



TEXAS MOBILITY FUND

A governmental fund of the Texas Department of Transportation

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



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Texas Mobility Fund

A Governmental 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

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**Texas Mobility Fund
Annual Financial Report
For the Fiscal Year Ended August 31, 2021**

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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 17, 2021

To: The Citizens of the State of Texas and the Creditors of the Texas Mobility Fund Bonds

The audited financial statements of the Texas Mobility Fund (Mobility Fund) for the year ended Aug. 31, 2021, are submitted in conformity with the Master Resolution, dated as of May 4, 2005, as amended and supplemented by the first through thirteenth Supplemental Resolutions (Resolution).

An external audit firm, Crowe LLP, performed an independent audit, in accordance with generally accepted auditing standards, of the Mobility Fund's 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). TxDOT's 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 and are reported in a manner that presents fairly the financial position and results of operations of the Mobility Fund and provide disclosures that enable the reader to understand the Mobility Fund's financial condition.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the financial activities of the Mobility Fund. 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 the Mobility Fund, a part of 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 (Commission). All members of the Commission are appointed by the Governor with the advice and consent of the Texas Senate.

In 2001, voters approved a Texas constitutional amendment that authorized the creation of the Mobility Fund. In particular, Article III, Section 49-k of the Texas Constitution (Constitutional Provision) created the Mobility Fund within the treasury of the state of Texas.

In 2003, the 78th Legislature dedicated sources of revenue to the Mobility Fund. The funds generated by these dedicated revenues, as well as funds generated through other pledged revenues, are required to be accounted for in accounts established in the Mobility Fund.

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OUR MISSION: *Connecting You With Texas*

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December 17, 2021

TxDOT is responsible for ensuring that the accounts are maintained at the proper minimum balances as set forth in the Resolution and for investing in securities required to meet liquidity requirements.

The Mobility Fund is administered by the Commission to provide a method of financing for the construction, reconstruction, acquisition and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way, as determined by the Commission in accordance with standards and procedures established by law. Monies in the Mobility Fund may also be used to provide state participation in the payment of a portion of the costs of constructing and providing public transportation projects in accordance with procedures, standards and limitations established by law. By expediting the delivery of transportation infrastructure, the Mobility Fund is an important tool in meeting TxDOT's goal to develop and operate an integrated transportation system that provides reliable and accessible mobility and enables economic growth.

Legislation enacted under the Constitutional Provision authorized the Commission to issue and sell obligations of the state and enter into related credit agreements that are payable from and secured by a pledge of and a lien on all or part of the money on deposit in the Mobility Fund. Subsequent legislation limited the purposes for which additional Mobility Fund obligations may be issued to refunding: (i) outstanding bonds for savings; and, (ii) outstanding variable rate bonds and to renew or replace credit agreements.

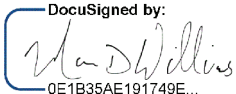
Budgetary Controls

Budgetary control is exercised through appropriated budgets. These budgets are entered in the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Texas Legislature, certification by the Texas Comptroller of Public Accounts that the amounts appropriated are within the estimated collections and upon the signing of the bill by the governor. Controls are maintained at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. State budgets are established on a biennial cycle.

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, 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,

