

TEXAS TRANSPORTATION COMMISSION

TRAVIS AND WILLIAMSON Counties

MINUTE ORDER

Page 1 of 2

AUSTIN District

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

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

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

Pursuant to this legislation, in Minute Order 108970, dated July 25, 2002, the commission approved and adopted a written investment policy and written investment strategy applicable to funds of the commission held under the Indenture of Trust dated July 15, 2002 securing the outstanding bonds, notes or other obligations issued by the commission to finance a portion of the cost of the initial phase of the Central Texas Turnpike System, also known as the 2002 Project. The investment policy and investment strategy have been amended pursuant to Minute Order 109066, dated October 31, 2002, Minute Order 109339, dated July 31, 2003, Minute Order 109462, dated October 30, 2003, Minute Order 109732, dated July 29, 2004, Minute Order 109963, dated February 24, 2005, and Minute Order 110087, dated May 26, 2005. The commission also adopted investment strategies in relation to the Texas Mobility Fund on February 24, 2005 and the Lease With an Option to Purchase Houston District Headquarters Complex Project on May 26, 2005. The commission has designated the department's Chief Financial Officer and Deputy Director of Finance as investment officers.

Section 9.0 of the investment policy requires the investment officer to prepare and submit to each member of the commission and the executive director of the department an investment report on no less than a quarterly basis. The report must be prepared in accordance with the requirements of that section, including containing sufficient information to provide for a comprehensive review of investment activity and current investment instruments and performance for the reporting period.

TEXAS TRANSPORTATION COMMISSION

TRAVIS AND WILLIAMSON Counties

MINUTE ORDER

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AUSTIN District

Quarterly investment reports will be prepared for each quarter of the department's fiscal year. A quarterly investment report for the 2002 Project for the period ending August 31, 2005, attached as Exhibit A, and a quarterly investment report for the Lease With an Option to Purchase Houston District Headquarters Complex Project for the period ending August 31, 2005, attached as Exhibit B, has been prepared in accordance with Government Code, §2256.023 and Section 9.0 of the investment policy.

IT IS THEREFORE ORDERED by the commission that the quarterly investment reports attached as Exhibit A and B are accepted.

Submitted and reviewed by:

James M. Brass
Chief Financial Officer

Recommended by:

M. W. Behrens
Executive Director

110273 OCT 27 05

Minute Number Date Passed

TEXAS TRANSPORTATION COMMISSION

QUARTERLY INVESTMENT REPORT

**AS OF
AUGUST 31, 2005**

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CERTIFICATION STATEMENT

This is to certify that I have reviewed the Quarterly Investment Report as of August 31, 2005 that is being submitted for acceptance by the Texas Transportation Commission. To the best of my knowledge and belief:

The information contained in this report was prepared in accordance with the guidelines presented in Government Code, Chapter 2256 (Public Funds Investment Act) and Section 9.0 of the investment policy.

The investment portfolio is in compliance with the investment policy and relevant provisions of Government Code, Chapter 2256.

The investments have been accorded consistent treatment in accordance with generally accepted accounting principles.

The information presented in the Quarterly Investment Report is accurate.

I declare that the foregoing is true and correct.

Governmental Unit: Texas Department of Transportation

Signature: James M. Bass

Name of Official: James M. Bass

Title: Chief Financial Officer

Date of Execution: October 20, 2005

I declare that the foregoing is true and correct.

Governmental Unit: Texas Department of Transportation

Signature: John Muñoz

Name of Official: John Muñoz

Title: Deputy Director, Finance Division

Date of Execution: October 20, 2005

INVESTMENT DISCUSSION – 2002 PROJECT

INTRODUCTION

This section relates to investments made by the Texas Transportation Commission (commission) and held by JPMorgan Institutional Trust Services, acting as trustee. The investments include bond proceeds and other contributions for the purpose of financing the initial phase ("2002 Project") of the Central Texas Turnpike System.

The commission's investment strategy identifies four fund types in association with its Trust Indenture dated July 15, 2002.

Type I Funds: Funds in the Revenue Fund, General Reserve Fund and Debt Service Funds, other than Capitalized Interest Funds

Type II Funds: Funds in the Rate Stabilization Fund

Type III Funds: Funds in the Construction Fund and Capitalized Interest Funds

Type IV Funds: Funds in the Debt Service Reserve Fund

Bond proceeds have been deposited to Type III and Type IV funds. Type I and Type II funds consist primarily of toll revenues and will therefore not be funded until after the opening of the 2002 Project of the Central Texas Turnpike System. The commission has entered into agreements with local governments whereby the local governments transfer funds to the Texas Department of Transportation to fund purchases of right of way land and other project-related costs. The commission has executed separate contribution agreements with the City of Austin, the City of Round Rock, and Travis and Williamson counties. The contributing subdivisions contribute to the right of way costs of portions of the 2002 Project located within their respective boundaries. The monies collected from the contributing subdivisions are deposited to the trustee as Type III funds and are included in the investment amounts included in this report.

The investments suitable for each fund type have been determined using the following criteria that are detailed in the commission's investment strategy:

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

The initial investment of bond proceeds was made in accordance with the criteria specified in the commission's investment policy and strategy as described above. Investments were made based primarily on preservation and safety of principal. After preservation of principal, consideration was given to liquidity and marketability needs for each fund. Diversification criteria were met by staggering the maturity dates of the investments and the use of different security types. Lastly, yield was considered to maximize return. The table on the following page summarizes the initial investments.

A. SUMMARY OF INITIAL INVESTMENTS

SUMMARY OF INITIAL INVESTMENTS

Fund Type	Fund Invested	Product	Security Type or Collateral	Initial Deposit/ Contract Amount	Yield/ Rate	Provider ⁽¹⁾
III	CapI (First Tier)	Individual Securities	Treasuries/Agencies	210,970,479	3.0600%	BofA ⁽⁴⁾
III	CapI (First Tier)	Money Market Fund	Treasuries/Agencies	1,656,374	1.3000%	BO
III	CapI (Second Tier)	Individual Securities	Treasuries/Agencies	227,876,048	3.0600%	BofA ⁽⁴⁾
III	CapI (Second Tier)	Money Market Fund	Treasuries/Agencies	1,568,259	1.3000%	BO
III	Construction	Forward Purchase Agmt	CP/Treasuries/Agencies	274,999,847	2.5000%	SSB
III	Construction	Individual Securities	Treasuries/Agencies	548,743,394	3.0600%	BofA ⁽⁴⁾
III	Construction	Forward Purchase Agmt	Treasuries/Agencies	199,985,908	1.8350%	ML
III	Construction	Forward Purchase Agmt	Treasuries/Agencies	339,560,338	1.8475%	SSB
III	Construction	Forward Purchase Agmt	Treasuries/Agencies	99,999,942	1.7960%	BofA
III	Construction	Money Market Fund	Treasuries/Agencies	250,073,838	1.3000%	BO
III	Construction	Money Market Fund	Treasuries/Agencies	30,000,000	1.4500%	BO
IV	DSRF ⁽³⁾	Flexible Repurchase Agmt	104% UST/105% Agencies ⁽²⁾	114,999,378	5.2000%	SSB
IV	DSRF ⁽³⁾	Forward Purchase Agmt	Treasuries/Agencies	14,999,950	4.4750%	WB
Total				\$2,315,433,755		

(1) Key:

SSB = Salomon Smith Barney

BofA = Bank of America

ML = Merrill Lynch

WB = Wachovia Bank

BO = Bank One

(2) Collateralized Repurchase Agreement

(3) Debt Service Reserve Fund

(4) Individual Securities were competitively bid and purchased from BofA and delivered to the Commission. There is no ongoing relationship with BofA for these securities.

