



CENTRAL TEXAS TURNPIKE SYSTEM

Annual Financial Report
For the Fiscal Year Ended August 31, 2021
(With Independent Auditor's Report)



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

Annual Financial Report
For the Fiscal Year Ended
August 31, 2021

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

This page is intentionally blank.

CENTRAL TEXAS TURNPIKE SYSTEM
Annual Financial Report
For the Fiscal Year Ended August 31, 2021

TABLE OF CONTENTS

1. INTRODUCTORY SECTION (Unaudited)	
Letter of Transmittal.....	1
Organization Chart.....	3
Commission and Key Personnel.....	4
2. FINANCIAL SECTION	
Independent Auditor’s Report.....	7
Management’s Discussion and Analysis (Unaudited).....	11
Basic Financial Statements:	
Statement of Net Position.....	17
Statement of Revenues, Expenses and Changes in Net Position.....	18
Statement of Cash Flows.....	19
Notes to Financial Statements.....	23

This page is intentionally blank.

Section One

Introductory Section



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

December 17, 2021

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, 2021 are enclosed in accordance with the Indenture of Trust dated Jul. 15, 2002. 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, 2021. 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.

OUR VALUES: *People • Accountability • Trust • Honesty*

OUR MISSION: *Connecting You With Texas*

An Equal Opportunity Employer

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.

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.

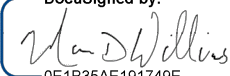
All monies in the revenue fund, debt service funds, rate stabilization fund and construction fund – capital contributions account are invested in money market funds, government securities and investment pools that are in compliance with the Commission's investment policy.

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 Reports Section and other sections of the Financial Management Division, the Toll Operations 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:

0E1B35AE191749E...
Marc D. Williams, P.E.
Executive Director

**Texas Department of Transportation
Commission and Key Personnel
as of September 1, 2021**

TEXAS TRANSPORTATION COMMISSION

J. BRUCE BUGG, JR-----Chairman
San Antonio

W. ALVIN NEW-----Commissioner
San Angelo

LAURA RYAN-----Commissioner
Houston

ROBERT C. VAUGHN-----Commissioner
Dallas

TEXAS DEPARTMENT OF TRANSPORTATION

MARC D. WILLIAMS-----Executive Director

BRANDYE HENDRICKSON-----Deputy Executive Director, Planning and Administration

BRIAN BARTH-----Deputy Executive Director, Program Delivery

MARY A. GRISS-----Chief of Staff

STEPHEN STEWART-----Chief Financial Officer

BENITO YBARRA -----Chief Audit and Compliance Officer

WILLIAM L. HALE-----Chief Engineer

RICHARD C. MCMONAGLE-----Chief Administrative Officer

ANH SELISSEN -----Chief Information Officer

ROBERT S. KAUFMAN-----Director of Communications and Customer Service

JEFFREY M. GRAHAM-----General Counsel

GERARD J. HADDICAN II-----Director of Government Affairs

DARRAN T. ANDERSON-----Director of Strategy and Innovation

This page is intentionally blank

Section Two

Financial Section

INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission
State of Texas

Report on the Financial Statements

We have audited the accompanying 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, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of August 31, 2021, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Central Texas Turnpike System, an enterprise fund of the Texas Department of Transportation, an agency of the State of Texas, and do not purport to, and do not, present fairly the financial position of TxDOT or the State of Texas, as of August 31, 2021, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 11-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2021 on our consideration of the System'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 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 System'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 the System's internal control over financial reporting and compliance.



Crowe LLP

Dallas, Texas
December 17, 2021

This page is intentionally blank.

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 fiscal year ended Aug. 31, 2021, with selected comparative information for the fiscal year ended Aug. 31, 2020. 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

On November 17, 2020, TxDOT began transition activities from Conduent's Vector Back Office System to the new TxDOT Back Office System. This transition has required interruptions to customer service activities including delayed reconciliation of electronic toll collections ("ETC") transactions through the new TxDOT Back Office System, statement processing, pay by mail ("PBM") billing and escalations of past due transactions. All delays in the reconciliation of ETC transactions attributable to the transition have been substantially resolved. As of the date of this notice, TxDOT continues to experience interruptions to customer service activities, including processing and billing delays relating to PBM Toll transactions occurring on the System since November 17, 2020.