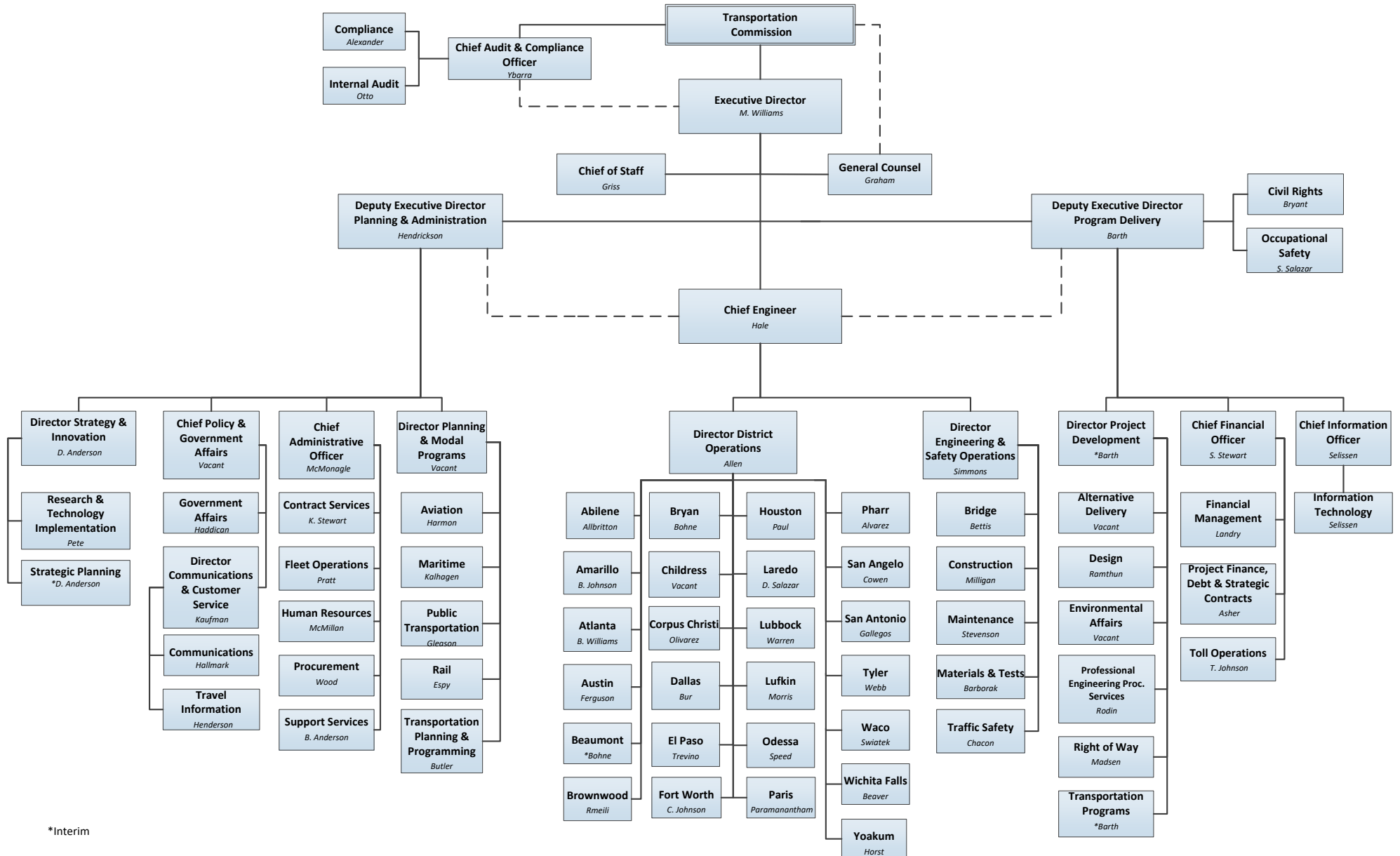

0E1B35AE191749E...
Marc D. Williams, P.E.
Executive Director

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OUR MISSION: *Connecting You With Texas*

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Texas Department of Transportation Organization Chart as of September 1, 2021



*Interim

**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

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 each major fund of the Texas Mobility Fund (Fund), a 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 Fund'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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Texas Mobility Fund, as of August 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Fund, a debt service and capital project 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 opinions are not modified with respect to this matter.

As discussed in Note 1, the Fund does not report entity-wide financial statements and as a result, the long-term liabilities are presented in Notes 4 and 5. Our opinions are 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 10-14 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.


Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The introductory section and the Texas Mobility Fund Dedicated Revenues schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and the Texas Mobility Fund Dedicated Revenues schedule have 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 them.

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 Fund'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 Fund'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 Fund's internal control over financial reporting and compliance.



Crowe LLP

Dallas, Texas
December 17, 2021

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

Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT), we offer readers of the Texas Mobility Fund's (Mobility Fund) financial statements this narrative overview and analysis of its financial activities for the fiscal years ended Aug. 31, 2021 and 2020 for comparative purposes. 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

Function of Mobility Fund Bonds Issued

The Mobility Fund bonds are used to accelerate transportation projects across the state of Texas. The Mobility Fund has no ownership interest in the highway or other transportation projects that it is assisting to fund and does not fund the maintenance of any such completed projects.

Governmental Fund

As of Aug. 31, 2021, the Mobility Fund's combined governmental fund balance was \$389.3 million, an increase of \$68.2 million, or 21.3 percent, from fiscal 2020. The increase in fund balance is largely attributed to the decrease in capital outlay expenditures in fiscal 2021. The fiscal 2021 expenditures totaled \$454.7 million, which decreased by \$113.6 million or 20.0 percent, as compared to 2020.

Impact of COVID-19

The COVID-19 Pandemic has adversely affected travel, commerce and financial markets globally and has adversely impacted economic output worldwide and in Texas. The COVID-19 pandemic is ongoing, and continues to affect revenue and reporting.

Overview of the Financial Statements

The annual financial report consists of three parts: (1) management's discussion and analysis (MD&A), (2) basic financial statements and related notes, and (3) other supplementary information.

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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Mobility Fund is reported in two governmental fund types: capital projects fund and debt service fund. See Note 1 for more information.

Financial reports of governmental funds focus on how money flows in and out of the funds, and amounts remaining at year end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The fund financial statements provide a detailed short-term view of the Mobility Fund's operations.

Impact of Mobility Fund Activity on TxDOT's Entity-Wide Financial Statements

The assets, liabilities, revenues and expenditures not recognizable on the Mobility Fund's governmental fund financial statements are included within the governmental activities section of the TxDOT entity-wide financial statements. These statements consist of the statement of net position and statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. The activity of the Mobility Fund is considered a governmental activity for the purpose of the TxDOT statement of net position and statement of activities.

Financial Analysis

The Mobility Fund's overall financial position and operations for the past two years is summarized as follows:

| Balance Sheet | | | | | |
|---------------------------|----|----------------|-------------------|--|---------------------------|
| August 31, 2021 and 2020 | | | | | |
| (Amounts in Thousands) | | | | | |
| | | <u>2021</u> | <u>2020</u> | <u>Amount of Increase (Decrease)</u> | <u>Percent Change</u> |
| Assets | \$ | 405,241 | \$ 369,661 | \$ 35,580 | 9.6 % |
| Total Assets | | <u>405,241</u> | <u>369,661</u> | <u>35,580</u> | <u>9.6 %</u> |
| Liabilities | | 20,362 | 48,619 | (28,257) | (58.1) % |
| Total Liabilities | | <u>20,362</u> | <u>48,619</u> | <u>(28,257)</u> | <u>(58.1) %</u> |
| Fund Balance: | | | | | |
| Restricted | | 241,777 | 217,822 | 23,955 | 11.0 % |
| Committed | | 143,102 | 103,220 | 39,882 | 38.6 % |
| Total Fund Balance | \$ | <u>384,879</u> | \$ <u>321,042</u> | \$ <u>63,837</u> | <u>19.9 %</u> |

Total liabilities decreased by \$32.6 million, primarily due to the reduction of accounts payable in the capital projects fund. Due to the decrease in liabilities the fund balance increased by \$68.2 million.

