



CENTRAL TEXAS TURNPIKE SYSTEM

An enterprise fund of the Texas Department of Transportation

Annual Financial Report

For the Fiscal Year Ended August 31, 2023

(With Independent Auditor's Report)



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Central Texas Turnpike System
An Enterprise Fund of
the Texas Department of Transportation

Annual Financial Report
For the Fiscal Year Ended
August 31, 2023

Prepared by:
Financial Management Division of the Texas Department of Transportation

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Section One
Introductory Section

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125 EAST 11TH STREET, AUSTIN, TEXAS 78701-2483 | 512.463.8588 | WWW.TXDOT.GOV

December 15, 2023

To: The Citizens of the State of Texas and the Creditors of the Central Texas Turnpike System

The audited annual financial statements of the Central Texas Turnpike System (CTTS) for the year ended Aug. 31, 2023 are enclosed in accordance with the Indenture of Trust dated July 15, 2022. The Indenture of Trust, as supplemented by the first through eighth Supplemental Indentures (Indenture), requires the preparation and submission of audited annual financial statements.

An external audit firm, Crowe LLP, performed an independent audit, in accordance with generally accepted auditing standards, of CTTS' basic financial statements for the year ended Aug. 31, 2023. The audit opinion is presented in this report preceding the financial statements. This report was prepared by the accounting staff in the Financial Management Division of the Texas Department of Transportation (TxDOT). CTTS' internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of the presentation. Consequently, management assumes full responsibility for the completeness and fairness of all of the information presented in the financial statements. To the best of my knowledge and belief, the financial statements are accurate in all material respects, are reported in a manner that presents fairly the financial position and results of operations of CTTS and provide disclosures that enable the reader to understand CTTS' financial condition.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the financial activities of TxDOT. We encourage readers to consider the information in this letter of transmittal in conjunction with the MD&A.

Profile of the Government

This report includes financial statements for CTTS, a fund within TxDOT's reporting entity. TxDOT is an agency of the state of Texas. TxDOT is managed by an executive director and is governed by the five-member Texas Transportation Commission. All members of the Commission are appointed by the Governor. The Commission is authorized to issue general obligation and revenue bonds per statutory and constitutional provisions.

Texas Transportation Code grants the Commission the authority to study, plan, design, construct, finance, operate and maintain turnpikes in all 254 counties of the state as a part of the state's highway system. The Commission can issue turnpike revenue bonds to pay all or a part of the cost of a turnpike project, to enter into comprehensive development agreements to execute projects and to acquire right of way through quick-take procedures. Such revenue bonds were issued to fund a portion of the costs of constructing the CTTS roadways.

Budgetary Controls

Annual budgets are approved by the Texas Transportation Commission in accordance with the indenture and reviewed by the general engineering consultants. These budgets are entered and maintained in the statewide accounting system as collected revenues or reimbursements. Controls are maintained at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed collected amounts.

OUR VALUES: People • Accountability • Trust • Honesty
OUR MISSION: Connecting You With Texas

An Equal Opportunity Employer

Information Useful in Assessing CTTS' Financial Condition

TxDOT and the Trustee are responsible for ensuring that funds maintain the proper minimum balances as set forth in the Indenture and for investing in securities required to meet liquidity requirements. The criteria for suitable investments for each fund type are detailed in the Commission's investment strategies.

All monies in the revenue fund, debt service funds, rate stabilization fund and construction fund – capital contributions account are invested in money market funds, government securities and investment pools that are in compliance with the Commission's investment policy.

The debt service reserve fund is invested in an investment pool and a repurchase agreement collateralized by U.S. Treasury and Agency Securities.

Acknowledgements

The preparation of the report requires the efforts of individuals throughout TxDOT, including the dedicated efforts of the management and staff of the TxDOT's Financial Reporting Section and other sections of the Financial Management Division, and the Project, Finance, Debt and Strategic Contracts Division. I sincerely appreciate the efforts of all these individuals who continue to help make TxDOT a leader in quality financial reporting.

Sincerely,

DocuSigned by:

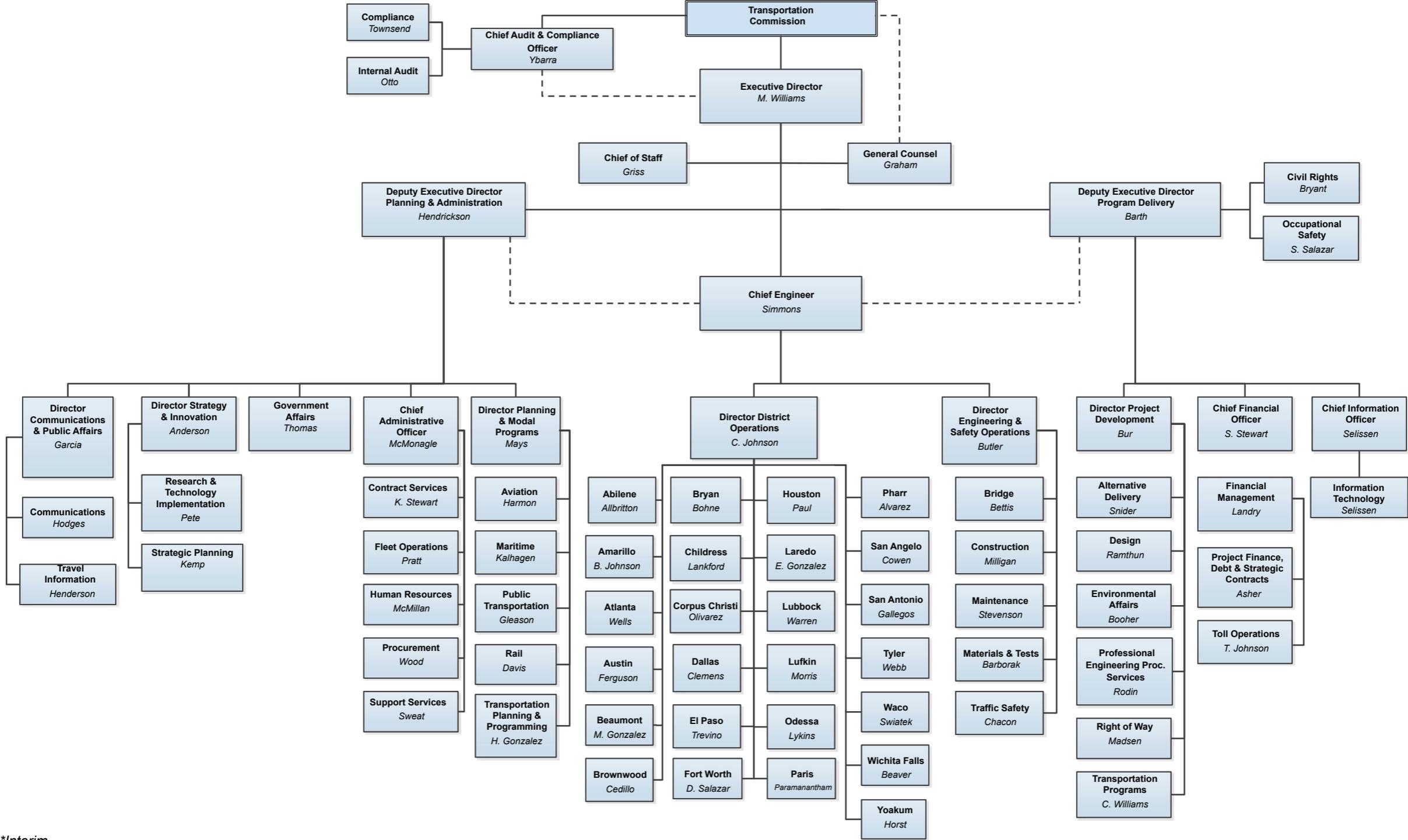
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Marc D. Williams, P.E.
Executive Director