Management Discussion of Investments

Type I and Type II funds are funded primarily from daily toll revenues and are used for operating and maintaining the system, funding the rate stabilization fund and making semi-annual debt service payments to bondholders. These funds have a very short investment horizon as operating and maintenance expenses are paid frequently and debt service funds must be depleted at least annually. (The commission, however, is permitted a reasonable carryover, which may be up to 1/12 of the prior year's debt service.)

The capitalized interest account is used to make payments to bondholders during the construction period and through a portion of the ramp up period after the project is completed and toll revenues are being collected. Draws from the capitalized interest accounts for fixed rate bonds are certain as to amount and timing because they are tied to the debt service schedules. Draws from the capitalized interest accounts for variable rate bonds are uncertain therefore such accounts are funded assuming higher-than-market interest rates.

Construction fund (Type III fund) draws are expected to be relatively certain based on the maximum payment curve for the SH 130 element of the 2002 Project and the General Engineering Consultant's (GEC) estimates for the SH 45N/Loop 1 elements, however the exact timing and amount of draws will vary from initial estimates for several reasons. First, it is not uncommon for a construction project of this magnitude to experience delays or accelerations in payments to contractors, however monthly updates to project schedules and cash flows provide the department with the ability to manage draws in the short term. Additionally, the dates for purchasing right of way with proceeds from this fund are uncertain. As a result of these levels of uncertainty, the construction fund was invested in investment vehicles with differing liquidity characteristics, including direct securities and forward purchase agreements (FPAs).

A portfolio of U.S. Treasury and Agency securities was purchased to fund cash flow requirements for the capitalized interest fund and for a portion of the construction fund. This fund is referred to as the Structured Portfolio Fund. The Structured Portfolio Fund consists of securities with a high degree of safety. The Structured Portfolio Fund also has a high degree of marketability and the securities may be sold at any time prior to maturity, although it is anticipated that the securities will be held to maturity.

Additionally, approximately 20 percent of the total investments as of August 31, 2005 are invested in FPAs. FPAs provide a high degree of liquidity and have a yield that is certain at the time the agreement is signed based upon anticipated draw schedules. Monthly draws are permitted under FPAs, thereby providing the appropriate level of liquidity for a less certain draw schedule. Three of the agreements consist of direct holdings of U.S. Treasury and Agency securities and the fourth consists of direct holdings of commercial paper. Individual securities are delivered to the trustee on a monthly basis and the commission may sell them at any time or may reinvest them at maturity as needed. U.S. Treasury and Agency securities provide safety of principal and are highly marketable. The commercial paper exposure of 8 percent is within the commission's guideline of a maximum of 15 percent. Additionally, the use of three different providers minimizes credit risk.

A portion of the capitalized interest, capital contribution funds, and construction funds is invested in money market funds that are in compliance with the commission's investment policy. These funds have the highest degree of liquidity and preservation of principal.

The Debt Service Reserve Fund (DSRF), a Type IV Fund, is generally invested for a longer time period but may be called upon at any time to make a debt service payment. Therefore this fund type requires a high degree of market value protection in the event it is drawn upon. Protection against market value declines can be provided either by rolling short-term securities or purchasing an investment agreement product. A portion of the DSRF (\$15 million) was invested in a FPA consisting of U.S. Treasury and Agency securities. The balance was invested in a repurchase agreement collateralized by U.S. Treasury and Agency securities. Diversity in maturities was achieved with a 10-year term for the FPA and a 20-year term for the repurchase agreement.

A. INVESTMENT ACTIVITY FOR PERIOD ENDING AUGUST 31, 2005

Investment activity for the period consisted primarily of securities delivered by the FPA providers maturing and being replaced with new securities. Pursuant to the terms of the Agreement, the Forward Purchase Agreement between the commission and Merrill Lynch terminated on June 1, 2005. All maturing securities delivered under this Agreement were invested in money market funds. Scheduled distributions from the structured portfolio to the construction fund began in June 2004. Due to slower than expected outflows from the construction fund, these distributions have been reinvested in money market funds. Attached as Schedule 1 is a summary statement that presents the beginning and ending fair values, purchases, sales and maturities, and accrued interest for the period ending August 31, 2005.

Per GASB Statement 31, governmental entities should report investments at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The trustee provides the fair value for all department investments. The change in the fair value of investments is calculated by the difference between the fair value of investments at the beginning of the period and at the end of the period, taking into consideration investment purchases, sales, and redemptions. The fair value of investments at the end of the reporting period translates to the beginning book value for the subsequent reporting period.

Following the methodology in GASB 31, instead of amortizing premiums and discounts on debt securities the investments are shown at fair value. Fair value information is more useful than cost-based information in evaluating performance because it portrays the market's estimate of the net future cash flows of investments, discounted to reflect both time value and risk. Fair value provides users with information to help them assess a government's accountability, the level of services that it potentially can provide, and its financial position and condition. Recognizing changes in value when they occur, rather than when they are realized, provides a measure of current performance. Consistent with reporting investments at their fair value, interest income is reported at the stated interest rate; and any premiums or discounts on debt securities are not amortized. All investment income, including

changes in the fair value of investments, are reported as revenue in the operating statement. Realized gains and losses are reported as a single line item in combination with the net increase (decrease) in the fair value of investments in the financial statements.

B. INVESTMENT PORTFOLIO VALUE

See Schedule 1 for a schedule of investments including maturity dates, fair value at the beginning and end of this reporting period, investment activity, yield and interest earned.

C. INVESTMENT STRATEGY

The investment instruments described in Section A are in compliance with the investment strategy of the commission.

D. CURRENT MARKET CONDITIONS AND RECOMMENDED POLICY AMENDMENTS

Various Interest Rates as of August 31, 2005:

- Discount Rate – 4.44%
- 3-Month Commercial Paper – 3.75%
- 3-Month Treasury – 3.497%
- 90-Day LIBOR – 3.87%
- 5-Year Treasury – 3.861%
- 10-Year Treasury – 4.016%
- 20-Year Treasury – 4.377%

See attached Schedule 2 – History of Interest Rates Graph.

E. DIVERSIFICATION

The commission's investment policy sets out certain diversification requirements in order to reduce risk. The following is a statement of compliance with such diversity requirements:

- (a) Portfolio maturities have been matched versus liabilities to avoid undue market risk as discussed above.
- (b) As described above, all investments provide for stability of income and liquidity.
- (c) The majority of the portfolio has been invested in securities and investment agreements with maturities ranging from one month to twenty years. FPAs allow for monthly draws to coincide with payments to construction contractors. The structured portfolio fund has maturities and investment income that match estimated draws from the capitalized interest and construction funds. Additionally, a portion of the portfolio has been invested in cash equivalent instruments (money market mutual funds) to provide daily liquidity.
- (d) No investments have maturities in excess of the maximum maturity permitted by the trust indenture or the limits specified in the commission's investment strategy.
- (e) All securities meet the rating restrictions defined in Sections 13 and 14 of the commission's investment policy.