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Years Ended August 31, 2021 and 2020

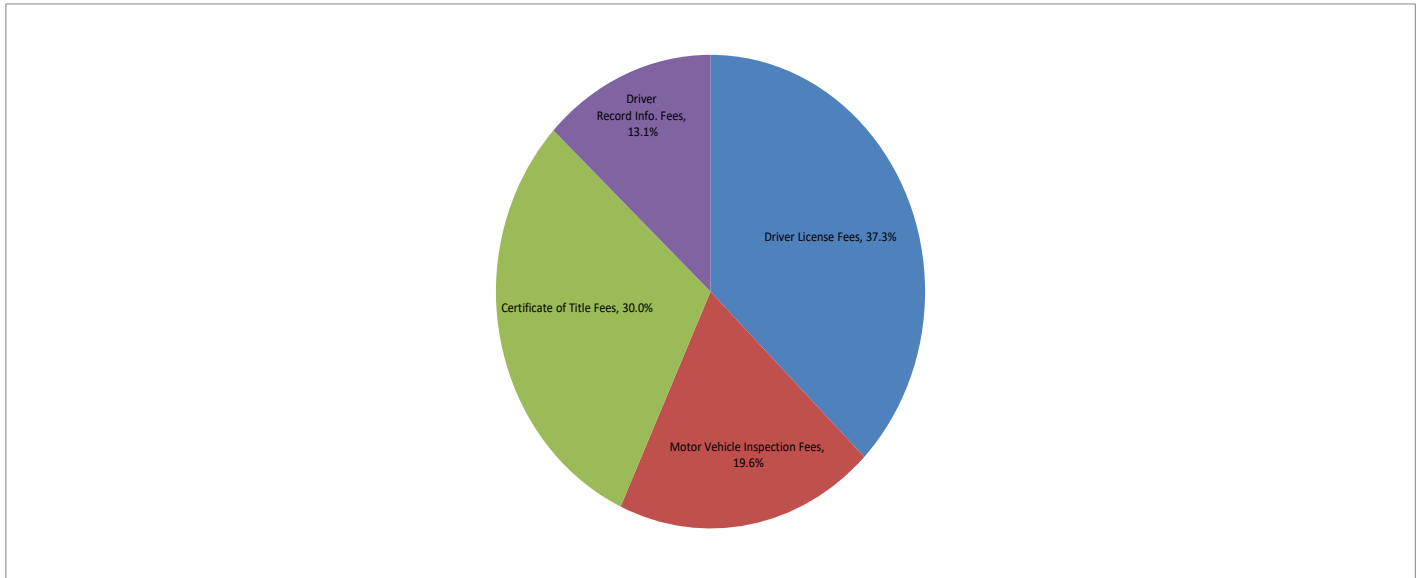
(Amounts in Thousands)

| | <u>2021</u> | <u>2020</u> | <u>Amount of Increase (Decrease)</u> | <u>Percent Change</u> |
|---|-------------------|-------------------|--|---------------------------|
| Revenues | | | | |
| Federal Revenue | \$ 21,962 | \$ 23,751 | \$ (1,789) | (7.5) % |
| Licenses, Fees and Permits | 499,721 | 443,091 | 56,630 | 12.8 % |
| Interest and Investment Income | 1,251 | 6,135 | (4,884) | (79.6) % |
| Other Revenues | 15 | 16 | (1) | (9.0) % |
| Total Revenues | <u>522,949</u> | <u>472,993</u> | <u>49,956</u> | <u>10.6 %</u> |
| Expenditures | | | | |
| Transportation | 3,064 | 4,653 | (1,589) | (34.2) % |
| Capital Outlay | 111,885 | 167,532 | (55,647) | (33.2) % |
| Debt Service | 339,778 | 396,158 | (56,380) | (14.2) % |
| Total Expenditures | <u>454,727</u> | <u>568,343</u> | <u>(113,616)</u> | <u>(20.0) %</u> |
| Excess (Deficiency) of Revenues over Expenditures | 68,222 | (95,350) | 163,572 | 171.5 % |
| Other Financing Sources (Uses) | | | | |
| Transfer In | | 5,748 | (5,748) | 100.0 % |
| Transfer Out | | (5,748) | 5,748 | 100.0 % |
| Bonds Issued for Refunding | | 1,270,690 | (1,270,690) | 100.0 % |
| Payment to Escrow for Refunding | | (1,264,942) | 1,264,942 | 100.0 % |
| Total Other Financing Sources (Uses) | | <u>5,748</u> | <u>(5,748)</u> | <u>100.0 %</u> |
| Change in Fund Balance | <u>68,222</u> | <u>(89,602)</u> | <u>157,824</u> | <u>176.1 %</u> |
| Fund Balance – Beginning | <u>321,042</u> | <u>410,644</u> | <u>(89,602)</u> | <u>(21.8) %</u> |
| Fund Balance – Ending | <u>\$ 389,264</u> | <u>\$ 321,042</u> | <u>\$ 68,222</u> | <u>21.3 %</u> |

Capital Outlay expenditures decreased by \$55.6 million, or 33.2 percent. This is due to the decrease in construction project expenditures receiving mobility fund dollars. Debt Service expenditures decreased by \$56.4 million, or 14.2 percent, because of less interest paid out on long-term debt. Also, interest and investment income decreased by \$4.9 million, or 79.6 percent because of less money earning interest on state deposits.

The major dedicated revenue sources of the Mobility Fund for the year ended Aug. 31, 2021, are summarized in the pie chart. A detailed listing of all dedicated revenue sources can be found in the supplementary information section of this report.

The state collects various inspection-fees at the time of registration, a portion of which is deposited to the Mobility Fund, based on the inspection category for the type of vehicle being registered.



Debt Administration

The Mobility Fund bonds are self-supporting general obligation debt. The issuance of Mobility Fund bonds is subject to debt service coverage requirements as prescribed in Section 201.943(e) of the Texas Transportation Code. Prior to a Mobility Fund debt issuance, the Texas Comptroller of Public Accounts (Comptroller) must certify that the projected dedicated revenues and money on deposit in the Mobility Fund will be equal to at least 110 percent of the annual debt service requirements.

All Mobility Fund debt issuances must be approved by the Texas Bond Review Board prior to issuance.

The Mobility Fund program is currently established in the aggregate principal amount of \$7.5 billion outstanding at any one time. As of Aug. 31, 2021, the principal amount of debt outstanding is \$6.3 billion.

House Bill No. 2219 which was enacted during the regular session of the 87th Legislature and became effective on June 18, 2021, now authorizes the Commission to issue Program obligations for certain transportation projects, after May 1, 2021 and before January 1, 2027.

Bonds payable balances are not reported in the accompanying governmental fund balance sheet which is presented on a current financial resources measurement focus and modified accrual basis of accounting. Governmental fund financial statements do not include long-term liabilities. Long-term liabilities are reported in the governmental activities of the TxDOT entity-wide financial statements. See Note 4 and 5 for additional information.