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OUR MISSION: Connecting You With Texas

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Texas Department of Transportation Organization Chart as of August 31, 2023



*Interim

**TEXAS DEPARTMENT OF TRANSPORTATION
TEXAS TRANSPORTATION COMMISSION
as of August 31, 2023**



J. Bruce Bugg, Jr.
Chairman
San Antonio



W. Alvin New
Commissioner
San Angelo



Robert C. Vaughn
Commissioner
Dallas



Alejandro "Alex" G. Meade III
Commissioner
Mission



Steven D. Alvis
Commissioner
Houston

**TEXAS DEPARTMENT OF TRANSPORTATION
TxDOT ADMINISTRATION
as of August 31, 2023**

The following is a list of administrators who oversee the Texas Department of Transportation. All TxDOT districts, divisions and offices report to a member of the administration, headquartered in Austin.



Marc Williams
Executive Director



Brandye Hendrickson
Deputy Executive Director for Planning and Administration



Brian Barth
Deputy Executive Director for Program Delivery



Richard McMonagle
Chief Administrative Officer



Benito Ybarra
Chief Audit and Compliance Officer



Lance W. Simmons
Chief Engineer



Stephen Stewart
Chief Financial Officer



Anh Selissen
Chief Information Officer



Mary Anne Griss
Chief of Staff



Alejandro Garcia
Director of Communications and Public Affairs



Carl Johnson
Director of District Operations



Jessica Butler
Director of Engineering and Safety Operations



Trent Thomas
Director of Government Affairs



Caroline Mays
Director of Planning and Modal Programs



Mohamed "Mo" Bur
Director of Project Development



Darran Anderson
Director of Strategy and Innovation



Jeff Graham
General Counsel

As of August 31, 2023

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Section Two
Financial Section

INDEPENDENT AUDITOR'S REPORT

*Members of the Texas Transportation Commission
State of Texas*

Report on the Audit of the Financial Statements***Opinion***

We have audited the financial statements of the Central Texas Turnpike System (System), an enterprise fund of the Texas Department of Transportation (TxDOT), an agency of the State of Texas, as of and for the year ended August 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the System, of TxDOT, as of August 31, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of TxDOT, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of TxDOT or the State of Texas, as of August 31, 2023, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TxDOT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 12-15 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2023, on our consideration of TxDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the TxDOT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TxDOT's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and somewhat stylized.

Crowe LLP

Austin, Texas
December 15, 2023

Section Two (Continued)
Management's Discussion & Analysis
(Unaudited)

Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT), we offer readers of the Central Texas Turnpike System's (CTTS) financial statements this narrative overview and analysis of its financial activities for the year ended Aug. 31, 2023, with selected comparative information for the year ended Aug. 31, 2022. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

Highlights

During fiscal 2023, CTTS generated \$274.2 million in toll revenues (net of allowance), an increase of \$61.1 million or 28.7 percent over fiscal 2022, due to increased traffic and also to the substantial resolution of interruptions caused by the TxDOT toll back office transition to a new provider in fiscal 2021. CTTS roadways recorded 193.6 million transactions in fiscal 2023, an increase of 11 percent over fiscal 2022.

CTTS' indenture requires certain operating, maintenance, and reserve maintenance funds to be held separate and apart from its other funds and accounts. As of Aug. 31, 2023, these funds held reserves of \$96.9 million. These balances will enable CTTS to pay directly for budgeted expenses throughout the coming year.

The assets and deferred outflows of CTTS exceeded its liabilities and deferred inflows by \$217.4 million as of Aug. 31, 2023, an increase of \$31.4 million or 16.9 percent from fiscal 2022. The increase mainly reflects an increase in capital assets of \$40.1 million, offset by an increase in noncurrent liabilities of \$25.3.

Overview of the Financial Statements

The annual financial report consists of two parts: management's discussion and analysis (this section) and the basic financial statements with their accompanying notes.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TxDOT, like other states and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Proprietary funds are used to account for a government's business-type activities. The activities related to CTTS are accounted for in an enterprise fund, which is a type of proprietary fund used to report activities in which a fee is charged to external users for goods and services.

Financial Analysis

The overall financial position and operations of CTTS for the past two years is summarized as follows.

Statement of Net Position		
August 31, 2023 and 2022 (Amounts in Thousands)		
	<u>2023</u>	<u>2022</u>
ASSETS		
Assets Other Than Capital Assets	\$ 656,840	\$ 612,202
Capital Assets	2,594,928	2,554,860
Total Assets	<u>3,251,768</u>	<u>3,167,062</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>27,202</u>	<u>29,600</u>
LIABILITIES		
Current Liabilities	170,238	143,345
Noncurrent Liabilities	2,867,682	2,842,300
Total Liabilities	<u>3,037,920</u>	<u>2,985,645</u>
DEFERRED INFLOWS OF RESOURCES	<u>23,675</u>	<u>25,067</u>
NET POSITION		
Net Investment in Capital Assets	413,619	465,225
Restricted for Debt Service	175,418	186,436
Restricted for Operations and Maintenance	90,561	37,277
Unrestricted	(462,223)	(502,988)
Total Net Position	<u>\$ 217,375</u>	<u>\$ 185,950</u>

