TEXAS DEPARTMENT OF TRANSPORTATION
Annual Issuer Report
Prepared for the Bond Review Board
For the Fiscal Year Ending August 31, 2010

II. CREDIT RATINGS

GENERAL OBLIGATION BONDS
Self-Supporting General Obligation Bonds

Texas Mobility Fund General Obligation Bonds

Series	Issue Date	Moody's	Standard & Poor's	Fitch
Series 2005-A	6/8/2005	Aaa	AA+	AAA
Series 2005-B	6/8/2005	Aaa/VMIG1	AA+/A-2	AAA/F1+
Series 2006	6/8/2006	Aaa	AA+	AAA
Series 2006-A	10/31/2006	Aaa	AA+	AAA
Series 2006-B	12/13/2006	Aaa/VMIG1	NR	AAA/F1+
Series 2007	6/21/2007	Aaa	AA+	AAA
Series 2008	2/28/2008	Aaa	AA+	AAA
Series 2009A	8/26/2009	Aaa	AA+	AAA

Non Self-Supporting General Obligation Bonds

State of Texas Highway Improvement General Obligation (Prop 12) Bonds

Series	Issue Date	Moody's	Standard & Poor's	Fitch

No bonds issued as of 8/31/2010

NON-GENERAL OBLIGATION BONDS
Self-Supporting Non-General Obligation Bonds

Central Texas Turnpike System Revenue Bonds

Series	Issue Date	Moody's	Standard & Poor's	Fitch
Series 2002-A	8/29/2002	Baa1	BBB+	BBB+
Series 2009	3/5/2009	Baa1	BBB+	BBB+

State Highway Fund Revenue Financing Program

Series	Issue Date	Moody's	Standard & Poor's	Fitch
Series 2006	5/3/2006	Aaa	AAA	NR
Series 2006-A	11/21/2006	Aaa	AAA	NR
Series 2006-B	11/8/2006	Aaa/VMIG1	AAA/A-1+	NR
Series 2007	10/25/2007	Aaa	AAA	NR
Series 2008	8/19/2008	Aaa	AAA	NR
Series 2010	8/5/2010	Aaa	AAA	NR

State Highway Fund Revenue Commercial Paper Notes, Series A

Series	Issue Date	Moody's	Standard & Poor's	Fitch
Notes Series A	8/19/2009	P-1	A-1+	NR

III. AUTHORIZED DEBT

GENERAL OBLIGATION BONDS
Self-Supporting General Obligation Bonds

Texas Mobility Fund General Obligation Bonds

Authorized but Unissued Debt		Legal Reference
Authorization	$ 6,400,000,000	Texas Constitution, Article III Section 49-k
Authorization Used*	6,316,209,369	Transportation Code, Ch 201, Subchapter M
Amount Remaining	$ 83,790,631	

*Authorization Used consists of principal issued plus premium. However, premium was not counted towards authorization until issuance of Series 2008 bonds.

Non Self-Supporting General Obligation Bonds

State of Texas Highway Improvement General Obligation (Prop 12) Bonds

Authorized but Unissued Debt		Legal Reference
Authorization	$ 5,000,000,000	Texas Constitution, Article III Section 49-p
Authorization Used	-	Transportation Code, Section 222.004
Amount Remaining	$ 5,000,000,000	

NON-GENERAL OBLIGATION BONDS
Self-Supporting Non-General Obligation Bonds

Central Texas Turnpike System Revenue Bonds

Authorized but Unissued Debt	Legal Reference
Not applicable	Transportation Code, Ch 228

State Highway Fund Revenue Financing Program

Authorized but Unissued Debt		Legal Reference
Authorization	$ 6,000,000,000	Texas Constitution, Article III Section 49-n
Authorization Used**	4,599,332,874	Transportation Code, Ch 222, Subchapter A
Amount Remaining	$ 1,400,667,126	

**Authorization Used consists of principal issued plus premium less underwriters discount less cost of issuance.

State Highway Fund Revenue Commercial Paper Notes, Series A

Authorized but Unissued Debt	Legal Reference
Not applicable	Texas Constitution, Article III Section 49-m Transportation Code Section 201.115