Bond Credit Ratings

The Mobility Fund bonds are rated by the major nationally recognized statistical rating organizations.

As of Aug. 31, 2021, the bonds carried a long-term rating of AAA, Aaa, AAA and AAA from Fitch Ratings (Fitch), Moody's Investor Services (Moody's), Standard & Poor's, and Kroll, respectively. The short-term rating of variable rate demand bonds is usually reliant upon the supporting liquidity facility and its credit strength.

| Long-Term Credit Ratings as of August 31, 2021 | | | | |
|--|--------------|----------------|---|--------------|
| | Fitch | Moody's | Standard & Poor's ² | Kroll |
| General Obligation Bonds | AAA | Aaa | AAA | AAA |
| <small>2 Series 2020 is not rated by Standard & Poor's</small> | | | | |

| Short-Term Credit Ratings as of August 31, 2021 | | | | |
|--|--------------|----------------|------------------------------|--------------|
| | Fitch | Moody's | Standard & Poor's | Kroll |
| Series 2006-B Variable Rate Demand Bonds | F1+ | VMIG 1 | n/a | AAA |

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations 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 any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the bonds.

Contacting TxDOT's Financial Management

This financial report is designed to provide a general overview of the Mobility Fund's 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

Texas Department of Transportation
Combining Balance Sheet - Texas Mobility Fund
August 31, 2021 (Amounts in Thousands)

| | Debt Service Fund | Capital Projects Fund | Total |
|--------------------------------------|----------------------------------|--------------------------------------|-------------------|
| ASSETS | | | |
| Cash and Cash Equivalents: | | | |
| Cash in State Treasury | \$ 229,538 | 163,464 | 393,002 |
| Receivables: | | | |
| Federal | 10,978 | | 10,978 |
| Due from Other Funds | 1,261 | | 1,261 |
| Total Assets | <u>\$ 241,777</u> | <u>163,464</u> | <u>405,241</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Payables: | | | |
| Accounts | | 14,564 | 14,564 |
| Due to Other Funds | | 1,413 | 1,413 |
| Total Liabilities | | <u>15,977</u> | <u>15,977</u> |
| Fund Balances (Deficits): | | | |
| Restricted | 241,777 | | 241,777 |
| Committed | | 147,487 | 147,487 |
| Total Fund Balances | <u>241,777</u> | <u>147,487</u> | <u>389,264</u> |
| Total Liabilities and Fund Balances | <u>\$ 241,777</u> | <u>\$ 163,464</u> | <u>\$ 405,241</u> |

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

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Texas Mobility Fund
For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

| | Debt Service Fund | Capital Projects Fund | Total |
|--|----------------------------------|--------------------------------------|-------------------|
| REVENUES | | | |
| Federal Revenues | \$ 21,962 | \$ | \$ 21,962 |
| Licenses, Fees and Permits | 340,543 | 159,178 | 499,721 |
| Interest and Investment Income | 647 | 604 | 1,251 |
| Other Revenues | | 15 | 15 |
| Total Revenues | <u>363,152</u> | <u>159,797</u> | <u>522,949</u> |
| EXPENDITURES | | | |
| Transportation | | 3,064 | 3,064 |
| Capital Outlay | | 111,885 | 111,885 |
| Debt Service | | | |
| Principal on State Bonds | 105,730 | | 105,730 |
| Interest on State Bonds | 233,467 | | 233,467 |
| Other Financing Fees | | 581 | 581 |
| Total Expenditures | <u>339,197</u> | <u>115,530</u> | <u>454,727</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>23,955</u> | <u>44,267</u> | <u>68,222</u> |
| Net Change in Fund Balances | <u>23,955</u> | <u>44,267</u> | <u>68,222</u> |
| Fund Balances, September 1, 2020 | <u>217,822</u> | <u>103,220</u> | <u>321,042</u> |
| Fund Balances, August 31, 2021 | <u>\$ 241,777</u> | <u>\$ 147,487</u> | <u>\$ 389,264</u> |

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

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Texas Mobility Fund
Notes to Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

These fund financial statements reflect the financial position of the Texas Mobility Fund (Mobility Fund). The Mobility Fund, an appropriated fund of the state of Texas, is managed by the Texas Department of Transportation (TxDOT). The Mobility Fund, part of the TxDOT reporting entity, is created in the Texas Constitution, and administered by the Texas Transportation Commission (Commission). The Commission, the governing body of TxDOT, has the authority to commit the Mobility Fund to various legal agreements.

The Texas Legislature (Legislature) established the Mobility Fund to provide a method of financing the construction, reconstruction, acquisition, and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way. The Mobility Fund may also be used to provide participation by TxDOT in the payment of a portion of the costs of constructing and providing other public transportation projects.

The Commission may sell obligations of the state that are payable from and secured by a pledge of and a lien on all or part of the money dedicated to and on deposit in the Mobility Fund.

The Legislature dedicated certain statutory fee revenues of the state to the Mobility Fund for purposes of providing funds for the debt service on the outstanding Mobility Fund obligations. The Commission has also elected to pledge the general obligation of the state as additional repayment security for the currently outstanding bonds. To date, the dedicated revenues of the Mobility Fund have been sufficient to meet the debt service requirements of the bonds without the necessity of calling on the general obligation pledge.

The Commission is subject to various covenants imposed by the bond resolutions. As of Aug. 31, 2021, the Commission and management believe that they were in compliance with all covenants.

Basis of Presentation

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 the Mobility Fund 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 the Mobility Fund adopted the following new GASB pronouncements:

- *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*.

The data in this report is combined and consolidated by TxDOT and included in the TxDOT Annual Comprehensive Financial Report submitted to the Texas Comptroller of Public Accounts' office. The accompanying financial statements present only the fund balance and changes in fund balance of the Mobility Fund and are not intended to and do not present fairly the financial position or changes in financial position of TxDOT.

The records of the Mobility Fund are maintained in accordance with the practices set forth in the provisions of the bond resolutions. Details on outstanding Mobility Fund Bonds are provided in Note 5.