During fiscal 2021 CTTS generated \$150.9 million in toll revenues (net of allowance), a decrease of \$33.3 million or 18.1 percent over fiscal 2020. This decrease was due to continuing impacts from the COVID-19 pandemic as well as billing issues related to the new back office implementation, partially offset by an increase of 2.9 percent in overall toll transactions, with 143.7 million transactions recorded on CTTS roadways in fiscal 2021.

CTTS' Indenture of Trust dated Jul. 15, 2002 and the first through eighth Supplemental Indentures, requires certain funds, including operating, maintenance, and reserve maintenance, be held separately from its other funds and accounts. As of Aug. 31, 2021, these funds held reserves of \$111.2 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 \$273.4 million as of Aug. 31, 2021, a decrease of \$100.9 million or 27.0 percent from fiscal 2020. The majority of the decrease is attributable to a decrease in operating revenues of 17.0 percent, and a 32.7 percent increase in operating expenses.

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, 2021 and 2020 (Amounts in Thousands)		
	<u>2021</u>	<u>2020</u>
ASSETS		
Assets Other Than Capital Assets	\$ 625,112	\$ 725,548
Capital Assets	2,615,214	2,633,094
Total Assets	<u>3,240,326</u>	<u>3,358,642</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>31,998</u>	<u>34,395</u>
LIABILITIES		
Current Liabilities	97,741	92,809
Noncurrent Liabilities	2,874,711	2,897,989
Total Liabilities	<u>2,972,452</u>	<u>2,990,798</u>
DEFERRED INFLOWS OF RESOURCES	<u>26,460</u>	<u>27,852</u>
NET POSITION		
Net Investment in Capital Assets	499,200	503,773
Restricted for Debt Service	215,352	126,441
Restricted for Operations and Maintenance	90,084	170,449
Unrestricted	(531,224)	(426,276)
Total Net Position	<u>\$ 273,412</u>	<u>\$ 374,387</u>

Changes in Net Position		
For the Fiscal Years Ended August 31, 2021 and 2020 (Amounts in Thousands)		
	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Operating Revenues	\$ 181,870	\$ 219,238
Total Operating Revenue	<u>181,870</u>	<u>219,238</u>
OPERATING EXPENSES		
Operating Expenses	175,888	132,572
Total Operating Expenses	<u>175,888</u>	<u>132,572</u>
Operating Income	<u>5,982</u>	<u>86,666</u>
Total Nonoperating Revenues (Expenses)	<u>(109,753)</u>	<u>(111,256)</u>
Income (Loss) before Transfer	<u>(103,771)</u>	<u>(24,590)</u>
Capital Contribution	2,444	
Transfers In (Note 7)	352	5,855
Total Capital Contribution and Transfers	<u>2,796</u>	<u>5,855</u>
Change in Net Position	<u>(100,975)</u>	<u>(18,735)</u>
Net Position – Beginning	<u>374,387</u>	<u>393,122</u>
Net Position – Ending	<u>\$ 273,412</u>	<u>\$ 374,387</u>

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2021, CTTS had a approximately \$2.6 billion in net capital assets.

Capital Assets-Net of Depreciation and Amortization		
August 31, 2021 and 2020 (Amounts in Thousands)		
	<u>2021</u>	<u>2020</u>
Land	\$ 668,831	\$ 668,831
Construction in Progress	128,845	148,486
Land Use Rights	19,466	19,466
Software	53,417	0
Infrastructure-Roadways and Bridges	1,741,857	1,793,152
Buildings	2,798	3,159
Total Capital Assets	<u>\$ 2,615,214</u>	<u>\$ 2,633,094</u>

The decrease in net capital assets of \$17.9 million mostly reflects depreciation of \$55.5 million, net of additions of \$29.9 million. The additions relate to several ongoing projects, including infrastructure and software.

The major infrastructure projects in progress on the CTTS system are construction of a direct connector from eastbound US 290 to southbound SH 130, and an additional toll lane in each direction on SH 130 segments 2 and 3. The software is a new system placed in service in fiscal 2021 to capture and process toll transactions, billing and customer service for TxDOT's toll customers. See Note 2 for more information.