IV. OUTSTANDING DEBT

A. SUMMARY OF DEBT OUTSTANDING AS OF 8/31/2010

	CUSIP	Outstanding Principal	Interest Payable	Total Debt Service Due	Federal Subsidy	Net Debt Service
GENERAL OBLIGATION BONDS						
Self-Supporting General Obligation Bonds						
Texas Mobility Fund General Obligation Bonds						
Series 2005-A Fixed Rate Bonds	882721-B,C,G,J,W-xx	$818,335,000	$617,888,463	$1,436,223,463	NA	$1,436,223,463
Series 2005-B Variable Rate Bonds [1]	882721BP7	85,400,000	5,757,711	91,157,711	NA	91,157,711
Series 2006 Fixed Rate Bonds	882721-K,L,M-xx	693,030,000	546,979,175	1,240,009,175	NA	1,240,009,175
Series 2006-A Fixed Rate Bonds	882721-N,P,U,Y-xx	1,038,380,000	927,369,850	1,965,749,850	NA	1,965,749,850
Series 2006-B Variable Rate Bonds [1]	882721RM7	150,000,000	9,958,705	159,958,705	NA	159,958,705
Series 2007 Fixed Rate Bonds	882721-U,V-xx	1,004,685,000	1,059,772,700	2,064,457,700	NA	2,064,457,700
Series 2008 Fixed Rate Bonds	882721-P,Q,R,S-xx	1,099,000,000	993,367,575	2,092,367,575	NA	2,092,367,575
Series 2009A Fixed Rate Taxable BABs	882722Kxx	1,208,495,000	1,811,391,558	3,019,886,558	(633,987,045)	2,385,899,513
TOTAL TMF General Obligation Bonds		$6,097,325,000	$5,972,485,737	$12,069,810,737	($633,987,045)	$11,435,823,692
Subtotal Self-Supporting G.O. Bonds		$6,097,325,000	$5,972,485,737	$12,069,810,737	($633,987,045)	$11,435,823,692
TOTAL GENERAL OBLIGATION BONDS		**$6,097,325,000**	**$5,972,485,737**	**$12,069,810,737**	**($633,987,045)**	**$11,435,823,692**
NON-GENERAL OBLIGATION BONDS						
Self-Supporting Non-General Obligation Bonds						
Central Texas Turnpike System Revenue Bonds						
Series 2002-A CIBs and CABs [2, 3]	882762-A,B-xx	$1,399,258,217	$2,395,332,958	3,794,591,175	NA	3,794,591,175
Series 2009 Refunding Put Bonds	88283KAA6	149,275,000	238,840,000	388,115,000	NA	388,115,000
TIFIA Loan [2, 3]		1,006,305,414	1,807,582,134	2,813,887,548	NA	2,813,887,548
TOTAL CTTS Revenue Bonds		$2,554,838,631	$4,441,755,092	$6,996,593,723	$0	$6,996,593,723
State Highway Fund Revenue Bonds						
Series 2006 Fixed Rate Bonds	88283L-A,B-xx	$519,065,000	$246,756,250	$765,821,250	NA	$765,821,250
Series 2006-A Fixed Rate Bonds	88283LCxx	753,200,000	319,062,075	1,072,262,075	NA	1,072,262,075
Series 2006-B Variable Rate Bonds [1]	88283LBX3	100,000,000	5,057,508	105,057,508	NA	105,057,508
Series 2007 Fixed Rate Bonds	88283L-D,E-xx	1,157,800,000	586,149,250	1,743,949,250	NA	1,743,949,250
Series 2008 Fixed Rate Bonds	88283L-G,H-xx	157,590,000	86,708,388	244,298,388	NA	244,298,388
Series 2010 Fixed Rate Bonds	88283LHT6, LHU3	1,500,000,000	1,355,061,849	2,855,061,849	(474,271,647)	2,380,790,202
TOTAL SHF Revenue Bonds		$4,187,655,000	$2,598,795,319	$6,786,450,319	($474,271,647)	$6,312,178,672
Subtotal Self-Supporting Non-G.O. Bonds		$6,742,493,631	$7,040,550,411	$13,783,044,042	($474,271,647)	$13,308,772,395
TOTAL NON-GENERAL OBLIGATION BONDS		**$6,742,493,631**	**$7,040,550,411**	**$13,783,044,042**	**($474,271,647)**	**$13,308,772,395**
TOTAL DEBT OUTSTANDING as of 8/31/2010		**$12,839,818,631**	**$13,013,036,148**	**$25,852,854,779**	**($1,108,258,692)**	**$24,744,596,086**

SUMMARY OF NOTES OUTSTANDING AS OF 8/31/2010

State Highway Fund Commercial Paper Notes	CUSIP	Outstanding Principal	Interest Payable	Total Debt Service Due	Federal Subsidy	Net Debt Service
Notes Series A	88237Txxx	$65,000,000	$54,493	$65,054,493	NA	$65,054,493

[1] For variable rate bonds, interest rates reset weekly. For projection purposes, the interest rate in effect on 8/31/2010 is used. For TMF Series 2005-B and 2006-B the rates were 0.60% and 0.26%, respectively. For SHF Series 2006-B, the rate was 0.33%.

[2] Outstanding Principal includes interest accreted to principal through 8/15/2010

[3] Interest Payable includes interest that will accrete from 8/16/2010 through maturity

