

TEXAS TRANSPORTATION COMMISSION

VARIOUS Counties

MINUTE ORDER

Page 1 of 1

VARIOUS Districts

Government Code, Chapter 2256 (Public Funds Investment Act) authorizes the Texas Transportation Commission (commission) to purchase, sell, and invest its funds and funds under its control in investments authorized under the Public Funds Investment Act, in accordance with investment policies approved by the commission.

Government Code, §2256.005 requires the commission to adopt a written investment policy regarding the investment of its funds and funds under its control, including a separate written investment strategy for each of the funds or group of funds under its control, and to designate one or more officers or employees of the Texas Department of Transportation (department) as investment officer to be responsible for the investment of funds consistent with the investment policy.

Pursuant to this legislation, in Minute Order 108970, dated July 25, 2002, the commission approved and adopted a written investment policy and investment strategy applicable to funds of the commission held under the Indenture of Trust dated July 15, 2002, securing the outstanding bonds, notes, and other obligations issued by the commission to finance a portion of the cost of the initial phase of the Central Texas Turnpike System, also known as the 2002 Project. The commission has designated the department's Chief Financial Officer as investment officer. In the absence of the Chief Financial Officer, Director of the Debt Management Office, the Director of Finance or the Deputy Director of Finance is authorized to act as investment officer.

Pursuant to Government Code §2256.005(e) and Section 20 of the investment policy, the investment policy and investment strategies of the commission have been reviewed and revised annually by minute order since 2003, most recently by Minute Order 112799, dated August 25, 2011.

Government Code, §2256.023 requires the designated investment officer to prepare and submit to the commission and the executive director, not less than quarterly, a written report of investment transactions for all funds covered by the Public Funds Investment Act for the preceding reporting period. The report must describe in detail the investment position of the department on the date of the report, and must be prepared jointly and signed by each investment officer.

Section 9.0 of the investment policy requires the investment officer to prepare and submit to each member of the commission and the executive director of the department an investment report on no less than a quarterly basis. The report must be prepared in accordance with the requirements of that section, including containing sufficient information to provide for a comprehensive review of investment activity and current investment instruments and performance for the reporting period. A quarterly investment report for the department for the period ending August 31, 2011, attached as Exhibit A, has been prepared in accordance with Government Code, §2256.023 and Section 9.0 of the investment policy.

IT IS THEREFORE ORDERED by the commission that the quarterly investment report attached as Exhibit A is accepted.

Submitted and reviewed by:

  
\_\_\_\_\_  
Director, Finance Division

Recommended by:

  
\_\_\_\_\_  
Executive Director

**112893 OCT 27 11**

Minute Number      Date Passed

**TEXAS TRANSPORTATION COMMISSION**

**QUARTERLY INVESTMENT REPORT**

**AS OF  
August 31, 2011**

**Table of Contents**

MANAGEMENT’S CERTIFICATION OF THE QUARTERLY INVESTMENT REPORT .....3

**2002 PROJECT OF THE CENTRAL TEXAS TURNPIKE SYSTEM**

MANAGEMENT DISCUSSION .....4

INVESTMENT ACTIVITY .....5

SCHEDULE 1 – INVESTMENTS OUTSTANDING .....6

SCHEDULE 2 – GRAPH – U.S. TREASURY HISTORICAL YIELDS .....7

SCHEDULE 3 – ALLOCATION BY ACCOUNT .....8

SCHEDULE 4 – BAR CHART – MATURITY DISTRIBUTION .....9

SCHEDULE 5 – BAR CHART – INVESTMENT PORTFOLIO QUARTER END VALUES .....10

SCHEDULE 6 – PIE CHART – INVESTMENTS BY SECURITY TYPE.....11

**MANAGEMENT’S CERTIFICATION OF THE QUARTERLY INVESTMENT REPORT**

I certify that I have reviewed the Quarterly Investment Report as of and for the period ended Aug. 31, 2011 that is being submitted for acceptance by the Texas Transportation Commission. To the best of my knowledge and belief:

1. In all material respects the Investment Report was prepared in accordance with the guidelines presented in Government Code, Chapter 2256 (Public Funds Investment Act) and Section 9.0 of the investment policy. The investments have been accorded consistent treatment in accordance with generally accepted accounting principles.
2. There have been no material misrepresentations in the report by the inclusion or exclusion of information.
3. An effective system of internal controls has been established to ensure that material financial information is recorded in the accounting system and properly reported in the report and there were no material weaknesses in internal control during the period covered by the report or thereafter.

