

**DRAFT: SUBJECT TO CHANGE PRIOR TO COMMISSION ACTION**  
**TEXAS TRANSPORTATION COMMISSION**

VARIOUS Counties

**MINUTE ORDER**

Page 1 of 2

VARIOUS Districts

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

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

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

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, Minute Order 110087, dated May 26, 2005, and Minute Order 110145, dated July 28, 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.

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VARIOUS Districts

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 May 31, 2006, 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 May 31, 2006, attached as Exhibit B, have 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 Exhibits A and B are accepted.

Submitted and reviewed by:

Recommended by:

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Executive Director

\_\_\_\_\_  
Minute Number      Date Passed

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Exhibit A

**TEXAS TRANSPORTATION COMMISSION**

**QUARTERLY INVESTMENT REPORT**

**AS OF  
MAY 31, 2006**

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Exhibit A

CERTIFICATION STATEMENT

This is to certify that I have reviewed the Quarterly Investment Report as of May 31, 2006 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: \_\_\_\_\_

Name of Official: James M. Bass

Title: Chief Financial Officer

Date of Execution: July 18, 2006

I declare that the foregoing is true and correct.

Governmental Unit: Texas Department of Transportation

Signature: \_\_\_\_\_

Name of Official: John Muñoz

Title: Deputy Director, Finance Division

Date of Execution: July 18, 2006

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 with the trustee and are characterized as Type III. These funds 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.

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Exhibit A

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Exhibit A

**A. SUMMARY OF INITIAL INVESTMENTS**

**SUMMARY OF INITIAL INVESTMENTS**

<b>Fund Type</b>	<b>Fund Invested</b>	<b>Product</b>	<b>Security Type or Collateral</b>	<b>Initial Deposit/ Contract Amount</b>	<b>Yield/ Rate</b>	<b>Provider<sup>(1)</sup></b>
III	CapI (First Tier)	Individual Securities	Treasuries/Agencies	210,970,479	3.0600%	BofA <sup>(4)</sup>
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 <sup>(4)</sup>
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 <sup>(4)</sup>
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 <sup>(3)</sup>	Flexible Repurchase Agmt	104% UST/105% Agencies <sup>(2)</sup>	114,999,378	5.2000%	SSB
IV	DSRF <sup>(3)</sup>	Forward Purchase Agmt	Treasuries/Agencies	14,999,950	4.4750%	WB
<b>Total</b>				<b>\$2,315,433,755</b>		

(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 in the debt service fund, 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 were 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).

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Exhibit A

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 7 percent of the total investments as of May 31, 2006 are invested in an FPA. The FPA provides a high degree of liquidity and has 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 original agreements consisted of direct holdings of U.S. Treasury and Agency securities and the fourth, the only agreement still remaining, 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. The commercial paper exposure of 7 percent is within the commission's guideline of a maximum of 15 percent.

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 MAY 31, 2006**

Investment activity for the period consisted of securities delivered by the FPA provider maturing and being replaced with new securities and various U.S. Treasury and Agency securities maturing. 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 May 31, 2006.

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 May 31, 2006:

- Discount Rate – 6.00%
- 3-Month Commercial Paper – 5.11%
- 3-Month Treasury – 4.72%
- 90-Day LIBOR – 5.238%
- 5-Year Treasury – 5.04%
- 10-Year Treasury – 5.12%
- 20-Year Treasury – 5.35%

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.

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Exhibit A

**TEXAS DEPARTMENT OF TRANSPORTATION  
CENTRAL TEXAS TURNPIKE SYSTEM  
SCHEDULE 1  
Public Funds Investment Act  
Quarterly Investment Activity  
For the Period Ending May 31, 2006**

