TEXAS DEPARTMENT OF TRANSPORTATION
Annual Issuer Report
For the Period Ending August 31, 2009

I. DEBT MANAGEMENT / DERIVATIVE POLICIES

See Attachment A

II. AUTHORIZED DEBT

Central Texas Turnpike System Series 2002 Obligations

Pursuant to the Turnpike Act and other applicable laws, including Chapter 222, Texas Transportation Code and Chapter 1371, Texas Government Code, the Commission is authorized to issue turnpike revenue bonds and issued the 2002 Obligations to finance a portion of the cost of and maintenance of the Central Texas Turnpike System.

Further, pursuant to the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA), the USDOT has agreed to lend the Commission up to $916,760,000 to pay or reimburse a portion of the costs of the 2002 Central Texas Turnpike System under the Secured Loan Agreement between the Commission and the USDOT. To evidence the Commission's obligations under a Secured Loan Agreement, the Commission executed the 2002 TIFIA Bond as a Subordinate Lien Obligation. The Commission drew down on the TIFIA loan to retire $124,930,000 of maturing BANs on June 1, 2007. A second draw of $775,070,000 was made on the TIFIA facility to retire the remaining 2002 BANs on June 1, 2008.

	Par Amount Issued	Accreted Interest	Replacement Principal Issued / (Principal Retired)	Total
Series 2002-A First Tier Revenue Bonds				
Non-Callable Capital Appreciation Bonds	$287,459,891	$132,458,002		$419,917,892
Callable Capital Appreciation Bonds	154,658,891	80,525,196		235,184,087
Current Interest Bonds	707,875,000			707,875,000
Series 2002-B First Tier Revenue Bonds				
Weekly Rate Demand Bonds	150,000,000		(150,000,000)	-
Series 2009 Refunding Put Bonds			149,275,000	149,275,000
Series 2002 Second Tier Bond Anticipation Notes	900,000,000		(900,000,000)	-
2002 TIFIA Loan		73,160,424	900,000,000	973,160,424
	$2,199,993,782	$286,143,621	($725,000)	$2,485,412,403

II. AUTHORIZED DEBT (continued)

State Highway Fund Revenue Financing Program

Transportation Code, Chapter 222, Subchapter A authorized TxDOT to issue State Highway Fund Revenue Bonds. The aggregate principal amount of the bonds and other public securities that are issued may not exceed $6 billion. The Commission may only issue bonds or other public securities in an aggregate principal amount of not more than $1.5 billion each fiscal year. Total amount authorized but unissued is $2,900,671,184.

Series	Par Amount Issued	Adjusted Premium*	Total Bonds Issued		
Series 2006	$600,000,000	$27,330,976	$627,330,976		
Series 2006-A	852,550,000	47,447,840	899,997,840		
Series 2006-B	100,000,000	-	100,000,000		
Series 2007	1,241,845,000	58,155,000	1,300,000,000	Authorized Amount	Unissued Amount
Series 2008	162,995,000	9,005,000	172,000,000		
Total State Highway Fund Bonds	$2,957,390,000	$141,938,816	$3,099,328,816	$6,000,000,000	$2,900,671,184

*Adjusted Premium consists of Premium less Underwriters' Discount less Cost of Issuance.

Texas Mobility Fund Revenue Financing Program

Transportation Code, Chapter 201, Subchapter M states that obligations for certain highway and mobility projects requires a Comptroller revenue certification that funds are sufficient to meet 110% of debt service requirements. The Master Resolution, which can be amended without bondholder consent, limits issuance to $6.4 billion outstanding at any time. Total amount authorized but unissued is $83,790,631.

Series	Par Amount Issued	Premium*	Total Bonds Issued		
Series 2005-A	$900,000,000		$900,000,000		
Series 2005-B	100,000,000		100,000,000		
Series 2006	750,000,000		750,000,000		
Series 2006-A	1,040,275,000		1,040,275,000		
Series 2006-B	150,000,000		150,000,000		
Series 2007	1,006,330,000		1,006,330,000	Authorized Amount	Unissued Amount
Series 2008	1,100,000,000	61,109,369	1,161,109,369		
Series 2009-A	1,208,495,000	-	1,208,495,000		
Total Texas Mobility Fund Bonds	$6,255,100,000	$61,109,369	$6,316,209,369	$6,400,000,000	$83,790,631

*Premium - Premium was not part of the "Total Bonds Issued" calculation until Series 2008.

Proposition 12 State General Obligation Bonds

On November 6, 2007, voters in the State approved Article III, Section 49-p as an amendment to the State's constitution that authorizes the legislature to enact legislation to authorize the Commission to issue State general obligation bonds in an amount not to exceed $5 billion to provide funding for highway improvement projects. House Bill 1 approved by the 1st Called Special Session of the 81st Texas Legislature authorizes the Commission to issue such general obligation bonds. Senate Bill 1, 81st Regular Session as amended by House Bill 1, 1st Called Special of 81st Session, has authorized the Commission to expend up to $2 billion in G.O. bonds during the 2010-2011 biennium after August 31, 2010.

III. OUTSTANDING DEBT

1) SUMMARY OF OUTSTANDING DEBT:

Central Texas Turnpike System Revenue Bonds	Par Amount Issued	Refunding or Replacement Principal	Accreted Interest	Principal Retired	Total Debt Outstanding
First Tier Revenue Bonds Series 2002-A					
Series A Non-Callable CABs	$287,459,891		$131,525,288		$418,985,179
Series A Callable CABs	154,658,891		79,948,629		234,607,520
Series A Current Interest Bonds	707,875,000				707,875,000
First Tier Revenue Bonds Series 2002-B	150,000,000			(150,000,000)	0
Second Tier BANs Series 2002 (retired by TIFIA loan)	900,000,000			(900,000,000)	0
Series 2009 Refunding Put Bonds		149,275,000			149,275,000
TIFIA Loan*		900,000,000	73,160,424		973,160,424
TOTAL CTTS Revenue Bonds	$2,199,993,782	$1,049,275,000	$284,634,341	($1,050,000,000)	**$2,483,903,123**
*TIFIA Loan accreted interest as of 8/15/2009					
State Highway Fund Revenue Bonds					
Series 2006 Fixed Rate Bonds	$600,000,000			($59,940,000)	$540,060,000
Series 2006-A Fixed Rate Bonds	852,550,000			(64,670,000)	787,880,000
Series 2006-B Variable Rate Bonds	100,000,000				100,000,000
Series 2007 Fixed Rate Bonds	1,241,845,000			(41,025,000)	1,200,820,000
Series 2008 Fixed Rate Bonds	162,995,000				162,995,000
TOTAL SHF Revenue Bonds	$2,957,390,000			($165,635,000)	**$2,791,755,000**
Texas Mobility Fund General Obligation Bonds					
Series 2005-A Fixed Rate Bonds	$900,000,000			($65,480,000)	$834,520,000
Series 2005-B Variable Rate Bonds	100,000,000			(11,615,000)	88,385,000
Series 2006 Fixed Rate Bonds	750,000,000			(43,485,000)	706,515,000
Series 2006-A Fixed Rate Bonds	1,040,275,000			(570,000)	1,039,705,000
Series 2006-B Variable Rate Bonds	150,000,000				150,000,000
Series 2007 Fixed Rate Bonds	1,006,330,000			(1,395,000)	1,004,935,000
Series 2008 Fixed Rate Bonds	1,100,000,000			(500,000)	1,099,500,000
Series 2009-A Fixed Rate Taxable Bonds	1,208,495,000				1,208,495,000
TOTAL TMF General Obligation Bonds	$6,255,100,000			($123,045,000)	**$6,132,055,000**

State Highway Fund Commercial Paper Notes	Principal Outstanding as of 8/31/08	Principal Issued		Principal Retired	Principal Outstanding as of 8/31/09
Notes Series A	190,750,000	445,000,000		(335,750,000)	300,000,000
TOTAL SHF Commercial Paper Notes	$190,750,000	$445,000,000		($335,750,000)	**$300,000,000**
TOTAL DEBT OUTSTANDING as of 8/31/09	$11,603,233,782	$1,494,275,000	$284,634,341	($1,674,430,000)	**$11,707,713,123**

III. OUTSTANDING DEBT (continued)

2) ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS:

Central Texas Turnpike System Revenue Bonds

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	2040-2042	Total DS Requirements
Series 2002-A												
Principal $	0	0	2,900,319	4,688,374	5,818,917	64,184,991	87,771,873	112,604,734	102,902,542	342,372,033	426,750,000	**1,149,993,783**
Interest	37,161,838	37,161,838	38,766,519	40,183,464	41,497,921	260,539,196	363,017,314	541,199,454	690,746,646	591,812,655	39,672,388	**2,681,759,233**
Series 2009												
Principal	0	0	0	0	0	0	0	0	0	0	149,275,000	**149,275,000**
Interest*	7,463,750	7,463,750	7,463,750	7,463,750	7,463,750	37,318,750	37,318,750	37,318,750	37,318,750	37,318,750	22,391,250	**246,303,750**
TIFIA Loan												
Principal	0	0	0	0	0	0	0	75,443,228	210,921,435	451,260,349	526,327,936	**1,263,952,948**
Interest	18,836,749	30,671,121	32,310,794	34,357,977	35,708,249	227,711,718	302,819,902	343,190,592	307,381,940	228,688,482	61,150,232	**1,622,827,756**
Program Total												
Principal $	0	0	2,900,319	4,688,374	5,818,917	64,184,991	87,771,873	188,047,962	313,823,977	793,632,382	1,102,352,936	**2,563,221,731**
Interest	63,462,337	75,296,709	78,541,063	82,005,191	84,669,920	525,569,664	703,155,966	921,708,796	1,035,447,336	857,819,887	123,213,870	**4,550,890,739**
Total	63,462,337	75,296,709	81,441,382	86,693,565	90,488,837	589,754,655	790,927,839	1,109,756,758	1,349,271,313	1,651,452,269	1,225,566,806	**7,114,112,470**