\_\_\_\_\_  
Phil Wilson  
Executive Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
James M. Bass  
Chief Financial Officer  
Investment Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Brian D. Ragland, CPA  
Director, Finance Division  
Investment Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
John Munoz, CPA  
Deputy Director, Finance Division  
Investment Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Brian D. Ragland, CPA  
Interim Director, Debt & Portfolio Management Office  
Investment Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Glen Knipstein, CPA  
Director, Accounting Management, Finance Division

\_\_\_\_\_  
Date

## 2002 PROJECT OF THE CENTRAL TEXAS TURNPIKE SYSTEM

### MANAGEMENT DISCUSSION

During the reporting period, all investment funds of the Texas Transportation Commission (Commission) were associated with the Central Texas Turnpike System (the System) obligations. The investments are held by The Bank of New York Mellon, acting as trustee. The funding of investments include bond proceeds, capital contributions for the purpose of financing the 2002 Project of the System, revenues derived from operation of the System's toll roads and related investment earnings.

Suitable investments have been determined using the following criteria and priorities pursuant to the Commission's investment policy and the investment strategy relating to the System:

- 1) suitability of the investment to the financial requirements of the entity;
- 2) preservation and safety of principal;
- 3) liquidity;
- 4) marketability of the investment if the need arises to liquidate the investment before maturity;
- 5) diversification of the investment portfolio; and,
- 6) yield.

The investment instruments described in Schedule 1 are in compliance with the Public Funds Investment Act, investment policy and strategy of the Commission. This report reflects the changes as approved per H.B. No. 2226 on April 26, 2011.

The invested funds are accounted for in a number of specific accounts, as prescribed in the CTTS Indenture of Trust and shown in Schedule 3 of this report.

1. The Revenue Fund includes proceeds from all revenues and income derived from the operation of the System, including tolls, fees, lease income, certain investment earnings and any excess funds from the Rate Stabilization Fund. Disbursements from the Revenue Fund include funding of amounts necessary for an Arbitrage Rebate Fund (if needed), Debt Service funds, including both interest and principal, the Rate Stabilization Fund, the Operating Account and the General Reserve Fund.
2. The Capital Contributions account was initially funded by amounts received from various local government entities and from the commission for the purpose of paying the costs of the Project. Disbursements from the fund are made to pay costs of the Project, to reimburse entities for excess funds, and to repay related obligations or for other lawful purposes. The current balance in the account consists primarily of commission contributions and account earnings.
3. The First Tier Interest and Principal Accounts and the Subordinate Lien Interest and Principal Accounts are funded primarily from the Revenue Account and used to make periodic debt service payments on first tier and subordinate obligations, respectively. If adequate funds are not available in these accounts or the Revenue Fund, transfers may be made from the General Reserve Fund, the Rate Stabilization Fund and the First Tier Debt Service Reserve Fund, in that order.
4. The Rate Stabilization Fund was initially funded from the Revenue Fund and is required to be maintained at a certain level. If the balance falls below the requirement, the deficiency would be cured by deposits from the Revenue Fund over a period of time. The Rate Stabilization Fund is used to cure deficiencies in the first tier debt service funds, the second tier debt service funds, the subordinate debt service funds, the Operating Account or may be used to pay operating or maintenance expenses or other legal expenses. Excess funds in the Rate Stabilization Fund may be transferred to the Revenue Fund.
5. The Debt Service Reserve Fund (DSRF) is generally invested for a longer time period but may be called upon to make a debt service payment. Therefore, this fund type requires a high degree of market value

