

TEXAS TRANSPORTATION COMMISSION

VARIOUS Counties

MINUTE ORDER

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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 and documented 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 Innovative Financing and 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 May 31, 2012, 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:

Recommended by:

Director, Finance Division

Executive Director

Minute Number Date Passed

TEXAS TRANSPORTATION COMMISSION

QUARTERLY INVESTMENT REPORT

**AS OF
May 31, 2012**

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MANAGEMENT'S CERTIFICATION OF THE QUARTERLY INVESTMENT REPORT

I certify that I have reviewed the Quarterly Investment Report as of and for the period ending May 31, 2012, 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, Innovative Financing and Debt 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 House Bill 2226, RS 82.

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 May 31, 2012. Investment activity for the quarter consisted of the purchase and redemption of U.S. Government Agency Securities (“discount notes”), the purchase and sale of money market investments and the purchase of government pool investments.

In December 2011, funds in the Rate Stabilization Fund and the Capital Contributions Account were transferred from the JP Morgan US Government Money Market Fund to the Lone Star Government Overnight Investment Pool, the TexPool Texas Local Government Investment Pool and TexPool Prime. The Lone Star and TexPool government investment pool accounts provide greater diversification of the investment portfolio while maintaining the primary investment objectives of suitability, safety of principal, liquidity and marketability. Additionally, the government investment pools are currently providing a higher return than the money market mutual funds in which these accounts were previously invested.

The System experienced a \$22.4 million net increase in investments during the third quarter. The System recognized toll and fee revenues of \$22.1 million during the third quarter. The increase in investments is primarily due to an accumulation of earnings in the revenue fund. Interest and investment income of \$99 thousand was earned during the period.

Discount notes are intended to be held to maturity. Maturities range from overnight through one year. The discount note outstanding will mature on August 1, 2012.

The Guaranteed Investment Contract is intended to be held to its maturity date of August 15, 2022. The forward purchase agreement 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 May 31, 2012 are as follow:

- 3-Month Treasury – 0.09%
- 2-Year Treasury – 0.29%
- 10-Year Treasury – 1.80%
- Discount Rate – 0.75%

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
May 31, 2012**

Portfolio Fair Value	
Beginning balance @ 03/01/12	\$ 433,313,358
Ending balance @ 05/31/12	\$ 455,668,567
Interest Income	\$99,828
Yield	1.56%

Description	Yield	Maturity Date	May 31, 2012	
			Book Value (Cost)	Fair Value
<i>Money Market Investments</i>				
JPM US Govt MMKT FD 3164 Capital	.01%		\$ 18,266,254	\$ 18,266,254
<i>Lone Star Investment Pool*</i>				
Government Overnight Fund	.13%		87,022,096	87,022,096
<i>TexPool**</i>				
Local Government Investment Pool	.14%		113,410,965	113,410,965
Prime	.16%		107,034,502	107,034,502
<i>U.S. Government Agency Securities***</i>				
FNMA (CUSIP 31381TR85)	4.48%	08/01/12	14,999,999	14,935,372
<i>Guaranteed Investment Contract</i>				
Salomon Master GIC (CUSIP S86538450)	5.20%	08/15/22	114,999,378	114,999,378
Totals			\$ 455,733,194	\$ 455,668,567

Notes:

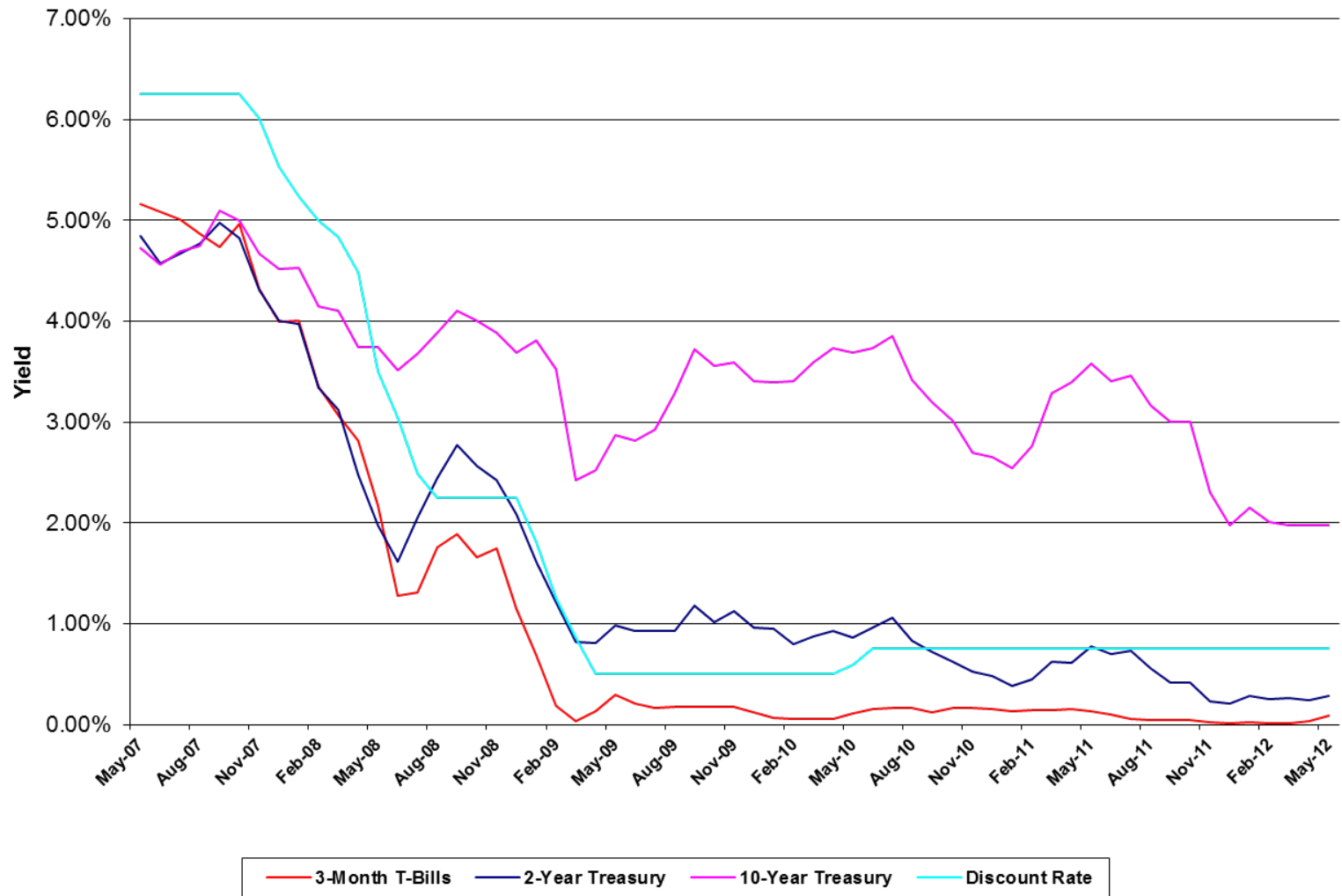
*This fund seeks to maintain a net asset value of one dollar, and its dollar-weighted average maturity is 60 days or fewer.

**These pools seek to maintain a one dollar value per share as required by the Texas Public Funds Investment Act.

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

Yields and Fair Values as reported on Bank of New York Mellon, Lone Star and TexPool May 2012 statements.

Schedule 2 U.S. Treasury Historical Yields



SCHEDULE 3
Allocation by Account
May 31, 2012

Allocation – Fair Value

March 1, 2012

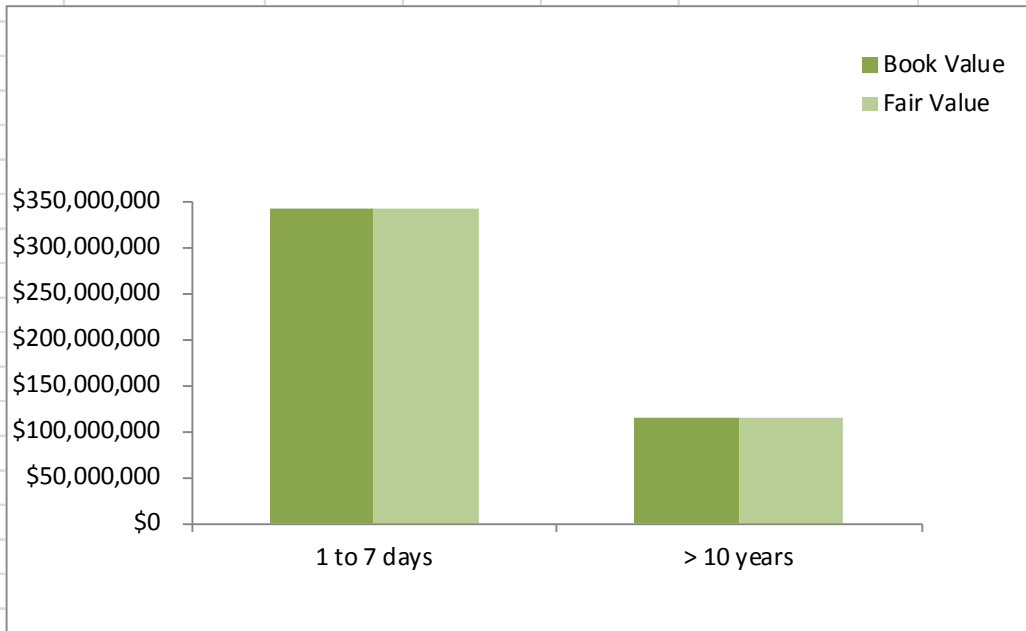
Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1 st Tier Interest Account	1 st Tier Debt Service Reserve	Sub Lien Interest Account
Money Market Investments	\$ 42,393,445	\$ 242	\$ 102,372	\$ 34,991,151	\$ 6,322,383	\$ 977,297	\$
U.S. Government Agency Securities	14,935,372					14,935,372	
Lonestar Gov't Overnight Fund	86,994,457	22,616,908	64,377,549				
TexPool Fund	86,992,951	22,616,517	64,376,434				
TexPool Prime Fund	86,997,755	22,617,766	64,379,989				
Guaranteed Investment Contract	114,999,378					114,999,378	
Totals	\$ 433,313,358	\$ 67,851,433	\$ 193,236,344	\$ 34,991,151	\$ 6,322,383	\$ 130,912,047	\$ 0

