, any other nationally recognized rating service, in the capacity of custodian, which certificates or receipts evidence ownership of a portion of the principal of or interest on Federal Securities held (which may be in book entry form) by such bank, trust company or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) as custodian;

(j) tax-exempt obligations (as defined in Section 150(a)(6) of the Code and which are not "investment property" as defined in Section 148(b)(2) of the Code) rated in either of the two highest rating categories by Standard & Poor's Ratings Service or Moody's Investors Service, or, upon the discontinuance of either rating service or both of such rating services, any other nationally recognized rating service; and

(k) (a) Shares of a money market mutual fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the federal Securities Act of 1933, having assets of at least \$100,000,000, and having a rating AAAM or AAAM-G by a nationally recognized rating agency, including money market mutual funds from which the Trustee or its affiliates derive a fee for investment advisory or other services to the fund;

provided that "Qualified Investments" shall not include a financial instrument, commonly known as a "derivative," whose performance is derived, at least in part, from the performance of an underlying asset, including, without limitation, futures, options on securities, options on futures, forward contracts, swap agreements, structured notes and participations in pools of mortgages or other assets.

Rebate Fund: The Rebate Fund established pursuant to the Indenture.

Rental Account: The Rental Account within the Project Revenue Fund established pursuant to the Lease and held by the Trustee pursuant to the Indenture.

Rental Payment Deposit Date: The days of during the Lease Term, upon which each Rental Payment Deposit is due and payable.

Rental Payment Deposits: The monthly deposit due from Lessee under Section 6.1(b) of the Lease and as set forth on Exhibit B to the Lease.

Rental Payments: The semiannual payments due from the County to the Issuer pursuant to Section 6.1(a) of the Lease.

Rentals: The Rental Payments, and all other rents, income, revenues, royalties, issues and profits, including, without limitation, all amounts payable to the Issuer on account of maintenance, repairs, taxes, insurance and common area or other charges by any other party to any of the Leases, and all amounts paid in compromises or

for cancellation of any of the Leases by any party thereto other than the Issuer, now or hereafter occurring or owing under or from Leases or otherwise from the Project or any part thereof.

Reserve Fund: The Reserve Fund established pursuant to the Indenture.

Reserve Requirement: The amount required to be maintained in the Reserve Fund, which is equal to the lesser of (a) ten percent (10%) of the proceeds of the Series 2002 Bonds and any Additional Bonds issued pursuant to the Indenture; (b) the maximum annual debt service payable with respect to the Series 2002 Bonds and any Additional Bonds during the then current or any succeeding calendar year; or (c) 125% of the average annual debt service payable with respect to the Series 2002 Bonds and any Additional Bonds during the then current or any succeeding calendar year.

Series 2002 Bonds: The Lease Revenue Bonds, Series 2002, of the Issuer, dated, as originally issued, as of their date of delivery.

State: The State of Texas.

Surplus Account: The Surplus Account within the Project Revenue Fund established pursuant to the Lease and held by the Trustee pursuant to the Indenture.

TCJS: The Texas Commission on Jail Standards.

TDCJ: The Texas Department of Criminal Justice.

Term of the Lease or Lease Term: The period during which the Lease remains in effect as specified therein.

Trust Estate: The interest of the Issuer in the Leases, Project Revenues and Rentals assigned under the Indenture consisting of (i) all of the right, title and interest of the Issuer in all Leases, including, without limitation, the Lease (except for the Issuer's rights to indemnification and reimbursement of expenses) and all Project Revenues pledged by the County, and all Rentals, including, without limitation, the Rental Payments; (ii) a first lien on and pledge of the money and investments in the Project Revenue Fund, the Bond Fund, the Reserve Fund, and the Acquisition Fund, each created and to be maintained pursuant to the provisions of the Lease and the Indenture; and (iii) any and all other property of every name and nature from time to time hereafter by delivery or by writing of any kind (including, without limitation, the Deed of Trust) conveyed, mortgaged, assigned or transferred, or in which a security interest is granted, by the Issuer or the County or by anyone on behalf of them or with their written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same to the terms hereof.

Trustee: U.S. Bank National Association, with its principal office located in Denver, Colorado, acting pursuant to the Indenture.

APPENDIX C

Proposed Forms of Opinions

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[Opinion of Dorsey & Whitney LLP, Special Tax Counsel]

Re: \$14,630,000 Lease Revenue Bonds, Series 2002
Newton County Public Facility Corporation

Ladies and Gentlemen:

We have acted as special tax counsel with respect to the Bonds described above. In that capacity we have reviewed copies of the Trust Indenture dated as of February 1, 2002, between the Newton County Public Facility Corporation (the "Issuer") and U.S. Bank National Association, as trustee; the Lease Agreement (With Option to Purchase) dated as of February 1, 2002, between the Issuer, as Lessor, and Newton County, Texas (the "County"); and certain other documents, certificates and affidavits furnished by the Issuer, the County and others. We have also examined and relied upon the legal opinion of *Jenkins & Gilchrist P.C.*, Bond Counsel, dated as of the date hereof, relating to the Issuer, the Bonds and related matters. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation.