protection in the event it is drawn upon. Protection against market value declines can be provided either by rolling short-term securities or purchasing an investment agreement product. A portion of the DSRF (\$15 million) is invested in a Forward Purchase Agreement (FPA) consisting of U.S. Treasury and Agency securities. The balance is invested in a Guaranteed Investment Contract collateralized by U.S. Treasury and Agency securities. Diversity in maturities was achieved with a 10-year term for the FPA and a 20-year term for the Guaranteed Investment Contract.

## **INVESTMENT ACTIVITY**

Attached as Schedule 1 are the investments outstanding for the quarter ending August 31, 2011. Investment activity for the quarter consisted of the purchase and redemption of U.S. Government Agency Securities (“discount notes”) and the purchase and sale of money market investments.

The System experienced a \$16 million net decrease in investments during the fourth quarter. Toll revenues of \$19.7 million and investment income of \$3.2 million were collected during the fourth quarter. The decrease in investments is primarily due to a \$6.9 million reimbursement to the State Highway Fund (FD6) for the System’s operations and maintenance, debt service payments of \$22 million on the System’s Series 2002-A and Series 2009 bonds and a \$10 million interest payment on the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan.

Discount notes are intended to be held to maturity. Maturities range from overnight through one year. The discount note outstanding will mature on December 1, 2011.

The Guaranteed Investment Contract is intended to be held to its maturity date of August 15, 2022. The FPA is intended to be continued until its termination of August 15, 2012.

Investment income includes interest and dividends earned during the quarter and changes in fair value of investments.

## **CURRENT MARKET CONDITIONS**

Various U.S. Treasury yields as of August 31, 2011 are as follow:

3-Month Treasury – .02%  
2-Year Treasury – .23%  
10-Year Treasury – 2.3%  
Discount Rate – .75%

Schedule 2 presents the U.S. Treasury Historical Yields.

## **RECOMMENDED STRATEGY AMENDMENTS**

There are no recommended changes to the investment strategy.

**TEXAS DEPARTMENT OF TRANSPORTATION  
CENTRAL TEXAS TURNPIKE SYSTEM  
SCHEDULE 1  
Investments Outstanding  
Book Value to Fair Value Comparison  
August 31, 2011**

<b>Portfolio Fair Value</b>	
Beginning balance @ 6/1/11	\$ 445,703,835
Ending balance @ 8/31/11	\$ 429,635,828
Interest Income	\$804,493
Yield	1.5%