IV. OUTSTANDING DEBT

B. ESTIMATED DEBT SERVICE SCHEDULE beginning 9/1/2010

Texas Mobility Fund General Obligation Bonds

	Series 2005-A		Series 2005-B*		Series 2006		Series 2006-A		Series 2006-B*	
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	16,995,000	39,275,703	3,085,000	506,213	14,115,000	34,229,050	2,275,000	49,726,500	-	390,000
2012	17,845,000	38,425,953	3,185,000	488,086	14,785,000	33,557,113	3,215,000	49,635,500	-	390,000
2013	18,735,000	37,533,703	3,290,000	467,638	15,485,000	32,859,913	4,185,000	49,506,900	-	390,000
2014	19,670,000	36,596,953	3,400,000	448,221	16,225,000	32,115,563	5,115,000	49,339,500	-	390,000
2015	20,655,000	35,613,453	3,510,000	427,601	16,940,000	31,405,038	6,045,000	49,134,900	-	390,000
2016	21,690,000	34,580,703	3,625,000	406,804	17,770,000	30,572,038	6,955,000	48,893,100	-	390,000
2017	22,775,000	33,496,203	3,745,000	383,871	18,630,000	29,714,163	8,895,000	48,614,900	-	390,000
2018	23,660,000	32,607,978	3,870,000	361,599	19,560,000	28,782,663	12,490,000	48,170,150	-	390,000
2019	24,605,000	31,661,578	4,000,000	338,118	20,540,000	27,804,663	16,305,000	47,545,650	-	390,000
2020	25,590,000	30,677,378	4,130,000	314,249	21,565,000	26,777,663	20,340,000	46,730,400	-	390,000
2021	26,640,000	29,628,188	4,265,000	288,466	22,645,000	25,699,413	24,655,000	45,713,400	-	390,000
2022	27,975,000	28,296,188	4,405,000	262,936	23,775,000	24,567,163	29,195,000	44,480,650	-	390,000
2023	29,370,000	26,897,438	4,550,000	236,215	24,965,000	23,378,413	34,015,000	43,020,900	-	390,000
2024	30,840,000	25,428,938	4,700,000	208,890	26,215,000	22,130,163	39,105,000	41,320,150	-	390,000
2025	32,385,000	23,886,938	4,855,000	179,886	27,525,000	20,819,413	44,530,000	39,364,900	-	390,000
2026	34,000,000	22,267,688	5,015,000	150,653	28,805,000	19,539,500	50,240,000	37,138,400	-	390,000
2027	35,700,000	20,567,688	5,180,000	120,232	30,245,000	18,099,250	56,035,000	34,877,600	-	390,000
2028	37,490,000	18,782,688	5,350,000	88,954	31,755,000	16,587,000	62,405,000	32,075,850	-	390,000
2029	39,360,000	16,908,188	5,530,000	56,272	33,345,000	14,999,250	68,865,000	29,267,625	-	390,000
2030	41,330,000	14,940,188	5,710,000	22,809	35,010,000	13,332,000	75,975,000	25,824,375	-	390,000
2031	49,295,000	12,873,688	-	-	36,760,000	11,581,500	83,055,000	22,405,500	-	390,000
2032	51,635,000	10,532,175	-	-	38,600,000	9,743,500	90,900,000	18,252,750	-	390,000
2033	54,090,000	8,079,513	-	-	40,530,000	7,813,500	99,285,000	13,707,750	-	390,000
2034	56,655,000	5,510,238	-	-	42,555,000	5,787,000	108,100,000	8,743,500	-	390,000
2035	59,350,000	2,819,125	-	-	44,685,000	3,659,250	86,200,000	3,879,000	19,890,000	372,715
2036	-	-	-	-	30,000,000	1,425,000	-	-	130,110,000	225,990
2037	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-	-
TOTAL	**$818,335,000**	**$617,888,463**	**$85,400,000**	**$5,757,711**	**$693,030,000**	**$546,979,175**	**$1,038,380,000**	**$927,369,850**	**$150,000,000**	**$9,958,705**
Series Total Debt Service		**$1,436,223,463**		**$91,157,711**		**$1,240,009,175**		**$1,965,749,850**		**$159,958,705**

*For variable rate bonds, the interest rate in effect on 8/31/2010 is used. For Series 2005-B and 2006-B the rates were 0.60% and 0.26%, respectively.