TEXAS DEPARTMENT OF TRANSPORTATION
CENTRAL TEXAS TURNPIKE SYSTEM
SCHEDULE 1
Public Funds Investment Act
Quarterly Investment Activity
For the Period Ending August 31, 2005

Security Type	Description	Current Maturity Date	Book Value/Fair Value @ 05/31/2005*	Accretion/Purchases	Sales/Maturities	Book Value @08/31/05	Fair Value @08/31/05	Yield to Maturity (ST)	Yield to Maturity (LT)**	FY 05 4th Quarter Interest
Commercial Paper (Short Term)	CITIGROUP GBL MKTS HLD	5/9/2005	38,221,921		38,166,705					58,295
	BAVARIA UNIVL FDG CORP	6/1/2005	30,327,557		30,283,746					46,254
	NRW BANK	7/1/2005		49,896,050	49,896,050					103,950
	QUATRO PMX LTD/CORP	7/1/2005		45,374,490	45,374,490					94,510
	THREE CROWNS FDG LLC	7/1/2005		2,371,060	2,371,060					4,940
	KENT FDG LTD	8/1/2005		47,745,530	47,745,530					99,470
	QUATRO PMX LTD/CORP	8/1/2005		49,896,050	49,896,050					103,950
	KENT FDG LTD	9/1/2005		49,896,050	49,896,050			2.450%		
	PINNACLE POINT FDG LTD	9/1/2005		47,745,530	47,745,530			2.450%		
Money Market Funds (Short Term)	JPM PRIME MMKT FD 3605 CAPITAL		374,122,899	292,588,150	252,374,919	414,336,130	414,336,130			2,669,187
	JPM US GOVT MMKT FD 3164 CAPITAL		163,249,239	582,052	22,286,323	141,544,968	141,544,968			1,223,024
	JPM US TREAS PLUS MMKT FD 3126 INVESTOR			166		166	166			167
U.S. Government Agencies (Short Term)	FNMA DISC NT	8/10/2005	15,245,597		14,999,375					335,625
	FNMA DISC NT	2/8/2006								
	FNMA DISC NT	6/1/2005	194,848,000	14,999,799	194,555,317	14,999,799	15,076,646	4.460%		292,683
	FNMA DISC NT	8/15/2005		5,521,605	5,521,605					3,395
	FHLMC DISC SER RB	8/1/2005		26,813,019	26,813,019					39,981
	FHLMC DISC SER RB	8/15/2005		9,478,172	9,478,172					5,828
	FNMA	7/1/2005		150,930,228	151,161,000					
	FNMA	8/1/2005		124,304,622	124,304,622					191,378
	FNMA DISC NT SER BB	9/1/2005		16,999,652	16,999,652			1.750%		
	FHLEB DISC NT	9/1/2005		123,992,103	123,992,103			1.810%		
	FHLMC	6/15/2005	30,363,410		30,354,000					645,023
	FHLMC	7/15/2005	30,082,185		29,951,000					1,048,285
	FHLEB	8/15/2005	117,938,428		117,975,000					1,917,094
	FNMA	12/15/2005	21,646,065		21,646,065			5.960%		640,770
	FHLMC	1/15/2006	20,661,570		20,661,570			5.220%		536,996
	FNMA	2/15/2006	39,424,725		39,424,725			5.460%		1,070,795

- Continued -

Exhibit A

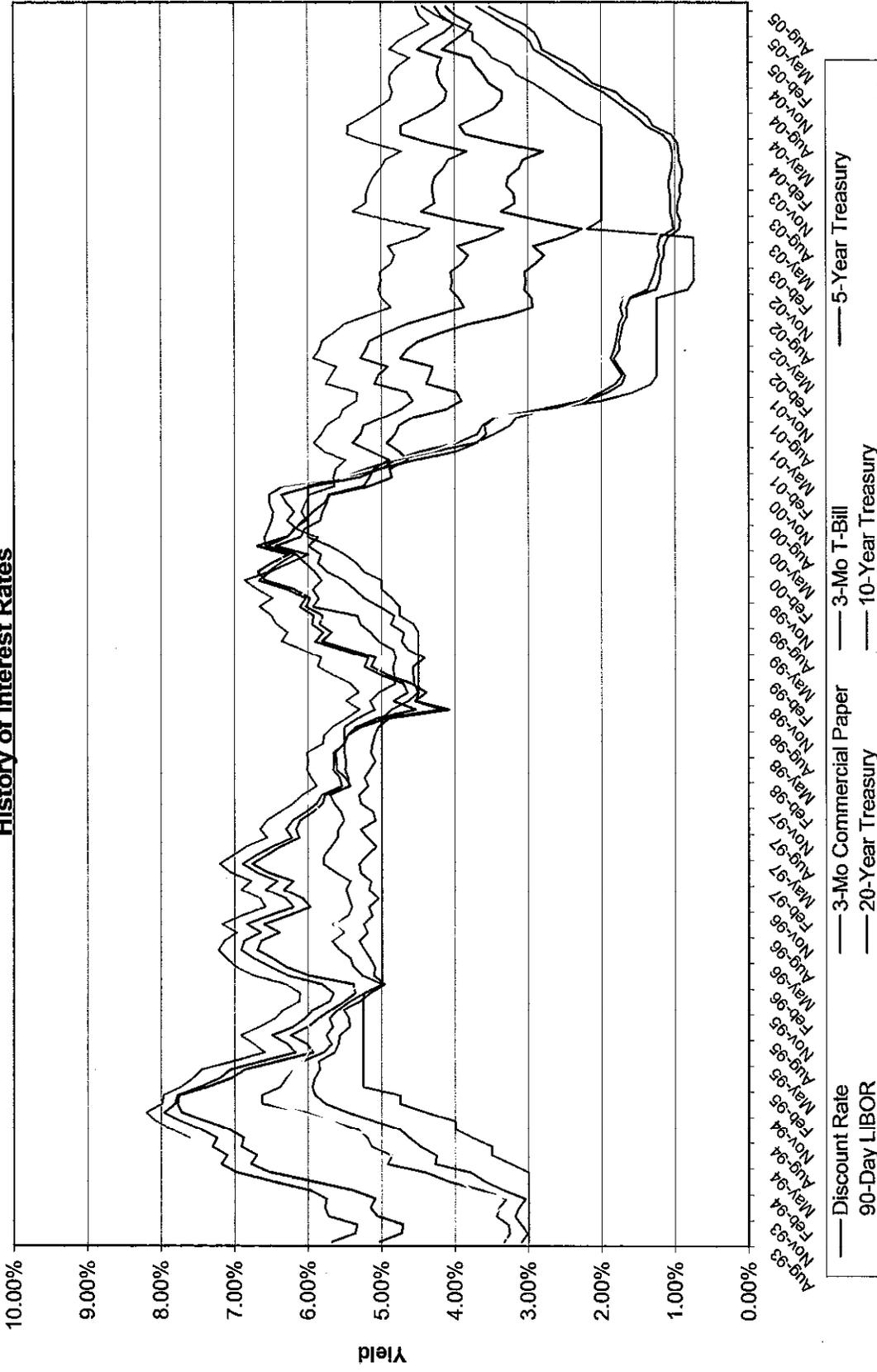
Security Type	Description	Current Maturity Date	Book Value/Fair Value @ 05/31/2005*	Accretion/Purchases	Sales/Maturities	Book Value @08/31/05	Fair Value @08/31/05	Yield to Market (ST)	Yield to Maturity (LT)**	FY 05 4th Quarter Interest
U.S. Government Agencies (Short Term, Continued)										
FHLB		3/6/2006	42,323,670			42,323,670	42,101,500	5.090%		
FHLB		5/15/2006	20,003,859			20,003,859	19,880,796	5.320%		
FHLMC		7/15/2006	17,332,691			17,332,691	17,221,184	5.430%		467,445
	Flexible Repurchase Agreement (Long Term)									
	SALOMON MASTER REPO	8/15/2022	114,999,378			114,999,378	114,999,378		5.200%	2,956,762
U.S. Government Agencies (Long Term)										
FNMA		10/15/2006	19,298,273			19,298,273	19,208,768			
FHLB		2/15/2007	17,917,756			17,917,756	17,797,563			469,506
FHLB		5/15/2007	20,986,444			20,986,444	20,705,582			
FNMA		7/15/2007	18,085,852			18,085,852	18,018,577			381,225
FNMA		10/15/2007	21,576,134			21,576,134	21,341,593			
FNMA		2/15/2008	19,186,615			19,186,615	19,037,657			526,758
FNMA		5/15/2008	42,098,018			42,098,018	41,762,030			
FNMA		1/15/2009	6,202,451			6,202,451	6,159,699			156,083
			<u>1,436,142,737</u>			<u>1,251,257,899</u>	<u>1,249,323,992</u>			<u>16,089,379</u>