Security Type	Description	Current Maturity Date	Book Value/Fair Value @ 02/28/2006*	Accretion/Purchases	Sales/Maturities	Book Value @05/31/06	Fair Value @05/31/06	Yield to Market (ST)	Yield to Maturity (LT)**	FY 06 3rd Quarter Interest
Commercial Paper (Short Term)										
	VICTORY RECEIVABLES CP	3/1/2006	33,936,708		33,870,436					70,564
	GOTHAM FDG CORP	3/1/2006	49,993,677		49,896,049					103,951
	GOTHAM FDG CORP	4/3/2006		49,889,126	49,889,126					110,874
	GREYHAWK FUNDING LLC	4/3/2006		33,876,712	33,876,712					75,288
	VICTORY RECEIVABLES CP	5/1/2006		28,663,269	28,663,269					55,731
	GOTHAM FDG CORP	5/1/2006		49,902,972	49,902,972					97,028
	PREF REC FDG	6/1/2006		16,670,270		16,670,270	16,702,788			
	CHARIOT FNDG LLC	6/1/2006		49,896,049		49,896,049	49,993,380			
Money Market Funds (Short Term)										
	JPM PRIME MMKT FD 3605 CAPITAL		101,569,864	302,995,860	315,113,610	89,452,114	89,452,114			975,857
	JPM US GOVT MMKT FD 3164 CAPITAL		206,229,690	47,929,836	35,821,262	218,338,264	218,338,264			2,251,543
	JPM US TREAS PLUS MMKT FD 3126 INVESTOR		2,393	24		2,417	2,417			24
U.S. Government Agencies (Short Term)										
	FNMA DISC NT	5/1/2006	14,999,197		14,999,197					140,803
	FHLB	3/6/2006	41,840,000		41,840,000					1,072,150
	FHLB	5/15/2006	19,708,509		19,690,000					529,169
	FNMA DISC NT	8/1/2006		14,999,116		14,999,116	15,037,544			
	FHLB	7/3/2006	21,601,249			21,601,249	21,621,586	4.450%		
	FHLMC	7/15/2006	17,035,226			17,035,226	17,003,269	5.500%		
	FHLB	8/1/2006	31,920,127			31,920,127	31,930,038	4.500%		
	FHLB	9/1/2006	38,692,509			38,692,509	38,692,510	4.530%		598,661
	FHLB	10/2/2006	42,610,170			42,610,170	42,596,509	4.550%		829,087
	FNMA	10/15/2006	19,065,330			19,065,330	19,071,259	4.390%		418,359
	FHLB	11/1/2006	32,723,179			32,723,179	32,713,013	4.590%		762,689
	FHLB	12/1/2006	26,174,400			26,174,400	26,141,600	4.600%		
	FHLB	1/2/2007	24,127,012			24,127,012	24,089,268	4.620%		
	FHLB	2/1/2007	13,646,545			13,646,545	13,616,575	4.640%		
	FHLB	2/15/2007	17,535,513			17,535,513	17,470,000	5.380%		
	FHLB	3/1/2007	15,586,198			15,625,298	15,552,103	4.640%		246,343
	FHLB	4/2/2007	14,609,570			14,646,220	14,572,920	4.650%		289,731
	FHLB	5/1/2007	19,471,706			19,526,628	19,416,785	4.660%		460,008
	FHLB	5/15/2007	20,149,722			20,351,231	19,954,272	7.470%		745,153

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Exhibit A

Security Type	Description	Current Maturity Date	- Continued - Book		Accretion/ Purchases	Sales/ Maturities	Book Value @05/31/06	Fair Value @05/31/06	Yield to Market (ST)	Yield to Maturity (LT)**	FY 06 3rd Quarter Interest
			Value/Fair Value @ 02/28/2006*								
Flexible Repurchase Agreement (Long Term)											
	SALOMON MASTER REPO	8/15/2022	114,999,378				114,999,378	114,999,378		5.200%	
U.S. Government Agencies (Long Term)											
	FHLB	6/1/2007	6,814,350				6,833,570	6,793,009		5.368%	
	FHLB	7/2/2007	10,756,152				10,789,848	10,719,000		5.365%	
	FNMA	7/15/2007	17,777,464				17,816,752	17,727,052		5.324%	
	FNMA	10/15/2007	20,821,586				20,980,043	20,624,986		5.329%	672,073
	FNMA	2/15/2008	18,608,373				18,722,885	18,442,192		5.322%	
	FNMA	5/15/2008	40,704,703				41,003,270	40,306,613		5.301%	1,194,270
	FNMA	1/15/2009	5,998,028				6,044,466	5,934,881		5.303%	
			1,059,708,528				981,829,079	979,515,325			11,699,356