From our examination of such documents and in reliance on the legal opinion described above, and based upon existing law, it is our opinion that interest on the Bonds (including any accrued original issue discount), (a) is not includable in gross income for federal income tax purposes; (b) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers; and (c) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. The opinions set forth herein are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the date of issuance of the Bonds in order that interest on the Bonds be, or continue to be, excludable from gross income of owners of the Bonds for federal income tax purposes. Failure of the Issuer so to comply with these requirements may result in inclusion of interest in gross income of the owners of the Bonds for federal income tax purposes, retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences to owners of the Bonds.

Dated: _____, 2002.

Very truly yours

_____, 2002

Newton County, Texas

Municipal Capital Markets Corp.

Newton County Public Facility Corporation

U.S. Bank National Association

Re: Lease Agreement (With Option to Purchase) dated as of February 1, 2002 (the "Lease"), by and between Newton County Public Facility Corporation (the "Issuer"), as Lessor, and Newton County, Texas (the "Lessee")

Ladies and Gentlemen:

I have served as counsel to the Lessee in connection with the execution and delivery by the Lessee of the Lease and related matters as herein set forth. The Issuer will lease to the Lessee land and the jail facility located thereon (the "Project") pursuant to the Lease, the Rental Payments will be paid by Lessee pursuant to the Lease and the Issuer will assign such Rental Payments to U.S. Bank National Association, as trustee (the "Trustee") for the registered owners of \$14,630,000 Lease Revenue Bonds, Series 2002 (the "Bonds"), issued by the Issuer under the terms of a Trust Indenture dated as of February 1, 2002, between the Issuer and the Trustee (the "Trust Indenture"). The Project will be operated and managed by Correctional Services Corporation (the "Operator") pursuant to an Operations and Management Agreement dated as of February __, 2002 (the "Operating Agreement"), between the Operator and the Lessee. Unless otherwise indicated, terms in the Trust Indenture, the Lease, and the Operating Agreement are used in this opinion with the meanings assigned to them therein.

In our capacity as counsel to the Lessee, we have examined an original counterpart or a certified copy of the Trust Indenture, the Lease, the Operating Agreement, the Preliminary Official Statement dated as of February 1, 2002 relating to the Bonds (the "Preliminary Official Statement"), the Official Statement dated as of February __, 2002 relating to the Bonds (the "Official Statement") and applicable laws and regulations as well as originals or copies, certified or otherwise identified to our satisfaction, of the resolutions of the Lessee authorizing and approving the execution and delivery of the Lease, the Operating Agreement, and any other necessary documents, and such other agreements and instructions, certificates of public officials and such other documents as we have deemed necessary or appropriate for the purposes of the opinions expressed herein. We have relied, to the extent that we deem such reliance proper, upon such certificates with respect to the accuracy of factual matters contained herein.

Based upon the foregoing, we are of the opinion under existing law that:

1. The Lessee is a political subdivision of the State of Texas (the "State"), duly existing under the provisions of the Constitution and the laws of the State, has all requisite power and authority to enter into and perform and has by proper action authorized the execution, delivery and performance of its obligations under the Lease and the Operating Agreement, the issuance of the Bonds by the Issuer, and the use of the Preliminary Official Statement and the Official Statement by Municipal Capital Markets Group, Inc. and Herbert J. Sims & Co. (the "Underwriters").

2. Each of the Lease and the Operating Agreement has been duly authorized, approved, executed and delivered by and on behalf of the Lessee, and constitutes a valid and binding contract of the Lessee enforceable in accordance with its terms, except to the extent such enforceability is limited by state and federal laws affecting creditors' rights and remedies and by bankruptcy, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights.

3. The authorization, approval and execution of the Lease and the Operating Agreement and all other proceedings of the Lessee relating thereto and to the transactions contemplated thereby have been performed in accordance with all applicable open meeting laws, public bidding laws and all other applicable laws, rules and regulations of the State.

4. The Lessee is not in violation of, and its execution and delivery of the Lease and the Operating Agreement and the performance of the obligations of the Lessee thereunder will not result in the violation of, any constitutional, statutory or other limitation applicable to the Lessee, including any relating to the manner, form or amount of use of the Project as described in the Lease, nor will such execution and performance result in any violation of any term or provision of any mortgage, lease, agreement or other instrument, or of any license, permit, judgment, decree, governmental order, statute, rule or regulation by which the Lessee is bound or to which any of the Lessee's assets is subject.