* Per GASB 31, Investments are to be reported at their fair value and any premiums or discounts should not be amortized. The resulting beginning book value of the investments is adjusted to fair value at the end of the previous reporting period.
 **Yield to maturity for each security is shown as reported by Bloomberg, a generally accepted source for such information in the municipal marketplace. RBC Dain has not undertaken to confirm or verify that yield to maturity values have been determined correctly.

Key:

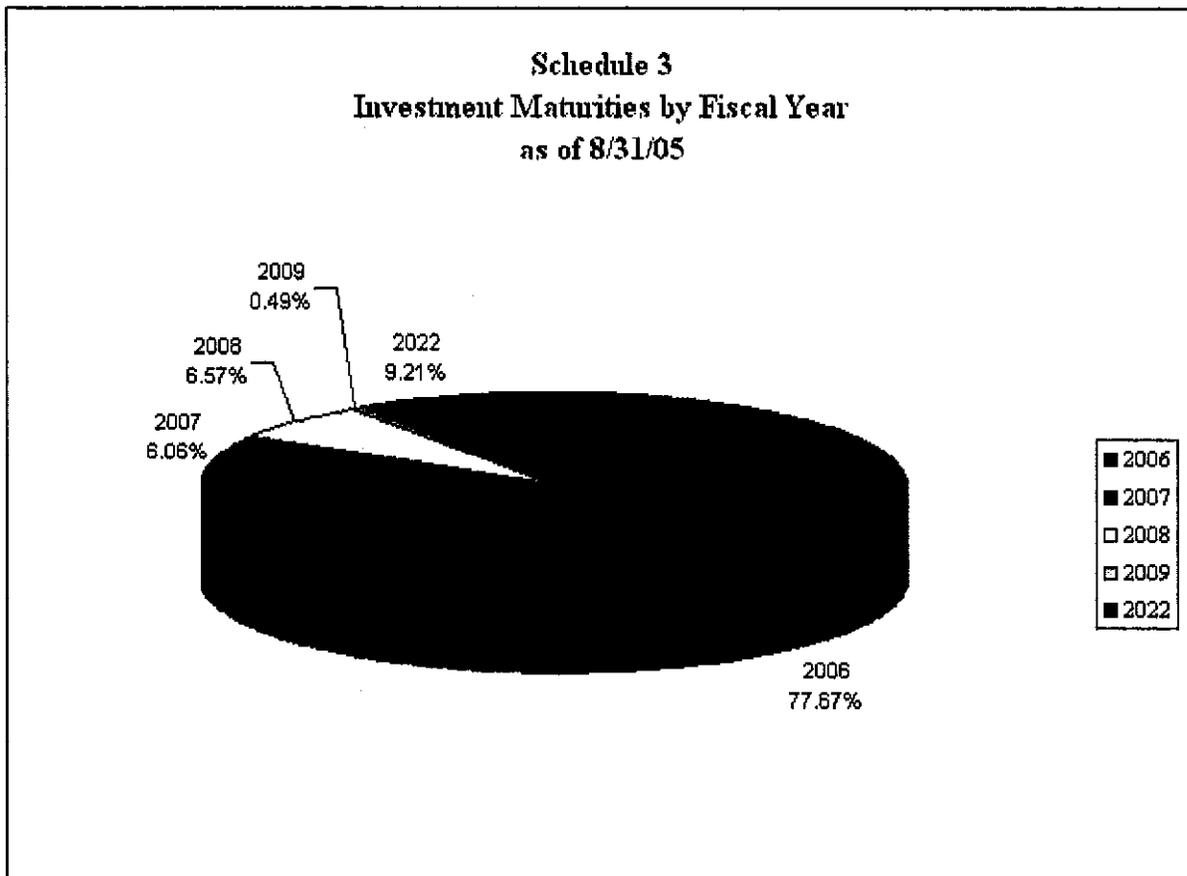
- ST = Short Term
- LT = Long Term
- FHLB = Federal Home Loan Bank
- FHLMC = Federal Home Loan Mortgage Company
- FNMA = Federal National Mortgage Association