B. ESTIMATED DEBT SERVICE SCHEDULE beginning 9/1/2010

Texas Mobility Fund General Obligation Bonds

FY	Series 2007 Principal	Series 2007 Interest	Series 2008 Principal	Series 2008 Interest	Series 2009A Principal	Series 2009A Interest	Program Total Debt Service Principal	Program Total Debt Service Interest	TMF GROSS DEBT SERVICE	Federal Tax Subsidy	TMF NET DEBT SERVICE
2011	250,000	48,759,263	2,925,000	53,298,200	-	66,582,669	39,645,000	292,767,597	**332,412,597**	(23,303,934)	**309,108,663**
2012	250,000	48,749,263	7,490,000	53,166,575	-	66,582,669	46,770,000	290,995,157	**337,765,157**	(23,303,934)	**314,461,223**
2013	250,000	48,739,263	11,245,000	52,792,075	-	66,582,669	53,190,000	288,872,160	**342,062,160**	(23,303,934)	**318,758,226**
2014	2,350,000	48,729,263	13,625,000	52,229,825	-	66,582,669	60,385,000	286,431,993	**346,816,993**	(23,303,934)	**323,513,059**
2015	5,130,000	48,635,263	15,645,000	51,548,575	-	66,582,669	67,925,000	283,737,497	**351,662,497**	(23,303,934)	**328,358,563**
2016	8,125,000	48,430,063	17,765,000	50,766,325	-	66,582,669	75,930,000	280,621,700	**356,551,700**	(23,303,934)	**333,247,766**
2017	10,890,000	48,105,063	19,465,000	49,878,075	-	66,582,669	84,400,000	277,164,942	**361,564,942**	(23,303,934)	**338,261,008**
2018	12,420,000	47,560,563	21,935,000	48,904,825	-	66,582,669	93,935,000	273,360,445	**367,295,445**	(23,303,934)	**343,991,511**
2019	14,035,000	46,939,563	23,860,000	47,808,075	-	66,582,669	103,345,000	269,070,315	**372,415,315**	(23,303,934)	**349,111,381**
2020	15,735,000	46,237,813	25,905,000	46,615,075	420,000	66,582,669	113,685,000	264,325,246	**378,010,246**	(23,303,934)	**354,706,311**
2021	17,540,000	45,451,063	28,045,000	45,319,825	730,000	66,560,128	124,520,000	259,050,481	**383,570,481**	(23,296,045)	**360,274,437**
2022	19,450,000	44,574,063	30,310,000	43,917,575	2,095,000	66,520,949	137,205,000	253,009,522	**390,214,522**	(23,282,332)	**366,932,190**
2023	21,470,000	43,601,563	32,695,000	42,402,075	3,555,000	66,408,510	150,620,000	246,335,113	**396,955,113**	(23,242,979)	**373,712,134**
2024	23,595,000	42,528,063	35,880,000	40,767,325	4,470,000	66,217,713	164,805,000	238,991,240	**403,796,240**	(23,176,200)	**380,620,041**
2025	25,840,000	41,348,313	38,565,000	38,973,325	6,100,000	65,977,808	179,800,000	230,940,582	**410,740,582**	(23,092,233)	**387,648,349**
2026	28,165,000	40,120,913	41,395,000	37,045,075	7,865,000	65,650,421	195,485,000	222,302,649	**417,787,649**	(22,977,647)	**394,810,001**
2027	30,605,000	38,783,075	44,375,000	34,975,325	9,755,000	65,228,307	211,895,000	213,041,476	**424,936,476**	(22,829,907)	**402,106,568**
2028	33,170,000	37,329,338	47,515,000	32,756,575	11,780,000	64,704,756	229,465,000	202,715,160	**432,180,160**	(22,646,665)	**409,533,495**
2029	35,865,000	35,753,763	51,500,000	30,380,825	13,230,000	64,072,523	247,695,000	191,828,446	**439,523,446**	(22,425,383)	**417,098,063**
2030	38,725,000	34,050,175	55,015,000	27,805,825	15,490,000	63,362,469	267,255,000	179,727,840	**446,982,840**	(22,176,864)	**424,805,976**
2031	41,625,000	32,307,550	58,715,000	25,055,075	17,895,000	62,507,886	287,345,000	167,121,198	**454,466,198**	(21,877,760)	**432,588,438**
2032	44,720,000	30,434,425	62,310,000	22,412,900	20,475,000	61,520,619	308,640,000	153,286,369	**461,926,369**	(21,532,217)	**440,394,152**
2033	47,895,000	28,422,025	66,090,000	19,608,950	23,175,000	60,391,013	331,065,000	138,412,750	**469,477,750**	(21,136,855)	**448,340,896**
2034	51,270,000	26,266,750	70,205,000	16,469,675	26,055,000	59,112,448	354,840,000	122,279,611	**477,119,611**	(20,689,357)	**456,430,254**
2035	66,015,000	23,765,750	75,210,000	13,134,938	28,435,000	57,674,994	379,785,000	105,305,771	**485,090,771**	(20,186,248)	**464,904,523**
2036	135,590,000	20,465,000	79,795,000	9,562,463	31,690,000	56,106,235	407,185,000	87,784,687	**494,969,687**	(19,637,182)	**475,332,505**
2037	273,710,000	13,685,500	121,520,000	5,772,200	36,825,000	54,357,898	432,055,000	73,815,598	**505,870,598**	(19,025,264)	**486,845,333**
2038	-	-	-	-	461,525,000	52,326,262	461,525,000	52,326,262	**513,851,262**	(18,314,192)	**495,537,071**
2039	-	-	-	-	486,930,000	26,863,928	486,930,000	26,863,928	**513,793,928**	(9,402,375)	**504,391,553**
TOTAL	**$1,004,685,000**	**$1,059,772,700**	**$1,099,000,000**	**$993,367,575**	**$1,208,495,000**	**$1,811,391,558**	**$6,097,325,000**	**$5,972,485,737**	**$12,069,810,737**	**($633,987,045)**	**$11,435,823,691**
Series Total Debt Service	**$2,064,457,700**		**$2,092,367,575**		**$3,019,886,558**						