Fund Structure

While the Mobility Fund is established as a single appropriated fund, it is reported in the following sub-accounts in two governmental fund types:

Debt Service Fund:

- Mobility Fund Interest and Sinking Account (0367) – monies in this account are used to pay amounts due on or with respect to Parity Debt, including the principal of, premium, if any, and interest on Parity Debt as they become due and payable. This account is required as long as Parity Debt is outstanding.
- Mobility Fund Rebate Account (0373) – the fifth Supplemental Resolution established the rebate account. Money on deposit in the rebate account, if any, is paid to the federal government in compliance with arbitrage earnings requirements. Money in the rebate account, if any, does not constitute security.

Capital Projects Fund:

- Mobility Fund General Account (0365) – monies in this account may be used for any lawful purpose for which the Mobility Fund may be used. The General Account is primarily used to fund construction projects throughout the state.

Basis of Accounting

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured and relates to the types of transactions or events reported in the statement of revenues, expenditures, and changes in fund balances. Basis of accounting refers to the timing of the recognition of transactions or events. Under the modified accrual basis of accounting, amounts are recognized as revenues as they become susceptible to accrual (measurable and available). The Mobility Fund considers revenues available if they are collected within 60 days of the end of the fiscal year. Accruals whose receipt is due after the 60-day period are classified as deferred inflows of resources. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures are generally recognized when the related fund liability is incurred. However, principal and interest on bonds is recorded at the earlier of its due date or its payment date. The issuance of long-term debt is reported as other financing sources. Debt issuance costs are recognized as an expenditure in the year incurred.

Budgetary Information

The Mobility Fund budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the governor (the General Appropriations Act). The Mobility Fund has committed revenue budgets for debt service and for in-house design, contracted design, construction and right of way. After mobility-related expenditures are incurred in the State Highway Fund, the Mobility Fund reimburses cash and committed budget to the State Highway Fund.

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities and Fund Balance

Cash and Cash Equivalents in State Treasury

Cash and cash equivalents in the state treasury is the balance of funds held in the state Treasury Pool. See Note 3 for more information.

Federal Receivable

The Federal Receivable represents the portion of the Build America Bonds (BABs) federal interest rate subsidy payment that is owed from the federal government.

Accounts Payable

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

Due To Other Funds

The Due to Other Funds balance represents the value of assets or services paid for by the State Highway Fund during the reporting period, for which reimbursement was due from the Texas Mobility Fund as of Aug. 31, 2021.

Due From Other Funds

The Due from Other Funds balance represents revenue earned by the Texas Mobility Fund but has not been distributed to the Texas Mobility Fund at fiscal year-end, is reported as due from other funds.

Fund Balance

Fund balance classifications depict the nature of constraints on the use of net resources in a governmental fund. The Mobility Fund's fund balance as of Aug. 31, 2021, are displayed in two components.

- Restricted fund balance - resources that have constraints placed on their use through external parties or by law through constitutional provisions.
- Committed fund balance – can be used only for specific purposes pursuant to constraints imposed by a formal action of the Legislature, the state's highest level of decision-making authority.

The Mobility Fund's fund balance in the Debt Service Fund is restricted due to bond covenants and constitutional provisions. Most of current year revenues relate to fees pledged for debt service on outstanding bonds.

The Mobility Fund's fund balance in the Capital Projects Fund is committed since the fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the state's highest level of decision-making authority (the Legislature), based on the Texas Transportation Statute, subchapter M, Sec.201.946.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the Commission's policy to use committed resources first, then, assigned resources, and lastly unassigned resources.

Revenues and Expenditures

Licenses, Fees and Permits

The major sources of dedicated revenue to the Mobility Fund for fiscal 2021 were driver license fees, motor vehicle inspection fees, certificate of title fees, and driver record information fees. A list of all fiscal 2021 dedicated revenues can be found in the supplementary information section of this report.

Federal Revenue

Federal revenue relates to the federal interest rate subsidy provided in relation to the Mobility Fund's Build America Bond issuance. Although the amount is recognized as revenue on the financial statements, the subsidy is specifically restricted to use as an offset of debt service costs. Refer to Note 5 for more details on the Mobility Fund's involvement with the Build America Bond program.

Interest Income

Cash in the state treasury earns interest income at stated rates established by the Comptroller.

Other Revenues

Other revenues represent receipts that do not fit into one of the other categories of revenue.

Expenditures

Expenditures include payments for debt service, professional fees, other financing fees and the funding of eligible transportation projects. Capital outlay represents Mobility Fund contributions to projects on the state highway system and owned by the state of Texas.

NOTE 2 – CAPITAL ASSETS

The Mobility Fund does not own capital assets. The state highway system infrastructure, built using Mobility Fund resources, becomes a capital asset of the governmental activities of the state of Texas. The capital assets of the state highway system are reported in the TxDOT Annual Comprehensive Financial Report.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments – Treasury Pool

The Mobility Fund is established in the state treasury, thus all monies are pooled with other state funds and invested under the direction of the Comptroller of Public Accounts Treasury Operations Division (Treasury). The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires the Trust Company to maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2021. The Comptroller has delegated investment authority to the Trust Company and utilizes the Trust Company to manage and invest funds in the Treasury Pool.

State statutes authorize the Treasury to invest state funds in fully collateralized time deposits; direct security repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; banker's acceptances; commercial paper; and contracts written by the Comptroller, which are commonly known as covered call options. Funds held in the Treasury Pool have not been categorized as a credit risk because TxDOT does not own individual securities. Detail on the nature of these deposits and investments are available within the state of Texas Annual Comprehensive Financial Report.

As of Aug. 31, 2021, the Mobility Fund's pro rata share of participation in the Treasury Pool was \$393.0 million. No further detail of this balance is available due to the management policies of the Treasury.