Schedule 2 History of Interest Rates



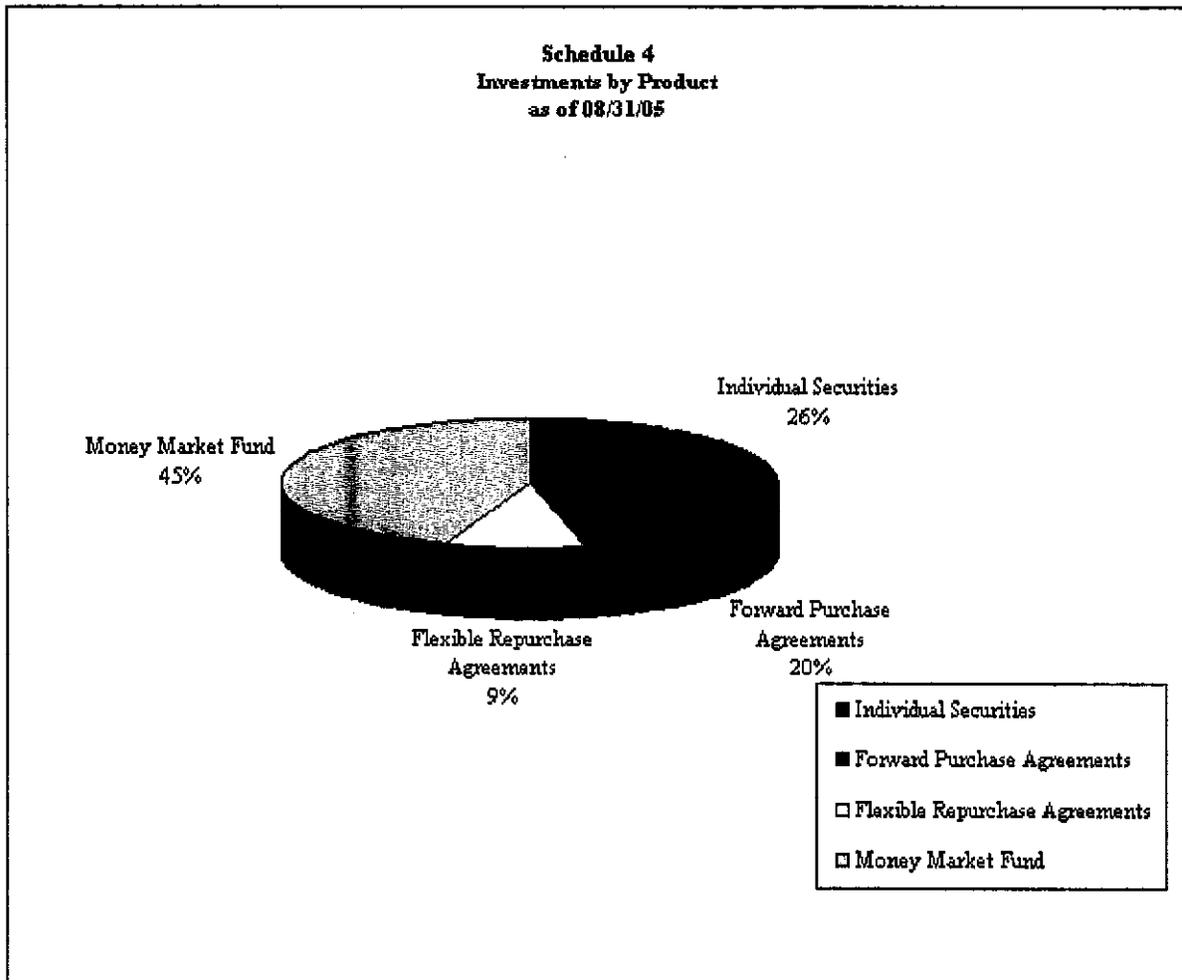
Schedule 3
Texas Department of Transportation
Central Texas Turnpike System
Investment Maturities by Fiscal Year

Total Investments at Fair Value - Maturity by Fiscal Year		8/31/2005
		Fair Value
	2006	970,493,145
	2007	75,730,490
	2008	82,141,280
	2009	6,159,699
	2022	114,999,378
TOTAL INVESTMENTS - ALL FUNDS		<hr/> <hr/> 1,249,523,992



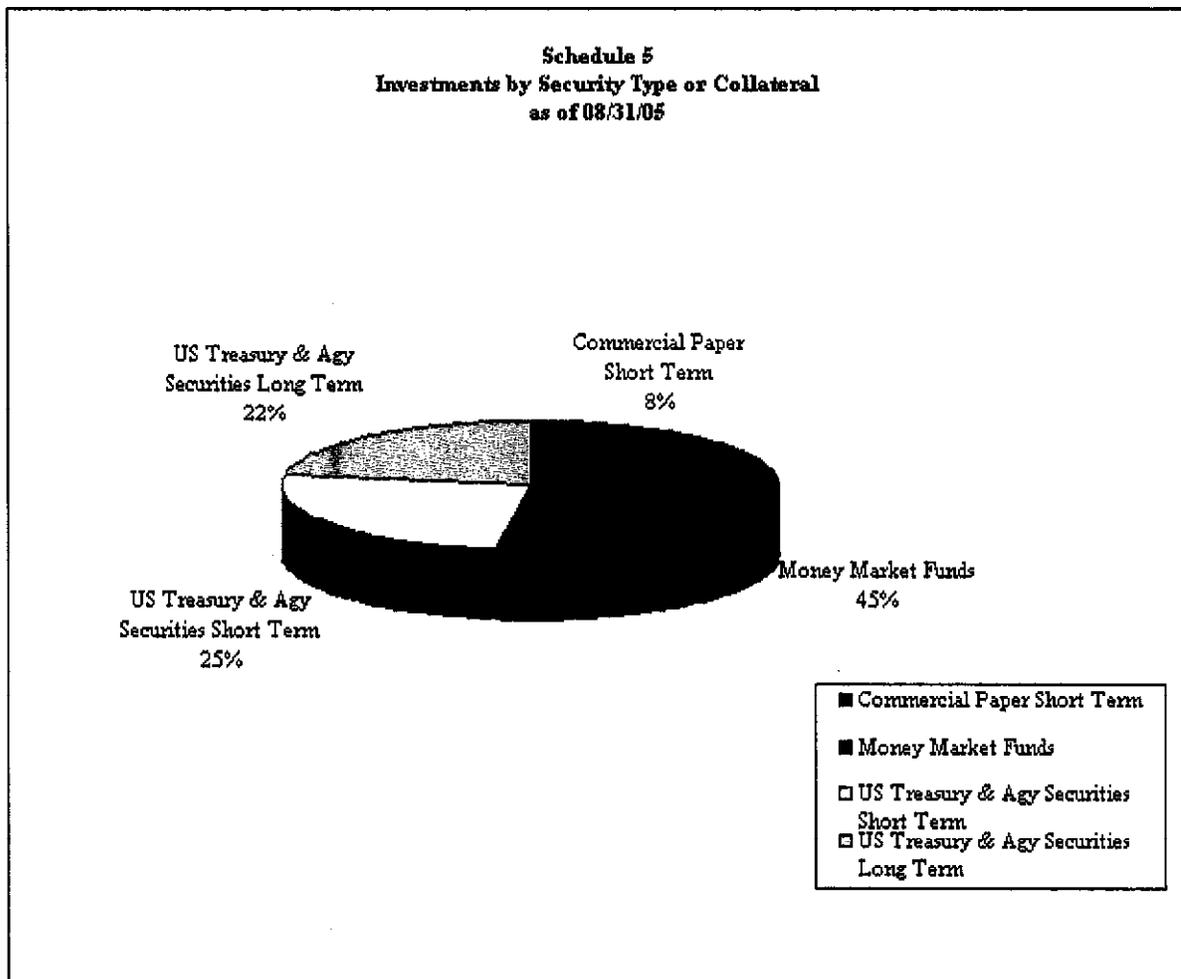
Schedule 4
Texas Department of Transportation
Central Texas Turnpike System
Investments by Product