State Highway Fund Revenue Bonds

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	2040-2042	Total DS Requirements
Series 2006												
Principal $	20,995,000	22,030,000	23,105,000	24,240,000	25,435,000	147,300,000	187,955,000	89,000,000	0	0	0	**540,060,000**
Interest	26,870,850	25,835,100	24,760,100	23,623,850	22,429,850	92,018,600	51,359,500	6,729,250	0	0	0	**273,627,100**
Series 2006-A												
Principal	34,680,000	36,415,000	38,155,000	40,075,000	42,070,000	242,475,000	308,640,000	45,370,000	0	0	0	**787,880,000**
Interest	38,521,425	36,787,425	35,041,675	33,133,925	31,130,175	123,531,250	57,356,625	2,081,000	0	0	0	**357,583,500**
Series 2006-B												
Principal	0	0	0	0	0	0	0	100,000,000	0	0	0	**100,000,000**
Interest*	200,000	200,000	200,000	200,000	200,000	1,000,000	1,000,091	281,549	0	0	0	**3,281,640**
Series 2007												
Principal	43,020,000	45,090,000	47,295,000	49,585,000	51,960,000	300,840,000	383,665,000	279,365,000	0	0	0	**1,200,820,000**
Interest	59,565,375	57,494,375	55,289,875	53,000,125	50,625,875	212,087,500	129,260,750	28,390,750	0	0	0	**645,714,625**
Series 2008												
Principal	5,405,000	5,675,000	5,955,000	6,255,000	6,530,000	37,555,000	47,775,000	47,845,000	0	0	0	**162,995,000**
Interest	8,170,150	7,899,900	7,616,150	7,318,400	7,042,625	30,301,200	20,089,938	6,440,175	0	0	0	**94,878,538**
Program Total												
Principal $	104,100,000	109,210,000	114,510,000	120,155,000	125,995,000	728,170,000	928,035,000	561,580,000	0	0	0	**2,791,755,000**
Interest	133,327,800	128,216,800	122,907,800	117,276,300	111,428,525	458,938,550	259,066,904	43,922,724	0	0	0	**1,375,085,403**
Total	237,427,800	237,426,800	237,417,800	237,431,300	237,423,525	1,187,108,550	1,187,101,904	605,502,724	0	0	0	**4,166,840,403**

***Interest rate in effect at 8/31/09. For SHF Series 2006-B 0.20%, TMF Series 2005-B 2.75%, Series 2006-B 0.26%.**

III. OUTSTANDING DEBT (continued)

2) ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS:

Texas Mobility Fund General Obligation Bonds

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	2040-2042	**Net DS Requirements**
Series 2005-A												
Principal $	16,185,000	16,995,000	17,845,000	18,735,000	19,670,000	113,385,000	140,415,000	178,935,000	253,005,000	59,350,000	0	**834,520,000**
Interest	40,084,953	39,275,703	38,425,953	37,533,703	36,596,953	167,959,913	140,928,128	102,413,188	51,935,800	2,819,125	0	**657,973,419**
Series 2005-B												
Principal	2,985,000	3,085,000	3,185,000	3,290,000	3,400,000	18,750,000	22,050,000	25,930,000	5,710,000	0	0	**88,385,000**
Interest*	2,403,150	2,320,143	2,237,059	2,143,342	2,054,348	8,790,796	6,007,631	2,731,651	104,540	0	0	**28,792,660**
Series 2006												
Principal	13,485,000	14,115,000	14,785,000	15,485,000	16,225,000	93,440,000	119,165,000	151,675,000	193,455,000	74,685,000	0	**706,515,000**
Interest	34,858,700	34,229,050	33,557,113	32,859,913	32,115,563	148,278,563	122,552,813	90,044,413	48,257,500	5,084,250	0	**581,837,878**
Series 2006-A												
Principal	1,325,000	2,275,000	3,215,000	4,185,000	5,115,000	50,690,000	147,310,000	282,075,000	457,315,000	86,200,000	0	**1,039,705,000**
Interest	49,779,500	49,726,500	49,635,500	49,506,900	49,339,500	242,358,700	221,265,500	172,724,375	88,933,875	3,879,000	0	**977,149,350**
Series 2006-B												
Principal	0	0	0	0	0	0	0	0	0	150,000,000	0	**150,000,000**
Interest*	390,000	390,000	390,000	390,000	390,000	1,950,000	1,950,000	1,950,000	1,950,000	598,705	0	**10,348,705**
Series 2007												
Principal	250,000	250,000	250,000	250,000	2,350,000	50,600,000	97,790,000	153,645,000	224,235,000	475,315,000	0	**1,004,935,000**
Interest	48,769,263	48,759,263	48,749,263	48,739,263	48,729,263	239,670,513	222,392,563	193,335,400	151,480,925	57,916,250	0	**1,108,541,966**
Series 2008												
Principal	500,000	2,925,000	7,490,000	11,245,000	13,625,000	98,670,000	152,835,000	223,350,000	312,335,000	276,525,000	0	**1,099,500,000**
Interest	53,318,200	53,298,200	53,166,575	52,792,075	52,229,825	248,905,875	219,021,875	174,131,125	111,352,425	28,469,600	0	**1,046,685,775**
Series 2009-A												
Principal	0	0	0	0	0	0	11,270,000	48,730,000	103,090,000	1,045,405,000	0	**1,208,495,000**
Interest	39,764,650	66,582,669	66,582,669	66,582,669	66,582,669	332,913,345	332,289,968	325,633,815	306,894,434	247,329,316	0	**1,851,156,204**
Federal Subsidy	(13,917,627)	(23,303,934)	(23,303,934)	(23,303,934)	(23,303,934)	(116,519,671)	(116,301,489)	(113,971,835)	(107,413,052)	(86,565,261)	0	**(647,904,672)**
Program Total												
Principal $	34,730,000	39,645,000	46,770,000	53,190,000	60,385,000	425,535,000	690,835,000	1,064,340,000	1,549,145,000	2,167,480,000	0	**6,132,055,000**
Interest	269,368,416	294,581,528	292,744,132	290,547,865	288,038,121	1,390,827,705	1,266,408,478	1,062,963,967	760,909,499	346,096,246	0	**6,262,485,957**
Federal Subsidy	(13,917,627)	(23,303,934)	(23,303,934)	(23,303,934)	(23,303,934)	(116,519,671)	(116,301,489)	(113,971,835)	(107,413,052)	(86,565,261)	0	**(647,904,672)**
Net DS	290,180,788	310,922,594	316,210,198	320,433,931	325,119,187	1,699,843,034	1,840,941,989	2,013,332,132	2,202,641,447	2,427,010,985	0	**11,746,636,285**

*Interest rate in effect at 8/31/09. For SHF Series 2006-B 0.20%, TMF Series 2005-B 2.75%, Series 2006-B 0.26%.

3) VARIABLE RATE DEBT AND BANK BONDS:

Texas Mobility Fund Series 2005-B variable rate bonds experienced higher market rates due to the deteriorating credit quality of the remarketing agent, Depfa Bank. Consequently, some of the bonds became bank bonds in the first half of fiscal year 2009. However, all bonds are currently being successfully remarketed.

Due to continual ratings downgrades of both the bond insurer and liquidity provider, the CTTS Series 2002-B bonds were subject to various interest rate fluctuations, some became bank bonds, and were subject to an accelerated amortization schedule requiring an early principal payment of $2.525 million. On February 26, 2009, $149.275 million of the Series 2002-B bonds were refunded into a put bond structure (Series 2009) accruing interest at 5% per year and with a mandatory tender date of Feb 15, 2011.

III. OUTSTANDING DEBT (continued)

4) ACTUAL DEBT SERVICE PAID IN FY 09:

Central Texas Turnpike System Bonds	Principal Paid	Interest Paid	Total Debt Service Paid
Series 2002-A		37,161,838	37,161,838
Series 2002-B	2,525,000	2,581,298	5,106,298
Series 2009		3,317,222	3,317,222
TOTAL CTTS Revenue Bonds	$2,525,000	$43,060,358	$45,585,358
State Highway Fund Bonds - Fund 0006			
Series 2006 Fixed Rate Bonds	20,025,000	27,841,350	47,866,350
Series 2006-A Fixed Rate Bonds	33,105,000	40,101,675	73,206,675
Series 2006-B Variable Rate Bonds		1,021,809	1,021,809
Series 2007 Fixed Rate Bonds	41,025,000	61,561,625	102,586,625
Series 2008 Fixed Rate Bonds	0	5,038,259	5,038,259
TOTAL SHF Revenue Bonds	$94,155,000	$135,564,718	$229,719,718
Texas Mobility Fund Bonds - Fund 0365			
Series 2005-A Fixed Rate Bonds	15,415,000	40,855,703	56,270,703
Series 2005-B Variable Rate Bonds	2,890,000	3,962,457	6,852,457
Series 2006 Fixed Rate Bonds	12,860,000	35,482,850	48,342,850
Series 2006-A Fixed Rate Bonds	375,000	49,794,500	50,169,500
Series 2006-B Variable Rate Bonds	0	1,468,191	1,468,191
Series 2007 Fixed Rate Bonds	250,000	48,779,263	49,029,263
Series 2008 Fixed Rate Bonds	500,000	53,338,200	53,838,200
Series 2009-A Taxable Fixed Rate Bonds	0	0	0
TOTAL TMF General Obligation Bonds	$32,290,000	$233,681,163	$265,971,163
State Highway Fund Commercial Paper		Interest Paid	Total Interest Paid
Notes Series A		$3,075,402	$3,075,402
TOTAL DEBT SERVICE PAID for FY 09	$128,970,000	$415,381,223	$544,351,223

5) FY 2009 CHANGES IN DEBT RETIREMENT SCHEDULES:

In February 2009, the Central Texas Turnpike System First Tier Revenue Bonds, Series 2002-B (weekly rate demand bonds) were refunded with the CTTS First Tier Revenue Refunding Put Bonds, Series 2009. The interest rate on the variable rate Series 2002-B bonds reset weekly and interest was paid monthly. Interest on the refunding put bonds accrues at a fixed percent (5%) and is payable on February 15 and August 15 of each year beginning August 15, 2009 until he last date of the initial multiannual period (February 14, 2011). The bonds are subject to mandatory tender on February 15, 2011 and if not successfully remarketed will accrue interest at the stepped-up rate of 15%.