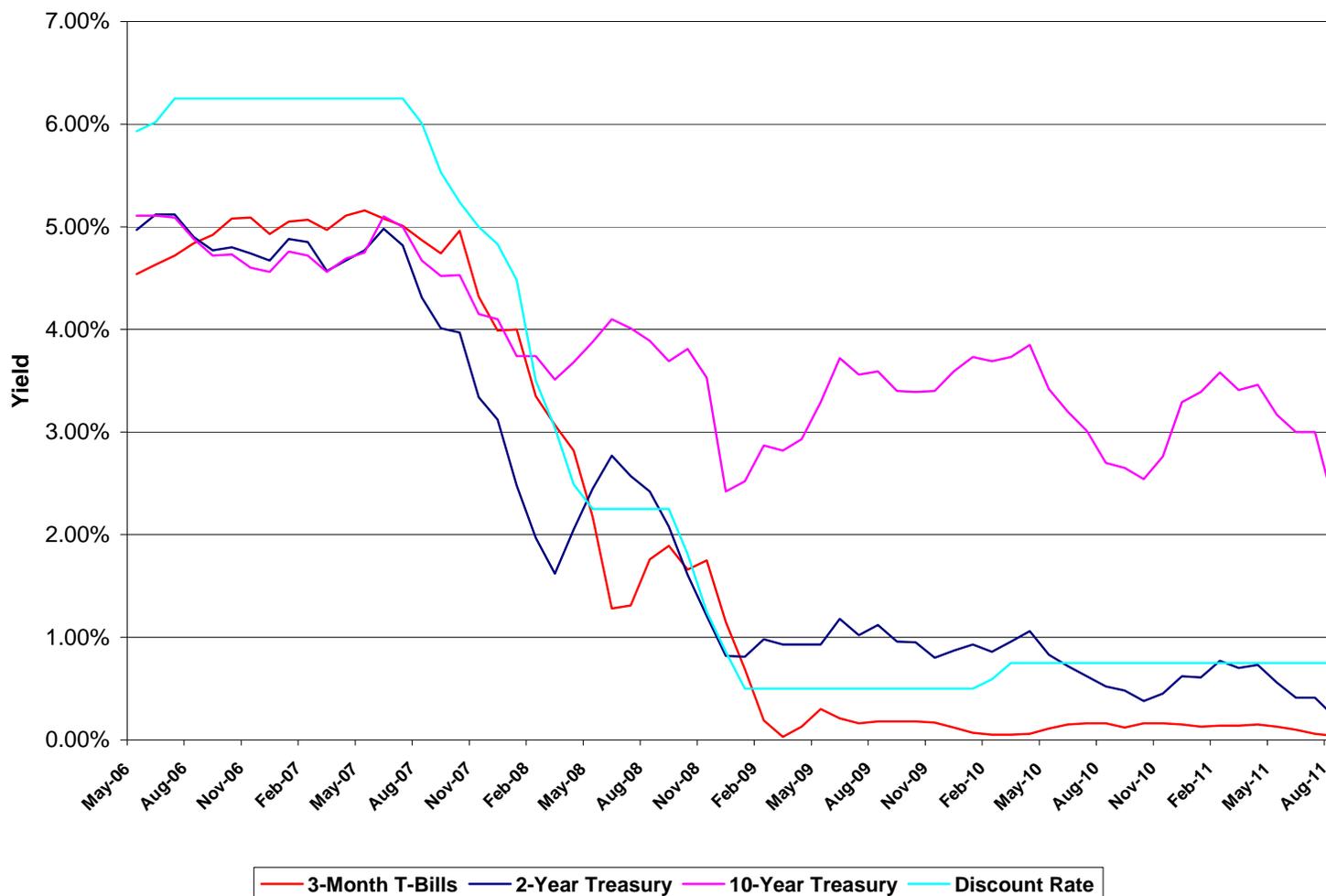
Description	Yield	Maturity Date	August 31, 2011	
			Book Value (Cost)	Fair Value
<i>Money Market Investments</i>				
JPM US Govt MMKT FD 3164 Capital	0.01%		\$ 276,680,727	\$ 276,680,727
Dreyfus Inst'l Cash Adv 99 Inst'l	0.06%		2,915,912	22,915,912
<i>U.S. Government Agency Securities*</i>				
Morgan Stanley FDIC (CUSIP 61757UAB6)	4.475%	12/1/11	14,999,038	15,039,811
<i>Guaranteed Investment Contract</i>				
Salomon Master GIC (CUSIP S86538450)	5.20%	8/15/22	114,999,378	114,999,378
			\$ 429,595,055	\$ 429,635,828

**Notes:**

\*This security was purchased under the terms of a forward purchase agreement that was executed in August 2002 at rates that were currently available at that time.

Yields and Fair Values as reported on Bank of New York Mellon August 2011 bank statements.