5. The Lessee is exempt from sales and/or use taxes with respect to the Project and the Rental Payments as those terms are defined in the Lease.

6. To our knowledge, there is no litigation, action, suit or proceeding threatened or pending before any court, administrative agency, arbitrator or governmental body that challenges the organization or existence of the Lessee, the authority of its officials, or the proper authorization, approval and execution of the Lease, the Operating Agreement and the other documents contemplated thereby or the ability of the Lessee otherwise to perform its obligations under the Lease, the Operating Agreement and the transactions contemplated thereby.

7. No authorization, consent, approval, license, permit or authority is required for the authorization, execution and delivery by the Lessee of the Lease and the Operating Agreement or for the performance by the Lessee of its obligations thereunder and the transactions contemplated thereby and by the Preliminary Official Statement and the Official Statement which has not already been obtained or effected other than as disclosed in the Preliminary Official Statement and the Official Statement.

8. The portions of the Preliminary Official Statement and the Official Statement relating in any way to the Project or the Lessee did not as of the date thereof and do not as of the date hereof contain any untrue statement of material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

9. Nothing has come to our attention after due and diligent inquiry which would lead us to believe that the Preliminary Official Statement or the Official Statement contains untrue statements of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

10. The State and all political subdivisions thereof are permitted by State law to house prisoners in the Project.

In rendering the opinions expressed in Paragraph 2 above, we have assumed (i) the due authorization, execution and delivery by all parties other than the Lessee of the documents referred to therein, and (ii) the enforceability of such documents as between such parties other than the Lessee.

Very truly yours,

Newton County Public Finance Corporation
County Courthouse
109 Court Street
Newton, TX 75966

Re: Newton County Public Finance Corporation Lease Revenue Bonds, Series 2002

Dear Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Newton County Public Finance Corporation (the "Issuer"), a Texas public corporation created and acting under the Public Facility Corporation Act, Chapter 303 of the Texas Local Government Code, as amended (the "Act"), of \$14,630,000 principal amount of its Lease Revenue Bonds Series 2002 (the "Bonds"). In that connection, we have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

The Bonds are secured pursuant to a Trust Indenture (the "Indenture") dated as of February 1, 2002, between the Issuer and the U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are special limited obligations of the Issuer payable solely from the sources provided in the Indenture. The Bonds and the interest thereon do not constitute an indebtedness, liability, general or moral obligation or a loan of the faith and credit or a charge of any taxing power of Newton County, the State of Texas or any political subdivision of the State of Texas within the meaning of any constitutional or statutory provision of the State of Texas and do not constitute or give rise to a pecuniary liability or a charge against their general credit. Neither the State of Texas nor any political subdivision thereof nor the Issuer is obligated to pay the principal (or redemption price) of the Bonds, the interest thereon or other costs incident thereto except from the revenues and assets pledged therefor under the Indenture. No owner of any Bonds shall have the right to compel any exercise of the taxing power of Newton County, Texas to pay the principal of the Bonds or interest thereon. The Issuer has no taxing power.

The obligation of the Issuer to make payments of principal, premium, if any, and interest on the Bonds is payable from Rental Payments (as defined in the Indenture) to be received from a lease (the "Lease") of the Project (as defined in the Indenture) to Newton County, Texas, which Rental Payments are payable by Newton County solely from Project Revenues (as defined in the Indenture) derived from the operations of the Project by Newton County. We have not been asked to, nor are we rendering any opinion with respect to the Lease. We have assumed that the Lease is a legal and valid agreement of, and enforceable against, the parties thereto.

The Issuer is to execute and deliver to the Trustee a Deed of Trust, Security Agreement, Assignment of Rents and Financing Statement granting a lien on the Project (as defined in the Indenture) to the Trustee (the "Deed of Trust"). We have not been asked to, nor are we rendering any opinion with respect to, the Deed of Trust or the legality or priority of any lien purported to be created thereunder.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer in the Indenture, the certified proceedings and other papers furnished to us, and certifications furnished to us by or on behalf of the Issuer or by Newton County, without undertaking to verify the same by independent investigation and have assumed the authenticity of all documents we have examined and the genuineness of all signatures thereon. We have assumed that the Bonds conform as to form the specimen Bond furnished to us and that the Bonds have been signed and authenticated as provided in the Indenture.

Based upon the foregoing, we are of the opinion that, under existing law the Bonds have been duly authorized by the Issuer and upon execution and delivery thereof by the Issuer and authentication thereof by the Trustee (or the Comptroller of Public Accounts of the State of Texas with respect to the Initial Bonds (as defined in

the Indenture)) in accordance with the Indenture constitute valid and binding limited obligations of the Issuer, payable solely from amounts pledged therefor under the Indenture.