IV. OUTSTANDING DEBT

B. ESTIMATED DEBT SERVICE SCHEDULE beginning 9/1/2010

Central Texas Turnpike System Revenue Bonds

	Series 2002-A		Series 2009		TIFIA Loan		Program Total Debt Service		TOTAL ANNUAL
FY	Principal*	Interest**	Principal	Interest	Principal***	Interest	Principal	Interest	DEBT SERVICE
2011	-	37,161,838	-	7,463,750	-	30,082,120	-	74,707,707	**74,707,707**
2012	2,900,319	38,766,519	-	7,463,750	-	31,690,305	2,900,319	77,920,573	**80,820,892**
2013	4,688,374	40,183,464	-	7,463,750	-	33,698,174	4,688,374	81,345,388	**86,033,762**
2014	5,818,917	41,497,921	-	7,463,750	-	35,022,513	5,818,917	83,984,184	**89,803,100**
2015	6,764,599	43,002,238	-	7,463,750	-	36,443,186	6,764,599	86,909,174	**93,673,773**
2016	13,020,687	49,946,151	-	7,463,750	-	43,188,071	13,020,687	100,597,972	**113,618,659**
2017	14,061,808	52,755,030	-	7,463,750	-	45,478,072	14,061,808	105,696,852	**119,758,659**
2018	14,855,575	55,806,263	-	7,463,750	-	47,969,486	14,855,575	111,239,499	**126,095,074**
2019	15,482,322	59,029,516	-	7,463,750	-	50,259,487	15,482,322	116,752,753	**132,235,075**
2020	15,932,864	62,428,974	-	7,463,750	-	52,759,659	15,932,864	122,652,382	**138,585,246**
2021	16,925,597	67,501,241	-	7,463,750	-	56,463,465	16,925,597	131,428,456	**148,354,053**
2022	17,683,687	72,528,151	-	7,463,750	-	59,549,723	17,683,687	139,541,624	**157,225,311**
2023	18,300,417	77,701,421	-	7,463,750	-	62,609,710	18,300,417	147,774,881	**166,075,297**
2024	18,929,309	82,857,529	-	7,463,750	-	65,622,058	18,929,309	155,943,337	**174,872,645**
2025	19,193,803	88,378,034	-	7,463,750	376,899	68,306,383	19,570,703	164,148,167	**183,718,870**
2026	23,573,802	105,298,036	-	7,463,750	11,809,968	68,285,616	35,383,770	181,047,401	**216,431,172**
2027	23,477,726	110,544,112	-	7,463,750	16,027,849	67,634,887	39,505,575	185,642,748	**225,148,323**
2028	23,303,167	115,833,670	-	7,463,750	20,515,420	66,751,752	43,818,588	190,049,172	**233,867,760**
2029	23,056,235	121,145,602	-	7,463,750	25,265,109	65,621,352	48,321,344	194,230,705	**242,552,049**
2030	22,796,883	126,389,954	-	7,463,750	30,281,580	64,229,245	53,078,463	198,082,949	**251,161,412**
2031	20,749,511	133,337,327	-	7,463,750	35,561,373	62,560,730	56,310,883	203,361,807	**259,672,690**
2032	20,287,006	138,579,831	-	7,463,750	41,106,934	60,601,298	61,393,941	206,644,879	**268,038,820**
2033	19,778,829	143,733,009	-	7,463,750	46,915,630	58,336,306	66,694,459	209,533,065	**276,227,524**
2034	19,290,312	148,706,525	-	7,463,750	53,005,284	55,751,255	72,295,596	211,921,530	**284,217,126**
2035	18,735,808	153,771,029	-	7,463,750	59,477,650	52,830,664	78,213,458	214,065,443	**292,278,901**
2036	19,130,494	164,771,344	-	7,463,750	75,702,879	49,553,445	94,833,373	221,788,539	**316,621,912**
2037	19,780,106	179,036,732	-	7,463,750	83,400,947	45,382,217	103,181,053	231,882,698	**335,063,751**
2038	138,200,625	64,811,213	-	7,463,750	91,530,543	40,786,824	229,731,168	113,061,787	**342,792,955**
2039	146,525,000	29,422,338	-	7,463,750	132,482,117	35,743,492	279,007,117	72,629,579	**351,636,696**
2040	158,755,000	21,363,463	-	7,463,750	143,380,303	28,443,727	302,135,303	57,270,939	**359,406,243**
2041	170,850,000	13,425,713	-	7,463,750	154,898,182	20,543,472	325,748,182	41,432,935	**367,181,117**
2042	97,145,000	4,883,213	149,275,000	7,463,750	217,941,603	12,008,582	464,361,603	24,355,545	**488,717,148**
TOTAL	**$1,149,993,782**	**$2,644,597,393**	**$149,275,000**	**$238,840,000**	**$1,239,680,272**	**$1,574,207,276**	**$2,538,949,054**	**$4,457,644,669**	**$6,996,593,723**
Series Total Debt Service		**$3,794,591,175**		**$388,115,000**		**$2,813,887,548**			

*The principal balance only reflects the original par amount borrowed.

**Includes interest accreted throughout the life of the bonds.

*** Draws on the TIFIA facility were made in 2007 and 2008 totaling $900 million. However, per the agreement payments were deferred until 2010. Unpaid interest accrued during the deferral period and prior to principal payments (2025) is treated as principal and increases the principal balance from the $900 million originally drawn.

IV. OUTSTANDING DEBT

B. ESTIMATED DEBT SERVICE SCHEDULE beginning 9/1/2010

State Highway Fund Revenue Bonds

	Series 2006		Series 2006-A		Series 2006-B*		Series 2007		Series 2008	
FY	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	22,030,000	25,835,100	36,415,000	36,787,425	-	330,000	45,090,000	57,494,375	5,675,000	7,899,900
2012	23,105,000	24,760,100	38,155,000	35,041,675	-	330,000	47,295,000	55,289,875	5,955,000	7,616,150
2013	24,240,000	23,623,850	40,075,000	33,133,925	-	330,000	49,585,000	53,000,125	6,255,000	7,318,400
2014	25,435,000	22,429,850	42,070,000	31,130,175	-	330,000	51,960,000	50,625,875	6,530,000	7,042,625
2015	26,680,000	21,184,850	44,185,000	29,015,250	-	330,000	54,500,000	48,084,750	6,835,000	6,735,250
2016	27,985,000	19,876,500	46,170,000	27,026,925	-	330,000	57,200,000	45,386,000	7,155,000	6,416,438
2017	29,385,000	18,479,500	48,255,000	24,949,275	-	330,000	60,035,000	42,552,250	7,490,000	6,080,238
2018	30,855,000	17,010,250	50,665,000	22,536,525	-	330,000	62,980,000	39,606,750	7,840,000	5,730,638
2019	32,395,000	15,467,500	53,200,000	20,003,275	-	330,000	66,125,000	36,457,750	8,235,000	5,338,638
2020	34,015,000	13,847,750	55,850,000	17,343,275	-	330,000	69,435,000	33,151,500	8,645,000	4,926,888
2021	35,715,000	12,147,000	58,655,000	14,550,775	-	330,000	72,905,000	29,679,750	9,080,000	4,494,638
2022	37,500,000	10,361,250	61,585,000	11,618,025	-	330,000	76,550,000	26,034,500	9,530,000	4,040,638
2023	39,380,000	8,486,250	64,660,000	8,538,775	-	330,000	80,380,000	22,207,000	10,010,000	3,564,138
2024	41,345,000	6,517,250	67,890,000	5,305,775	-	330,000	84,395,000	18,188,000	10,510,000	3,063,638
2025	43,415,000	4,450,000	45,370,000	2,081,000	25,755,000	294,587	88,615,000	13,968,250	11,060,000	2,511,863
2026	45,585,000	2,279,250	-	-	74,245,000	142,921	93,050,000	9,537,500	11,640,000	1,931,213
2027	-	-	-	-	-	-	97,700,000	4,885,000	12,250,000	1,320,113
2028	-	-	-	-	-	-	-	-	12,895,000	676,988
2029	-	-	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-	-	-
TOTAL	**$519,065,000**	**$246,756,250**	**$753,200,000**	**$319,062,075**	**$100,000,000**	**$5,057,508**	**$1,157,800,000**	**$586,149,250**	**$157,590,000**	**$86,708,388**
Series Total Debt Service		**$765,821,250**		**$1,072,262,075**		**$105,057,508**		**$1,743,949,250**		**$244,298,388**

*For variable rate bonds, the interest rate in effect on 8/31/2010 is used. For Series 2006-B that rate was 0.33%.