Changes in Net Position		
For the Fiscal Years Ended August 31, 2023 and 2022 (Amounts in Thousands)		
	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Operating Revenues	\$ 345,176	\$ 256,524
Total Operating Revenue	<u>345,176</u>	<u>256,524</u>
OPERATING EXPENSES		
Operating Expenses	234,217	230,298
Total Operating Expenses	<u>234,217</u>	<u>230,298</u>
Operating Income	110,959	26,226
Total Nonoperating Revenues (Expenses)	(91,221)	(113,849)
Income (Loss) before Capital Contribution and Transfer	<u>19,738</u>	<u>(87,623)</u>
Capital Contribution	61	322
Transfers In	11,626	
Transfers Out		(161)
Total Capital Contribution and Transfers	<u>11,687</u>	<u>161</u>
Change in Net Position	<u>31,425</u>	<u>(87,462)</u>
Net Position – Beginning	185,950	273,412
Net Position – Ending	<u>\$ 217,375</u>	<u>\$ 185,950</u>

Net position may serve over time as a useful indicator of CTTS' financial position. Net position will decline as additional noncurrent liabilities are accrued via principal accretion on outstanding CTTS debt, and as capital assets are depreciated and amortized. Debt service was \$151.7 million in fiscal 2023 and is scheduled to increase to \$163.0 million in fiscal 2024. Operations and maintenance expense (excluding depreciation) is estimated to increase approximately \$68.1 million.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2023, CTTS had approximately \$2.6 billion in net capital assets.

Capital Assets-Net of Depreciation and Amortization		
August 31, 2023 and 2022 (Amounts in Thousands)		
	2023	2022
Land	\$ 668,525	\$ 668,831
Construction in Progress	48,761	100,138
Land Use Rights	19,466	19,466
Software	29,787	39,999
Infrastructure-Roadways and Bridges	1,730,835	1,723,989
Buildings	2,076	2,437
Right-to-Use Subscriptions	95,478	
Total Capital Assets	<u>\$ 2,594,928</u>	<u>\$ 2,554,860</u>

Debt Administration

The increase in net capital assets of \$40.1 million mainly reflects transfer in of \$129.1 of a right-to-use subscription and \$11.4 million of other additions, offset by annual depreciation and amortization of \$100.3 million.

The Commission has issued revenue bonds backed by the pledged revenues and restricted assets specified in the bond resolutions. As of Aug. 31, 2023, CTTS had approximately \$2.9 billion of outstanding revenue bond debt. See Notes 4 & 5 for more information.

Outstanding Debt Obligations		
August 31, 2023 and 2022 (Amounts in Thousands)		
	2023	2022
Revenue Bonds Payable	\$ 2,650,007	\$ 2,683,020
Revenue Bonds Payable - Direct Placements	225,000	225,000
Total Outstanding Debt	<u>\$ 2,875,007</u>	<u>\$ 2,908,020</u>

Bond Credit Ratings

The outstanding bonds of CTTS were rated by each of the three major Nationally Recognized Statistical Rating Organizations. As of Aug. 31, 2023, the CTTS bonds carried the following ratings:

CTTS Credit Ratings as of August 31, 2023				
(Amounts in Thousands)				
Bond Description	Net Outstanding	Moody's	S & P	Fitch
First Tier Bonds Series 2002-A				
Non-Callable Capital Appreciation Bonds	\$ 446,215	A3	A	A+
First Tier Revenue Refunding Bonds, Series 2012-A	129,600	A3	A	A+
First Tier Revenue Refunding Bonds, Series 2015-B	214,976	A3	A	A+
First Tier Revenue Refunding Bonds, Series 2015-B				
Capital Appreciation Bonds	134,181	A3	A	A+
Second Tier Revenue Refunding Bonds, Series 2015-C	1,233,003	Baa1	A-	A-
First Tier Revenue Refunding Bonds, Series 2020-A	212,727	A3	A	A+
First Tier Revenue Refunding Bonds, Series 2020-B	225,000	A3	A	A+
First Tier Revenue Refunding Bonds, Series 2020-C	279,305	A3	A	A+
Total	<u>\$ 2,875,007</u>			

An explanation of the significance of each rating may be obtained from the company furnishing the rating. The ratings reflect only the views of such companies at the time such ratings are given, and the Commission makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such companies if, in the judgment of such companies, circumstances so warrant.

Requests for Information

This financial report is designed to provide a general overview of CTTS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the TxDOT Financial Management Division at the following address:

Texas Department of Transportation
 Financial Management Division - Accounting Management Section
 125 East 11th Street
 Austin, Texas 78701-2483

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Section Two (Continued)
Basic Financial Statements

**Central Texas Turnpike System
Statement of Net Position**

August 31, 2023 (Amounts in Thousands)

ASSETS

Current Assets:	
Cash and Cash Equivalents:	
Cash and Cash Equivalents	\$ 117,111
Restricted:	
Cash and Cash Equivalents	443,589
Receivables:	
Accounts Receivable	26,054
Interest and Dividends	287
Due from Other Funds (Note 8)	24,170
Consumable Inventory	267
Total Current Assets	<u>611,478</u>
Noncurrent Assets:	
Restricted:	
Investments	18,173
Investments	27,189
Capital Assets:	
Non-Depreciable Capital Assets (Note 2)	736,752
Depreciable Capital Assets, Net (Note 2)	1,858,176
Total Noncurrent Assets	<u>2,640,290</u>
Total Assets	<u>3,251,768</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources	
Loss on Bond Refunding	27,202
Total Deferred Outflows of Resources	<u>27,202</u>

LIABILITIES

Current Liabilities:	
Payables:	
Accounts	13,195
Interest	4,153
Due to Other Funds (Note 8)	20,048
Unearned Revenues	16,604
Revenue Bonds Payable (Notes 4, 5)	74,743
Subscription Obligations (Note 5, 7)	41,495
Total Current Liabilities	<u>170,238</u>
Noncurrent Liabilities:	
Revenue Bonds Payable (Notes 4, 5)	2,800,264
Subscription Obligations (Note 5, 7)	67,418
Total Noncurrent Liabilities	<u>2,867,682</u>
Total Liabilities	<u>3,037,920</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources	
Gain on Bond Refunding	23,675
Total Deferred Inflows of Resources	<u>23,675</u>

NET POSITION

Net Investment in Capital Assets	413,619
Restricted for:	
Transportation - Operations and Maintenance	90,561
Debt Service	175,418
Unrestricted	(462,223)
Total Net Position	<u>\$ 217,375</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Central Texas Turnpike System
Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

OPERATING REVENUES

Toll Revenue - Pledged	\$ 316,556
Discounts and Allowances	(42,326)
Fee Revenue - Pledged	28,368
Other Sales Goods & Services-Pledged	42,578
Total Operating Revenues	<u>345,176</u>