Debt Administration

The Commission has issued revenue bonds backed by the pledged revenues and restricted assets specified in the bond resolutions. As of Aug. 31, 2021, CTTS had a approximately \$2.9 billion of outstanding revenue bond debt. See Notes 4 & 5 for more information.

Outstanding Debt Obligations		
August 31, 2021 and 2020 (Amounts in Thousands)		
	<u>2021</u>	<u>2020</u>
Revenue Bonds Payable	\$ 2,931,483	\$ 2,945,891
Total Outstanding Debt	<u>\$ 2,931,483</u>	<u>\$ 2,945,891</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, 2021, the CTTS bonds carried the following ratings:

CTTS Credit Ratings as of August 31, 2021 (Amounts in Thousands)				
Bond Description	Net Outstanding	Moody's	S & P	Fitch
First Tier Revenue Bonds Series 2002-A Non-Callable Capital Appreciation Bonds	\$ 483,404	A3	A	A
First Tier Revenue Refunding Bonds, Series 2012-A	130,448	A3	A	A
First Tier Revenue Refunding Bonds, Series 2015-B	217,907	A3	A	A
First Tier Revenue Refunding Bonds, Series 2015-B Capital Appreciation Bonds	123,067	A3	A	A
Second Tier Revenue Refunding Bonds, Series 2015-C	1,255,540	Baa1	A-	BBB+
First Tier Revenue Refunding Bonds, Series 2020-A	216,812	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>\$ 2,931,483</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.

Net Position

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 assets are depreciated. Debt service was \$130.1 million in fiscal 2021 and is scheduled to increase to \$138.9 million in fiscal 2022. Operations and maintenance expense (excluding depreciation) is estimated to decrease approximately \$5.3 million.

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

This page is intentionally blank.

Section Two (Continued)

Basic Financial Statements

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

August 31, 2021 (Amounts in Thousands)

ASSETS

Current Assets:

Cash and Cash Equivalents:

Cash and Cash Equivalents \$ 226,996

Restricted:

Cash and Cash Equivalents 159,803

Receivables:

Accounts Receivable 8,081

Interest and Dividends 367

Due from Other Funds (Note 7) 34,299

Consumable Inventory 609

Total Current Assets 430,155

Noncurrent Assets:

Restricted:

Investments 154,978

Investments 39,979

Capital Assets:

Non-Depreciable Capital Assets (Note 2) 817,142

Depreciable Capital Assets, Net (Note 2) 1,798,072Total Noncurrent Assets 2,810,171Total Assets 3,240,326**DEFERRED OUTFLOWS OF RESOURCES**Loss on Bond Refunding (Note 5) 31,998Total Deferred Outflows of Resources 31,998**LIABILITIES**

Current Liabilities:

Payables:

Accounts 18,462

Interest 3,899

Due to Other Funds (Note 7) 1,522

Unearned Revenues 17,086

Revenue Bonds Payable (Notes 4, 5) 56,772Total Current Liabilities 97,741

Noncurrent Liabilities:

Revenue Bonds Payable (Notes 4, 5) 2,874,711Total Noncurrent Liabilities 2,874,711Total Liabilities 2,972,452**DEFERRED INFLOWS OF RESOURCES**Gain on Bond Refunding (Note 5) 26,460Total Deferred Inflows of Resources 26,460**NET POSITION**

Net Investment in Capital Assets 499,200

Restricted for:

Transportation - Operations and Maintenance 90,084

Debt Service 215,352

Unrestricted (531,224)Total Net Position \$ 273,412

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, 2021 (Amounts in Thousands)

OPERATING REVENUES

Toll Revenue - Pledged	\$	150,874
Fee Revenue - Pledged		19,192
Other Sales Goods & Services-Pledged		<u>11,804</u>
Total Operating Revenues		<u>181,870</u>

OPERATING EXPENSES

Salaries		2,323
Professional Fees and Services		20,088
Materials and Supplies		2,480
Communication and Utilities		786
Repairs and Maintenance		24,471
Rentals and Leases		942
Printing and Reproduction		5
Contracted Services		46,017
Advertising		1,253
Claims and Judgements		15,383
Depreciation and Amortization		55,523
Interest Expense		1
Fees and Other Charges		4,527
Other Operating Expenses		<u>2,089</u>
Total Operating Expenses		<u>175,888</u>