May 31, 2012

Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1 st Tier Interest Account	1 st Tier Debt Service Reserve	Sub Lien Interest Account
Money Market Investments	\$ 18,266,254	\$	\$ 18,695	\$ 17,270,175	\$	\$ 977,322	\$ 62
U.S. Government Agency Securities	14,935,372					14,935,372	
Lonestar Gov't Overnight Fund	87,022,096	22,624,094	64,398,002				
TexPool Fund	113,410,965	22,623,184	64,460,426	20,003,408	6,323,947		
TexPool Prime Fund	107,034,502	22,626,450	64,404,020	20,004,032			
Guaranteed Investment Contract	114,999,378					114,999,378	
Totals	\$ 455,668,567	\$ 67,873,728	\$ 193,281,143	\$ 57,277,615	\$ 6,323,947	\$ 130,912,072	\$ 62

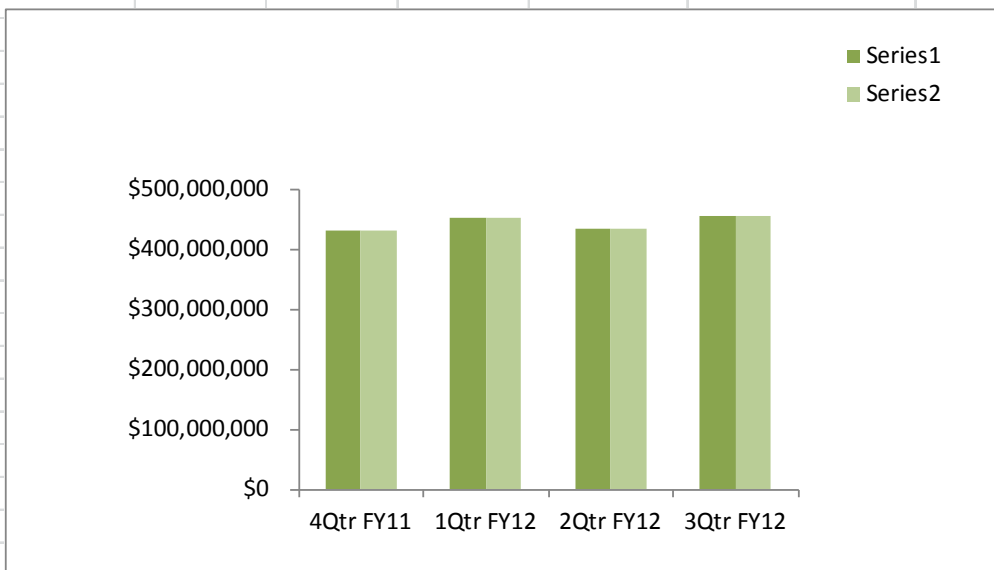
SCHEDULE 4
Maturity Distribution
May 31, 2012

Maturity Date	Book Value	Fair Value
1 to 7 days	\$340,733,816	\$340,669,189
> 10 years	114,999,378	114,999,378
Total Investments	\$455,733,194	\$455,668,567



SCHEDULE 5
Investment Portfolio Quarter End Values
May 31, 2012

Quarter End Values	Book Value	Fair Value
4Qtr FY11	429,595,055	429,635,828
1Qtr FY12	452,018,516	451,947,478
2Qtr FY12	433,377,985	433,313,358
3Qtr FY12	455,733,194	455,668,567



SCHEDULE 6

Investments by Security Type

May 31, 2012

Security Type	Fair Value
Money Market Investments	\$18,266,254
Lone Star Government Overnight Fund	87,022,096
TexPool Local Government Investment Pool	113,410,965
TexPool Prime	107,034,502
U.S. Government Agency Securities	14,935,372
Guaranteed Investment Contract	114,999,378
Total Investments	\$455,668,567