\* 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

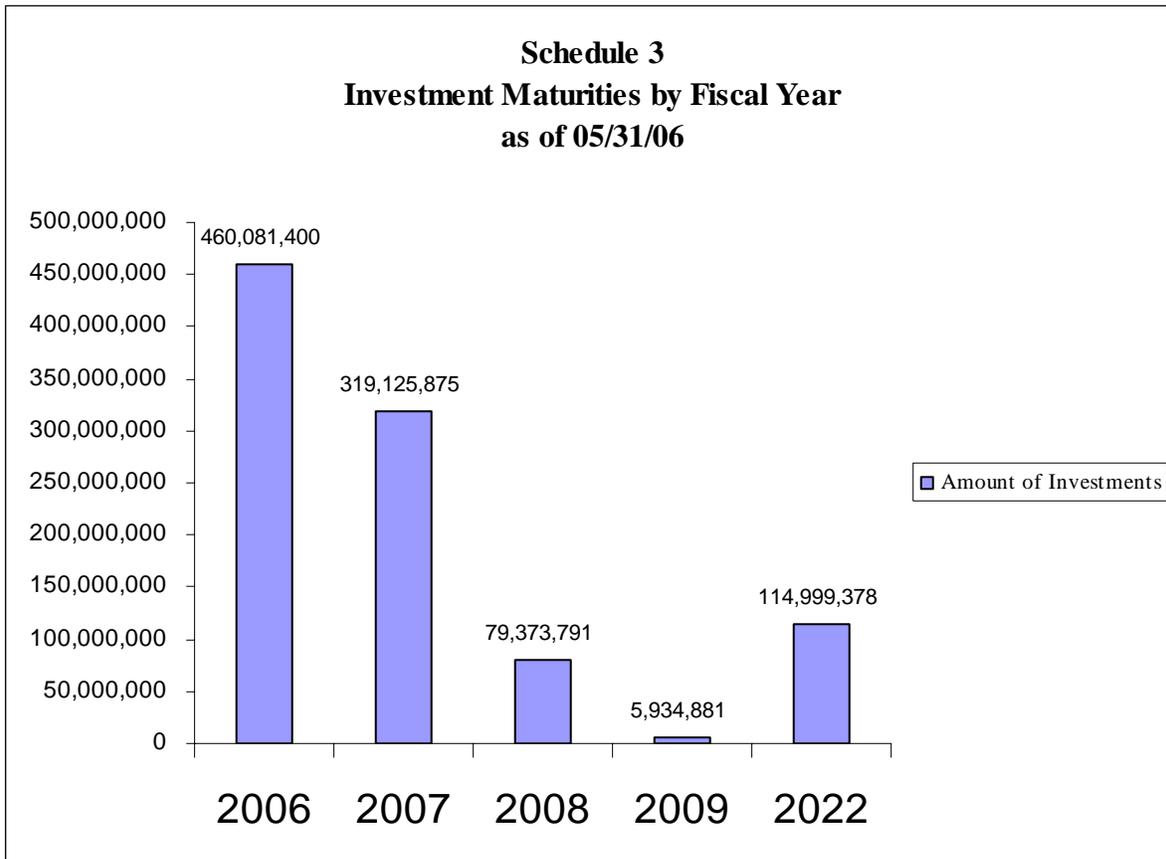
FHLMC = Federal Home Loan Mortgage Company