Operating Income (Loss)		<u>5,982</u>
-------------------------	--	--------------

NONOPERATING REVENUES (EXPENSES)

Lease Revenue		15
Interest and Investment Income		7,025
Net Decrease in Fair Value of Investments		(98)
Amortization		11,422
Interest Expense		(128,085)
Settlement of Claims Revenue		8
Other Financing Fees		<u>(40)</u>
Total Nonoperating Revenues (Expenses)		<u>(109,753)</u>

Income (Loss) before Capital Contributions and Transfers		<u>(103,771)</u>
--	--	------------------

CAPITAL CONTRIBUTIONS AND TRANSFERS

Capital Contributions		2,444
Transfers In (Note 7)		<u>352</u>
Total Capital Contributions and Transfers		<u>2,796</u>

Change in Net Position		<u>(100,975)</u>
------------------------	--	------------------

Net Position, September 1, 2020		<u>374,387</u>
---------------------------------	--	----------------

Net Position, August 31, 2021	\$	<u><u>273,412</u></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, 2021 (Amounts in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from Customers	\$	155,828
Payments to Suppliers for Goods and Services		<u>(89,460)</u>
Net Cash Provided by Operating Activities		<u>66,368</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Lease Revenue		17
Payments for Purchase of Capital Assets		(51,161)
Payments for Principal on Debt		(36,480)
Payments of Interest on Debt		(93,586)
Payments for Interfund Services		<u>(39)</u>
Net Cash Used By Capital And Related Financing Activities		<u>(181,249)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales of Investments		13,450
Proceeds from Interest and Investment Income		6,962
Payments to Acquire Investments		<u>(87,500)</u>
Net Cash Used By Investing activities		<u>(67,088)</u>

Net Decrease In Cash And Cash Equivalents (181,969)

Cash And Cash Equivalents - Beginning 568,768

Cash And Cash Equivalents - Ending \$ 386,799

Central Texas Turnpike System
Statement of Cash Flows (concluded)

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

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

Operating Income	\$	5,982
Adjustments:		
Depreciation		55,523
Other non-cash operating costs		351
Decrease in Receivables		1,658
Decrease in Inventories		1,708
Increase in Payables		16,515
(Decrease) in Due to Other Funds		(3,838)
(Increase) in Due from Other Funds		(11,531)
Total Adjustments		<u>60,386</u>
Net Cash Provided by Operating Activities	\$	<u><u>66,368</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Donation of capital assets from other fund	\$	2,444
Net change in Fair Market Value of Investments		(98)
Change in Accrued Capital Asset Purchases		15,961
Accretion on Bonds Payable		(33,494)
Amortization of Bonds Payable		11,422
Amortization of Deferred Inflow/Outflow		(1,005)
Decrease in Unearned Revenue		(653)
Accrued settlement		8

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

This page is intentionally blank.

Central Texas Turnpike System
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies	23
Note 2 – Capital Assets.....	27
Note 3 – Deposits, Investments, and Repurchase Agreements	28
Note 4 – Long-Term Liabilities.....	31
Note 5 – Bonded Indebtedness.....	31
Note 6 – Retirement Plan and Postemployment Benefits other than Pensions	33
Note 7 – Interfund Activity	34
Note 8 – Continuance Subject to Review.....	34
Note 9 – Commitments and Contingencies	35
Note 10 – Subsequent Events	35
Note 11 – Risk Financing and Related Insurance	36

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, 2021, 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 for the cost related to operation and maintenance or capitalized as capital assets for the cost related to the construction of capital assets 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 2021

In fiscal 2021 CTTS adopted the following new GASB pronouncements and implementation guides:

- *GASB Statement No. 92, Omnibus 2020.* This statement addresses a variety of topics including leases, intra-entity transfers of assets, pensions, OPEB, fiduciary activities, ARO, public entity risk pools, nonrecurring fair value measurements, and derivative instruments. *GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance*, postpones the effective date of GASB 92, due to Covid-19 pandemic, from fiscal 2021 to 2022, except for paragraphs 11 and 13, which are effective in fiscal 2021. TxDOT decided to early implement the GASB Statement 92 in fiscal 2021.
- *GASB Statement No. 93, Replacement of Interbank Offered Rates.* This statement addresses accounting and reporting implications that result from the replacement of an interbank offered rate (IBOR) or the London Interbank offered Rate (LIBOR) in hedging derivative instruments and leases. The statement is effective in fiscal 2021, except for paragraph 11b on the removal of LIBOR as an appropriate interest rate for hedging derivative instruments and paragraphs 13 and 14 related to lease modifications. These paragraphs will be effective for fiscal 2022.
- *GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statement No. 14 and No. 84, and a supersession of GASB Statement No. 32.* Paragraphs 4 on the absence of a governing board in determining financial accountability and paragraph 5 related to the applicability of financial burden criterion in paragraph 7 of the GASB Statement 84 are effective in fiscal 2021. The effective date of other paragraphs is postponed to fiscal 2022 by *GASB Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance*, due to the COVID-19 pandemic.

- *GASB Statement No. 98, The Annual Comprehensive Financial Report.* This statement establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The Statement is effective for fiscal 2022. TxDOT early implemented the GASB Statement 98 in fiscal 2021.
- *GASB Implementation Guide No. 2019-1, Implementation Guidance Update – 2019*
- *GASB Implementation Guide No. 2019-2, Fiduciary Activities.*

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, 2021.

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 of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. On the statement of cash flows, cash and cash equivalents are considered to be cash on hand, cash in bank and money market funds with original maturities of three months or less from the date of acquisition.

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 \$21.8 million, net of an allowance for doubtful accounts of \$13.8 million, as of Aug. 31, 2021.

Due from Other Funds

Due from other funds represents amounts due to other funds within TxDOT, for a variety of costs. See Note 7 for more information.

Consumable Inventory

Consumable inventory is comprised 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 expense 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, 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	3-10 years

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.

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

Due to Other Funds

Due to other funds represents amounts due to other funds within TxDOT, for a variety of costs. See Note 7 for more information.

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.

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 occurs when constraints are externally imposed on funds 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 2021 is mainly comprised of \$150.9 million in toll revenue. This represents \$122.0 million in gross toll revenue, plus a decrease in allowance for doubtful accounts of \$28.9 million. CTTS also earned toll fees of \$19.2 million and other sales revenue of \$11.8 million.

Operating Expenses

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

Transfers

Transfers In/Out represents the flow of assets between funds. See Note 7 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 2021. The reclassifications column represents completed construction projects and transfers of capital assets between the governmental and business-type activities of TxDOT. 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, 2021 (Amounts in Thousands)					
	Balance 09/1/2020	Reclass- ifications	Additions	Deletions	Balance 08/31/2021
Non-Depreciable Assets & Non-Amortizable Assets					
Land	\$ 668,831	\$	\$	\$	\$ 668,831
Construction in Progress	148,486	(49,598)	29,957		128,845
Land Use Rights	19,466				19,466
Total Non-Depreciable Assets	<u>836,783</u>	<u>(49,598)</u>	<u>29,957</u>	<u>0</u>	<u>817,142</u>
Depreciable Assets					
Buildings	8,360				8,360
Infrastructure	2,289,359	2,962			2,292,321
Total Depreciable Assets	<u>2,297,719</u>	<u>2,962</u>	<u>0</u>	<u>0</u>	<u>2,300,681</u>
Less Accumulated Depreciation for:					
Buildings	(5,201)		(361)		(5,562)
Infrastructure	(496,207)		(54,257)		(550,464)
Total Accumulated Depreciation	<u>(501,408)</u>	<u>0</u>	<u>(54,618)</u>	<u>0</u>	<u>(556,026)</u>
Depreciable Assets, Net	<u>1,796,311</u>	<u>2,962</u>	<u>(54,618)</u>	<u>0</u>	<u>1,744,655</u>
Intangible Capital Assets - Amortizable					
Software		54,322			54,322
Total Amortizable Assets	<u>0</u>	<u>54,322</u>	<u>0</u>	<u>0</u>	<u>54,322</u>
Less Accumulated Amortization for:					
Software			(905)		(905)
Total Accumulated Amortization	<u>0</u>	<u>0</u>	<u>(905)</u>	<u>0</u>	<u>(905)</u>
Amortizable Assets, Net	<u>0</u>	<u>54,322</u>	<u>(905)</u>	<u>0</u>	<u>53,417</u>
Total Capital Assets, Net	<u>\$ 2,633,094</u>	<u>\$ 7,686</u>	<u>\$ (25,566)</u>	<u>\$ 0</u>	<u>\$ 2,615,214</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, 2021 (Amounts in Thousands)	
Current Assets Cash	\$ 2,356
Cash and Cash Equivalents - Carrying Amount	<u>\$ 2,356</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, 2021, the measurements of CTTS’s investments are summarized below:

Investment Fair Value and Maturities			
August 31, 2021 (Amounts in Thousands)			
Investment Type	Fair Value Hierarchy Level 1	Other Measurement Amortized Cost	Total
Money Market Mutual Funds	\$	\$ 144,502	\$ 144,502
Government Sponsored Entities	79,958		79,958
Government Investment Pools		131,053	131,053
Repurchase Agreements		223,887	223,887
Total Investments	<u>\$ 79,958</u>	<u>\$ 499,442</u>	<u>\$ 579,400</u>

Government sponsored entities investments of \$79.9 million with maturities of one year or more are valued at a quoted market prices (Level 1 input).

As of Aug. 31, 2021, CTTS also has the following two 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 \$499.4 million with maturities less than one year are valued at a mortgized cost.
- CTTS entered into a repurchase agreement of \$115.0 million in August 2002 with U.S. government and agency securities. Collateral for the repurchase agreement is held by the Bank of New York Mellon Trust Company (the trustee bank) with the

underlying securities being the property of the Citigroup Global Markets Inc. (the direct counterparty), held in trust for CTTS. CTTS can direct the trustee bank to designate repurchase dates on any business day on or before the final repurchase date in August 2022. The agreement is measured at 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.

The long term repurchase agreement is collateralized with U.S. government and agency securities. Collateral for the repurchase agreement is held by the Bank of New York Mellon Trust Company with the underlying securities being the property of the Citigroup Global Markets Inc. (the direct counterparty), held in trust for the Commission. As of Aug. 31, 2021, Citigroup Global Markets Inc. is rated A1, A+ and A+ by Moody's, Standard and Poor's (S & P) and Fitch Ratings respectively.

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. The long term repurchase agreement is a guaranteed investment contract (GIC) with Citigroup Global Markets Inc. as the counterparty. In addition, Citigroup Global Markets Inc. has collateralized the GIC with U.S. government and agency securities.

As of Aug. 31, 2021, CTTS' investments had the following ratings:

Investment Credit Ratings				
August 31, 2021 (Amounts in Thousands)				
Investment Type	Valuation	Moody's	Standard & Poor's	Fitch
Money Market Mutual Funds:				
JPMorgan US Government Fund	\$ 84,421	Aaa-mf	AAAm	AAAmmf
Morgan Stanley Instl Liquidity Government Fund	57,881	Aaa-mf	AAAm	AAAmf
Dreyfus Government Fund	2,200	Aaa-mf	AAAm	AAAmmf
Government Sponsored Entities:				
Freddie Mac Discount Note	79,958	Aaa	AA+	AAA
Government Investment Pools:				
TexPool Prime	131,053	NR	AAAm	NR
Repurchase Agreements :				
Long term (Citigroup GIC)	114,999	A1	A+	A+
Repo (TTSTC)	108,888	NR	AAAf	NR
Total	<u>\$ 579,400</u>			
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, 2021, the following investments exceeded five percent of the total portfolio: TexPool Prime, Money Market Mutual Funds, Government Sponsored Entities, and the Repurchase Agreements.

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 66 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, 2021, CTTS had seven bond issues 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, 2021.

Changes in Bonds Payable						
For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)						
	Bonds Outstanding		Bonds Issued**	Bonds Matured or Retired	Bonds Outstanding	Due Within One Year
	08/31/2020	Adjustments*			08/31/2021	
Revenue Bonds	\$ 2,945,891	\$ (11,422)	\$ 33,494	\$ (36,480)	\$ 2,931,483	\$ 56,772
Total	\$ 2,945,891	\$ (11,422)	\$ 33,494	\$ (36,480)	\$ 2,931,483	\$ 56,772

*Includes new issue premium and current year amortization of premiums and discounts.
 ** Includes new issue par and current year amortization of 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 Bonds	\$ 4,578,422
Term of Commitment, Ending:	8/15/2042
Percentage of Revenue Pledged	99.68%
Current Year Pledged Revenue	\$ 188,309
Current Year Principal and Interest Paid	\$ 130,066

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.