NOTE 4 – LONG-TERM LIABILITIES

The Mobility Fund bonds are recorded as long-term liabilities within the governmental activities balances in the TxDOT Annual Comprehensive Financial Report. During the fiscal year ended Aug. 31, 2021, the following changes occurred in the long-term liabilities.

| Long-Term Liabilities Activity | | | | | | | |
|--|--------------------------|---------------------|------------------|---------------------|-----------------------|------------------------------------|-------------------------------|
| For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands) | | | | | | | |
| Governmental Activities | Beginning Balance | Adjustments* | Additions | Deductions | Ending Balance | Amounts Due Within One Year | Amounts Due Thereafter |
| | 9/1/2020 | | | | 8/31/2021 | | |
| General Obligation Bonds | \$ 6,135,760 | \$ (33,980) | | \$ (105,730) | \$ 5,996,050 | \$ 174,316 | \$ 5,821,734 |
| General Obligation Bonds - Direct Placements | 284,927 | (1,986) | | | 282,941 | 1,986 | 280,955 |
| Total | \$ 6,420,687 | \$ (35,966) | | \$ (105,730) | \$ 6,278,991 | \$ 176,302 | \$ 6,102,689 |

*Includes current year amortization of premiums and discounts

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure the payment of debt service. The table that follows provides information on pledged revenue and pledged future revenue of the self-supporting general obligation bonds.

| Pledged Future Revenue | |
|---|--------------|
| (Amounts in Thousands) | |
| Texas Mobility Fund General Obligation Bonds | |
| Pledged Revenue Required for Future Principal and Interest on Existing Debt | \$ 8,838,833 |
| Term of Commitment Ending | 10/1/2044 |
| Percentage of Revenue Pledged | 100% |
| Current Year Pledged Revenue | \$ 522,949 |
| Current Year Principal and Interest Paid | \$ 339,197 |

NOTE 5 – BONDED INDEBTEDNESS

Texas Constitution, Article III, Section 49-k and Transportation Code, Chapter 201, Subchapter M authorize the Commission to issue general obligation bonds payable from a pledge of and lien on all or part of the money in the Mobility Fund. The Mobility Fund bonds are designed to be self-supporting, but the full faith and credit of the state is pledged in the event the revenue and money dedicated to the Mobility Fund is insufficient to pay debt service on the bonds. As of Aug. 31, 2021, major sources of pledged revenue to the Mobility Fund include driver license fees, motor vehicle inspection fees, certificate of title fees, and driver record information fees.

The Resolution currently allows for \$7.5 billion of principal amount outstanding at any time. Prior to a Mobility Fund debt issuance, the Texas Comptroller of Public Accounts must certify and project that money dedicated to the Fund and on deposit in the Fund will be at least 110 percent coverage of debt service requirements during the period that the debt will be outstanding. House Bill No. 2219 which was enacted during the regular session of the 87th Legislature and became effective on June 18, 2021, amended the authority to (i) eliminate the ability of the Commission to issue Program obligations for the purpose of providing participation by the State in the payment of part of the costs of constructing and providing publicly owned toll roads and (ii) authorize the Commission to issue Program obligations for certain transportation projects, as described herein, after May 1, 2021 and before January 1, 2027 in an aggregate principal amount not to exceed an amount equal to sixty percent (60%) of the outstanding principal amount of Program obligations existing on May 1, 2021. As of May 1, 2021, the outstanding principal amount of Program obligations (i.e., Parity Debt) was \$5.9 billion. Accordingly, under the authority, as amended by HB 2219, the Commission may issue, other than refunding obligations described herein, no more than \$3.6 billion in aggregate principal amount of Parity Debt prior to January 1, 2027.

Bond proceeds are to be used for the purpose of refunding existing bonds and related credit agreements, creating reserves for payment of bonds and related credit agreements, paying bond issuance costs and paying interest on the bonds and related credit agreements.

| Miscellaneous Bond Information | | | | | | |
|---|-----------------------------|--------------------|--------------------------------|-------------------|------------------|------------------------|
| (Amounts in Thousands) | | | | | | |
| Description of Issue | Bonds Issued to Date | Date Issued | Range of Interest Rates | Maturities | | |
| | | | | First Year | Last Year | First Call Date |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| General Obligation Bonds | | | | | | |
| Series 2006-B Variable Rate Bonds | \$ 150,000 | 12/13/2006 | variable | 2036 | 2036 | * |
| Series 2009-A Taxable Fixed Rate Bonds | 1,208,495 | 08/26/2009 | 5.37% 5.52% | 2029 | 2039 | * |
| Series 2014 Fixed Rate Refunding Bonds | 973,775 | 07/02/2014 | 4.00% 5.00% | 2016 | 2034 | 04/01/2024 |
| Series 2014-A Fixed Rate and Refunding Bonds | 1,580,160 | 12/18/2014 | 4.00% 5.00% | 2017 | 2044 | 10/01/2024 |
| Series 2014-B SIFMA Bonds | 250,000 | 12/18/2014 | variable | 2041 | 2041 | 10/01/2021 |
| Series 2015-A Fixed Rate Refunding Bonds | 911,360 | 09/30/2015 | 3.20% 5.00% | 2018 | 2036 | 10/01/2025 |
| Series 2015-B Fixed Rate Refunding Bonds | 254,105 | 10/07/2015 | 5.00% 5.00% | 2031 | 2036 | 10/01/2025 |
| Series 2017-A Fixed Rate Refunding Bonds | 296,020 | 02/01/2017 | 5.00% 5.00% | 2030 | 2034 | 10/01/2027 |
| Series 2017-B Fixed Rate Refunding Bonds | 474,135 | 02/01/2017 | 5.00% 5.00% | 2029 | 2036 | 10/01/2027 |
| Series 2020 Taxable Fixed Rate Refunding Bonds | 1,270,690 | 08/05/2020 | 0.26% 2.47% | 2021 | 2044 | * |
| Governmental Activities Total | <u>\$ 7,368,740</u> | | | | | |
| * Bonds are subject to redemption prior to their respective maturities at the option of the Commission. | | | | | | |

The Series 2015-B outstanding balance of \$282.9 million is from direct placements. In an event of default, any owner of parity debt in connection with any covenant or in any supplement, or default in the payment of annual debt service requirements due in connection with any parity debt, or other costs and expenses related thereto, may require the Commission, the Department, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or any Supplement, by all legal and equitable means, including specifically the use and filing of mandamus proceedings in any court of competent jurisdiction in Travis County, Texas against the Commission, the Department, its officials and employees, or any appropriate official of the State.