OPERATING EXPENSES

Salaries	2,542
Professional Fees and Services	22,454
Travel	2
Materials and Supplies	1,331
Communication and Utilities	843
Repairs and Maintenance	25,517
Rentals and Leases	833
Contracted Services	69,396
Advertising	980
Depreciation and Amortization	100,295
Interest Expense	4
Other Operating Expenses	10,020
Total Operating Expenses	<u>234,217</u>
Operating Income	<u>110,959</u>

NONOPERATING REVENUES (EXPENSES)

Lease Revenue	7,847
Interest and Investment Income	23,059
Net Increase in Fair Value of Investments	1,373
Amortization	11,405
Interest Expense	(134,828)
Bond Issuance Expenses	(32)
Other Financing Fees	(45)
Total Nonoperating Revenues (Expenses)	<u>(91,221)</u>
Income before Capital Contributions and Transfers	<u>19,738</u>

CAPITAL CONTRIBUTIONS AND TRANSFERS

Capital Contributions	61
Transfers In (Note 8)	11,626
Total Capital Contributions and Transfers	<u>11,687</u>
Change in Net Position	<u>31,425</u>

Net Position, September 1, 2022	185,950
Net Position, August 31, 2023	<u>\$ 217,375</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

**Central Texas Turnpike System
Statement of Cash Flows**

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from Customers	\$	340,443
Payments to Suppliers for Goods and Services		(158,148)
Net Cash Provided by Operating Activities		<u>182,295</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Land Revenue		8,153
Payments for Purchase of Capital Assets		(11,550)
Payments of Principal on Debt and Other Liabilities		(64,069)
Payments of Interest on Debt and Other Liabilities		(99,055)
Payments for Interfund Services		(77)
Net Cash (Used) By Capital And Related Financing Activities		<u>(166,598)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments		40,000
Proceeds from Interest and Investment Income		22,999
Net Cash Provided By Investing Activities		<u>62,999</u>

Net Increase In Cash And Cash Equivalents 78,696

Cash And Cash Equivalents - Beginning 482,004
Cash And Cash Equivalents - Ending \$ 560,700

Central Texas Turnpike System
Statement of Cash Flows (concluded)

For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$	110,959
Adjustments:		
Depreciation		100,295
Other non-cash items		(731)
(Increase) in Receivables		(6,092)
Decrease in Inventories		208
(Decrease) in Payables		(29,747)
Increase in Due to Other Funds		4,869
Decrease in Due from Other Funds		2,534
Total Adjustments		<u>71,336</u>
Net Cash Provided by Operating Activities	\$	<u>182,295</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Subscription Liability Paid by Other Funds	\$	10,509
Net change in Fair Market Value of Investments	\$	1,373
Accretion on Bonds Payable	\$	(32,706)
Amortization of Bonds Payable	\$	11,405
Amortization of Deferred Inflow/Outflow	\$	(1,005)
Capital Contribution	\$	61

The accompanying notes to the financial statements are an integral part of this financial statement.

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Central Texas Turnpike System

Notes to Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements reflect the financial position of the Central Texas Turnpike System (CTTS). CTTS is an enterprise fund of the Texas Department of Transportation (TxDOT), an agency of the state of Texas. The Texas Transportation Commission (Commission), the governing body of TxDOT, has the authority to commit CTTS to various legal agreements.

As of Aug. 31, 2023, CTTS consists of State Highway 130 Segments 1 through 4, State Highway 45 North, CTTS tolled portion of Loop 1 and State Highway 45 Southeast. A portion of the costs of planning, designing, engineering, developing and constructing of the first three elements was financed by bonds issued by the Commission. In fiscal 2013, State Highway 45 Southeast was transferred to CTTS. In the future, at the Commission's discretion, additional projects may be added to CTTS.

CTTS does not have any employees, although labor costs are included in the cost of constructing, operating and maintaining CTTS. When TxDOT staff members perform work on behalf of CTTS, the proportionate cost of that labor is reported as an expense of CTTS. TxDOT's risk financing and insurance programs apply to CTTS.

The records of CTTS are maintained in accordance with the practices set forth in the provisions of the indentures of the outstanding revenue bonds. These practices are modeled after generally accepted accounting principles that are similar to private business enterprises.

Basis of Presentation and Basis of Accounting

The accompanying financial statements were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for CTTS is based on all GASB pronouncements. The data in this report is combined and consolidated by the Texas Comptroller's Office with similar data from other state agencies and universities in the preparation of the state of Texas Annual Comprehensive Financial Report (ACFR).

GASB Pronouncements and Implementation Guides Effective for Fiscal 2023

In fiscal 2023 CTTS adopted the following new GASB pronouncements and implementation guides:

- *GASB Statement No. 91, Conduit Debt Obligations.* This statement provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice. It clarifies the definition of a conduit debt; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional and voluntary commitments; and improving required note disclosures. The effective date of the statement was postponed from fiscal 2022 to fiscal 2023.
- *GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payments Arrangements.* This statement addresses financial reporting issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transactions. Some PPPs meet the definition of a service concession arrangement (SCA). This statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term. An APA is an arrangement in which a government procures a capital asset or service by compensating an operator for activities that may include designing, constructing, financing, maintaining, and operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. In contrast to PPPs, the other party to an APA is receiving compensation from the government based entirely on the asset's availability and not the actual performance of a public service. The statement is effective fiscal 2023.
- *GASB Statement 96, Subscription-Based Information Technology Arrangements.* This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. A SBITA is a contract that conveys control of the right to use another party's information technology software for a period of time in an exchange or exchange-like transaction. The statement establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability. The standards for SBITAs are based on the standards established in Statement 87, Leases. The statement is effective fiscal 2023.
- *GASB Statement 99, Omnibus 2022.* Paragraphs 18-22, PPPs. Paragraphs 23-25, SBITAs. Effective fiscal 2023.
- *Implementation Guide 2020-1, Implementation Guidance Update 2020.* Questions 4.19-4.21, Conduit Debt Obligations. Effective fiscal 2023.
- *Implementation Guide 2021-1, Implementation Guidance Update 2021.* Questions 4.4-4.21 Leases. Effective fiscal 2023.

These financial statements present only the financial position, changes in financial position and cash flows of CTTS. They are not intended to, and do not, present fairly the financial position, changes in financial position or cash flows of TxDOT. The reporting period is for the state fiscal year ended Aug. 31, 2023.