Miscellaneous Bond Information								
(Amounts in Thousands)								
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*	\$ 737,267	8/29/2002	4.47%	5.75%	2012	2030		n/a
Callable Capital Appreciation Bonds**	325,494	8/29/2002	6.00%	6.10%	2025	2038	8/15/2012	
First Tier Revenue Refunding Bonds, Series 2012-A	585,330	11/27/2012	4.00%	5.00%	2038	2041	8/15/2022	
First Tier Revenue Refunding Bonds, Series 2015-B	198,025	2/4/2015	5.00%	5.00%	2032	2037	8/15/2024	
First Tier Revenue Refunding Bonds, Series 2015-B								
Capital Appreciation Bonds*	123,067	2/4/2015	4.36%	4.38%	2036	2037	8/15/2024	
Second Tier Revenue Refunding Bonds, Series 2015-C	1,157,320	2/4/2015	5.00%	5.00%	2022	2042	8/15/2024	
First Tier Revenue Refunding Bonds, Series 2020-A	179,475	3/5/2020	3.00%	5.00%	2039	2040	8/15/2030	
First Tier Revenue Refunding Bonds, Series 2020-B	225,000	3/5/2020	1.98%	1.98%	2041	2042	8/15/2022	
First Tier Revenue Refunding Bonds, Series 2020-C	279,305	3/5/2020	3.03%	3.03%	2031	2041	8/15/2030	
Total	<u>\$ 3,810,283</u>							

* Bonds issued to date include interest accreted to principal.

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, 2021, are detailed in the following table:

Debt Service Requirements - Revenue Bonds (Amounts in Thousands)			
Year	Principal	Interest	Total
2022	\$ 45,350	\$ 93,586	\$ 138,936
2023	54,315	98,020	152,335
2024	63,380	97,752	161,132
2025	72,655	97,319	169,974
2026	87,030	96,707	183,737
2027-2031	558,915	473,982	1,032,897
2032-2036	814,310	360,951	1,175,261
2037-2041	1,110,370	187,125	1,297,495
2042	255,715	10,940	266,655
	<u>3,062,040</u>	<u>1,516,382</u>	<u>4,578,422</u>
Unamortized Accretion	(293,209)		(293,209)
Unamortized Premium	162,652		162,652
Total	<u>\$ 2,931,483</u>	<u>\$ 1,516,382</u>	<u>\$ 4,447,865</u>

Put Bonds

In March 2020, the Commission issued the Central Texas Turnpike System Series 2020-B refunding put bonds. The proceeds were used to refund the CTTS Series 2012-A refunding put bonds. The Series 2020-B bonds were issued in a multiannual mode which terminates on the mandatory tender date of Aug. 15, 2022. At the termination of the initial multiannual period, the Series 2020-B bonds are subject to mandatory tender and purchase. Upon such mandatory tender and purchase, the Series 2020-B bonds are expected to be remarketed unless otherwise redeemed.

The Commission has not provided any credit or liquidity facility for the payment of the purchase price of the bonds payable upon the mandatory tender date. The principal portion of the purchase price for the bonds is expected to be obtained from the remarketing proceeds.

If the bonds are not remarketed, the interest rate on the bonds will be increased to the stepped coupon rate of 9 percent per annum. The impact of such a rate change to the debt service payments on the bonds is disclosed below.

Put Bonds (Amounts in Thousands)					
Description of Issue	Mandatory Tender Date	Initial Rate	Initial Period Interest	Stepped Coupon Rate	Stepped Rate Period Interest**
Central Texas Turnpike System First Tier Revenue Put Bonds, Series 2020-B	8/15/2022	1.98% per annum*	\$4,455	9.00% per annum	\$20,250
*Multiannual Mode					
** Assumes a full year of interest					

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, 2021, the amount of CTTS defeased bonds that remain outstanding are presented in the table below.