FNMA = Federal National Mortgage Association



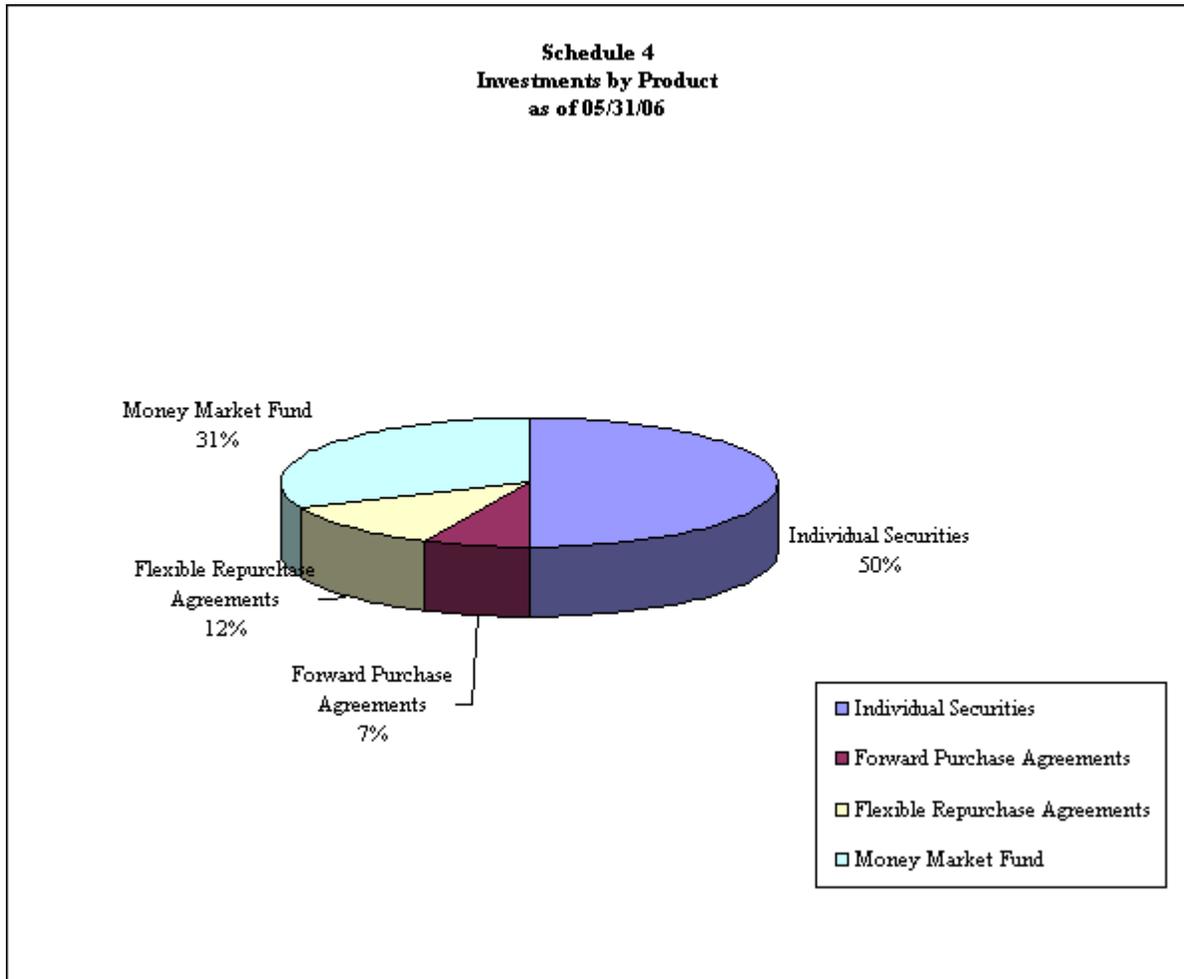
**Schedule 3**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investment Maturities by Fiscal Year**

<b>Total Investments at Fair Value - Maturity by Fiscal Year</b>		<b>5/31/2006</b>
		<b>Fair Value</b>
	2006	460,081,400
	2007	319,125,875
	2008	79,373,791
	2009	5,934,881
	2022	114,999,378
<b>TOTAL INVESTMENTS - ALL FUNDS</b>		<b>979,515,325</b>