Fund Structure

The activity of CTTS is reported in a proprietary fund. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

A proprietary fund distinguishes operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for an enterprise fund include cost of sales and services, administrative expenses and depreciation on capital assets.

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

Cash and Cash Equivalents

For reporting purposes, cash and cash equivalents include cash on hand, cash in transit, cash in local banks, cash in the treasuries, money market funds, state and local government investment pools, and cash equivalents. The statement of cash flows presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly-liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of a decrease in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents.

Investments

Short-term investments are investments with a maturity greater than 90 days but less than one year at the time of purchase. Short-term investments are recorded on an amortized cost basis. Long-term investments are investments with a maturity of one year or more at the time of purchase. Long-term investments are recorded at fair value based upon quoted market prices as of the fiscal year end. All investment income, including changes in the fair value of investments, is recognized as nonoperating revenue in the Statement of Revenues, Expenses and Change in Net Position. See Note 3 for more information.

Accounts Receivable

The accounts receivable asset is comprised of toll operations revenue earned but not yet received by CTTS of \$96.3 million, net of an allowance for doubtful accounts of \$70.3 million, as of Aug. 31, 2023.

Interest and Dividends Receivable

The amount of interest and dividends that has been earned, but which has not yet been received as of fiscal year end.

Due from Other Funds

Due from other funds represents amounts due to other funds within TxDOT, for a variety of costs. See Note 8 for more information.

Consumable Inventory

Consumable inventory consists of toll tags. The consumption method of accounting is used to account for inventory. The costs of these items are expensed when the items are distributed to consumers.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund notes/loans, revenue bonds and revenues set aside for statutory or contractual requirements. CTTS may receive funding whose related expenditure is restricted to certain activities. In situations where both restricted and unrestricted resources are available to cover expenses, CTTS will first expend the restricted resources and cover additional costs with unrestricted resources. CTTS reserves the right to selectively defer the use of restricted assets.

Capital Assets

Capital assets, which include buildings, construction in progress, infrastructure, intangible assets, land and permanent land-use rights, are capitalized and reported in the financial statements.

Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. Land, permanent land-use rights and construction in progress do not have a capitalization threshold and are not depreciated. The capitalization thresholds and useful lives of CTTS' depreciable capital assets are as follows:

Capitalization of Assets		
Type	Capitalization Threshold	Estimated Useful Life
Buildings and Building Improvements	\$100,000	22 years
Infrastructure, Depreciable	\$500,000	40 years
Internally Developed Software	\$1,000,000	5 years
Intangible Right-to-Use Asset -Subscription based IT Arrangements (SBITAs)	\$500,000	>1 Year

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. Costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are not capitalized.

CTTS uses the depreciation approach for reporting both highways and highway bridges of the infrastructure assets. Under the depreciation approach, infrastructure assets are depreciated over a 40-year life, and certain preservation costs are capitalized. The capitalization threshold of \$500,000 is used for both highway bridges and roadways.

CTTS also holds three years of infrastructure costs in construction in progress at all times. At the fourth year, the first year is moved to depreciable infrastructure. The three-year assumption is based on a 2.7 year contract life when using the weighted dollar analysis of project costs and completion dates over the ten year history.

Internally generated software costs are recorded as construction in progress during the application development stage of the project. Development costs are moved to Computer Software the year the asset is placed into service. See Note 2 for more information on Capital Assets.

The intangible Right To Use (RTU) subscription asset is measured at the amount of the initial measurement of the subscription liability, plus any payments made to the SBITA vendor before the commencement of the subscription term plus any payments made in the implementation stage at or before the commencement of the subscription term. A RTU subscription asset should be amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying asset. The amortization of the RTU subscription asset should be reported as an outflow of resources over the subscription term. See Note 7 for more information.

Deferred Inflows of Resources and Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets. Loss on refunding debt is reported as deferred outflows of resources.

Deferred inflows of resources are on acquisition of net assets by TxDOT that are applicable to a future reporting period. Deferred inflows have a negative effect on net position, similar to liabilities.

Accounts Payable

Accounts payable represents the liability for the value of assets or services received during the reporting period for which payment is pending.

Interest Payable

Interest payable represents the liability for the interest expense incurred during the reporting period for which payment is pending.

Due to Other Funds

Due to other funds represents amounts due to other funds within TxDOT, for a variety of costs. See Note 8 for more information.

Unearned Revenue

Unearned revenue is reported when cash or other assets are received prior to being earned.

Revenue Bonds Payable

Revenue bonds payable are reported at par less unamortized discount or plus unamortized premium. Payables are reported separately as either current or noncurrent in the statement of net position. See Notes 4 and 5 for more information

Subscription Obligations

The GASB 96 requires the subscription obligations be recognized at the commencement of the SBITA term when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

Net Position

Proprietary funds report net position as the residual amount in a statement of net position. The categories of net position reported in this report include:

Net Investment in Capital Assets

Net investment in capital assets consists of capital assets (net of accumulated depreciation), and deferred outflow of resources, reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted

Restricted net position results when constraints placed on net position's use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation. The restricted component of net position represents restricted assets reduced by liabilities related to those assets.

Unrestricted

Unrestricted net position consists of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

Revenues, Expenses, and Transfers

Operating Revenues

CTTS operating revenues for fiscal 2023 is mainly comprised of \$274.2 million in toll revenue. This represents \$316.6 million in gross toll revenue, less a decrease of allowance for doubtful accounts of \$42.3 million. CTTS also earned toll fees of \$28.4 million and other sales revenue of \$42.6 million.

Operating Expenses

Operating expenses include expenses incurred in operating the toll roads and the customer service center, and depreciation and amortization on capital assets.

Nonoperating Revenues/Expenses

Nonoperating revenues are mainly comprised of interest and investment revenue and lease revenue. Nonoperating expenses are any expenses not classified as operating, including bond interest expense and accretion on capital appreciation bonds

Capital Contributions

Capital contributions represent the capital asset contribution made from the State Highway Fund to CTTS. The capital contribution made from a governmental fund to a proprietary fund should be reported as capital contribution, instead of transfers, on the proprietary fund financial statements. No transfers should be reported on the governmental fund financial statements.

Transfers

Transfers In/Out represents the flow of assets between funds. See Note 8 Interfund Activity for more information.

NOTE 2 – CAPITAL ASSETS

The table below presents the composition of CTTS' capital assets, reclassifications, additions and deletions during fiscal 2023. The reclassifications column represents completed construction projects, and transfers of capital assets between the governmental and business-type activities of TxDOT, including Subscription-Based Information Technology Arrangements (see Note 7 for more information). The additions column includes current year purchases, depreciation and amortization. The deletions column represents assets removed during the current fiscal year via sale or disposition.

