PRESENTATION OF THE ANNUAL DERIVATIVE REPORT

Description

The annual derivative report communicates information regarding outstanding derivative transactions of the commission. As of August 31, 2010, there were three outstanding derivative transactions, with three counterparties, to be reported.

Background

The derivative management policy, as amended on August 26, 2010, requires the CFO to present a written report to the commission on all outstanding derivative transactions as of the end of the reporting period. The annual report will contain a minimum of the following information:

1. A description of the terms of each outstanding transaction;
2. A statement of:
    a. The fair market value of each transaction as of the end of the reporting period;
    b. The amount of any collateral posted by the commission or by a counterparty during the period;
    c. A summary of the cash flows for each transaction during the period;
3. A list, including the credit rating, of counterparties and any guarantor for a counterparty for each transaction;
4. Determination as to whether continuance of each transaction conforms to the Investment, Debt, and Derivative Management policies;
5. An evaluation of the performance of the trade versus projections at the time of execution.

Criteria

None.

Problem/Condition

None.

Other Comments

None.

Alternate Solutions/Actions

None.

Texas Department of Transportation

ANNUAL REPORT ON DERIVATIVE TRANSACTIONS

Fiscal Year 2010

Texas Transportation Commission Meeting
October 28, 2010

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Derivative Transactions Outstanding

- **Three Constant Maturity Swaps on the Texas Mobility Fund Bonds Series 2006-A**
  - Total notional value of $400 million split amongst three counterparties
    - $100 million notional to Goldman Sachs Mitsui Marine Derivative Products
    - $200 million notional to JPMorgan Chase Bank
    - $100 million notional to Morgan Stanley Capital Services
  - General Swap Terms
    - Exchange of payments between the counterparties and TxDOT are netted monthly and paid on the first business day of the month
    - Length of the trades are 20 years (September 1, 2007 to September 1, 2027)
    - The Commission may terminate any or all of the trades at any time
    - The market values of the swaps are reported by the counterparties each month

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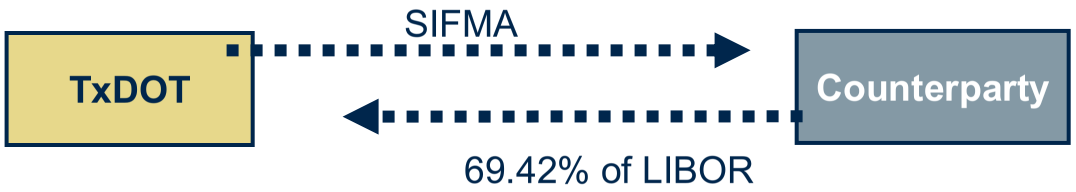
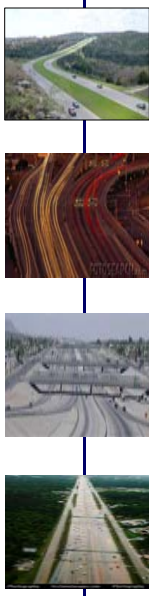
Derivative Transactions Outstanding

- **Original terms established in 2006**
  - Exchange of payments to begin September 1, 2007
  - TxDOT pays SIFMA
    - SIFMA = Securities Industry and Financial Markets Association
    - An index for one-week tax-exempt variable rate debt
  - TxDOT receives 69.42% of 10-year US dollar-LIBOR swap rate
    - LIBOR = London Interbank Offered Rate
    - Series of indices for taxable debt





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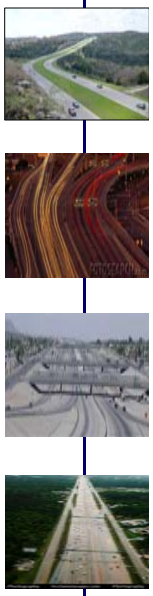
Derivative Transactions Outstanding

- **Suspension period terms negotiated in 2009**
  - Three year suspension of TxDOT payments from December 1, 2009 through November 30, 2012
  - TxDOT receives a fixed percent of the notional amount from each counterparty
    - Goldman Sachs MMDP pays 1.637% per year of their notional value
    - JPMorgan Chase Bank pays 1.590% per year of their notional value
    - Morgan Stanley Capital Services pays 1.575% per year of their notional value

  - Payments are received from the counterparties monthly
  - At the end of the suspension period, the swaps revert back to the original terms with TxDOT paying SIFMA and the counterparties paying 69.42% of the 10-yr USD-LIBOR swap rate



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Counterparties and Credit Ratings

Counterparty	Notional	Credit Ratings		
		Fitch	Moody's	S&P
Goldman Sachs Mitsui Marine Derivative Products	$100 million	NR	Aa1	AAA
JPMorgan Chase Bank NA	$200 million	AA-	Aa1	AA-
Morgan Stanley Capital Services	$100 million	A	A2	A

Counterparty rating requirements

At the time of entering into a transaction, the counterparty shall be:

- rated at least AA-/Aa3 by at least one nationally recognized rating agency (Fitch, Moody's or Standard & Poor's),
- not on a rating/credit watch where a rating downgrade below AA-/Aa3 may be imminent,
- or have, as support for their obligations, a "AAA" subsidiary or other entity (e.g. bond insurer) as rated by at least one nationally recognized rating agency that can also meet all other counterparty requirements.