6) FY 2009 GENERAL REVENUE APPROPRIATED DEBT SERVICE:

No general revenue funds were appropriated for debt service for fiscal year 2009.

IV. TUITION REVENUE DEBT

NOT APPLICABLE

V. COMMERCIAL PAPER PROGRAM

1) The aggregate principal amount authorized to issue and have outstanding: $500,000,000
2) The aggregate principal amount of Commercial Paper issued in FY 2009: $445,000,000
3) The aggregate principal amount of Commercial Paper retired in FY 2009: $335,750,000
4) Commercial Paper Outstanding on 8/31/2009:

State Highway Fund Revenue Commercial Paper Notes, Series A

Maturity Date	Principal Amount	Interest Rate	Days Outstanding	Accrued Interest
9/17/09	30,000,000	0.45%	28	10,356
9/18/09	10,000,000	0.30%	29	2,384
9/21/09	10,000,000	0.40%	32	3,507
9/22/09	35,000,000	0.40%	32	12,274
9/23/09	48,000,000	0.40%	33	17,359
10/1/09	4,200,000	0.35%	41	1,651
11/10/09	20,800,000	0.40%	78	17,780
11/10/09	10,000,000	0.40%	75	8,219
11/12/09	55,000,000	0.40%	84	50,630
11/12/09	10,000,000	0.40%	76	8,329
11/17/09	67,000,000	0.50%	88	80,767
Total	$300,000,000			$213,256

5) List of projects for which commercial paper was issued during FY 2009: Commercial paper was issued for short term cash management purposes.

VI. DERIVATIVES

Associated Issue Name: Texas Mobility Fund General Obligation Bonds Series 2006-A
Effective Date: 9/1/2007
Termination Date: 9/1/2027
Original Notional Amount: $400,000,000
Current Notional Amount: $400,000,000
Terms of the Agreement
TxDOT Pays Variable Rate: SIFMA
Counterparties Pay Variable Rate: 69.42% of the 10-year LIBOR

Counterparties and Ratings

	Percent of Notional	Fitch Ratings	Standard & Poor's	Moody's
JPMorgan Chase Bank	50%	AA-	AA-	Aa3
Goldman Sachs Mitsui Marine	25%	NR	AAA	Aa1
Morgan Stanley Capital Services	25%	A	A+	A2

1) Counterparty downgrades: Yes, but no required collateral posts.
2) Termination events or events of default: None
3) TxDOT required collateral posts: None required; the swap agreements contain no provision for a collateral post by TxDOT.
4) Difference between SIFMA and 69.42% of 10-yr LIBOR: +218 bps as of 8/31/09
5) Reserve balance available for negative carry as of 8/31/09: $353,984,225
Reserve fund balance on 9/1/08:

VII. LIQUIDITY

CURRENT LIQUIDITY AGREEMENTS:

State Highway Fund Revenue Bonds

Standby Bond Purchase Agreement for the Series 2006-B $100,000,000 Variable Rate Bonds

Provider:	Banco Bilbao Vizcaya Argentaria	Expiration Date:	November 7, 2016
Contact Information:	1345 Avenue of the Americas, 45th Floor	Commitment Fee:	8.75 bps per yr
	New York, NY 10105	Commitment Amount:	$101,150,685
	Phone: (212) 728-2396		

Texas Mobility Fund General Obligation Bonds

Standby Bond Purchase Agreement for the Series 2005-B $100,000,000 Variable Rate Bonds

Provider:	DEPFA BANK PLC,	Expiration Date:	April 8, 2012
Contact Information:	623 Fifth Avenue	Commitment Fee:	8 bps per yr
	New York, New York 10022	Initial Commitment:	$101,150,685
	Phone: (212) 286-2000	Current Commitment:	$89,402,033

Standby Bond Purchase Agreement for the Series 2006-B $150,000,000 Variable Rate Bonds

Provider:	State Street Bank and Trust & CalPERS	Expiration Date:	December 13, 2013
Contact Information:	One Lincoln Street	Commitment Fee:	10 bps per yr
	Boston, MA 02111-2900	Commitment Amount:	$76,150,685
	Phone: (617) 664-4190		
Provider:	CalPERS	Expiration Date:	December 13, 2013
Contact Information:	Lincoln Plaza North, 400 Q Street	Commitment Fee:	10 bps per yr
	Sacramento, CA 95814	Commitment Amount:	$76,150,685
	Phone: (916) 795-3261		

State Highway Fund Revenue Commercial Paper Notes

Revolving Credit Agreement

Provider:	Bank of America, N.A.	Expiration Date:	August 19, 2011
Contact Information:	901 Main Street	Facility Fee:	99 bps per yr
	Dallas, TX 75202	Agent Fee:	$37,500 per yr
	Phone: 214-209-9289	Commitment Amount:	$207,397,261
Provider:	State Street Bank and Trust Company	Expiration Date:	August 19, 2011
Contact Information:	One Lincoln Street, SFC 14	Facility Fee:	99 bps per yr
	Boston, MA 02111-2900	Commitment Amount:	$155,547,945
	Phone: 617-664-1064		
Provider:	JP Morgan Chase Bank, N.A.	Expiration Date:	August 19, 2011
Contact Information:	270 Park Avenue, 6th Floor	Facility Fee:	99 bps per yr
	New York, NY 10017-2014	Commitment Amount:	$155,547,945
	Phone: 212-270-4186		

BONDS WITH INSURANCE COVERAGE:

--CTTS First Tier Revenue Bonds Series 2002-A are insured by Ambac.

--$332.68 million of the TMF General Obligation Bonds Series 2006-A are insured by Financial Guaranty Insurance Company. This does not represent the entire series.

VIII. EXPECTED ISSUANCES IN FY 2010 AND FY 2011

Program	Type of Issue	Purpose	Estimated Par Amount	BRB Approval Month	Expected Month of Sale
State Highway Fund Revenue Bonds	New Money Issue	Eligible highway project costs	$1,500,000,000	May 2010*	July 2010
Proposition 12 General Obligation Transportation Bonds	New Money Issue	Eligible highway project costs	$400,000,000	March 2010	April 2010
State Highway Fund Revenue Bonds	New Money Issue	Eligible highway project costs	$1,400,000,000	May 2011*	July 2011
Proposition 12 General Obligation Transportation Bonds	New Money Issue	Eligible highway project costs	$1,600,000,000	July 2011	August 2011

*Self-supporting revenue bonds that qualify as exempt issuance subject to the Bond Review Board formal approval process.

IX. REQUEST FOR PROPOSALS

X. PROGRAM SUMMARIES

See attachment B

XI. LEGISLATION

NOT APPLICABLE

Table 19 - **TEXAS INTEREST RATE SWAPS**

As of August 31, 2009 (Unaudited)

(amounts in thousands)

PAY-VARIABLE, RECEIVE-VARIABLE (Basis Swap) Bond Issue	**Original Notional Amount**	**8/31/2009 Notional Amount**	**Effective Date**	**Swap Termination Date**	**Variable-Rate Paid**	**Variable-Rate Received**		**Counterparty Credit Ratings**	**8/31/2009 MTM Value**
GO Mobility Ser 2006A--JP Morgan	200,000	200,000	09/01/2007	09/01/2027	SIFMA	69.42% of 10 yr LIBOR	JPM	Aa3/AA-/AA-	3,376
GO Mobility Ser 2006A--Goldman Sachs MMDP	100,000	100,000	09/01/2007	09/01/2027	SIFMA	69.42% of 10 yr LIBOR	Go	Aa1/AAA	1,688
GO Mobility Ser 2006A--Morgan Stanley	100,000	100,000	09/01/2007	09/01/2027	SIFMA	69.42% of 10 yr LIBOR	Mo	A2/A+/A	1,688
Pay-Variable, Receive-Variable Total	**$400,000**	**$400,000**							**$6,752**

Sources: Texas Transportation Commission.

Table 21

ESTIMATED DEBT-SERVICE REQUIREMENTS OF FIXED-RATE DEBT OUTSTANDING AND NET INTEREST RATE SWAP PAYMENTS

[PAY-VARIABLE, RECEIVE-VARIABLE (BASIS) SWAPS ONLY]

As of August 31, 2009

(amounts in thousands)

UNAUDITED

Texas Transportation Commission

Fiscal Year	Fixed-Rate Bonds		Interest Rate	
Ending 8/31/09	Principal	Interest	Swaps, Net (1)	Total
2010	1,325	49,780	-5,060	45,997
2011	2,275	49,727	-5,060	46,894
2012	3,215	49,635	-5,060	47,743
2013	4,185	49,507	-5,060	47,743
2014	5,115	49,340	-5,060	47,743
2015-2019	50,690	242,359	-25,300	251,144
2020-2024	147,310	221,266	-25,300	310,085
2025-2029	282,075	172,724	-15,180	394,107
2030-2034	457,315	88,934	0	508,600
2035-2039	86,200	3,879	0	319,915
Total Debt Service and Net Interest Rate Swap Payments	**1,039,705**	**977,151**	**-91,080**	**2,019,971**

(1) Swap payments projected using the historical average annual spread differential, which is assumed to be 1.265%, between SIFMA and 69.42% of 10-Year USD-ISDA-Swap Rate (10 yr LIBOR) since 1985.

Source: Texas Department of Transportation

TEXAS TRANSPORTATION COMMISSION

Debt Management Policy

August 27, 2009

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1. Policy Objectives and Philosophy

The purpose of this Debt Management Policy ("Policy") is to ensure that all Financing Programs (as defined herein) undertaken by the Texas Transportation Commission ("TTC" or "Commission") and/or the Texas Department of Transportation ("TxDOT" or "Department") are completed in the most efficient manner and in accordance with the highest standards of industry, law and government practice. This Policy confirms the intent of the Department and the Commission to adhere to sound financial management practices including full and timely payment of all borrowings, and achieving the lowest cost of capital within prudent risk parameters.