Capital Assets Activity					
For the fiscal year ended August 31, 2023					
(Amounts in Thousands)					
	Balance 09/1/2022	Reclass- ifications	Additions	Deletions	Balance 08/31/2023
Non-Depreciable Assets & Non-Amortizable Assets					
Land	\$ 668,831	\$	\$	\$ (306)	\$ 668,525
Construction in Progress	100,138	(62,808)	11,431		48,761
Land Use Rights	19,466				19,466
Total Non-Depreciable Assets	<u>788,435</u>	<u>(62,808)</u>	<u>11,431</u>	<u>(306)</u>	<u>736,752</u>
Depreciable Assets					
Buildings	8,360				8,360
Infrastructure	2,328,853	62,870			2,391,723
Total Depreciable Assets	<u>2,337,213</u>	<u>62,870</u>	<u>0</u>	<u>0</u>	<u>2,400,083</u>
Less Accumulated Depreciation for:					
Buildings	(5,923)		(361)		(6,284)
Infrastructure	(604,864)		(56,024)		(660,888)
Total Accumulated Depreciation	<u>(610,787)</u>	<u>0</u>	<u>(56,385)</u>	<u>0</u>	<u>(667,172)</u>
Depreciable Assets, Net	<u>1,726,426</u>	<u>62,870</u>	<u>(56,385)</u>	<u>0</u>	<u>1,732,911</u>
Intangible Capital Assets - Amortizable					
Software	51,063				51,063
Total Amortizable Assets	<u>51,063</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>51,063</u>
Less Accumulated Amortization for:					
Software	(11,064)		(10,212)		(21,276)
Total Accumulated Amortization	<u>(11,064)</u>	<u>0</u>	<u>(10,212)</u>	<u>0</u>	<u>(21,276)</u>
Amortizable Assets, Net	<u>39,999</u>	<u>0</u>	<u>(10,212)</u>	<u>0</u>	<u>29,787</u>
Intangible Right to Use (RTU) Assets - Amortizable					
Subscriptions		129,176			129,176
Total Amortizable RTU Assets	<u>0</u>	<u>129,176</u>	<u>0</u>	<u>0</u>	<u>129,176</u>
Less Accumulated Amortization for:					
Subscriptions			(33,698)		(33,698)
Total Accumulated Amortization RTU Assets	<u>0</u>	<u>0</u>	<u>(33,698)</u>	<u>0</u>	<u>(33,698)</u>
Amortizable Intangible RTU Assets, Net	<u>0</u>	<u>129,176</u>	<u>(33,698)</u>	<u>0</u>	<u>95,478</u>
Total Capital Assets, Net	<u>\$ 2,554,860</u>	<u>\$ 129,238</u>	<u>\$ (88,864)</u>	<u>\$ (306)</u>	<u>\$ 2,594,928</u>

NOTE 3 – DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

CTTS is authorized by statute to make investments following the “prudent person rule”. CTTS has complied, in all material respects, with statutory authorization, bond documents, constraints and commission policies during the period.

Deposits

The following amounts consist of all cash and cash equivalents in local banks. These amounts are included on the combined statement of net position as part of the “cash and cash equivalents” accounts.

Cash and Cash Equivalents - Carrying Amount	
August 31, 2023 (Amounts in Thousands)	
Current Assets Cash	\$ 28,746
Cash and Cash Equivalents - Carrying Amount	<u>\$ 28,746</u>

Investments

Measurement

CTTS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three-tiered fair value hierarchies are as follows.

- Level 1 – Quoted prices in active markets for identical investments
- Level 2 – Significant other observable inputs other than quoted market prices
- Level 3 – Significant unobservable inputs

As of Aug. 31, 2023, the measurements of CTTS’s investments are summarized below:

Investment Fair Value and Maturities			
August 31, 2023 (Amounts in Thousands)			
Investment Type	Fair Value Hierarchy Level 1	Other Measurement Amortized Cost	Total
Money Market Mutual Funds	\$	\$ 45,602	\$ 45,602
Government Sponsored Entities	45,362		45,362
Government Investment Pools		389,420	389,420
Repurchase Agreements		96,932	96,932
Total Investments	<u>\$ 45,362</u>	<u>\$ 531,954</u>	<u>\$ 577,316</u>

Government sponsored entities investments of \$45.4 million with maturities of one year or more are valued at quoted market prices (Level 1 input).

As of Aug. 31, 2023, CTTS also has the following types of investments which are excluded from measurement at fair value according to GASB 72.

- Investments in money market mutual funds, government investment pools and repurchase agreements of \$532.0 million with maturities less than one year are valued at amortized cost.

Custodial Credit Risk - Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission’s investment policy states that all securities purchased by the Commission shall be designated as assets of the Commission and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee.

Credit Risk - Investments

Direct credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy prohibits the Commission from entering into long-term investment agreements or other ongoing investment transactions with a final maturity or termination date of longer than six months with any financial institution that initially has a long- term rating category of less than “A” and that does not have at least one long-term rating of at least “AA” by a nationally recognized statistical rating organization (NRSRO). All investments made by the Commission have been made through a firm on the then-current list of qualified financial institutions approved by the Commission.

The Commission’s policy does not limit the amount of investment in obligations of the United States or its agencies.

As of Aug. 31, 2023, CTTS’ investments had the following ratings:

Investment Credit Ratings					
August 31, 2023 (Amounts in Thousands)					
Investment Type	Valuation	Moody’s	Standard & Poor’s	Fitch	
Money Market Mutual Funds:					
JPMorgan US Government Fund	\$ 23,902	Aaa-mf	AAAm	AAAmmf	
Morgan Stanley Instl Liquidity Government Fund	21,700	Aaa-mf	AAAm	AAAmmf	
Government Sponsored Entities:					
Federal Farm Credit Banks Funding Corporation	9,015	Aaa	AA+	AA+	
Federal Home Loan Mortgage Corporation	36,347	Aaa	AA+	AA+	
Government Investment Pools:					
TexPool Prime	389,420	NR	AAAm	NR	
Repurchase Agreements:					
Repo (TTSTC)	96,932	NR	AAAf	NR	
Total	\$ 577,316				

NR= Not Rated

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Assets held shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. As of Aug. 31, 2023, the following investments exceeded five percent of the total portfolio: Federal Home Loan Mortgage Corporation, TexPool Prime and the Repurchase Agreement.

The Commission addresses diversification in the Commission’s Investment Policy. Diversification strategies shall be determined and revised periodically by the investment officer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. Investment maturities are noted in the investment table. Approximately 92.1 percent of the investments mature within one year. Market value fluctuation of the overall portfolio is minimized by keeping the weighted average maturity low.