### Schedule 2 U.S. Treasury Historical Yields



Source:  
<http://www.federalreserve.gov/releases/h15/data.htm>  
[http://www.wsjprimerate.us/libor/libor\\_rates\\_history.htm](http://www.wsjprimerate.us/libor/libor_rates_history.htm)

**SCHEDULE 3**  
**Allocation by Account**  
**August 31, 2011**

**Allocation - Fair Value***June 1, 2011*

Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1st Tier Interest Account	1st Tier Debt Service Reserve	Sub Lien Interest Account
Money Market Investments	\$ 315,719,070	\$ 67,870,683	\$ 192,993,508	\$ 51,353,840	\$ 52,827	\$ 3,447,434	\$ 778
U.S. Government Agency Securities	14,985,387					14,985,387	
Guaranteed Investment Contract	114,999,378					114,999,378	
<b>Totals</b>	<b>\$ 445,703,835</b>	<b>\$ 67,870,683</b>	<b>\$ 192,993,508</b>	<b>\$ 51,353,840</b>	<b>\$ 52,827</b>	<b>\$ 133,432,199</b>	<b>\$ 778</b>

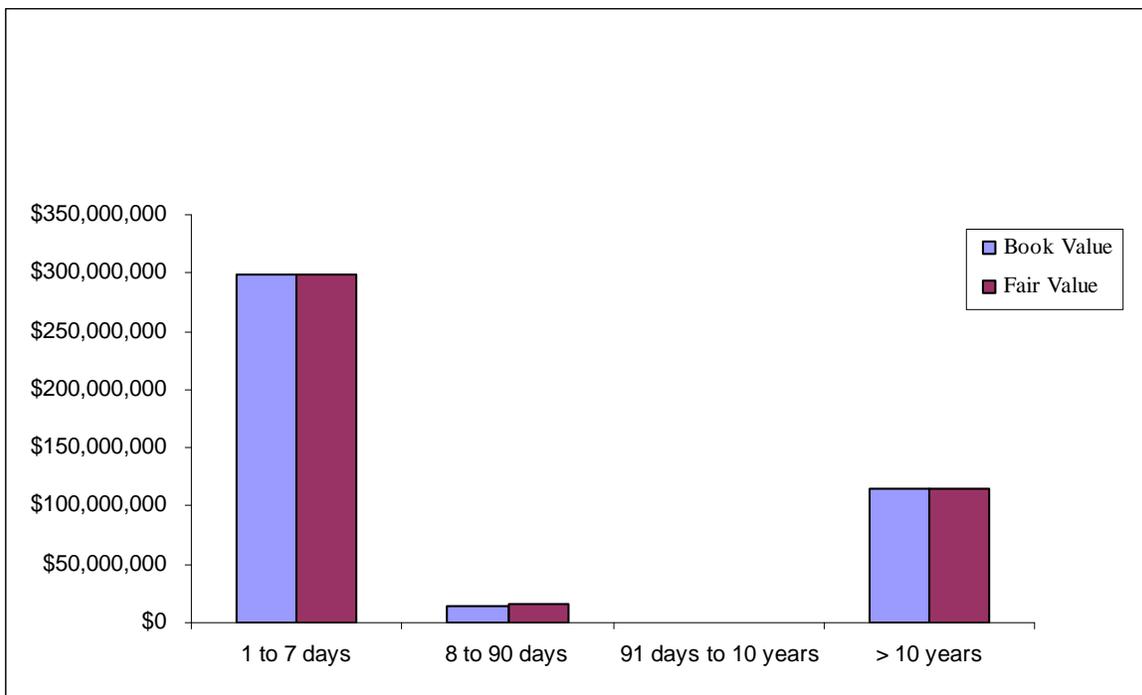
*August 31, 2011*

Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1st Tier Interest Account	1st Tier Debt Service Reserve	Sub Lien Interest Account
Money Market Investments	\$ 299,596,639	\$ 67,838,501	\$ 192,997,073	\$ 0	\$ 16,286,334	\$ 6,629,578	\$ 15,845,153
U.S. Government Agency Securities	15,039,811					15,039,811	
Guaranteed Investment Contract	114,999,378					114,999,378	
<b>Totals</b>	<b>\$ 429,635,828</b>	<b>\$ 67,838,501</b>	<b>\$ 192,997,073</b>	<b>\$ 0</b>	<b>\$ 16,286,334</b>	<b>\$ 136,668,767</b>	<b>\$ 15,845,153</b>