Debt service requirements for the revenue bonds as of Aug. 31, 2021, are detailed in the following table.

| Debt Service Requirements – Governmental Activities | | | | | |
|--|----|------------------|----|------------------|---------------------|
| (Amount in Thousands) | | | | | |
| General Obligation Bonds | | | | | |
| Year | | Principal | | Interest | Total |
| 2022 | \$ | 141,710 | \$ | 223,280 | \$ 364,990 |
| 2023 | | 155,720 | | 216,949 | 372,669 |
| 2024 | | 170,590 | | 209,864 | 380,454 |
| 2025 | | 186,380 | | 202,796 | 389,176 |
| 2026 | | 203,120 | | 192,483 | 395,603 |
| 2027-2031 | | 1,156,585 | | 837,639 | 1,994,224 |
| 2032-2036 | | 1,514,985 | | 572,874 | 2,087,859 |
| 2037-2041 | | 1,535,065 | | 227,675 | 1,762,740 |
| 2042-2046 | | 624,940 | | 33,924 | 658,864 |
| | | <u>5,689,095</u> | | <u>2,717,484</u> | <u>8,406,579</u> |
| Premium | | 306,955 | | | 306,955 |
| Total | \$ | <u>5,996,050</u> | \$ | <u>2,717,484</u> | <u>\$ 8,713,534</u> |

| Debt Service Requirements – Governmental Activities | | | | | |
|--|----|------------------|----|-----------------|-------------------|
| (Amount in Thousands) | | | | | |
| General Obligation Bonds Direct Placements | | | | | |
| Year | | Principal | | Interest | Total |
| 2022 | \$ | | \$ | 12,705 | \$ 12,705 |
| 2023 | | | | 12,705 | 12,705 |
| 2024 | | | | 12,705 | 12,705 |
| 2025 | | | | 12,705 | 12,705 |
| 2026 | | | | 12,705 | 12,705 |
| 2027-2031 | | | | 63,526 | 63,526 |
| 2032-2036 | | 144,120 | | 48,347 | 192,467 |
| 2037-2041 | | 109,985 | | 2,750 | 112,735 |
| | | <u>254,105</u> | | <u>178,148</u> | <u>432,253</u> |
| Premium | | 28,836 | | | 28,836 |
| Total | \$ | <u>282,941</u> | \$ | <u>178,148</u> | <u>\$ 461,089</u> |

Build America Bonds

The interest payments shown above do not reflect the federal interest rate subsidy payment related to the Mobility Fund Build America Bonds Series 2009-A, which will be used to offset debt service cost. The American Recovery and Reinvestment Act of 2009 granted municipal debt issuers access to a broader investor base in the taxable market by providing a federal interest rate subsidy payment to offset debt service costs through the Build America Bonds (BABs) program. Direct Payment BABs provide for a federal reimbursement to TxDOT equal to 35 percent of the interest paid on the BABs.

As a result of budget sequestration, the federal government reduced subsidy payments for BABs by 5.7 percent effective Oct. 1, 2020 through Sept. 30, 2021 for BABs subsidy payments paid in federal fiscal year 2021. See the table below for details on the Commission’s Direct Payment BABs outstanding as of Aug. 31, 2021.

| Direct Payment Build America Bonds | | | |
|---|-------------------|---------------------|---------------------|
| (Amounts in Thousands) | | | |
| Description | Issue Date | Par Amount | Outstanding |
| GOVERNMENTAL ACTIVITIES | | | |
| General Obligation Bonds | | | |
| Texas Mobility Fund Bonds Series 2009-A | 8/26/2009 | \$ 1,208,075 | \$ 1,207,345 |
| Governmental Activities Total | | \$ <u>1,208,075</u> | \$ <u>1,207,345</u> |

Variable Rate Bonds

The Mobility Fund has two variable rate bond issues outstanding as of Aug. 31, 2021. The interest rates in effect on Aug. 31, 2021 for the Series 2006-B and Series 2014-B used to calculate the debt service requirements were .02 and .32 percent, respectively. These rates reset every seven days.

Put Bonds

The Series 2014-B bonds were issued in an initial index floating rate mode, which terminates on a mandatory tender date. At the termination of the initial period, the bonds are subject to mandatory tender and purchase. Upon such mandatory tender and purchase, the 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. The obligation of the Commission to purchase the bonds on the mandatory tender date is subject to the successful remarketing of such bonds. The Commission has no obligation to purchase bonds except from remarketing proceeds. If the bonds are not remarketed or otherwise redeemed, the interest rate on the bond will be increased to the stepped coupon rate from the mandatory tender date until purchased or redeemed.

| Put Bonds | | | | | |
|-----------------------------------|------------------------------|---------------------|--------------------------------|----------------------------|---|
| (Amounts in Thousands) | | | | | |
| Description | Mandatory Tender Date | Initial Rate | Initial Period Interest | Stepped Coupon Rate | Stepped Rate Period Interest¹ |
| GOVERNMENTAL ACTIVITIES | | | | | |
| General Obligation Bonds | | | | | |
| Texas Mobility Fund Series 2014-B | 10/1/2021 | SIFMA + 0.30% | Variable ² | 8.00% per annum | \$ 20,000 |

¹ Assumes a full year of interest
² Index Floating Rate Mode/resets weekly

Demand Bonds

The Series 2006-B variable rate bonds are demand bonds. A bondholder may tender any of the bonds for repurchase prior to maturity at a price equal to principal plus accrued interest. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the standby bond purchase agreements.

The Series 2006-B bonds are subject to a standby bond purchase liquidity agreement (agreement) with the Texas Comptroller of Public Accounts (Comptroller). The agreement provides terms to be negotiated and mutually agreed upon by TxDOT and the Comptroller upon need for the Comptroller to purchase bonds put but that the remarketing agent cannot resell timely to new investors. In that case, TxDOT would pay the Comptroller based on the existing debt service schedule for the Series 2006-B bonds.