The Commission intends to use its Financing Programs efficiently to maximize the delivery of transportation and mobility projects throughout the State within acceptable levels of risk, balancing obtaining the best possible credit ratings, minimizing interest costs and optimizing future flexibility. Due to the wide variety of projects and available Financing Programs, this policy sets parameters within which flexibility is retained to respond to specific or unplanned circumstances.

2. Scope and Authority

This Policy shall govern the management of all Financing Programs of the Commission or TxDOT. This Policy pertains to all new money obligations and refunding obligations and has been reviewed and approved by the Commission as of the date specified on the cover of this document. The Commission will review this Policy annually and will approve changes to the Policy when they conclude that doing so advances TxDOT's fiscal management goals and objectives and is fiscally prudent based upon recommendations from the Chief Financial Officer ("CFO") or his designee. Such amendments shall be evidenced in writing with copies delivered to the rating agencies.

Management responsibility for this Policy is hereby delegated to the CFO. The CFO shall have responsibility and authority as provided by the Commission for structuring, implementing, and managing all Financing Programs, and for ensuring compliance with this Policy.

3. Currently Authorized Financing Programs

The Commission has authority to issue bonds, notes and other obligations for several Financing Programs as briefly described below:

a. **Texas Mobility Fund Bonds (TMF):** Authorized by Article III, Section 49-k of the Texas Constitution and Subchapter M of Chapter 201, Texas Transportation Code, TMF bonds are secured by revenues deposited into the Texas Mobility Fund and, at the option of the Commission, the full faith and credit of the State of Texas. The proceeds of bonds may be used to fund state highway improvement projects, publicly owned toll roads, and other public transportation projects and to establish a loan program for qualified mobility projects. TMF bonds may have a

maturity of no longer than 30 years and bonding capacity is constrained by statutory debt service coverage requirements as certified by the Comptroller.

b. **State Highway Fund Revenue Bonds (SHF):** Authorized by Article III, Section 49-n of the Texas Constitution and Section 222.003, Texas Transportation Code. SHF obligations are secured by a pledge of and are payable from revenues deposited to the State Highway Fund. Under current statutory authority, proceeds may be used for state highway improvement projects; however $1.2 billion must be used for safety projects. State Highway Fund Revenue Bonds may have a maximum maturity of 20 years and up to $6 billion aggregate principal amount may be issued pursuant to current statutory authority.

c. **Short-Term Obligations:** As authorized by Article III, Section 49-m of the Texas Constitution and Section 201.115, Texas Transportation Code the Commission and the Department may issue notes or borrow money from any source to carry out the functions of the Department. Such obligations are payable only from funds appropriated by the State legislature, including State Highway Funds if appropriated for that purpose, and must mature within two years of issuance. The amount of a loan may not exceed an amount which is two times the average monthly revenue deposited to the State Highway Fund for the twelve months preceding the month of the loan.

d. **Highway Tax and Revenue Anticipation Notes (HTRANs):** Article III, Section 49-n and Section 201.961, Texas Transportation Code authorize the Commission to issue HTRANs in anticipation of a temporary shortfall in the State Highway Fund during any fiscal year. Obligations are payable from the State Highway Fund and are subject to approval of the Cash Management Committee (Governor, Lt. Governor, Speaker, Comptroller, & Treasurer). Proceeds may be in the amount of the projected cash shortfall and such obligations must be repaid within the fiscal biennium in which they were issued.

e. **Project Revenue Bonds**: Chapter 228, Texas Transportation Code authorizes the Commission to issue toll revenue bonds to finance, in part or in whole, toll revenue projects. Chapter 227, Texas Transportation Code authorizes the Commission to issue revenue bonds to finance facilities and systems on the Trans-Texas Corridor. Chapter 91, Texas Transportation Code authorizes the Commission to issue revenue bonds for the purpose of financing state owned rail facilities.

f. **State Infrastructure Bank Revenue Bonds:** Subchapter D, Chapter 222, Texas Transportation Code authorizes the Commission to issue bonds to capitalize the State Infrastructure Bank, such bonds to be pledged and payable from income derived from the State Infrastructure Bank.

g. **Proposition 12 General Obligation Bonds:** Article III, Section 49-p of the Texas Constitution and Transportation Code §222.004 authorize the issuance of up to $5 billion in general obligation bonds for highway improvement projects. As authorized by H.B. 1, 81st Legislature, 1st Called Session, 2009, $1 billion of Proposition 12 bond proceeds will, in fiscal year 2011, be used to capitalize a subaccount in the State Infrastructure Bank.

h. **Texas Rail Relocation and Improvement Fund: Article III, Section 49-o of the Texas Constitution and** Subchapter O, Chapter 201, Texas Transportation Code authorize the Commission to issue bonds to finance the costs of relocating, constructing, reconstructing, acquiring, improving, rehabilitating or expanding publicly or privately owned rail facilities. Bonds are payable from revenues deposited to the Fund and the full faith and credit of the State of Texas may be pledged to bondholders.

i. **Real Property Financings:** The Commission is authorized under Section 201.1055, Texas Transportation Code, and Section 1232.111, Texas Government Code, to enter into agreements with a private entity for the acquisition, design, construction, or renovation of a building located on TxDOT property or to acquire from a private entity real property, including any improvements, in exchange for TxDOT owned real property and improvements. In the event that any project is not wholly paid for by an exchange of TxDOT owned real property, TxDOT may finance the project through the Texas Public Finance Authority, which may issue obligations payable from lease payments by TxDOT to obtain the funds for the remaining cost of the building.

4. Allowable Purposes of Debt Issuance

The statutory authority for the Commission's Financing Programs are outlined in Section 3, however the general purposes for which the Commission may issue debt are as follows:

a. Interim or long-term financing of the construction and acquisition of eligible projects (including feasibility and engineering studies, other preliminary engineering and design activities and the purchase of right-of-way);

b. Reimbursement of the State Highway Fund for qualified expenditures;

c. Major capital improvements, rehabilitations, or repairs to existing Department facilities;

d. Cash management (to the extent permitted by federal tax law); and

e. Refunding of outstanding debt.

Long-term tax-exempt debt may not be used to fund routine operations or maintenance, for the purpose of investing, or for the purpose of earning arbitrage.

5. Eligible Projects

As described in more detail in Section 3, each Financing Program has specifically authorized purposes that may utilize bond proceeds:

a. State Highway improvement projects;

b. Mobility projects (such as new roadway capacity or public transportation projects) approved by the Commission in the Metropolitan Mobility Plans;

c. Publicly-owned toll projects;

d. Public or privately owned rail facilities;

e. Projects on the Trans-Texas Corridor; and

f. Capitalization of the State Infrastructure Bank.

6. Long Term Debt Planning

Annually, the CFO shall review and update the long-term debt profile for each Financing Program. The information to be updated includes annual debt service requirements, pledged revenues, planned future issuances and projections of debt service coverage. For unhedged variable rate bonds, an assumed interest rate will be used as prescribed in the legal documents for such Financing Program.

To the extent possible, these updates shall be considered complete if required as part of the Commission's annual continuing disclosure or other reporting undertakings or as a component of its rating updates.

7. Refunding Procedures and Practices

Refunding of outstanding debt will be considered in order to:

a. Achieve interest rate savings;

b. Restructure principal including conversion of short-term obligations to long-term obligations;

c. Make termination payments due under swap agreements as authorized by the legal documents for such Financing Program and in compliance with the Derivative Management Policy; or

d. Amend or close an existing Trust Indenture or Master Resolution. [Covenants are changed or defeased by amendment]

Achieve Interest Rate Savings

The number of tax-exempt advance refundings which may be undertaken is limited by federal regulations. Therefore, interest rate savings should be sufficient to offset reduced future refunding flexibility. The Commission sets forth the following savings guidelines as a measure for evaluating refunding proposals, however the CFO shall have discretion in determining whether to undertake refunding transactions that do not meet the relevant savings target set forth below. Consideration will be given to compliance with Commission policy and/or the financial objectives of each Financing Program.

For current refundings, i.e. bonds that are redeemable within 90 days, the net present value savings target is 3% of the refunded par amount of bonds.

Bonds may only be advance refunded once on a tax-exempt basis, therefore the net present value savings target is 5% of the refunded par amount of bonds.

For refundings which include the use of derivative products such as interest rate swaps, the transaction must be in compliance with the Commission's Derivative Management Policy. In order to reflect the additional risks associated with such transactions, the net present value savings target is 6% of the refunded par amount of bonds and 8% of the refunded par amount of bonds for transactions in which the Commission assumes tax risk.

Each refunding may also be evaluated using a call option pricing model. When using the call option pricing model, the target savings from any refunding candidate must be in the range of 80% of the expected value of the call option, net of all transaction costs.

The manner in which savings are realized (up front, deferred or on an annual basis) will be determined by the CFO based upon the overall needs and objectives for the specific Financing Program.

Restructure Principal

Refundings involving a restructuring of principal shall be considered if the Commission can achieve a more favorable matching of revenues or other resources pledged to meet debt service payments. Consideration shall be given to the effect of such restructuring on the credit rating (if any) or credit perception of the Financing Program. Any transactions involving the restructuring of principal shall seek to minimize the amount of refunding debt to be issued.

Make Termination Payments

To the extent permitted by law refunding bonds may be issued to make a payment due by the Commission to a qualified counterparty in the event of a termination, whether voluntary or involuntary, for any interest rate swap agreements or similar derivative structures. The Commission shall only issue refunding bonds when insufficient other funds are legally available to make such a termination payment; the issuance of the refunding bonds does not negatively impact the debt service coverage or credit of the Financing Program; or such refunding is contemplated when the derivative product is executed and complies with the Commission's Derivative Management Policy.

Amend or Close Trust Indenture or Master Resolution

Refundings undertaken to revise or remove covenants or to make pledged reserves available for other purposes by closing an existing Indenture or Resolution must analyze any economic impact as measured by present value savings or loss, inclusive of cash contributions and any debt service reserve fund earnings. Such economic effects include:

i. Limitations imposed by the Internal Revenue Code;

ii. Use of reserves;

iii. Future financing capacity; and

iv. Future marketability of related debt.