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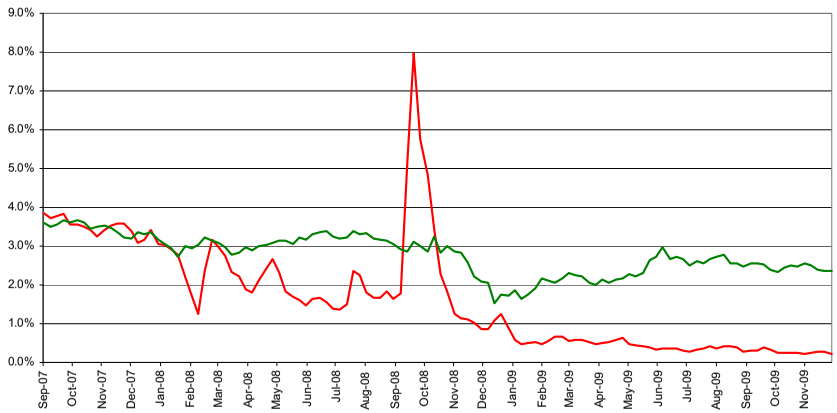
Trade Evaluation

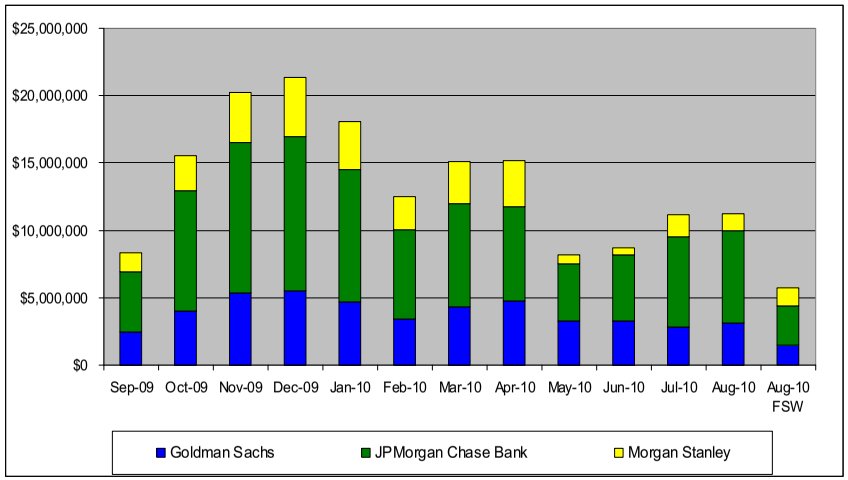
SIFMA vs 69.42% of 10-yr LIBOR Sept 2007 to Nov 2009



Commission pays SIFMA

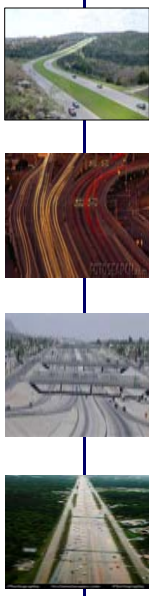
Commission receives 69.42% of the 10-yr USD-LIBOR swap rate

Swap Market Value Sept 2009* to Aug 2010**



*Swap market values for Sept 2009 to Aug 2010 are valuations derived by each counterparty of their own trade. The valuations are indicative values based on mid-market levels.

**The values for Aug 31, 2010 are provided by an independent valuation agent.



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FY 2010 Summary of Cash Flows

For Month Ending	TxDOT Pays	TxDOT Receives	Net Benefit / (Cost)	To-Date Position
September 30, 2009	$108,274	$845,011	$736,737	
October 31, 2009	$92,932	$809,168	$716,236	
November 30, 2009	$85,370	$821,020	$735,650	
December 31, 2009	$0	$542,038	$542,038	
January 31, 2010	$0	$532,667	$532,667	
February 28, 2010	$0	$532,667	$532,667	
March 31, 2010	$0	$532,667	$532,667	
April 30, 2010	$0	$532,667	$532,667	
May 31, 2010	$0	$532,667	$532,667	
June 30, 2010	$0	$532,668	$532,668	
July 31, 2010	$0	$532,668	$532,668	
August 31, 2010	$0	$532,668	$532,668	
TOTAL	**$286,576**	**$7,278,576**	**$6,992,000**	**$14,646,986**

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Projected versus Actual Performance

Fiscal Year	Historical Worst Basis Risk (1)	Average Annual Basis Benefit (2)	Cumulative Avg Benefit	Actual Basis Benefit	Cumulative Actual Benefit
2008	($226,800)	$5,116,000		$2,601,380	
2009	($226,800)	$5,116,000		$5,053,606	
2010	**($226,800)**	**$5,116,000**	**$15,348,000**	**$6,992,000**	**$14,646,986**
2011	($226,800)	$5,116,000			
2012	($226,800)	$5,116,000			
2013-2017	($1,134,000)	$25,580,000			
2018-2022	($1,134,000)	$25,580,000			
2023-2027	($1,134,000)	$25,580,000			
Total	**($4,536,000)**	**$102,320,000**		**$14,646,986**	

1. Historical Worst Basis Risk is based on the lowest annual spread between SIFMA and 69.42% of the 10-Year LIBOR rate from 1985 to Aug 31, 2009 calculated to be (0.0567%).
2. Average Annual Basis Benefit is based on the average spread between SIFMA and 69.42% of the 10-Year LIBOR rate from 1985 to Aug 31, 2009 calculated to be 1.279%.

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Conformance to Debt Management Policy

Pursuant to the Debt Management Policy, the targeted maximum percentage of variable rate debt hedged by derivatives is 25% of all outstanding debt for each program. The targeted total percentage of debt that may be subject to tax risk is 50% for each program.

Texas Mobility Fund Portfolio Subject to Tax Risk

	Series	Series Notional Amount	TMF Tax Exempt Debt Outstanding	Subject to Tax Risk
Tax Risk related to Derivatives	Series 2006-A	$400.000 million		8.18%
Tax Risk related to Variable Rate Debt	Series 2005-B	$ 85.400 million		1.75%
	Series 2006-B	$150.000 million		3.07%
Total Tax Risk		$635.400 million	$4.889 billion	13.00%

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