Investment Product	8/31/2005
	Fair Value
Individual Securities	324,523,105
Forward Purchase Agreements	254,120,245
Flexible Repurchase Agreements	114,999,378
Money Market Fund	555,881,264
	<hr/>
	1,249,523,992
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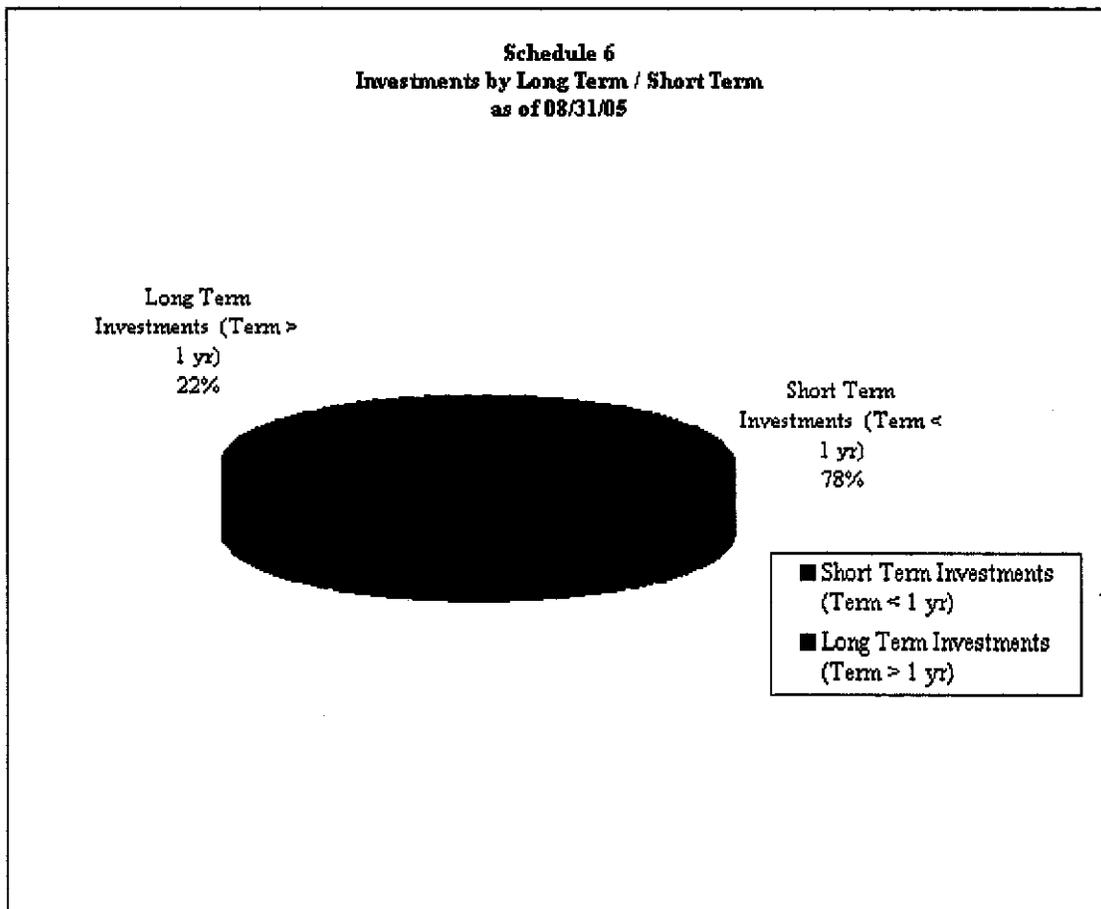
Schedule 5
Texas Department of Transportation
Central Texas Turnpike System
Investments by Security Type or Collateral

Security Type/Collateral	8/31/2005
	Fair Value
Commercial Paper Short Term	97,835,599
Money Market Funds	555,881,264
US Treasury & Agy Securities Short Term	316,776,282
US Treasury & Agy Securities Long Term	279,030,847
	<hr/>
	1,249,523,992
	<hr/> <hr/>



Schedule 6
Texas Department of Transportation
Central Texas Turnpike System
Investments by Long Term/Short Term

Maturity	8/31/2005
Short Term Investments (Term < 1 yr)	Fair Value 970,493,145
Long Term Investments (Term > 1 yr)	279,030,847
	<hr/> <hr/> 1,249,523,992



INVESTMENT DISCUSSION – LEASE WITH AN OPTION TO PURCHASE HOUSTON DISTRICT HEADQUARTERS COMPLEX PROJECT

INTRODUCTION

This section relates to investments made pursuant to the Lease With an Option to Purchase Agreement between the commission and GP DOT Houston Holdings LP (the Lessor). In July 2005, the Lessor issued Certificates of Participation to fund the Houston Headquarters Complex project, the proceeds of which were deposited with JPMorgan Chase Bank (the Trustee) pursuant to a Trust Agreement between GP DOT Houston Holdings, LP and JP Morgan Chase Bank. Pursuant to the Trust Agreement, the department directs the investment of all funds.

The commission's investment strategy for the Lease With an Option to Purchase identifies three fund types:

Type I Funds: Funds in the Certificate Payment Account, including any sub-accounts created thereunder

Type II Funds: Funds in the Project Development Account

Type III Funds: Funds in the Rebate Account

The investments suitable for each fund type have been determined using the following criteria that are detailed in the commission's investment strategy relating to the Lease With an Option to Purchase Houston District Headquarters Complex Project:

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

The investment of the Certificates of Participation proceeds was made in accordance with the criteria specified in the commission's investment policy and the applicable strategy as described above. The proceeds from the Certificates of Participation of \$35,745,022 were deposited into the Project Development Account and were invested in a Repurchase and Custody Agreement between MBIA (as provider), the Trustee, and Wells Fargo Bank (as custodian).

Management Discussion of Investments

Type I funds require the greatest short term liquidity of any of the fund types as funds will be expended on a semi-annual basis to make certificate payments to purchasers of the Certificates of Participation. This fund must be depleted every 12 months except for a permitted carryover of up to 1/12 of the prior year's lease payments. Funds have not been deposited to Type I funds.

Investments in Type II funds will have maturities and sufficient liquidity to meet the anticipated cash flow requirements for construction of the Project. Certificate of Participation proceeds have been deposited to Type II funds and invested in a Repurchase and Custody Agreement, which is a collateralized flexible repurchase agreement. The repurchase agreement has a high degree of flexibility and liquidity to meet uncertain construction draw schedules, is collateralized with U.S. Treasury and Agency securities and provides a guaranteed investment yield of 3.615%. The termination date of the agreement is no longer than the anticipated construction period. Safety of principal is managed through overcollateralization of the principal amount of the agreement and the fact that the provider is a AAA-rated corporation. Additionally, collateral is held by a third-party custodian bank and must be valued daily.

Type III Funds will be used to meet federal tax rebate payment requirements and no funds have been deposited to this fund type. The maximum allowable maturity of investments for Type III Funds may not exceed the date on which rebate requirements are due.

A. INVESTMENT ACTIVITY FOR PERIOD ENDING AUGUST 31, 2005

Investment activity for the period consisted of the purchase of money market mutual funds and the execution of a Repurchase and Custody Agreement. Listed below is a summary statement that presents the purchases, sales and maturities, and accrued interest for the period ending August 31, 2005.

Per GASB Statement 31, governmental entities should report investments at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The trustee provides the fair value for all department investments. The change in the fair value of investments is calculated by the difference between the fair value of investments at the beginning of the period and at the end of the period, taking into consideration investment purchases, sales, and redemptions. The fair value of investments at the end of the reporting period translates to the beginning book value for the subsequent reporting period.

Following the methodology in GASB 31, instead of amortizing premiums and discounts on debt securities the investments are shown at fair value. Fair value information is more useful than cost-based information in evaluating performance because it portrays the market's estimate of the net future cash flows of investments, discounted to reflect both time value and risk. Fair value provides users with information to help them assess a government's accountability, the level of services that it potentially can provide, and its financial position and condition. Recognizing changes in value when they occur, rather than when they are realized, provides a measure of current performance. Consistent with reporting investments at their fair value, interest income is reported at the stated interest rate; and any premiums or discounts on debt securities are not amortized. All investment income, including changes in the fair value of investments, are reported as revenue in the operating statement. Realized gains and losses are reported as a single line item in combination with the net increase (decrease) in the fair value of investments in the financial statements.