Other Refunding Considerations

Any debt service reserve funds which are released after a refunding shall be used to reduce the amount of Refunding Bonds to be issued and under no circumstances will be used for operating expenses.

8. Limitations on Level of Indebtedness

The Commission and the Department will comply with statutory limitations on the level of indebtedness for each Financing Program. For Financing Programs that are not statutorily limited, the maximum level of indebtedness will be governed by available pledged revenue streams and rate covenants or additional bonds tests contained in the legal documents for such Program. In the case of new financing programs, consideration will be given to the desired credit rating for the program and purpose and use of the revenue stream or fund.

9. Credit Objectives

It is the goal of the Commission to provide sufficient flexibility to meet the objectives of each Financing Program while striving to secure and maintain the highest possible ratings for each Financing Program. It is the objective of the Commission to maintain its positive presence in the credit markets through the maintenance of and improvement of all relevant credit characteristics within its control.

10. Permissible Types of Debt for Financing Programs

a. Variable Rate Debt

Factors to be considered in determining the use of variable rate debt shall include cash flow risk, liquidity risk and tax risk.

The targeted maximum percentage of unhedged variable rate debt is 25% of all outstanding debt for each Financing Program. For purposes of this limitation, variable rate debt is considered hedged if it is subject to an interest rate cap or if short-term investments offset variable rate debt exposure. Short-term investments

for purposes of this limitation shall include money invested in money market funds, overnight funds, repurchase agreements, investment pools, and all other TxDOT investments with an average weighted maturity of one year or less. Variable rate debt that is hedged by an interest rate cap or short-term investments is not considered to be subject to tax risk.

The targeted maximum percentage of variable rate debt hedged by interest rate swap products is 25% of all outstanding debt for each Financing Program. These targets may be exceeded if the CFO determines doing so to be prudent and consistent with the liquidity and capacity constraints of each Financing Program.

The targeted total percentage of debt for each Financing Program that may be subject to tax risk is 50%.

b. b. Commercial paper

Commercial Paper may be issued for any Financing Program:

i. To minimize the interest cost or the use of capitalized interest during the design phase or construction period of eligible projects;

ii. For certain equipment purchases or capital improvements;

iii. Cash management; or

iv. To diversify the Commission's debt portfolio.

c. Fixed rate debt

Current interest bonds may be used for both new money and refunding transactions and may be structured to meet investor demand at the time of pricing. Current interest bonds may be issued as tax-exempt bonds or as taxable Build America Bonds under the American Recovery and Reinvestment Act. Capital appreciation and zero coupon bonds, which typically result in higher interest costs, shall be used in limited circumstances after an analysis is undertaken that indicates the needs or objectives of a particular Financing Program are met through their use.

d. Derivative products

The Commission will consider the use of interest rate swaps and other interest rate risk management tools after carefully evaluating the risks and benefits of any proposed transaction in accordance with the Derivative Management Policy. By using swaps and other derivative products in a prudent manner, the Commission can take advantage of market opportunities to minimize expected costs and manage interest rate risk. The Commission will not enter into swap transactions for speculative purposes but will consider other swap or derivative products as allowed and recommended pursuant to the Derivative Management Policy.

e. Hedging products

Subject to state law, the Commission may utilize hedging products for the purpose of protecting future debt issuance from interest rate risk. Such products

may include, but are not limited to forward delivery bonds or rate locks based on either a taxable or tax-exempt bond index.

11. Permissible Types of Debt for Short Term Financing Programs

The following types of debt and other obligations are permitted for Section 3 (c) Short Term Obligations and Section 3(d) Highway Tax and Revenue Anticipation Notes:

a. Fixed Rate Notes;

b. Variable Rate Notes;

c. Commercial Paper;

d. Bank or other Loans; and

e. Auction Rate Securities

12. Structural Objectives

a. Maturity: Term of debt may not exceed expected useful life of the project or equipment financed, or as statutorily prescribed.

b. Variable rate debt instruments: As long as variable rate debt is outstanding, the CFO will actively monitor and evaluate market conditions and shall determine if it is appropriate and cost efficient to convert the variable rate debt to fixed interest rates or fixed rate debt to variable rate debt either through the issuance of fixed rate bonds, variable rate bonds or synthetically upon entering into a swap Transaction in compliance with the Derivative Management Policy.

c. Structural elements: Use of specific structural elements (capital appreciation bonds, variable rate bonds, call features, forward delivery bonds, derivative products, etc.) will be based on analysis and recommendation of staff, financial advisor, senior underwriter(s) and bond counsel, as applicable. For derivative structures, compliance with the Derivative Management Policy is required.

d. Lien levels: Multiple liens of debt may be utilized for any Financing Program if the resulting debt structure optimizes certain critical debt constraints, typically either cost or capacity, or is needed to maintain credit ratings on existing debt. The use of multiple liens is also permitted when derivative products are utilized if the Commission will become liable for termination payments or other obligations under such agreements.

e. Capitalized interest: When possible, the Commission will avoid using capitalized interest. The CFO shall determine when the use of capitalized interest is warranted in order to meet the objectives of any Financing Program.

f. Premium and Discount Bonds: While premium and discount bonds may reduce the interest cost of the bonds they should only be used when economically justified and upon recommendation by the financial advisor and senior underwriter(s) to efficiently issue the bonds. Bonds which carry significant Original Issue Discount (OID) may be rendered nonrefundable, a significant

disadvantage to the Commission for which a commensurate benefit should be received.

g. Debt Service Reserve Fund: Debt service reserve funds may be funded by proceeds of bonds, available cash or cash equivalents, or the purchase of a surety bond to the extent authorized by law. The desirability of using a surety bond to fund a reserve will be evaluated on a case by case basis. Debt service reserve funds will be created only when required to market a specific type of debt, achieve a desired credit rating or provide a needed liquidity source for a bond issue. Factors to be considered in evaluating the use of a debt service reserve fund include arbitrage yield restrictions, current interest rates, availability and cost of a surety policy and future opportunities for the use of funds released from the fund. Typically debt service reserve funds will be used to make the final debt service payment, fund a new debt service reserve fund or reduce the amount of any refunding bonds issued.

h. Call provisions: In general, a call provision at the Commission's option must be included for all bonds or obligations with maturities longer than 10 years. The optional redemption date will be a maximum of 10 years from the date of issuance or a market acceptable date as recommended by the financial advisor and senior underwriter(s) on the transaction. Prior to issuing bonds without a call provision, the CFO will evaluate and document expected interest savings in relation to the expected savings from a refunding, as based on the theoretical value of the call option.

i. Credit Enhancement:

   a. Bond insurance: Bond insurance will be used when it provides an economic advantage to a particular bond maturity or entire issue or when a particular product requires the insurance. The decision to use bond insurance shall be based upon the value it adds to a specific transaction. The analysis of that value shall compare the present value of the prospective interest savings produced due to the insurance to the cost of the insurance premium. Insurance may be purchased when the premium cost is less than the projected interest savings. Bond insurance may be purchased for the entire par amount of an issue or for specific maturities thereof, based on a recommendation to TxDOT from the financial advisor regarding the most cost-effective approach or upon a recommendation from the senior underwriter(s) that insurance is desirable to attract investors who are willing to pay for such insurance. In no case will TxDOT purchase insurance if there is a cost to the Department. Bids from bond insurers will be solicited from qualified providers on a case by case basis given current market conditions and insurer ratings. The CFO will authorize the purchase of bond insurance if it is deemed prudent, reasonable and cost effective.

   b. Liquidity/Credit facilities: The issuance of variable rate debt, including variable rate bonds and commercial paper, requires the use of a liquidity and/or a credit facility. Letters of Credit ("LOC") and Stand-by Bond Purchase Agreements ("SBPA") will be considered as credit enhancement

based on the specific need of the short-term instrument and cost effectiveness. The Department will solicit bids from qualified financial institutions established in this line of business and select the "best value" based on price, financial stability, terms and conditions and service. Qualified financial institutions must have long-term ratings in the AA category from at least one of the nationally recognized rating agencies and short-term ratings from two rating agencies of at least P-1, A-1 or F1.

13. Method of Sale

The Commission recognizes that each issuance of obligations has unique characteristics that will provide the basis for determining the appropriate method of sale. Such methods include competitive sale, negotiated sale, or private placement. The conditions which indicate the appropriate method of sale are generally described below:

a. Competitive Sale:

   i. The bond market is stable and/or demand for bonds is strong;

   ii. Market conditions and interest rate sensitivity are not critical to the pricing;

   iii. Women or minority owned firm participation is on a best efforts basis only and is not required for winning bid;

   iv. There are no complex explanations required during marketing regarding the project, funding mechanism or credit quality;

   v. Credit is well-known to investors;

   vi. Bond type and features are conventional; and/or

   vii. The transaction size is manageable.

b. Negotiated Sale:

   i. Bond market is volatile, demand for bonds is weak and/or the supply of competing sales is high;

   ii. Market conditions and interest rate sensitivity is high, such as refunding bonds;

   iii. Coordination of multiple components of the financing is required;

   iv. Participation by women or minority owned firms is desired or enhanced;

   v. Substantial education of investors will be required as to the project, the credit or the structure of the transaction;

   vi. Credit is unknown to investors;

vii. Structural features are unconventional, such as forward delivery bonds or derivatives; or structure is not conducive to competitive sale, such as variable rate bonds;

viii. Large transaction size; and/or

ix. Retail participation is expected or desired to be high.

c. Private Placement:

A private placement with a sophisticated investor including a bank loan, may be appropriate when:

i. Credit is weak or credit ratings cannot be obtained;

ii. A loan provides more advantageous terms than the capital markets;

iii. A favorable innovative or proprietary structure is proposed that is unavailable in the markets generally;

iv. Time is of the essence and a private placement can be consummated more quickly than a public offering.

14. Use and Investment of Bond Proceeds

Any investment of bond proceeds shall be executed in accordance with the Commission's Investment Policy, Investment Strategies, legal covenants, and state and tax law limitations. The investment proceeds of debt proceeds or that of other obligations of all of the Commission's Financing Programs are subject to the Public Funds Investment Act.