IV. OUTSTANDING DEBT

B. ESTIMATED DEBT SERVICE SCHEDULE beginning 9/1/2010

State Highway Fund Revenue Bonds

FY	Series 2010 Principal	Series 2010 Interest	Program Total Debt Service Principal	Program Total Debt Service Interest	SHF GROSS DEBT SERVICE	Federal Tax Subsidy	SHF NET DEBT SERVICE
2011	-	50,625,978	109,210,000	178,972,778	**288,182,778**	(17,719,092)	**270,463,685**
2012	-	77,226,068	114,510,000	200,263,868	**314,773,868**	(27,029,124)	**287,744,744**
2013	-	77,226,068	120,155,000	194,632,368	**314,787,368**	(27,029,124)	**287,758,244**
2014	-	77,226,068	125,995,000	188,784,593	**314,779,593**	(27,029,124)	**287,750,469**
2015	-	77,226,068	132,200,000	182,576,168	**314,776,168**	(27,029,124)	**287,747,044**
2016	-	77,226,068	138,510,000	176,261,930	**314,771,930**	(27,029,124)	**287,742,806**
2017	-	77,226,068	145,165,000	169,617,330	**314,782,330**	(27,029,124)	**287,753,206**
2018	-	77,226,068	152,340,000	162,440,230	**314,780,230**	(27,029,124)	**287,751,106**
2019	-	77,226,068	159,955,000	154,823,230	**314,778,230**	(27,029,124)	**287,749,106**
2020	-	77,226,068	167,945,000	146,825,480	**314,770,480**	(27,029,124)	**287,741,356**
2021	-	77,226,068	176,355,000	138,428,230	**314,783,230**	(27,029,124)	**287,754,106**
2022	-	77,226,068	185,165,000	129,610,480	**314,775,480**	(27,029,124)	**287,746,356**
2023	70,495,000	77,226,068	264,925,000	120,352,230	**385,277,230**	(27,029,124)	**358,248,106**
2024	72,855,000	73,681,579	276,995,000	107,086,241	**384,081,241**	(25,788,553)	**358,292,689**
2025	75,265,000	70,018,430	289,480,000	93,324,129	**382,804,129**	(24,506,450)	**358,297,679**
2026	77,340,000	66,234,105	301,860,000	80,124,989	**381,984,989**	(23,181,937)	**358,803,052**
2027	203,795,000	62,345,450	313,745,000	68,550,563	**382,295,563**	(21,820,908)	**360,474,655**
2028	313,355,000	51,792,945	326,250,000	52,469,933	**378,719,933**	(18,127,531)	**360,592,402**
2029	337,665,000	35,567,423	337,665,000	35,567,423	**373,232,423**	(12,448,598)	**360,783,825**
2030	349,230,000	18,083,129	349,230,000	18,083,129	**367,313,129**	(6,329,095)	**360,984,034**
TOTAL	**$1,500,000,000**	**$1,355,061,849**	**$4,187,655,000**	**$2,598,795,319**	**$6,786,450,319**	**($474,271,647)**	**$6,312,178,672**

Series Total Debt Service **$2,855,061,849**

IV. OUTSTANDING DEBT

C. VARIABLE RATE DEBT

	State Highway Fund	Texas Mobility Fund	
	Series 2006-B	Series 2005-B*	Series 2006-B
Rate in effect on 8/31/2010	0.33%	0.60%	0.26%

*Texas Mobility Fund Series 2005-B variable rate bonds have experienced market rates higher than SIFMA due to the deteriorating credit quality of the support facility provider, Depfa. However the spread to SIFMA has steadily declined.