**SCHEDULE 4  
Maturity Distribution  
August 31, 2011**

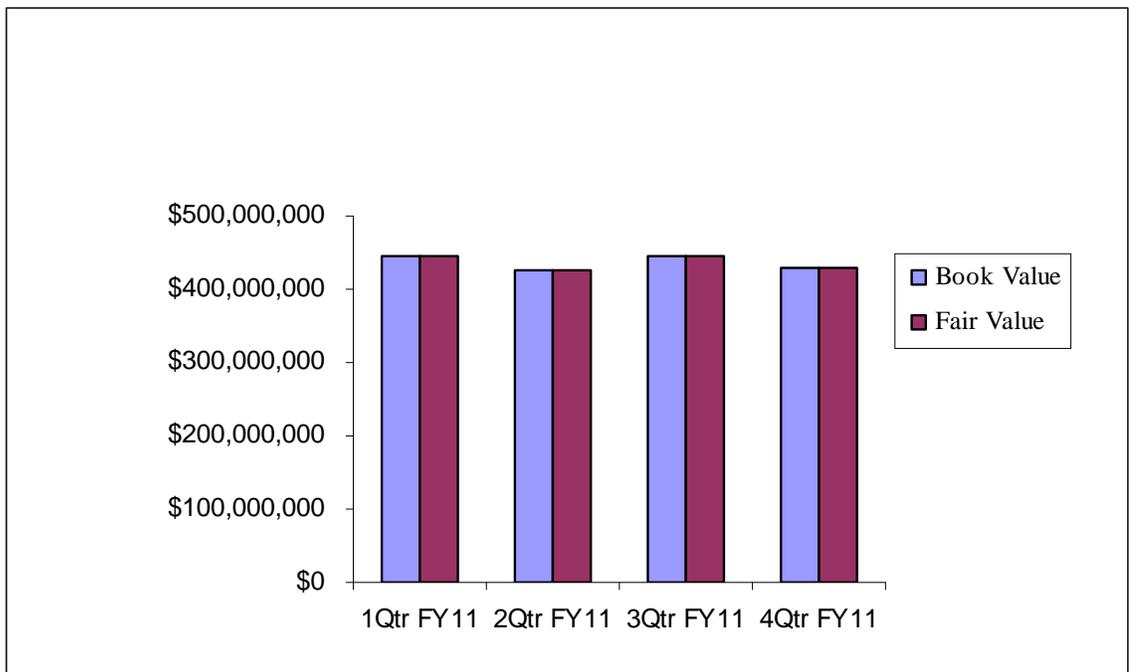
**Maturity Date**  
1 to 7 days  
8 to 90 days  
91 days to 10 years  
> 10 years  
**Total Investments**

	<b>Book Value</b>	<b>Fair Value</b>
1 to 7 days	\$299,596,639	\$299,596,639
8 to 90 days	14,999,038	15,039,811
91 days to 10 years	-	-
> 10 years	114,999,378	114,999,378
<b>Total Investments</b>	<b>\$429,595,055</b>	<b>\$429,635,828</b>



**SCHEDULE 5**  
**Investment Portfolio Quarter End Values**  
**August 31, 2011**

<u>Quarter End Values</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>% Change</u>
1Qtr FY11	445,659,176	445,958,512	
2Qtr FY11	424,890,276	424,998,322	-5%
3Qtr FY11	445,717,906	445,703,835	5%
4Qtr FY11	429,595,055	429,635,828	-4%



**SCHEDULE 6**  
**Investments by Security Type**  
**August 31, 2011**

<b>Security Type</b>		<u><b>Fair Value</b></u>
Money Market Investments	69%	\$299,596,639
U.S. Government Agency Securities	4%	15,039,811
Guaranteed Investment Contract	27%	114,999,378
<b>Total Investments</b>		<u><u><b>\$429,635,828</b></u></u>