15. Escrow Structuring

The Commission shall utilize the least costly securities available in structuring refunding escrows. A certificate shall be delivered to the CFO from the financial advisor or qualified third party agent, who is not a broker-dealer, on each refunding issue. The certificate shall state that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. The CFO shall take all steps necessary and legal to optimize escrows in order to avoid negative arbitrage in its refundings.

16. Compliance with Arbitrage Rebate

The use and investment of bond proceeds for all Financing Programs shall be monitored to ensure compliance with arbitrage restrictions. Existing regulations generally require that issuers calculate annual rebate requirements related to any bond issues and pay any required rebate every five years. Therefore, the CFO shall ensure that bond proceeds and investments are traced in a manner which facilitates the completion of accurate rebate calculations, and rebate payments, if any, are made in a timely manner. A nationally recognized Arbitrage

Rebate services firm may be used to consult, calculate and report the required arbitrage rebate requirements as specified by the IRS.

17. Continuing Disclosure

The Commission shall comply with U.S. Securities and Exchange Commission (SEC) Rule 15c2-12 by filing with the Electronic Municipal Market Access system (EMMA) of the Municipal Securities Rulemaking Board annual financial statements and other financial and operating data for the benefit of its bondholders no later than six months after the end of the fiscal year. The inability to make timely filings must be disclosed promptly.

18. Rating Agency and Investor Communications

The CFO will have primary responsibility for maintaining the Commission's relationships with the credit rating agencies then rating any outstanding debt. The CFO will update the rating agencies at least annually and provide such other updates or pertinent project, financial or programmatic information as and when necessary or requested.

In order to ensure uniform market access to information that may be relevant to the valuation of the Commission's obligations, the release of any information, whether in response to an ad hoc question or self initiated, that may be potentially relied upon by the market to impute the credit worthiness of the Commission's debt, whether intended for that purpose or not, shall be reviewed by the CFO and Disclosure Counsel to determine whether or not:

- The information is already in the public domain;
- The information is a disclosure event as defined by the SEC, requiring prompt filing through the EMMA system; and
- The information is full, accurate, complete and not misleading.

19. Selection of Consultants

Pursuant to applicable state law, the Department shall select its financial advisor, investment banking firms, bond counsel and disclosure counsel by a competitive process through the issuance of a Request for Proposals. Selection may be based on a best value approach for professional services or the lowest responsive cost-effective bid based upon predetermined criteria.

a. <u>Financial Advisor</u>

The Finance Division will have the responsibility of selecting an independent advisor (or advisors) to assist with the issuance of all debt and debt administration processes relating to any or all of its Financing Programs.

b. <u>Investment Banking Firms</u>

The Finance Division will select a pool of investment banking firms to serve as senior manager, co-senior and/or co-manager as bond underwriters or as a counterparty for

derivative transactions pursuant to the terms of the Commission's Derivative Management Policy. The pool will include a broad representation of national, regional, and women or minority owned firms. The Commission reserves the right to add or remove firms from the pool at any time, to shorten or lengthen the period of time for which the pool is in place pursuant to the terms dictated by each solicitation and the Financing Programs in which the pool will participate. The Commission may add or remove firms from the pool at any time based on factors including, but not limited to: performance, or change in staff or firm organization. No joint proposals will be permitted.

c. Bond/Disclosure Counsel

Debt or obligations of the Commission shall be issued with a written opinion by qualified legal counsel affirming that the Commission is authorized to issue the proposed debt, that the Department has met all constitutional and statutory requirements necessary for issuance, and a determination regarding the debt's federal income tax status. Disclosure Counsel will also be used to prepare offering documents and will be responsible for ensuring compliance with all applicable disclosure rules, regulations and guidelines. The Office of General Counsel will have the responsibility of selecting such counsel and may appoint a pool of nationally recognized bond counsel firms and select qualified firms from the pool to act as either Bond or Disclosure Counsel for each transaction.

20. Underwriting Procedures

a. Underwriting Syndicate

The size and composition of each syndicate will be based on 1) initiation and implementation of innovative financing ideas or structures; 2) the expertise of bankers required for the transaction; 3) the underwriting capabilities, as determined by excess net capital and distribution networks, relative to the size of the transaction; and 4) performance of each syndicate member in past transactions.

b. Transaction Marketing Activities

The senior book-running manager must provide a marketing plan to the CFO in advance of each transaction. The marketing plan should be developed in collaboration with the entire syndicate to ensure meaningful participation of the entire syndicate. The marketing plan should include potential target investors, pre-marketing activities, structural recommendations such as call features and use of term bonds, a recommendation as to the use of retention, designation rules and proposed liabilities. All decisions regarding retention, designation policies and liabilities will be made by the CFO.

c. Post-Sale Evaluation

After the completion of each transaction, the senior manager will be required to present a post-sale analysis including but not limited to pricing, orders and allocations, comparable sales and indices, designations, and market conditions at

pricing. The CFO and financial advisor will evaluate the success of the underwriting versus the market at the time of sale and analyze each syndicate member's contribution with regard to sales performance.

d. Unsolicited Proposals

The Commission encourages the submission of financing options and ideas from any firm and may accept proposals from firms that are not in the pool. A copy of each proposal will be provided to the CFO and the financial advisor. All proposals should include a full analysis of risks and benefits associated with each transaction, and a description of previous experience with such financing technique, if any.

The Department reserves the right to issue RFPs for any product or transaction. If the firm submitting an innovative proposal that is implemented by the Department is not a member of the pool, the Department may consider a structuring fee and/or inclusion as a co-manager or co-senior manager as compensation.

TEXAS TRANSPORTATION COMMISSION

Derivative Management Policy

Revised

August 27, 2009

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DERIVATIVE MANAGEMENT POLICY

1. Introduction

This Derivative Management Policy ("Policy") is a subsidiary component of and should be read in conjunction with Texas Transportation Commission's ("TTC" or "Commission") Debt Management Policy. The purpose of this Policy is to establish responsibilities, objectives, and guidelines for the use of interest rate swaps and similar products to manage the Commission's asset/liability profile for each Financing Program (Financing Programs are described in the Debt Management Policy). As used in this document, TTC or Commission debt also includes debt or other obligations issued by the Texas Department of Transportation ("TxDOT" or "Department") on behalf of the Commission and excludes any debt where the Commission may act as a conduit issuer.

The Commission is authorized pursuant to Chapter 1371, Texas Government Code, as amended, to enter into credit agreements that include interest rate swap and other similar agreements.

2. Policy Objectives and Philosophy

This Policy describes guidelines within which each interest rate swap and other similar transaction, including termination of an interest rate swap or other similar transaction ("Transactions") are to be used to manage the Commission's asset/liability portfolio by 1) balancing risk exposures related to fluctuating interest rates and other economic variables, 2) minimizing debt service cost, 3) balancing or rebalancing the ratio of fixed and variable rate debt, 4) responding to market conditions or interest rate cycles that offer value to the Commission and 5) hedging future interest rate conditions. Transactions will not be employed as investment instruments or for the purpose of speculation.

This Policy shall govern the use and management of all Transactions. While the Commission will require adherence to this Policy in applicable circumstances, it recognizes that changes in the law, capital markets, Commission programs and other unforeseen circumstances may from time to time produce situations that are not covered by this Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility may be granted through specific authorization from the Commission.

It is the Commission's intention to enter into Transactions in a prudent and professional manner that will take into account the Commission's objectives in managing its assets and liabilities, relevant risk factors, and market conditions. All Transactions shall comply with State statutes and Commission policies governing such transactions.

3. Management and Oversight

Management responsibility for the Derivative Management Policy is hereby delegated to the Chief Financial Officer or the Director of Finance as his designee ("CFO") in consultation with the Derivative Policy Committee (the Derivative Committee). Provided, however, that a member of the Derivative Committee may not be designated, and may not have management responsibility for derivative management policy, while a member of the Derivative Committee.

By prior authorization of the Commission, a Derivative Committee has been formed. The Derivative Committee is an advisory body only, formed for the purpose of making recommendations to the CFO. The Derivative Committee shall consist of the following members: 1) the Finance Division shall have two members, one from the Debt Management Section and one from the Accounting Management Section or other section as designated by the Finance Division Director, 2) the Office of General Counsel shall have one member who shall be a non-voting member, 3) and the Commission shall designate a representative (non-Commissioner) as a voting member. Commissioners and their individual representatives may attend Derivative Committee meetings as non-voting members. The director of the Finance Division and the General Counsel will provide to the CFO, in writing, the names of the representatives authorized to represent the division or office on the Derivative Committee.

A quorum of the Derivative Committee shall be two voting members. If a quorum is present, the vote of a majority of the members present, as to any recommendation to be made by the Derivative Committee, controls.

The representative of the Debt Management section, or the other representative of the Finance Division in his or her absence, shall chair the Derivative Committee.

Responsibilities:

The CFO will have the following responsibilities:

- making recommendations to the Commission after consultation with the Derivative Committee prior to the execution of any Transaction;
- monitoring each outstanding Transaction on at least a monthly basis;
- making recommendations to the Commission after consultation with the Derivative Committee when early indicators signal action may be required or necessary;
- providing a quarterly report to the Derivative Committee, as outlined in Section 9 of this Policy, detailing the status and other matters relating to each outstanding Transaction, if any;
- acting as an information resource to the Derivative Committee and Commission at any time requested; and

- providing an annual report to the Commission, as outlined in Section 9 of this Policy, detailing the status and other matters relating to each outstanding Transaction, if any.

The Derivative Committee is responsible for the following, but solely as an advisory committee:

- oversight of all Transactions to ensure compliance with the guidelines and restrictions established by this Policy and making recommendations to the CFO as to any perceived necessity for action;
- making recommendations to the CFO regarding the approval of each Transaction, including the termination of any Transaction;
- annual review of the Commission's asset/liability portfolio;
- annual review of this Policy.

4. Guidelines

The Commission, on the recommendation of the CFO after consulting with the Derivative Committee, may enter into any of the following Transactions: interest rate swaps, basis swaps, interest rate caps, interest rate floors, interest rate collars, options on interest rate swaps, forward-starting interest rate swaps or other similar Transactions, and may from time to time shorten, terminate, extend, or otherwise modify Transactions in order to manage its risk exposure, balance assets and liabilities, or reduce debt cost.