D. BANK BONDS TxDOT had no bonds held as bank bonds during the fiscal year ending August 31, 2010.

E. DEBT SERVICE PAID in FY 2010

	Principal Paid	Interest Paid	Total Debt Service Paid	Federal Subsidy	Net Debt Service Paid
DEBT SERVICE PAID ON GENERAL OBLIGATIONS BONDS					
Texas Mobility Fund Bonds - Fund 0365					
Series 2005-A Fixed Rate Bonds	$16,185,000	$40,084,953	$56,269,953	NA	$56,269,953
Series 2005-B Variable Rate Bonds	2,985,000	825,607	3,810,607	NA	3,810,607
Series 2006 Fixed Rate Bonds	13,485,000	34,858,700	48,343,700	NA	48,343,700
Series 2006-A Fixed Rate Bonds	1,325,000	49,779,500	51,104,500	NA	51,104,500
Series 2006-B Variable Rate Bonds	-	355,767	355,767	NA	355,767
Series 2007 Fixed Rate Bonds	250,000	48,769,263	49,019,263	NA	49,019,263
Series 2008 Fixed Rate Bonds	500,000	53,318,200	53,818,200	NA	53,818,200
Series 2009A Taxable Fixed Rate Bonds	-	39,764,650	39,764,650	(13,917,627)	25,847,022
TOTAL TMF General Obligation Bonds	$34,730,000	$267,756,638	$302,486,638	($13,917,627)	$288,569,011
TOTAL DEBT SERVICE PAID ON GENERAL OBLIGATION BONDS	**$34,730,000**	**$267,756,638**	**$302,486,638**	**($13,917,627)**	**$288,569,011**
DEBT SERVICE PAID ON NON-GENERAL OBLIGATION BONDS					
Central Texas Turnpike System Bonds					
Series 2002-A	-	$37,161,838	$37,161,838	NA	$37,161,838
Series 2009	-	7,463,750	7,463,750	NA	7,463,750
TIFIA Loan	-	18,475,012	18,475,012	NA	18,475,012
TOTAL CTTS Revenue Bonds	$0	$63,100,600	$63,100,600	$0	$63,100,600
State Highway Fund Bonds - Fund 0006					
Series 2006 Fixed Rate Bonds	$20,995,000	$26,870,850	$47,865,850	NA	$47,865,850
Series 2006-A Fixed Rate Bonds	34,680,000	38,521,425	73,201,425	NA	73,201,425
Series 2006-B Variable Rate Bonds	-	257,726	257,726	NA	257,726
Series 2007 Fixed Rate Bonds	43,020,000	59,565,375	102,585,375	NA	102,585,375
Series 2008 Fixed Rate Bonds	5,405,000	8,170,150	13,575,150	NA	13,575,150
Series 2010 Fixed Rate Taxable Bonds	-	-	-	0	-
TOTAL SHF Revenue Bonds	$104,100,000	$133,385,526	$237,485,526	$0	$237,485,526
TOTAL DEBT SERVICE PAID ON NON-G.O. BONDS	**$104,100,000**	**$196,486,126**	**$300,586,126**	**$0**	**$300,586,126**
GRAND TOTAL DEBT SERVICE PAID in FY 2010	**$138,830,000**	**$464,242,764**	**$603,072,764**	**($13,917,627)**	**$589,155,137**

DEBT SERVICE PAID ON COMMERCIAL PAPER NOTES	Principal Paid	Interest Paid	Total Debt Service Paid	Federal Subsidy	Net Debt Service Paid
State Highway Fund Commercial Paper					
Notes Series A	$295,000,000	$701,447	$295,701,447	NA	$295,701,447

IV. OUTSTANDING DEBT

F. CHANGES TO DEBT SERVICE RETIREMENT FOR THE PERIOD

There were no changes to the debt service retirement for the fiscal year ending August 31, 2010.

G. FY 2010 GENERAL REVENUE APPROPRIATED DEBT SERVICE

Currently, the Commission does not have any debt outstanding payable from pledged general revenue. In FY 2010, TxDOT was appropriated $15,708,044 in general revenue to apply towards State Highway Fund Bonds debt service. All of the appropriation has been applied.

VI. COMMERCIAL PAPER

State Highway Fund Revenue Commercial Paper Notes, Series A

A.	Aggregate principal amount authorized:	$500,000,000
	Aggregate principal outstanding on 8/31/2009	$300,000,000
B.	Aggregate principal amount issued in FY 2010:	$60,000,000
C.	Aggregate principal retired in FY 2010:	($295,000,000)
	Aggregate principal outstanding on 8/31/2010	$65,000,000

D. Commercial paper notes outstanding on 8/31/2010

Notes Outstanding	Principal	Interest Rate	Days Outstanding	Interest Accruing	Maturity Date
Series A	$ 65,000,000	0.34%	90	$54,493	9/9/2010

E. List of projects: commercial paper notes were issued for short term cash management purposes.

VII. SWAPS

A. List of derivatives effective as of 8/31/2010: Constant Maturity Swaps associated with the Texas Mobility Fund GO Bonds Series 2006-A

	Counterparty	Credit Rating M/S&P/F	Effective Date & Termination Date	Original Notional	Current Notional	TIC	Payer Rate	Receiver Rate	Fair Value
Original Terms	JPMorgan Chase Bank	Aa1/AA-/AA-	9/1/2007 to 9/1/2027	$ 200,000,000	$ 200,000,000	Fixed	SIFMA	69.42% of 10-yr LIBOR	
	Goldman Sachs Mitsui Marine	Aa1/AAA/NR	9/1/2007 to 9/1/2027	$ 100,000,000	$ 100,000,000	Fixed	SIFMA	69.42% of 10-yr LIBOR	
	Morgan Stanley Capital Services	A2/A/A	9/1/2007 to 9/1/2027	$ 100,000,000	$ 100,000,000	Fixed	SIFMA	69.42% of 10-yr LIBOR	
Current Terms*	JPMorgan Chase Bank	Aa1/AA-/AA-	12/1/09 to 11/30/2012	$ 200,000,000	$ 200,000,000	Fixed	$0	1.590% of the notional value	$ 2,838,462
	Goldman Sachs Mitsui Marine	Aa1/AAA/NR	12/1/09 to 11/30/2012	$ 100,000,000	$ 100,000,000	Fixed	$0	1.637% of the notional value	1,524,560
	Morgan Stanley Capital Services	A2/A/A	12/1/09 to 11/30/2012	$ 100,000,000	$ 100,000,000	Fixed	$0	1.575% of the notional value	1,385,615
								Total	$ 5,748,637

*In December 2009, TxDOT agreed to suspend the original terms of the swap agreements with each counterparty for a period of 3 years. For consideration of the suspensions, TxDOT elected to receive a monthly fixed annuity from each counterparty for the duration of the suspension period and make no payments to the counterparties. At the end of the suspension period, the swaps will revert back to their original terms with TxDOT paying SIFMA and the counterparties paying 69.42% of the 10-yr US-ISDA LIBOR swap rate.

B. Have any counterparties been downgraded? No downgrades in FY 2010.

C. Any Events of Default or Termination Events? No

D. Has TxDOT had to post collateral? None required; the swap agreements contain no provision for a collateral post by TxDOT.