NOTE 4 – SUMMARY OF LONG-TERM LIABILITIES

As of Aug. 31, 2023, CTTS had seven bond issues and one subscription obligation outstanding. Additional detail is provided in the sections that follow. As detailed below, the following changes occurred in long-term liabilities during the year ended Aug. 31, 2023.

Long-Term Liabilities Activity								
For the Fiscal Year Ended August 31, 2023 (Amounts in Thousands)								
	Beginning Balance 09/01/2022	Adjustments*	Additions**	Reductions	Ending Balance 08/31/2023	Due Within One Year	Amounts Due Thereafter	
Revenue Bonds Payable	\$ 2,683,020	\$ (11,404)	\$ 32,706	\$ (54,315)	\$ 2,650,007	\$ 74,743	\$ 2,575,264	
Revenue Bonds - Direct Placements	225,000				225,000		225,000	
Right-to-Use Subscription Obligations		129,176		(20,263)	108,913	41,495	67,418	
Total	\$ 2,908,020	\$ 117,772	\$ 32,706	\$ (74,578)	\$ 2,983,920	\$ 116,238	\$ 2,867,682	

* Includes current year amortization of premiums and discounts.
 ** Includes current year accretion.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure the payment of bond debt service. The table below provides information on pledged revenue and pledged future revenue of the CTTS revenue bonds.

Pledged Future Revenue (Amounts in Thousands)	
Pledged Revenue Required for Future Principal and Interest on Existing Debt	\$ 4,312,949
Term of Commitment Ending	8/15/2042
Percentage of Revenue Pledged	97.19%
Current Year Pledged Revenue	\$ 365,817
Current Year Principal and Interest Paid	\$ 151,654

NOTE 5 – BONDED INDEBTEDNESS

Revenue Bonds

Transportation Code, Chapter 228 Subchapter C authorizes the Commission to issue revenue bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the CTTS. The bonds are payable from and secured solely by a first and second lien on, as applicable, and pledge of the trust estate. The trust estate consists of all project revenues and all project earnings including investment earnings deposited into the revenue fund, construction fund (except for any amounts held in a sub-account containing monies derived from the state highway fund or any monies received by the Commission that are restricted to another use), the debt service fund, the debt service reserve fund, the rate stabilization fund, and the general reserve fund.

In an event of default under the terms of the Indenture of Trust dated as of July 15, 2002, the Trustee may take the following actions and upon the written request of the owners of not less than 20 percent in principal amount of outstanding obligations shall proceed to:

- (i) Protect and enforce its rights and the rights of the owners under the state law and the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for mandamus or the specific performance of any covenant or agreement contained in the Indenture or in aid or execution of any power granted by the Indenture or for the enforcement of any proper legal or equitable remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.
- (ii) In the enforcement of any remedy under the Indenture the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any event of default becoming, and at any time remaining, due from the Commission.

Description of Issue	Bonds Issued to Date	Date Issued	Range of Interest Rates		Maturities		First Call Date
					First Year	Last Year	
First Tier Revenue Bonds Series 2002-A							
Non-Callable Capital Appreciation Bonds*	\$ 792,168	08/29/2002	4.47%	5.75%	2012	2030	n/a
Callable Capital Appreciation Bonds	325,494	08/29/2002	6.00%	6.10%	2025	2038	08/15/2012
First Tier Revenue Refunding Bonds Series 2012-A	585,330	11/27/2012	4.00%	5.00%	2038	2041	08/15/2022
First Tier Revenue Refunding Bonds Series 2015-B							
Current Interest Bonds + Term Bond*	198,025	02/04/2015	5.00%	5.00%	2032	2037	08/15/2024
Capital Appreciation Bonds	134,181	02/04/2015	4.36%	4.38%	2036	2037	08/15/2024
Second Tier Revenue Refunding Bonds, Series 2015-C	1,157,320	02/04/2015	5.00%	5.00%	2022	2042	08/15/2024
First Tier Revenue Refunding Bonds Series 2020-A	179,475	03/05/2020	3.00%	5.00%	2039	2040	08/15/2030
First Tier Revenue Refunding Variable Rate Bonds Series 2020-B	225,000	03/05/2020	VAR	VAR	2042	2042	**
First Tier Revenue Refunding Bonds Taxable Series 2020-C	279,305	03/05/20	3.03%	3.03%	2031	2041	08/15/2030
Total	<u>\$ 3,876,298</u>						

* Bonds issued to date include interest accreted to principal.
 ** Bonds are subject to redemption prior to their respective maturities at the option of the Commission.

Neither the state, Commission, TxDOT nor any other agency or political subdivision of the state is obligated to pay the principal, premium, discount or interest on the CTTS revenue bonds except from the trust estate. The bond indenture does not create a mortgage on the CTTS.

Debt service requirements for the First Tier Revenue Bonds as of Aug. 31, 2023, are detailed in the following tables:

Debt Service Requirements - Revenue Bonds (Amounts in Thousands)			
Revenue Bonds			
Year	Principal	Interest	Total
2024	\$ 63,380	\$ 88,752	\$ 152,132
2025	72,655	88,319	160,974
2026	87,030	87,707	174,737
2027	98,405	87,216	185,621
2028	105,225	86,513	191,738
2029-2033	644,255	404,432	1,048,687
2034-2038	943,485	249,107	1,192,592
2039-2043	722,940	63,348	786,288
	<u>2,737,375</u>	<u>1,155,394</u>	<u>3,892,769</u>
Unamortized Accretion	(227,194)		(227,194)
Unamortized Premium	139,826		139,826
Total	\$ 2,650,007	\$ 1,155,394	\$ 3,805,401

Debt Service Requirements - Revenue Bonds (Amounts in Thousands)			
Revenue Bonds - Direct Placements			
Year	Principal	Interest*	Total
2024	\$	\$ 10,889	\$ 10,889
2025		10,386	10,386
2026		10,395	10,395
2027		10,395	10,395
2028		10,404	10,404
2029-2033		51,966	51,966
2034-2038		51,975	51,975
2039-2043	225,000	39,255	264,255
Total	\$ 225,000	\$ 195,665	\$ 420,665

* Series 2020-B debt service requirements are calculated with interest rate of 4.62 percent which is the interest rate reported at Aug. 31, 2023.