The following are Commission policies regarding these Transactions:

Approved Purposes for Transactions

1. To achieve savings as compared to a product available in the cash/bond market. Savings shall be calculated after adjusting for (a) applicable fees, including takedown, remarketing fees, credit enhancement, advisory and legal fees, and (b) the value of call options that may be forgone on the bonds.
2. To prudently hedge risk in the context of a particular financing or the overall asset/liability management. Examples include, but are not limited to, interest rate caps, rate locks and forward starting swaps.
3. To incur variable rate exposure within prudent guidelines, such as selling interest rate caps or entering into a swap in which the Commission's payment obligation is floating rate.
4. To achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets. A basis swap would be an example of this type of Transaction.
5. To achieve diversification of the Commission's asset/liability portfolio.
6. To achieve diversification of counterparty exposure.

General Guidelines

1. Each Transaction recommended by the CFO must comply with the following guidelines, except as otherwise provided herein or in unusual market conditions, and all applicable legal documents, insurance covenants, and state and federal law;
2. The CFO will consider in its recommendations published rating agency guidelines in connection with each Transaction;
3. All Transaction documents must contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, Schedules to the Master Agreement, Credit Support Annex and confirmation, as appropriate and consistent with industry standards;
4. Except as otherwise permitted in Section 6 of this Policy, each Transaction must be a market transaction for which competing good faith market quotations may be obtained;
5. Early termination provisions must be included in each Transaction. Generally such provisions will provide for a termination at the sole option of the Commission at market. Should the Commission exercise its sole right to optionally terminate a Transaction, a benefit to the Commission must be demonstrated;
6. A Transaction will not be assignable to another counterparty without the approval of the Commission;
7. Aside from customary market termination provisions, the Commission will not enter into a Transaction which will impair its utilization of call features on outstanding bonds.
8. Generally, the Commission will not enter into Transactions that require posting of collateral by the Commission. However, if and when market considerations, such as the credit quality of the underlying bonds or obligations, so dictate, the CFO may recommend two-way collateral posting.

Legality

Enforceability opinions reviewed by the Office of General Counsel and acceptable to the Commission and the Counterparty will be required for each Transaction.

Aspects of Risk Exposure Associated with Such Transactions

Before entering into a Transaction, the CFO and Derivative Committee shall evaluate all the risks and requirements inherent in the Transaction and provide such information to the Commission. (See Exhibit I for a more detailed review of risks.)

Counterparty Exposure Limitation

It is Commission policy to diversify its exposure to counterparties. To that end, before entering into a Transaction, the CFO and Derivative Committee should determine the Commission's exposure to the relevant counterparty or counterparties and determine how the proposed Transaction would affect such exposure.

The CFO will evaluate counterparty exposure based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing and proposed Transaction on an ongoing basis as well as prior to any proposed Transaction. For outstanding Transactions, exposure will be based on the market value as of the last quarterly report to the Derivative Committee or other appropriate method of determining Value at Risk. Projected exposure shall be calculated quarterly based on the Transaction's potential termination value taking into account possible adverse changes in interest rates.

If exposure to any counterparty for any reason is determined by the CFO to be excessive, the CFO, in consultation with its legal counsel and financial advisor, shall explore remedial strategies to mitigate such exposure. The CFO will provide the results of this endeavor to the Derivative Committee in order to formulate a remedial plan, including any recommendations from the CFO to the Commission.

Long-Term Implications

In evaluating a particular Transaction, the CFO and Derivative Committee shall review the long-term implications associated with each Transaction, such as costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations, counterparty exposure and other similar considerations.

Methods to be Used to Reflect Such Contracts in TxDOT's Financial Statements

The Department shall reflect the use of Transactions on its financial statements in accordance with Generally Accepted Accounting Principles ("GAAP").

5. Approval of Transactions

The Department desires to establish an approval structure that provides adequate Commission oversight of Transactions while maintaining flexibility to execute such Transactions in a timely manner.

The following structure and Transaction approval procedures are established.

a. The Commission, from time to time and upon recommendation of the CFO, who shall consult with the Derivative Committee as to their recommendations, may

authorize general parameters for Transactions or a program of Transactions for a particular financing to be executed by the CFO.

b. The CFO shall review specific parameters for Transactions within any general parameters authorized by the Commission. All general parameters and any specific parameters that the CFO deems significant will be detailed in the Term Sheet. (See Exhibit II for example terms) Specific parameters commonly incorporated into a term sheet following approval by a governing body may be so incorporated into a term sheet with the approval of the CFO in consultation with the Derivative Committee.

c. The CFO shall structure specific parameters for the termination of any existing Transaction upon determination that such action is in the best interests of the Commission. Such recommendations will be reviewed and approved by the Derivative Committee.

6. Methods of Soliciting and Procuring Transactions

It is Commission's goal to have International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements and associated Schedules for each Financing Program. In order to be considered a pre-qualified counterparty, execution of these agreements will be required prior to the price execution of any Transaction. In each ISDA Master Agreement, the Commission may pledge all legally available funds specific to each Financing Program or otherwise provide security for its obligations under the ISDA Master Agreements governing the Transactions.

In general, it is a Commission guideline that the Department will, to the extent practical using best efforts, employ a competitive bidding process. A competitive bid procurement will require the number of firms solicited to no fewer than three. The CFO, in consultation with the financial advisor and other staff of the Department, shall determine which parties will be invited to participate in a competitive transaction. Should only one counterparty bid, then the CFO must evaluate other policy guidelines, such as concentration of counterparty exposure. At its own discretion for the purposes of rewarding a particular firm for a directly related innovative proposal, achieving diversification of counterparty exposure or encouraging competition, the CFO may allow the second and third place bidders to match the winning bid up to a specified amount of the notional amount. The parameters for the bid and the conditions for any matching bid process must be disclosed in writing to all potential bidders.

Notwithstanding the above, it is a Commission guideline to enter into Transactions by negotiated methods in the following situations:

1. The CFO makes a determination that due to the size or complexity of a particular Transaction or because of then current market conditions, a negotiated transaction would result in the most favorable execution. In this situation, the Department, through the CFO, should attempt to price the Transaction based upon a methodology agreed to by the CFO and the counterparty relying on

available pricing screens to obtain inputs to a financial model. The CFO may use the Department's Financial Advisor to assist in price negotiations or to verify bids.

2. A proposed Transaction is embedded within a refunding bond issue and meets the Commission's savings target.
3. The CFO determines, in light of the facts and circumstances of a particular Transaction, that a negotiated Transaction will promote the interests of the Department/Commission by encouraging and rewarding innovation.
4. In order to achieve counterparty diversification.

Commission guidelines also require that entering into Transactions by negotiated methods is contingent upon the counterparty providing the following items:

- a statement that the difference (if any) in basis points between the rate of the Transaction and the mid-market rate for a comparable transaction falls within the commonly occurring range for comparable transactions;
- a statement of the amount of the difference as determined by the counterparty;
- if the counterparty does not know of a comparable transaction or mid-market rate, a statement of another suitable measure of pricing acceptable to the counterparty.

Regardless of the method of procurement, the Department's financial advisor or other qualified independent advisor shall provide a certification that the terms and conditions of any Transaction entered into reflect a fair market value of such Transaction as of the date of its execution. Additionally, the counterparty will provide a statement disclosing any payments made to another person to procure the Transaction with the Commission.

7. Counterparty Requirements

It is Commission policy that the following conditions should apply to each Transaction:

a. An attempt will be made by the CFO to have the counterparty fully disclose all costs including associated fees and costs. All fees and expenses paid by the counterparty to designated third parties will be fully disclosed in writing to the Commission in the confirmation for each Transaction;

b. Provisions for protection in the event of a counterparty downgrade, including collateral or credit support shall be incorporated;

c. The counterparty shall disclose relationships with other third parties which may affect the Transaction, such as broker dealers, insurance companies, other swap providers and the Commission's Financial advisor;

d. The counterparty shall provide its financial audit and credit ratings, which shall be acceptable to the Commission.

e. At the time of entering into a Transaction, the counterparty shall be rated at least AA-/Aa3 by at least one nationally recognized rating agency (Fitch, Moody's or Standard & Poor's) and not on rating/credit watch where a rating downgrade to below AA-/Aa3 may be imminent, or have, as support for their obligations, a "AAA" subsidiary or other entity (e.g. bond insurer) as rated by at least one nationally recognized rating agency that can also meet all other counterparty requirements.

8. **Restrictions**

The following are Commission policies relating to restrictions on Transactions:

a. The Commission will not enter into Transactions for speculation;

b. The Commission will not execute any Transactions with a term greater than the then-current final maturity of its related outstanding long-term indebtedness;

c. The Commission will not enter into a Transaction for an investment-related purpose; and

d. The total "net notional amount" of all swaps related to bonds or other indebtedness is not to exceed the amount of outstanding bonds or indebtedness. For purposes of calculating the net notional amount, credit shall be given in situations where there are off-setting swaps.

9. Reporting and Early Warning Monitoring for Existing Transactions

The CFO will monitor existing Transaction cash flows, market values and early warning indicators on an ongoing basis (no less than monthly) and will report in writing at least quarterly the results to the Derivative Committee. The quarterly report shall contain at a minimum the following items:

1) A description of the terms of each outstanding Transaction;

2) A statement of:

   a) The fair market value of each Transaction as of the end of the reporting period;

   b) The amount of any collateral posted by the Commission or by a counterparty during the period;

   c) A summary of the cash flows for each Transaction during the period;

3) A list, including the credit rating, of counterparties and any guarantor for a counterparty for each Transaction;

4) Determination as to whether continuance of each Transaction conforms to the Investment, Debt, and Derivative Management policies;

5) An evaluation of the performance of the trade versus projections at the time of execution.

At least annually, the CFO shall present a written report to the Commission, signed by the CFO or his designee, on all outstanding Transactions as of the end of the reporting period. The annual report will contain at a minimum the items included in the quarterly report. The CFO, in consultation with the Derivative Committee, shall provide any recommendations to rebalance the Commission's asset/liability portfolio and recommend any changes to the Derivative Management Policy.