E. Has there been a basis loss? No

F. Amount of reserves available on 8/31/2010: $418,680,894 The amount of reserves available for negative carry has not declined.

VIII. LIQUIDITY AND LETTERS OF CREDIT

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 year
	New York, NY 10022	Initial Commitment:	$101,150,685
	Phone: (212) 286-2000	Current Commitment:	$86,382,685

--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:	State Street Financial Center SFC/5	Commitment Fee:	10 bps per year
	One Lincoln Street	Commitment Amount:	$76,150,685
	Boston, MA 02111-2900		
	Phone: (617) 664-4190		
Provider:	CalPERS	Commitment Amount:	$76,150,685
Contact Information:	Lincoln Plaza North, 400 Q Street		
	Sacramento, CA 95814		
	Phone: (916) 795-3261		

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	Commitment Fee:	8.75 bps per year
	45th Floor	Commitment Amount:	$101,150,685
	New York, NY 10105		
	Phone: (212) 728-2396		

State Highway Fund Revenue Commercial Paper Notes

--Revolving Credit Agreement

Provider:	Bank of America, NA	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	Commitment Amount:	$155,547,945
Contact Information:	One Lincoln Street, SFC 14		
	Boston, MA 02111-2900		
	Phone: (617) 664-1064		
Provider:	JPMorgan Chase Bank, NA	Commitment Amount:	$155,547,945
Contact Information:	270 Park Avenue, 6th Floor		
	New York, NY 10017-2014		
	Phone: (212) 270-4186		

BONDS WITH INSURANCE COVERAGE:
--Central Texas Turnpike System First Tier Revenue Bonds Series 2002-A are insured by Ambac.
--$332.68 million of the Texas Mobility Fund General Obligation Bonds Series 2006-A are insured by Financial Guaranty Insurance Corp.

IX. EXPECTED ISSUANCES IN FY 2011

Program	Estimated Par	BRB Approval Mo	Expected Mo of Sale	Type of Issue NSS/SS	Type of Issue GO/Rev	Legal Reference	Purpose
Prop 12 GO Transportation Bonds	$1,000,000,000	July 2010	September 2010	NSS	GO	Trans Code, Sect 222.004	New money
State Highway Fund Revenue Bonds	$1,400,000,000	July 2011	August 2011	SS	Rev	Trans Code, Ch 222, Subch A	New money
Prop 12 GO Transportation Bonds	$1,000,000,000	July 2010	February 2011	NSS	GO	Trans Code, Sect 222.004	New money

X. FILING OF REQUESTS FOR PROPOSALS

On February 1, 2010, TxDOT issued a request for proposals (RFP) for financial advisory services. Bond Review Board staff was notified of the RFP. Access to the RFP can be found at the link below.

http://esbd.cpa.state.tx.us/bid_show.cfm?bidid=87057

XI. PROGRAM SUMMARIES

See Attachment B for revisions to the program summaries.

XII. LEGISLATION

None

I. DEBT MANAGEMENT / DERIVATIVES POLICIES

See Attachment A for the current Debt and Derivative Management Policies

TEXAS TRANSPORTATION COMMISSION

Debt Management Policy

August 26, 2010

TABLE OF CONTENTS

1. Policy Objectives and Philosophy 1
2. Scope and Authority 1
3. Currently Authorized Financing Programs 1
4. Allowable Purposes of Debt Issuance 3
5. Eligible Projects 3
6. Long Term Debt Planning 4
7. Refunding Procedures and Practices 4
8. Limitations on Level of Indebtedness 6
9. Credit Objectives 6
10. Permissible Types of Debt for Financing Programs 6
11. Permissible Types of Debt for Short Term Financing Programs 8
12. Structural Objectives 8
13. Method of Sale 10
14. Use and Investment of Bond Proceeds 11
15. Escrow Structuring 11
16. Compliance with Arbitrage Rebate 11
17. Continuing Disclosure 12
18. Rating Agency and Investor Communications 12
19. Selection of Consultants 12
20. Underwriting Procedures 13

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

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 (Proposition 14 Bonds) 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

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]

<u>Achieve Interest Rate Savings</u>

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. <u>b. Commercial paper</u>

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. <u>Fixed rate debt</u>

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. <u>Derivative products</u>

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. <u>Hedging products</u>

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

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

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. Financial Advisor

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. Investment Banking Firms

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 26, 2010

<u>**TABLE OF CONTENTS**</u>

1. Introduction 1
2. Policy Objectives and Philosophy 1
3. Management and Oversight 1
4. Guidelines 3
   Approved Purposes for Transactions 3
   General Guidelines 3
   Legality 4
   Aspects of Risk Exposure Associated with Such Transactions 4
   Counterparty Exposure Limitation 4
   Long-Term Implications 5
   Methods to be Used to Reflect Such Contracts in TxDOT's Financial Statements 5
5. Approval of Transactions 5
6. Methods of Soliciting and Procuring Transactions 5
7. Counterparty Requirements 7
8. Restrictions 7
9. Reporting and Early Warning Monitoring for Existing Transactions 7
10. Exit Strategies 8

EXHIBIT I - Risks Associated with Interest Rate Swaps and Other Transactions
EXHIBIT II - Example Summary Term Sheet

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

<u>Responsibilities:</u>

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 by reviewing mark-to-market values, current cash flows, or other metrics;
- 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.
7. To achieve any other Commission objective not listed above as described in a specific authorization of the Commission.

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 or can reasonably be expected to 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, letter of credit provider, or liquidity provider insuring or enhancing 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.

EXHIBIT II

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:	