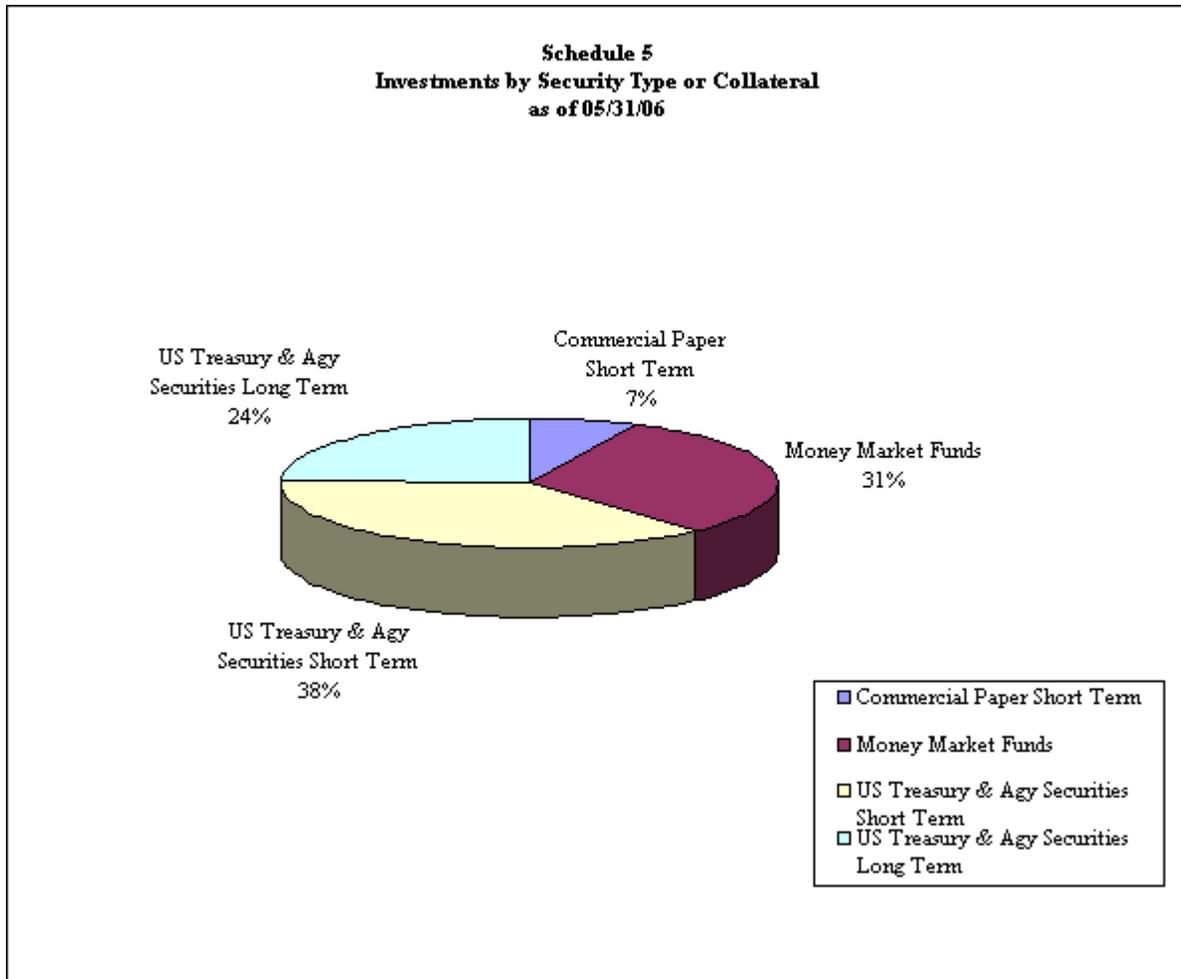
**Schedule 4**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investments by Product**

<b>Investment Product</b>	<b>5/31/2006 Fair Value</b>
Individual Securities	490,026,984
Forward Purchase Agreements	66,696,168
Flexible Repurchase Agreements	114,999,378
Money Market Fund	307,792,795
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	979,515,325



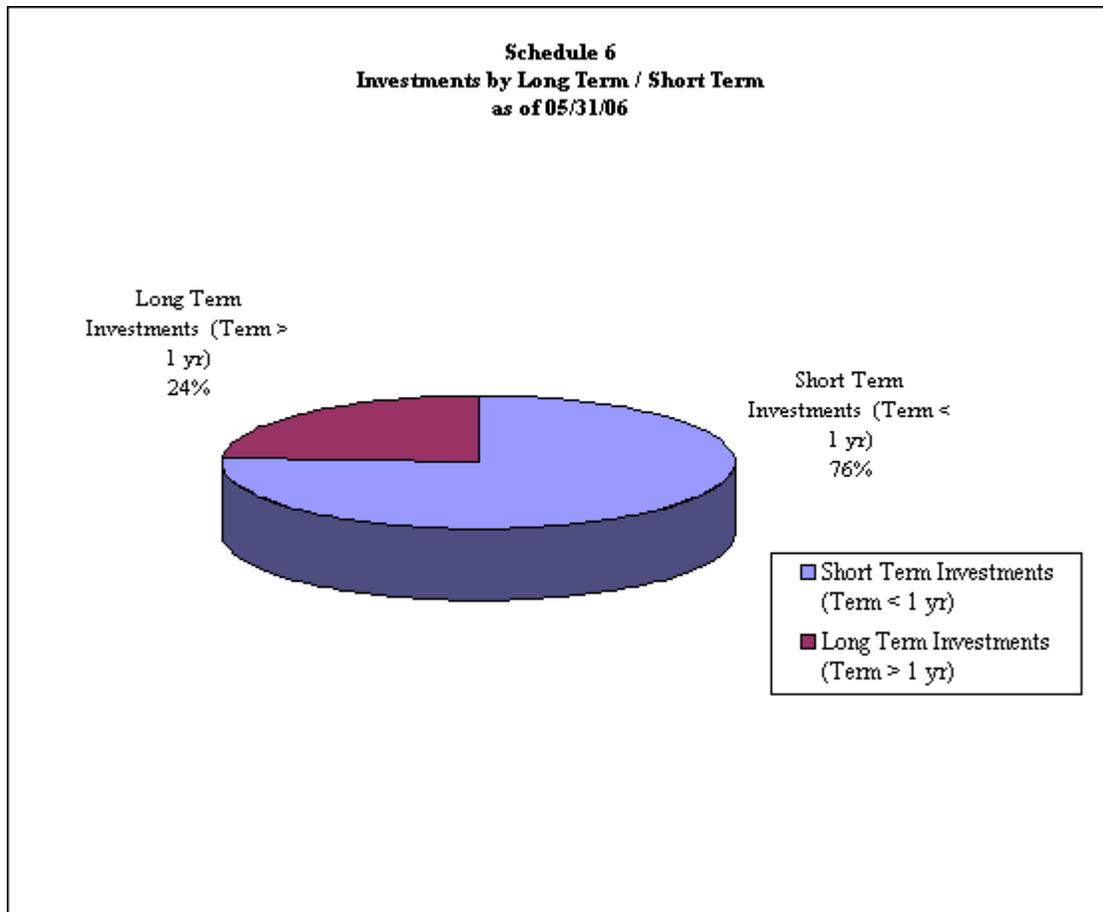
**Schedule 5**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investments by Security Type or Collateral**