The agreement was made pursuant to powers granted to Comptroller under Texas Government Code Sec. 404.027. The agreement provides protection to prevent an unplanned draw on current financial resources of the Texas Mobility Fund. The agreement is subject to renewal on a biennial basis.

For fiscal 2021, the Trustee did not draw from the Comptroller related to the Series 2006-B demand bonds. The following table provides details for the outstanding demand bonds and the related standby bond purchase liquidity agreement.

| Demand Bonds – Standby Bond Purchase Agreement Provisions | | | | |
|--|--|---|-------------------------------------|---|
| (Amounts in Thousands) | | | | |
| Description | Principal Balance Outstanding | Counterparties | Annual Liquidity Fee | Agreement Termination Date |
| GOVERNMENTAL ACTIVITIES | | | | |
| General Obligation Bonds | | | | |
| Texas Mobility Fund Series 2006-B | \$ 150,000 | Texas Comptroller of Public Accounts | 0.12% | 8/31/2023 |
| Total | \$ <u>150,000</u> | | | |

Defeased Bonds

The Commission defeased various bond issues by placing funds and securities in irrevocable trusts with external financial institutions to provide for all future debt service payments on the bonds through the earlier of the maturity date or the first call date. As of Aug. 31, 2021, the amounts of defeased bonds, at par, that remain outstanding are presented in the table below.

| Defeased Bonds Outstanding | | |
|--|----------------------------------|----------------------|
| (Amounts in Thousands) | | |
| Description | Par Value Outstanding | Year Defeased |
| GOVERNMENTAL ACTIVITIES | | |
| General Obligation Bonds | | |
| Series 2014 Fixed Rate Refunding Bonds | \$ 380,815 | 2020 |
| Series 2014-A Fixed Rate Refunding Bonds | 690,760 | 2020 |
| Total | \$ <u>1,071,575</u> | |

NOTE 6 - RETIREMENT PLAN AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Mobility Fund is part of TxDOT’s reporting entity. The Mobility Fund 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 the Mobility Fund. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan) and the State Retiree Health Plan (SRHP). The Mobility Fund 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 the Mobility Fund 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 activity refers to financial interactions between funds and is restricted to internal events. Interfund transfers represent the flow of assets (cash or goods) without equivalent flow of assets in return or a requirement for repayment. The Mobility Fund interfund activity detail is as follows.

| Due From/To | | |
|--|-----------------------------|---------------------------|
| August 31, 2021 (Amounts in Thousands) | | |
| Description | Due From Other Funds | Due To Other Funds |
| State Highway Fund | \$ | \$ 152 |
| Capital Project Fund | | 1,261 |
| Debt Service Fund | 1,261 | |
| Total | \$ 1,261 | \$ 1,413 |

Amounts not transferred at fiscal year-end are accrued as due to/due from other funds. As of Aug. 31, 2021, the due to the State Highway Fund balance totaled \$152 hundred thousand. This amount represents Mobility Fund expenditures paid by State Highway Fund that were not reimbursed until fiscal 2022.

As of Aug. 31, 2021, \$1.3 million was due to debt service fund from capital projects fund. A transfer between funds was processed during fiscal 2021 and reversed in fiscal 2022.

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 AND CONTINGENCIES

Rebatable arbitrage as defined by Internal Revenue Code (IRC), Section 148, are 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 resolution, a Rebate Fund will be established under the resolution 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 Mobility Fund’s overall financial condition.

NOTE 10 – SUBSEQUENT EVENTS

The \$250 million par TMF 2014-B bonds, initially issued in an index floating rate mode, were successfully remarketed on Oct. 1, 2021. Below are the new terms of the TMF Series-B Bonds.

| Put Bonds | | | | | |
|--------------------------------|------------------------------|---------------------|--------------------------------|----------------------------|-------------------------------------|
| (Amounts in Thousands) | | | | | |
| Description | Mandatory Tender Date | Initial Rate | Initial Period Interest | Stepped Coupon Rate | Stepped Rate Period Interest |
| GOVERNMENTAL ACTIVITIES | | | | | |
| General Obligation Bonds | | | | | |
| Series 2014-B | 4/1/2026 | 0.65% per annum | \$ 1,625 | 7.00% per annum | \$ 17,500 |

NOTE 11 - RISK MANAGEMENT

The Mobility Fund does not have any employees. TxDOT provides all accounting, debt financing and administrative services. In addition, TxDOT's risk financing and insurance programs apply to the Mobility Fund.

TxDOT is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. TxDOT and its employees are covered by various immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against TxDOT or its employees. Remaining exposures are managed by self-insurance arrangements.

Property and Liability

TxDOT administers a self-insured workers compensation program. Due to the nature of worker compensation claims, amounts are not reasonably estimable. Claims are paid as they become due.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All TxDOT employees are included in the Texas Employees Group Benefit Program (GBP) administered by the Employees Retirement System of Texas (ERS).

Claims for health, life, accidental death and dismemberment, disability and dental insurance coverages are established under GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization contracts and dental health maintenance organizations contracts.

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Section Two (Continued)
Other Supplementary Information

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**Texas Mobility Fund Dedicated Revenues
For the Fiscal Year Ended August 31, 2021**

| | |
|--------------------------------------|-----------------------|
| <u><i>Major Sources of Funds</i></u> | |
| Driver License Fees | \$ 185,919,145 |
| Motor Vehicle Inspection Fees | 97,447,101 |
| Certificate of Title Fees | 149,291,785 |
| Driver Record Information Fees | <u>65,050,452</u> |
| | 497,708,483 |
| | |
| <u><i>Miscellaneous Sources</i></u> | |
| Motor Carrier Act Penalties | 2,010,357 |
| Motor Vehicle Registration Fees | 2,270 |
| Depository Interest | <u>1,251,234</u> |
| | 3,263,861 |
| | |
| <i>Total Dedicated Revenues</i> | \$ <u>500,972,344</u> |

Note:

The total above does not include the Build America Bonds federal interest rate subsidy and other revenues that are not dedicated revenue.

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