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

We do not express any opinion as to the marketability of the Bonds or the sufficiency of the Project Revenues for the purpose of making Rental Payments and/or any other amounts available therefor to pay the principal of, premium, if any, or interest on the Bonds, or the adequacy or sufficiency of any security for the Bonds. We render no opinion herein with respect to the Official Statement relating to the Bonds. We render no opinion by implication or otherwise, except as expressly set forth herein.

We bring to your attention the fact that our legal opinions are an expression of professional judgment and are not a guarantee of a result.

We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof which may affect our legal opinions expressed herein.

Respectfully,

Jenkins & Gilchrist, P.C.

JNM:blt

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APPENDIX D

Continuing Disclosure Agreement

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CONTINUING DISCLOSURE AGREEMENT
[As contained in the Lease]

ARTICLE XIV. CONTINUING DISCLOSURE UNDERTAKING

14.1 Agreement to Provide Financial Information and Operating Data. In accordance with the provisions of the Rule, Lessee is an "obligated person" as that term is defined in the Rule, for whom financial or operating data has been presented in the final official statement, as defined in the Rule, prepared in connection with the authorization, sale, and delivery of the Series 2002 Bonds. Consequently, Lessee, as such obligated person, enters into the undertaking described in this Article in compliance with the Rule. (a) Lessee shall provide annually to Municipal Capital Markets Group, Inc. and Herbert J. Sims & Co. (collectively, the "Underwriters"), each NRMSIR and any SID, within six months after the end of each Fiscal Year ending in or after 2002, audited financial statements with respect to the operation of the Project for the most recently concluded Fiscal Year. Any financial statements so to be provided shall be (1) prepared in accordance with generally accepted accounting principles, or such other accounting principles as Lessee may be required to employ from time to time pursuant to state law or regulation and (2) audited, if Lessee commissions audit of such statements and the audits are completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then Lessee shall provide unaudited reports within the applicable time and audited financial statements for the applicable Fiscal Year to the Underwriters, each NRMSIR and any SID, when and if the audit reports on such statements become available.

(b) If Lessee changes its Fiscal Year, Lessee shall notify the Underwriters, each NRMSIR and any SID of the change of the date of the new Fiscal Year end prior to the next date by which the Lessee otherwise would be required to provide financial information and operating data pursuant to this Section. The financial information and operating data to be provided pursuant to this Section 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, if it is available from the MSRB) that theretofore has been provided to the Underwriters, each NRMSIR and any SID or filed with the SEC.

14.2 Notice of Material Events. Lessee shall notify the Underwriters, any SID, each NRMSIR and the MSRB, in a timely manner, of any of the following events with respect to the Lease and the Series 2002 Bonds, if such event is material within the meaning of the federal securities laws:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the Lease or the Series 2002 Bonds;
- (g) Modifications to rights of owners of the Series 2002 Bonds;
- (h) Bond calls;
- (i) Defeasances;
- (j) Release, substitution, or sale or property securing repayment of the Series 2002 Bonds; and
- (k) Rating changes.

Lessee shall notify the Underwriters, any SID, each NRMSIR and the MSRB, in a timely manner, of any failure by Lessee to provide financial information or operating data in accordance with Section 14.1 hereof by the time required by such subsection.

14.3 Lessee's Obligations; Amendment. (a) Lessee shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, Lessee remains an obligated person with respect to the Series 2002 Bonds within the meaning of the Rule, except that Lessee in any event will give notice of any deposit made in accordance with this Lease and the Trust Indenture that causes the Series 2002 Bonds to no longer be Outstanding.

(b) The provisions of this Article are for the sole benefit of the owners of the Series 2002 Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. Lessee undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of Lessee's financial results, conditions, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. Lessee does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell the Series 2002 Bonds at any future date.

(c) UNDER NO CIRCUMSTANCES SHALL LESSEE BE LIABLE TO THE OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE LESSEE, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of Lessee under federal and state securities laws.

(d) No default by lessee in observing or performing its obligations under this Article shall comprise a breach of or default under this Lease or the Trust Indenture for purposes of any other provision of this Lease or the Trust Indenture.

The provisions of this Article may be amended by Lessee and Lessor 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 Lessee, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Series 2002 Bonds in the primary offering of the Series 2002 Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the owners of 51% of the aggregate principal amount (or any greater amount required by this Lease or the Trust Indenture) that authorizes such an amendment) of the Outstanding Series 2002 Bonds consent to such amendment or (b) a person that is unaffiliated with Lessee (such as nationally-recognized bond counsel) determines that such amendment will not materially impair the interest of the owners of the Series 2002 Bonds. If Lessee and Lessor so amend the provisions of this Article, Lessee shall include with any amended financial information or operating data next provided in accordance with subsection (a) of this Article an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided. Lessee and Lessor may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or if a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2002 Bonds in the primary offering of the Series 2002 Bonds.