<b>Security Type/Collateral</b>	<b>5/31/2006 Fair Value</b>
Commercial Paper Short Term	66,696,168
Money Market Funds	307,792,795
US Treasury & Agy Securities Short Term	369,479,251
US Treasury & Agy Securities Long Term	235,547,111
	979,515,325



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

	<b>5/31/2006</b>
<b>Maturity</b>	<b>Fair Value</b>
Short Term Investments (Term < 1 yr)	743,968,214
Long Term Investments (Term > 1 yr)	235,547,111
	<hr/> <hr/> <b>979,515,325</b>



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Exhibit A

**DRAFT: SUBJECT TO CHANGE PRIOR TO COMMISSION ACTION**

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 MAY 31, 2006**

**DRAFT: SUBJECT TO CHANGE PRIOR TO COMMISSION ACTION**

Investment activity for the period consisted of the repurchase by the Agreement Provider of securities delivered to the Trustee and the purchase and sale of money market funds. Listed below is a summary statement that presents the sale, purchase and repurchase of securities and money market funds for the period ending May 31, 2006.

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, is 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 May 31, 2006

Security Type	Description	Current Maturity Date	Fair Value @ 02/28/06	Purchases	Sales/ Maturities	Book Value @ 05/31/06	Fair Value @ 05/31/06	Yield to Maturity	FY 2006 3rd Quarter Interest Earned
Collateralized Repurchase Agreement									
	MBIA Collateralized Repurchase Agreement	8/15/2007	35,434,231		1,307,777	34,126,454	34,126,454	3.615%	
Money Market Funds (Short Term)									
	JPM US GOV'T MMKT Fd 3916		3,992	437,393		441,385	441,385		744
<b>TOTAL</b>			<b>35,438,223</b>			<b>34,567,839</b>	<b>34,567,839</b>		<b>744</b>

**DRAFT: SUBJECT TO CHANGE PRIOR TO COMMISSION ACTION**

**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 May 31, 2006:

- Discount Rate – 6.00%
- 3-Month Commercial Paper – 5.11%
- 3-Month Treasury – 4.72%
- 90-Day LIBOR – 5.238%
- 5-Year Treasury – 5.04%
- 10-Year Treasury – 5.12%
- 20-Year Treasury – 5.35%

No amendments recommended at this time.