B. INVESTMENT PORTFOLIO VALUE

Lease With an Option to Purchase
Houston District Headquarters Complex Project
Quarterly Investment Activity
For the Period Ended August 31, 2005

Security Type	Description	Current Maturity Date	Purchases	Sales/ Maturities	Book Value @ 8/31/05	Fair Value @ 8/31/05	Yield to Maturity	FY 2005 4 th Quarter Interest Earned
Collateralized Repurchase Agreement								
	MBIA Collateralized Repurchase Agreement	8/15/2007	35,334,997		35,334,997	35,334,997		113,179
Money Market Funds (Short Term)								
	JPM US GOV'T MMKT Fd 3916		523,947		523,947	523,947		742
TOTAL			35,858,944		35,858,944	35,858,944		113,921

C. INVESTMENT STRATEGY

The investment instruments described in the above table are in compliance with the commission's investment strategy relating to the Lease With an Option to Purchase Houston District Headquarters Building Project.

D. CURRENT MARKET CONDITIONS AND RECOMMENDED POLICY AMENDMENTS

Various Interest Rates as of August 31, 2005:

Discount Rate – 4.44%
3-Month Commercial Paper – 3.75%
3-Month Treasury – 3.497%
90-Day LIBOR – 3.87%
5-Year Treasury – 3.861%
10-Year Treasury – 4.016%
20-Year Treasury – 4.377%

No amendments recommended at this time.

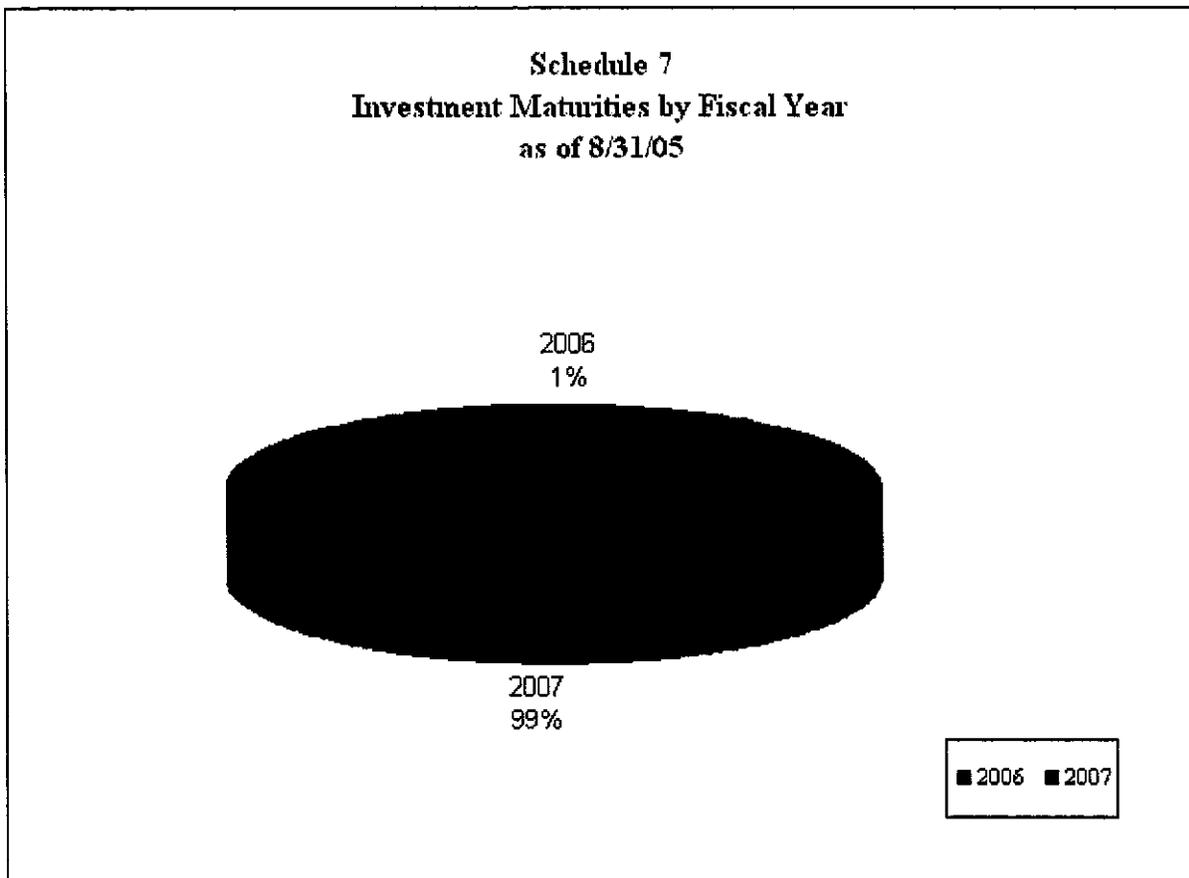
E. DIVERSIFICATION

The commission's investment policy sets out certain diversification requirements in order to reduce risk. The following is a statement of compliance with such diversity requirements:

- (a) The Repurchase and Custody Agreement does not expose the commission to market risk. Collateral is valued daily and the provider must post additional collateral in the event the margin requirement is below the required amount.
- (b) As described above, all investments made to date provide for stability of income and liquidity.
- (c) The majority of the portfolio has been invested in a flexible repurchase agreement collateralized with U.S. Treasury and Agency securities. Additionally, a portion of the portfolio has been invested in cash equivalent instruments (money market mutual funds) to provide additional liquidity.
- (d) No investments have maturities in excess of the maximum maturity permitted by the trust indenture or the limits specified in the commission's investment strategy.
- (f) All securities meet the rating restrictions defined in Sections 13 and 14 of the commission's investment policy.