Defeased Bonds

The Commission has defeased various bond issues by placing funds in irrevocable trusts with external financial institutions to provide for all future debt service payments on the old bonds. As of Aug. 31, 2023, the amount of CTTS defeased bonds that remain outstanding are presented in the following table:

Defeased Bonds Outstanding (Amount in Thousands)	
Description	Par Value
Revenue Bonds	
Series 2002-A Capital Appreciation Bonds*	\$ 15,312
Total	\$ 15,312

* Includes \$10,600 of accreted interest.

NOTE 6 - RETIREMENT PLAN AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

CTTS, an enterprise fund of the Texas Department of Transportation (TxDOT), is part of TxDOT's reporting entity. CTTS does not have any employees and does not make contributions to any retirement plans or other postemployment benefits (OPEB) plans. TxDOT employees provide all accounting and administrative services for CTTS. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan) and the State Retiree Health Plan (SRHP). CTTS is not obligated in any form for the funding of the pension benefits provided by the ERS Plan or the postemployment benefits provided through the SRHP. Allocation of the pension and OPEB liabilities and expense for CTTS is deemed unnecessary and not required. The details are disclosed in the TxDOT's Annual Comprehensive Financial Report for the pension plan in Note 8 and the OPEB plan in Note 10.

NOTE 7 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA)

TxDOT implemented GASB Statement No. 96 Subscription Based Information Technology Arrangements during fiscal 2023, and recognized one agreement in support of the Texas Department of Transportation Tolls Back Office System (TxBOS). The initial term is for one year from June 30, 2022 to June 29, 2023 with the option to renew for three additional one-year periods. The subscription asset and accumulated amortization are \$129.2 million and \$33.7 million.

Below are the principal and interest requirements:

Future Subscription Payments			
(Amounts in Thousands)			
Year	Principal	Interest	Total Future Minimum Subscription Payments
2024	\$ 41,495	\$ 2,613	\$ 44,108
2025	36,326	1,485	37,811
2026	31,092	418	31,510
Total	<u>\$ 108,913</u>	<u>\$ 4,516</u>	<u>\$ 113,429</u>

NOTE 8 – INTERFUND ACTIVITY

Transfers In/Out represents the flow of assets (cash or goods) between CTTS and other funds of TxDOT. In fiscal 2023, CTTS transfers in from other funds were \$11.6 million.

Due To and Due From Other Funds represent amounts due to or due from other funds within TxDOT, for a variety of costs. The State Highway Fund (SHF) is the major governmental fund of TxDOT. The Grand Parkway Transportation Corporation (GPTC) is a blended component unit of TxDOT.

At the end of fiscal 2023, the net Due To and Due From Other Funds were as detailed in the following tables:

Interfund Balance	
August 31, 2023 (Amounts in Thousands)	
Category	Due To (From)
Due to SHF - Operations and Maintenance	\$ 21,965
Due from SHF - Veterans Waiver	(801)
Due from SHF - Transaction fees	(1,116)
Net due to SHF from CTTS	<u>\$ 20,048</u>

Due from Other Funds totaled \$24.2 million, as detailed in the following table:

Interfund Balance	
August 31, 2023 (Amounts in Thousands)	
Category	Due From (TxTag Toll Collection Acct)
Due From SHF (TxTag Toll Collection Account)	20,534
	<u>\$ 20,534</u>
Category	Due From GPTC
Due From GPTC - transaction fees	3,636
	<u>\$ 3,636</u>

The \$20.5 million balance due from the SHF (TxTag Toll Collection Account) is comprised of prepaid tolls and fees held in toll custody funds as of Aug. 31, 2023. Also included are toll and fee revenues collected but not transferred from the SHF as of Aug. 31, 2023.

NOTE 9 – CONTINUANCE SUBJECT TO REVIEW

Under the current Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2029, unless continued in existence by the 91st Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2030 to wind down its operations. In the event that TxDOT is abolished pursuant to the Texas Sunset Act or other law, Texas Government Code, Section 325.017(f), acknowledges that such action will not alter the obligation of the abolished agency.

NOTE 10 – COMMITMENTS & CONTINGENCIES

Lawsuits and Claims

CTTS is contingently liable in respect to lawsuits and claims in the ordinary course of business which, in the opinion of TxDOT’s management, will not have a material adverse effect on the financial statements.

Arbitrage

Rebatable arbitrage defined by Internal Revenue Code (IRC), Section 148, is earnings on tax exempt bond proceeds in excess of the yield on the bond. The rebatable arbitrage must be repaid to the federal government. Pursuant to the applicable bond Indenture of Trust, a Rebate Fund will be established under the Indenture to which deposits will be made upon the determination by a verification agent that a rebate payment may be due. The amount of rebate due to the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. IRC Section 148 also provides for certain rebate exceptions, including an exception if certain spend-out requirements of the bond proceeds are met. TxDOT estimates that rebatable arbitrage liability, if any, will be immaterial to the agency’s overall financial condition. No arbitrage liability has been determined or payable for the current reporting period.

Significant Contract Commitments

A contract was entered into with Faneuil, now TTEC, effective November 15, 2019 for the provision of toll customer services. Also, contracts have been entered into with Accenture to provide programming services.

Disclosure of the contract commitments as of Aug. 31, 2023 is displayed below:

CTTS Contract Commitments

August 31, 2023 (Amounts in Thousands)

Contractor	Project Description	Contract Commitment	Cash Paid through 8/31/23	Remaining Commitment
Accenture	Programming Services	\$ 60,000	\$ 48,376	\$ 11,624
TTEC Government Solutions	Customer Service Operations Provider	267,027	156,339	110,688
	Total	<u>\$ 327,027</u>	<u>204,715</u>	<u>122,312</u>

NOTE 11 - RISK FINANCING & RELATED INSURANCE

The Central Texas Turnpike System (“CTTS”) is a toll system financed by the Texas Transportation Commission and owned and operated by TxDOT. CTTS does not have any employees. TxDOT provides all accounting, debt financing and administrative services.

TxDOT is exposed to a wide range of risks due to the size, scope and nature of its activities. Some of these risks include, but are not limited to, property and casualty losses, workers’ compensation and health benefit claims, theft, damage of assets, etc. CTTS self- insures through funds on deposit within the Rate Stabilization Fund. The amount of funds held on deposit in the rate stabilization fund for self-insurance has been certified as actuarially sound by AMI Risk Consultants, Inc. To date, CTTS has not had to draw upon the funds in the rate stabilization fund to settle any claims and therefore settlements have not exceeded self-insurance coverage.

During the fiscal year, the Texas Transportation Commission maintained a Not-for-Profit Entity and Directors, Officers Liability Insurance Policies Including Employment Practices Claims Coverage in connection with the CTTS.

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125 East 11th Street. Austin TX 78701

www.txdot.gov

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