**E. DIVERSIFICATION**

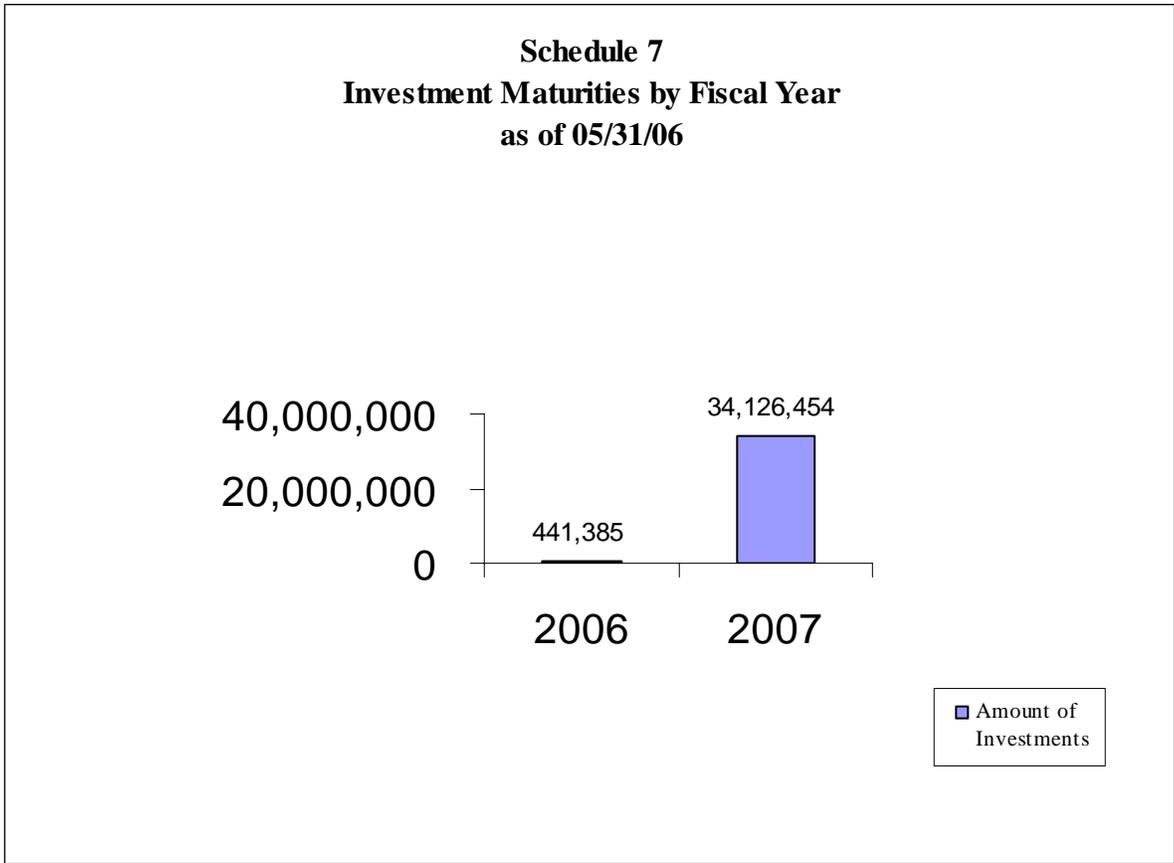
The commission's investment policy sets out certain diversification requirements in order to reduce risk. The following is a statement of compliance with such diversity requirements:

- (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.

**DRAFT: SUBJECT TO CHANGE PRIOR TO COMMISSION ACTION**

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

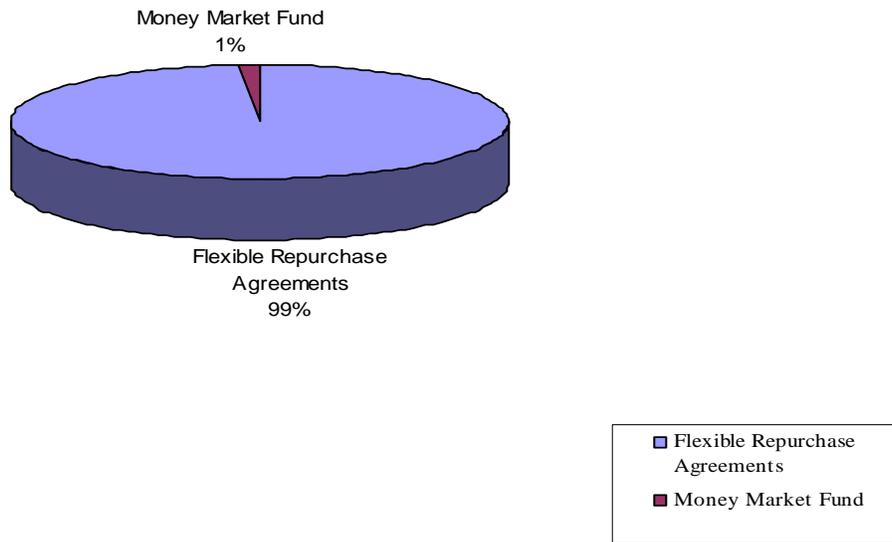
<b>Total Investments at Fair Value - Maturity by Fiscal Year</b>		<b>5/31/2006</b>
		<b>Fair Value</b>
	2006	441,385
	2007	34,126,454
<b>TOTAL INVESTMENTS - ALL FUNDS</b>		<b>34,567,839</b>