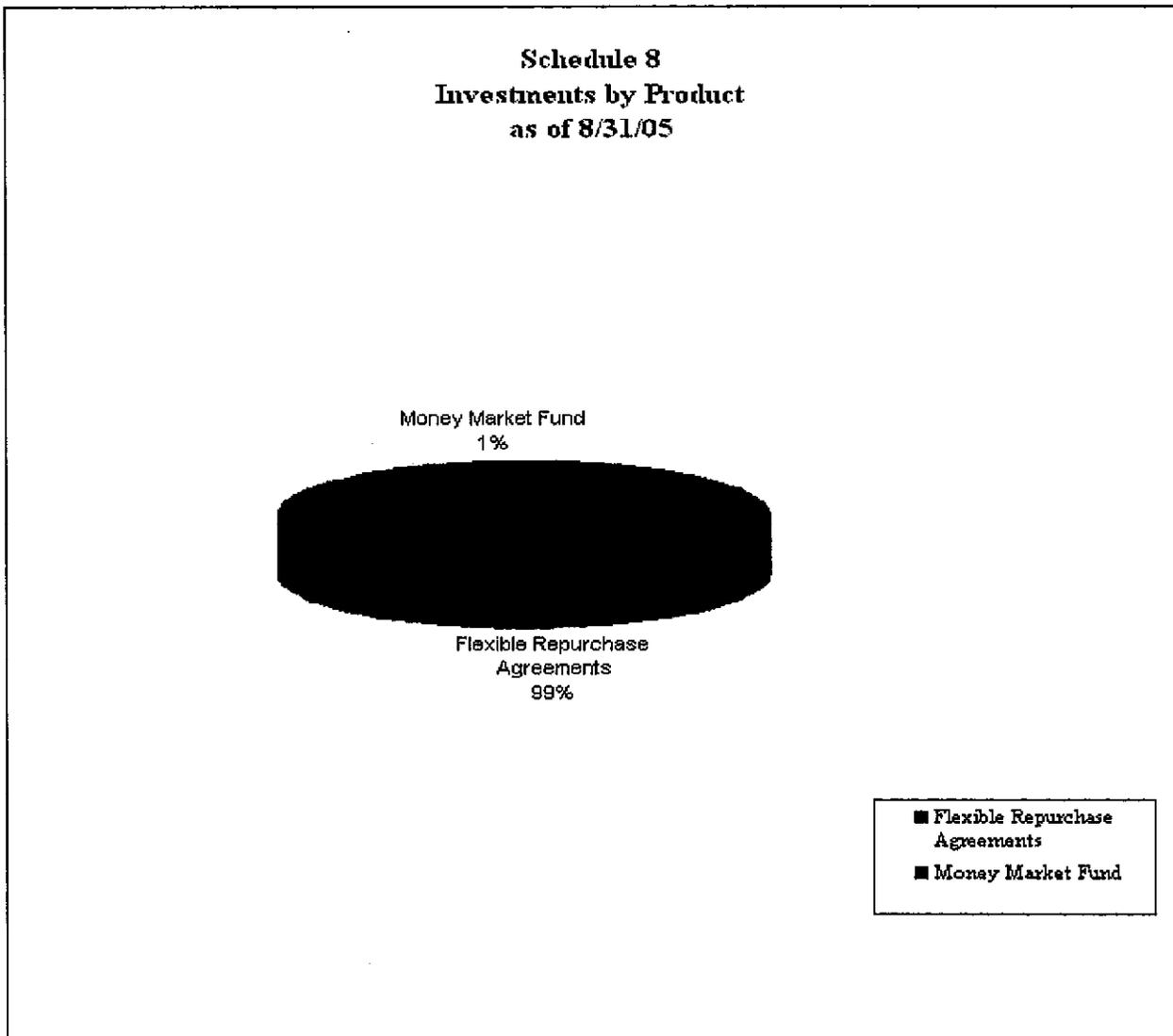
Schedule 7
Texas Department of Transportation
Houston District Headquarters Complex Project
Investment Maturities by Fiscal Year

Total Investments at Fair Value - Maturity by Fiscal Year	8/31/2005
	Fair Value
2006	523,947
2007	35,334,997
 TOTAL INVESTMENTS - ALL FUNDS	<hr/> <hr/> 35,858,944



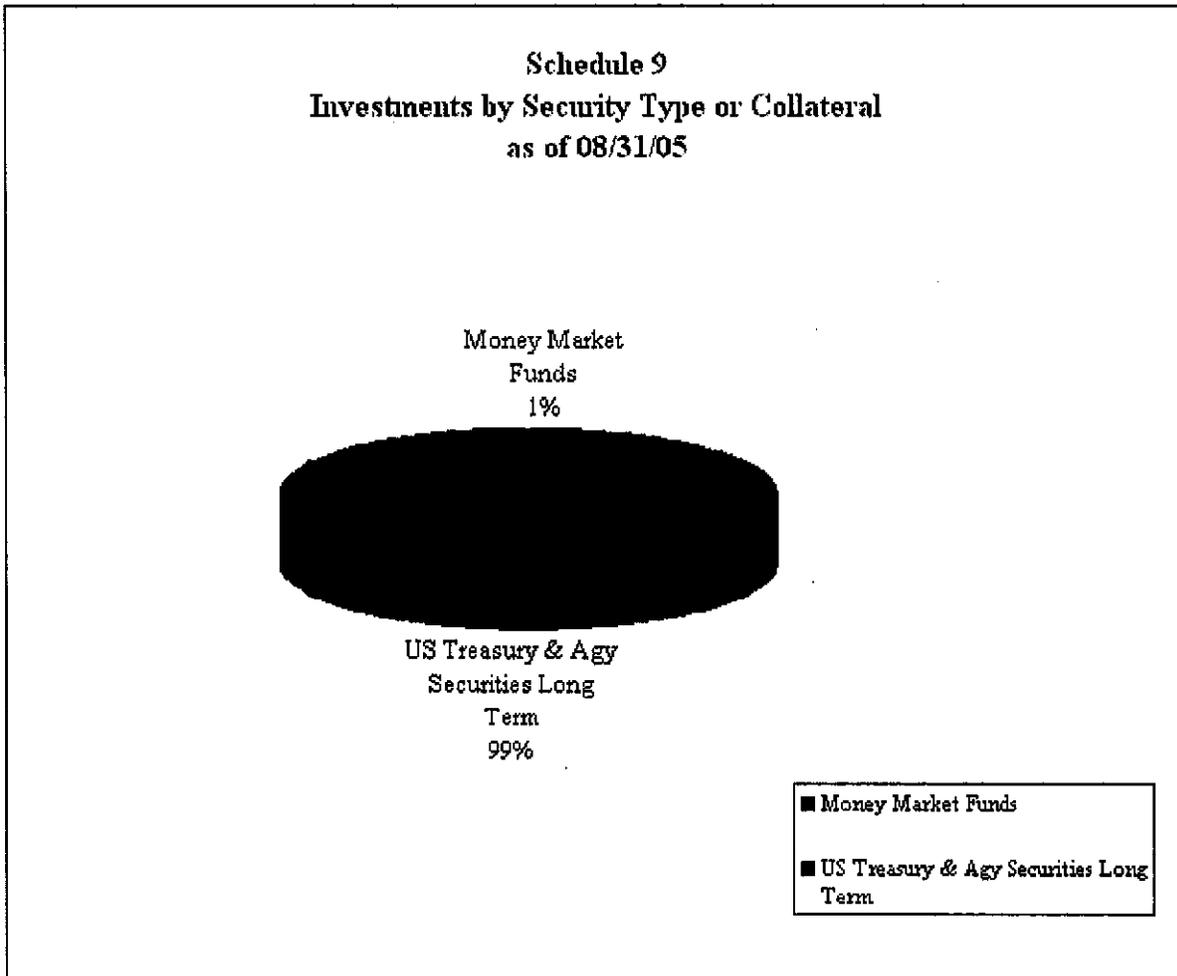
Schedule 8
Texas Department of Transportation
Houston District Headquarters Complex Project
Investments by Product

Investment Product	8/31/2005
	Fair Value
Flexible Repurchase Agreements	35,334,997
Money Market Fund	523,947
	<hr/>
	35,858,944
	<hr/>



Schedule 9
Texas Department of Transportation
Houston District Headquarters Complex Project
Investments by Security Type or Collateral

Security Type/Collateral	8/31/2005
	Fair Value
Money Market Funds	523,947
US Treasury & Agy Securities Long Term	35,334,997
	<hr/>
	<u>35,858,944</u>



Schedule 10
Texas Department of Transportation
Houston District Headquarters Complex Project
Investments by Long Term/Short Term

Maturity		8/31/2005
		Fair Value
Short Term Investments	(Term < 1 yr)	523,947
Long Term Investments	(Term > 1 yr)	35,334,997
		<hr/>
		35,858,944
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