Defeased Bonds Outstanding (Amount in Thousands)	
Description	Par Value
Revenue Bonds	
Series 2002-A Capital Appreciation Bonds	\$ 31,957*
Series 2012-A Revenue Refunding Bonds	462,095
Total	\$ 494,052
* Includes \$20,867 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 – INTERFUND ACTIVITY

Interfund transfers represent the flow of assets (cash or goods) between funds. In fiscal 2021, TxDOT’s State Highway Fund (SHF) transferred assets to CTTS totaling \$352 thousand:

Transfers	
August 31, 2021 (Amounts in Thousands)	
Category	SHF to CTTS
Transfers In-Feasibility Study	352
Total	<u>\$ 352</u>

Due To Other Funds at the end of fiscal 2021 totaled \$1.5 million as shown below:

Interfund Balance	
August 31, 2021 (Amounts in Thousands)	
Category	Due To (From) SHF
Due to SHF - Operations and Maintenance	\$ 2,707
Due from SHF - Veterans Waiver	(627)
Due from SHF - Transaction fees	(558)
Net due to SHF from CTTS	<u>\$ 1,522</u>

Due From Other Funds was \$34.3 million, as detailed in the following table:

Interfund Balance	
August 31, 2021 (Amounts in Thousands)	
Category	Due From (TxTag Toll Collection Acct)
Due From SHF (TxTag Toll Collection Account)	\$ 31,609
	<u>\$ 31,609</u>
Category	Due From GPTC
Due From GPTC - transaction fees	\$ 2,690
	<u>\$ 2,690</u>

The \$31.6 million balance due from the State Highway Fund TxTag Toll Collection Account is comprised of \$47.0 million of tolls and fees due to CTTS as of Aug. 31, 2021, offset by \$15.3 million in expenses to be reimbursed to the TxTag Toll Collection Account by CTTS.

NOTE 8 – 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 9 – 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 CTTS’ overall financial condition. No arbitrage liability has been determined or payable for the current reporting period.

Significant Contract Commitments

TxDOT and Central Texas Regional Mobility Authority entered into a funding agreement dated June 18, 2018 for the construction of a direct connector from eastbound US 290 to southbound SH 130. In addition, two construction contracts were executed with OHL USA Inc. on May 14, 2018 and December 18, 2018 respectively. These will add one extra lane each to segments 2 and 3.

Also, a contract was entered with IBM Corporation effective January 1, 2019 to design and implement a new software system for the Toll Customer Service Center.

Disclosure of the construction-related commitment as of Aug. 31, 2021 is displayed below:

CTTS Construction-Related Contract Commitments				
August 31, 2021 (Amounts in Thousands)				
Contractor	Project Description	Contract Commitment	Cash Paid through 8/31/21	Remaining Commitment
Central Texas Regional Mobility Authority	Direct connector from eastbound US 290 to southbound SH 130	\$ 41,100	22,076	19,024
OHL USA, Inc.	SH 130 Expansion Project, Segment 2	41,710	39,173	2,537
OHL USA, Inc.	SH 130 Expansion Project, Segment 3	59,746	55,661	4,085
IBM Corporation	Toll Ops Back-Office Software System	85,988	69,684	16,304
Carahsoft Technology Corp	Toll Ops Back-Office Software System	28,388	0	28,388
	Total	<u>\$ 256,932</u>	<u>186,594</u>	<u>70,338</u>

NOTE 10 – SUBSEQUENT EVENTS

Citing continued challenges with an upgraded Back Office System delivered by the back office services provider (IBM), TxDOT terminated its remaining contract with IBM in August 2021, effective November 29, 2021. TxDOT has obtained new interim technology providers to assist with stabilizing and improving TxDOT’s Back Office System to manage customer data and toll transactions. TxDOT also has begun the process of procuring a new service provider that will assume responsibilities from the interim team to continue implementing improvements to TxDOT’s Back Office System.

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 policies providing Not-for-Profit Entity and Director, Officer Liability insurance in connection with the CTTS.



125 East 11th Street, Austin TX 78701

www.txdot.gov

Produced by the **Texas Department of Transportation's Financial Management Division.**

Copies of this publication have been deposited with the Texas State Library in compliance with the State Depository Law