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

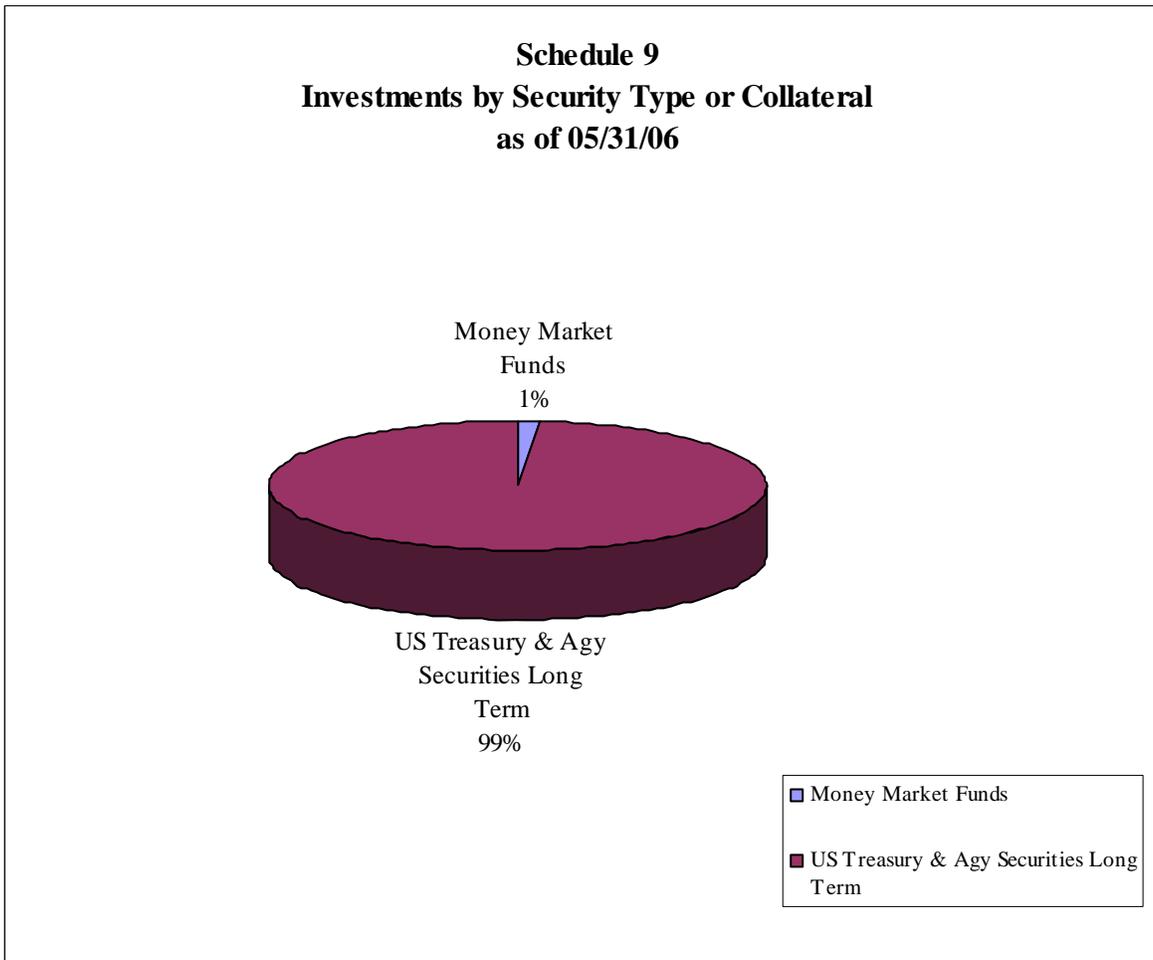
<b>Investment Product</b>	<b>5/31/2006 Fair Value</b>
Flexible Repurchase Agreements	34,126,454
Money Market Fund	441,385
	<hr/>
	<b>34,567,839</b>

**Schedule 8**  
**Investments by Product**  
**as of 05/31/06**



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

	<b>5/31/2006</b>
<b>Security Type/Collateral</b>	<b>Fair Value</b>
Money Market Funds	441,385
US Treasury & Agy Securities Long Term	34,126,454
	<hr/> <hr/> <u>34,567,839</u>



**Schedule 10**

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

		<b>5/31/2006</b>
<b>Maturity</b>		<b>Fair Value</b>
Short Term Investments	(Term < 1 yr)	441,385
Long Term Investments	(Term > 1 yr)	34,126,454
		<hr/> <u>34,567,839</u>