The CFO will provide, after consultation with the Derivative Committee, a recommended course of action when early warning indicators dictate action is required. The list of "early warning indicators" can be expanded as needed but will include the following at a minimum:

a. A market movement that requires a collateral deposit or is within 10% of such requirement.

b. Any rating action with respect to a counterparty that may result in a rating downgrade to a level lower than the requirements specified in Section 7 of this Policy.

c. A rating action on any financing program that could result in a collateral deposit as may be required under an ISDA agreement.

d. A change in tax law or a likely permanent market shift that produces or is likely to produce negative cash flows.

e. Any unforeseen event that significantly, negatively impacts the expected results of the Transaction and that is likely to continue.

10. Exit Strategies

In the event of termination, whether voluntary or involuntary, the Derivative Committee, upon recommendation of the CFO, will evaluate the best possible strategy given the market, tax, legal and economic environment at the time of termination. The following is a general guideline for both voluntary and involuntary termination strategies:

a. Voluntary Termination: The CFO will monitor market rates, termination values, tax changes, counterparty credit ratings, and any other relevant factors to determine if Voluntary Termination is warranted. Generally, an early termination will be warranted if it is economically advantageous for the Commission to do so, a more beneficial underlying debt structure can be attained or it will alleviate a current or anticipated risk inherent to the Transaction. Based upon expected market conditions at the proposed termination date, the CFO, in consultation with the Derivative Committee, will establish a strategy prior to termination to hedge any exposure that is created by the termination.

b. Involuntary Termination: If certain events occur, such as a substantial ratings downgrade of any of the Commission's Financing Programs, involuntary termination may occur. Depending on market conditions, this may result in an

obligation of the Commission to make a significant termination payment to the counterparty. In the event of a termination payment, the source of payment will be from legally and currently available sources for each Financing Program, including any collateral posted, insurance and/or reserves set up for this purpose. As soon as early warning monitoring indicators show that an involuntary termination may occur in the near term, the CFO, in consultation with the Derivative Committee, will establish a strategy to hedge any exposure based on then-prevailing market conditions. This strategy shall be monitored by the CFO and updated regularly in order to ensure that the strategy appropriately reflects changing market conditions.

EXHIBIT I

Risks Associated with Derivatives

- Counterparty Risk - Risk that the counterparty cannot make future payments or cannot make a termination payment due to the Commission.

  Mitigation of Risk - Risk is reduced by a highly rated counterparty and by ISDA (International Swaps and Derivatives Association) contract terms addressing collateral limits and credit ratings. Selecting more than one counterparty will diversify risk. The high rating requirements set forth for qualified counterparties will increase the likelihood that their financial commitments will be met.

- Basis Risk - Risk that the payment on the variable rate bonds will exceed the swap receipt (SIFMA or a percentage of LIBOR) due to an issuer specific credit event or tax code change.
  - Tax Event Risk - A form of basis risk - risk of higher tax-exempt interest rates (an increase in SIFMA Index) if tax law changes lower the taxation rate on interest income. In the extreme scenario, if a change in tax law eliminated tax-exempt interest income, the market would adjust "tax-exempt" security pricing so that there would be no material difference between the SIFMA Index and LIBOR.
  - Credit Risk - Credit deterioration of the underlying bonds or any bond insurer insuring the bonds would result in basis risk discussed above.

  Mitigation of Risk – Methods of mitigating this risk include: specifying in the agreement a percent of LIBOR rate which reflects historical trading relationships and scheduled future tax cuts or consider using a SIFMA based rate; limiting the amount or percentage of debt subject to tax event risk; managing operations and cash reserve balances as efficiently as possible; and analyzing and implementing procedures to maintain credit stability.

- Termination Risk - Termination risk exists if (i) the Commission opts to terminate the swap prior to maturity; (ii) credit ratings for any Financing Program are lowered to below investment grade and the Department is unable or is not required to post collateral, as may be required by the swap agreements, to protect the counterparty against the risk resulting from the lowered rating; (iii) the counterparty is downgraded and the counterparty is unable to post collateral; or (iv) the counterparty is downgraded to a level that causes an involuntary termination. Early termination would be solely at the option of the Commission (except in certain credit events described in (ii) above). It is Commission policy that the counterparty will not have the option to terminate at any time without cause.

Mitigation of Risk – the Commission's strong financial standing makes the likelihood of early involuntary termination remote for the majority of its Financing Programs, however, lower rated credits such as project revenue bonds may be vulnerable to termination risk. In the event of a termination TxDOT may be required to make a termination payment to the swap provider. In the absence of market changes, the magnitude of the termination payment generally decreases over time as the Transaction approaches maturity. If a termination payment were to be made, the financial impact would be mitigated by the savings which had been gained through the swap prior to termination. If the swap is allowed to mature, there will be no termination payment. The possibility of a future termination payment puts more pressure on the Department to maintain sufficient reserves and to maintain investment grade credit ratings on all of its Financing Programs. Risk of involuntary termination due to counterparty downgrade is mitigated by a collateral posting requirement, and the use of a diverse group of highly rated counterparties.

- Rollover Risk – Potential rollover risk exists if the swap maturity does not match the maturity of the hedged debt or asset. If the Commission chooses to enter into another swap transaction to hedge the related debt or asset, the Commission may not be able to have the same counterparty or achieve the same economic benefit with the next swap transaction.

  Mitigation of Risk – Rollover risk may be mitigated by structuring swap transactions to mirror the maturity of the underlying debt obligations and/or related assets of the Commission.

- Disclosure Risk - Accounting standards may require balance sheet and income statement entries for swap agreement interim values. For example, if an upfront payment structure were considered and legally acceptable, then TxDOT would have to show a negative value for the first several years even if rates remained the same.

  Mitigation of Risk - Retain a reasonable cash reserve in case of termination and structure the swap to minimize the impact of early termination.

<u>EXHIBIT II</u>

EXAMPLE SUMMARY TERM SHEET
Date XX, 20XX

Title of Proposed Issue or Transaction

INDICATIVE TERMS AND CONDITIONS

***Issuer*:**	Texas Transportation Commission or Texas Department of Transportation
***Issue/Contract*:**	
***Amount*:**	Par and/or Notional Amount not to exceed $XXX.X
***Use of Proceeds*:**	If debt obligations are being issued.
***Bonds Refunded (if any)*:**	
***Refunded Par (if any)*:**	
Description of Derivative Transaction Structure, including debt/swap instruments:	
Rate Methodology:	SIFMA, % of LIBOR
Amortization:	
Early Termination Provisions (if any):	
***Average Life/Term or Designated Maturity*:**	
Revenue Pledge:	
Estimated Synthetic Fixed/Variable Rate PV (Upfront?) Savings:	

Upfront Costs of the Transaction:	
On-going Costs of the Transaction:	
Benefits/Reasons for the Transaction:	
Risks and Mitigation Measures:	
Proposed Counterparties and Current Credit Rating:	
Method of Selection of Counterparties:	
Financial Advisor and Associated Transaction Fees:	
Legal Advisor and Associated Transaction Fees:	

TEXAS DEPARTMENT OF TRANSPORTATION BONDS
Authority/Purpose/Security: The Texas Transportation Commission (Commission), the governing body of the Texas Department of Transportation (Department) is authorized to issue bonds under the statutory and constitutional authority, for the purposes, and with the security as set out below.

Mobility Fund Bonds: Following the 2001 Texas Legislative Session, the Texas Constitution was amended by the adoption of Article III, Section 49-k to create the Texas Mobility Fund. The Texas Transportation Code was amended in 2001 to implement such constitutional provision, and in 2003, 2005 and 2007 the Legislature dedicated various State revenues to the Texas Mobility Fund. The Texas Mobility Fund bonds are authorized by Transportation Code Chapter 201, Subchapter M, are secured by money deposited in the Mobility Fund, and the proceeds of which are used to provide a method of financing the construction, reconstruction, acquisition, and expansion of state highways.

Highway Fund Bonds: The Texas Constitution (Article III, Section 49-n) and the Texas Transportation Code (Section 222.003) were amended in 2003 to authorize the Commission to issue bonds secured by a pledge of and payable from revenue deposited to the credit of the State Highway Fund to fund improvements to the State Highway System. The maximum aggregate principal amount of State Highway Fund Revenue Obligations authorized to be issued was increased from $3 billion to $6 billion by an amendment to Transportation Code Section 222.003 enacted by the State Legislature in 2007.

Turnpike Revenue Bonds: The Texas Turnpike Authority (TTA) Division is a division of the Department and is controlled and governed by the Commission. As originally created in 1997, TTA had a separate board of directors, but this board was abolished by the Legislature in 2001, and all duties of the board were given to the Commission. Pursuant to Transportation Code Chapter 228, Subchapter C, the Commission has the authority to issue turnpike revenue bonds, secured by project revenues, to pay all or a part of the costs of a turnpike project,

State Infrastructure Bank: The Department is has created a State Infrastructure Bank (SIB) to be funded by federal funds, state matching funds and the proceeds of revenue bonds. The SIB is be used to fund transportation infrastructure development projects such as interchanges, off-system bridges, collector roads, toll roads, utility adjustments, right-of-way acquisitions and other eligible projects. The authority for the SIB is Transportation Code Chapter 222, Subchapter D. The Department is authorized to issue revenue bonds payable from the income and receipt of the revenues of the SIB including principal and interest on obligations acquired and held by the SIB.

State General Obligation Bonds: On November 6, 2007, voters in the State approved Article III, Section 49-p as an amendment to the State constitution that authorizes the legislature to enact legislation to authorize the Commission to issue State general obligation bonds in an amount not to exceed $5 billion to provide funding for highway improvement projects. Transportation Code Section 222.004 enacted by the First Called Special Session of the 81st Texas Legislature authorizes the Commission to issue such general obligation bonds in an amount not to exceed the $5 billion authorized by Section 49-p. The general obligation bonds may be issued to pay all or part of the costs of highway improvement projects including capitalizing the SIB to make loans to public entities for highway improvement.

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