

**TEXAS TRANSPORTATION COMMISSION**

**QUARTERLY INVESTMENT REPORT**

**AS OF**

**August 31, 2014**

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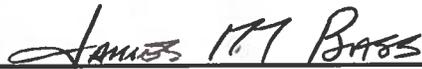
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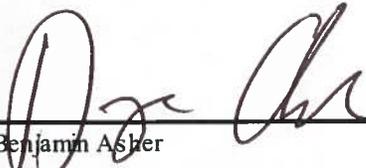
**MANAGEMENT'S CERTIFICATION OF THE QUARTERLY INVESTMENT REPORT**

I certify that I have reviewed the Quarterly Investment Report as of and for the period ending August 31, 2014 that is being submitted for acceptance by the Texas Transportation Commission. To the best of my knowledge and belief:

1. In all material respects the Investment Report was prepared in accordance with the guidelines presented in Government Code, Chapter 2256 (Public Funds Investment Act) and Section 9.0 of the investment policy. The investments have been accorded consistent treatment in accordance with generally accepted accounting principles.
2. There have been no material misrepresentations in the report by the inclusion or exclusion of information.
3. An effective system of internal controls has been established to ensure that material financial information is recorded in the accounting system and properly reported in the report and there were no material weaknesses in internal control during the period covered by the report or thereafter.
4. The Investment Report is formally reviewed in conjunction with the annual audit of the Central Texas Turnpike System financial statements. An independent accountant's report on agreed-upon procedures to review management's compliance with the Public Funds Investment Act is conducted annually. The report is presented to the Commission.

  
\_\_\_\_\_  
James M. Bass  
Chief Financial Officer  
Investment Officer

10-27-14  
Date

  
\_\_\_\_\_  
Benjamin Asker  
Innovative Financing/Debt Management Office  
Investment Officer

10-27-14  
Date

## 2002 PROJECT OF THE CENTRAL TEXAS TURNPIKE SYSTEM

### MANAGEMENT DISCUSSION

During the reporting period, all investment funds of the Texas Transportation Commission (Commission) were associated with the Central Texas Turnpike System (the System) obligations. The investments are held by The Bank of New York Mellon, acting as trustee. The funding of investments includes bond proceeds, capital contributions for the purpose of financing the 2002 Project of the System, revenues derived from operation of the System's toll roads and related investment earnings.

Suitable investments have been determined using the following criteria and priorities pursuant to the Commission's investment policy and the investment strategy relating to the System:

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

The investment instruments described in Schedule 1 are in compliance with the Public Funds Investment Act, investment policy and strategy of the Commission. This report reflects the changes as approved per House Bill 2226, RS 82.

The invested funds are accounted for in a number of specific accounts, as prescribed in the System's Indenture of Trust and shown in Schedule 3 of this report.

1. The Revenue Fund includes proceeds from all revenues and income derived from the operation of the System, including tolls, fees, lease income, certain investment earnings and any excess funds from the Rate Stabilization Fund. Disbursements from the Revenue Fund include funding of amounts necessary for an Arbitrage Rebate Fund (if needed), Debt Service funds, including both interest and principal, the Rate Stabilization Fund, reimbursement to the State Highway fund for operations and maintenance expenses, and funding of operations and maintenance reserves

2. The Capital Contributions account was initially funded by amounts received from various local government entities and from the commission for the purpose of paying the costs of the Project. Disbursements from the fund are made to pay costs of the Project, to reimburse entities for excess funds, and to repay related obligations or for other lawful purposes. The current balance in the account consists primarily of commission contributions and account earnings.

3. The First Tier Interest and Principal Accounts and the Subordinate Lien Interest and Principal Accounts are funded primarily from the Revenue Account and used to make periodic debt service payments on first tier and subordinate obligations, respectively. If adequate funds are not available in these accounts or the Revenue Fund, transfers may be made from the General Reserve Fund, the Rate Stabilization Fund and the First Tier Debt Service Reserve Fund, in that order.

4. The Rate Stabilization Fund was initially funded from the Revenue Fund and is required to be maintained at a certain level. If the balance falls below the requirement, the deficiency would be cured by deposits from the Revenue Fund over a period of time. The Rate Stabilization Fund is used to cure deficiencies in the first tier debt service funds, the second tier debt service funds, the subordinate debt service funds, the Operating Account or may be used to pay operating or maintenance expenses or other legal expenses. Excess funds in the Rate Stabilization Fund may be transferred to the Revenue Fund.

5. The Debt Service Reserve Fund (DSRF) is generally invested for a longer time period but may be called upon to make a debt service payment. Therefore, this fund type requires a high degree of market value protection in the event it is drawn upon. Protection against market value declines can be provided either by rolling short-term securities or purchasing an investment agreement product. A portion of the DSRF (approximately \$10 million) is invested in Money Market Investments. The approximately \$115 million balance is invested in a Guaranteed Investment Contract collateralized by U.S. Treasury and Agency securities. Diversity in maturities was achieved with short-term instruments and a 20-year term for the Guaranteed Investment Contract.

## **INVESTMENT ACTIVITY**

Attached as Schedule 1 are the investments outstanding for the quarter ending August 31, 2014. Investment activity for the quarter consisted of the purchase and sale of money market investments and government pool investments.

The System experienced a \$67.7 million net decrease in investments during the fourth quarter. The net decrease was primarily due to debt service payments, a reimbursement to the State Highway fund for operations and maintenance expenses, and funding of operations and maintenance reserves.

The Guaranteed Investment Contract is intended to be held to its maturity date of August 15, 2022.

## **CURRENT MARKET CONDITIONS**

Various U.S. Treasury yields as of August 31, 2014 are as follows:

3-Month Treasury:	0.03%
2-Year Treasury:	0.47%
10-Year Treasury:	2.42%
Discount Rate:	0.75%

U.S. Treasury yields reflect monthly averages for August 2014 as posted by the Federal Reserve. Schedule 2 presents the U.S. Treasury Historical Yields.

## **RECOMMENDED STRATEGY AMENDMENTS**

There are no recommended changes to the investment strategy

**TEXAS DEPARTMENT OF TRANSPORTATION  
CENTRAL TEXAS TURNPIKE SYSTEM  
SCHEDULE 1  
Investments Outstanding  
Book Value to Fair Value Comparison  
August 31, 2014**

<b>Portfolio Fair Value</b>	
Beginning, 06/01/2014	\$ 499,552,797
Ending, 08/31/2014	\$ 431,873,073
Interest and Investment Income	\$ 1,529,539
Yield	1.19%

Description	Yield	Maturity Date	August 31, 2014	
			Book Value	Fair Value
<i>Money Market Investments</i>				
JPM US Govt MMKT FD 3164 Capital	0.010%		\$ 55,388,619	\$ 55,388,619
<i>Lone Star Investment Pool*</i>				
Government Overnight Fund	0.050%		\$ 87,149,647	\$ 87,149,647
<i>TexPool**</i>				
Local Government Investment Pool Prime	0.033%		\$ 87,173,858	\$ 87,173,858
	0.059%		\$ 87,161,571	\$ 87,161,571
<i>Guaranteed Investment Contract***</i>				
Salomon Master GIC (CUSIP S86538450)	5.20%	08/15/2022	\$ 114,999,378	\$ 114,999,378
			<u>\$ 431,873,073</u>	<u>\$ 431,873,073</u>

**Notes:**

\* This fund seeks to maintain a net asset value of one dollar, and its dollar-weighted average maturity is 60 days or fewer.

\*\* These pools seek to maintain a one dollar per share as required by the Texas Public Funds Investment Act.

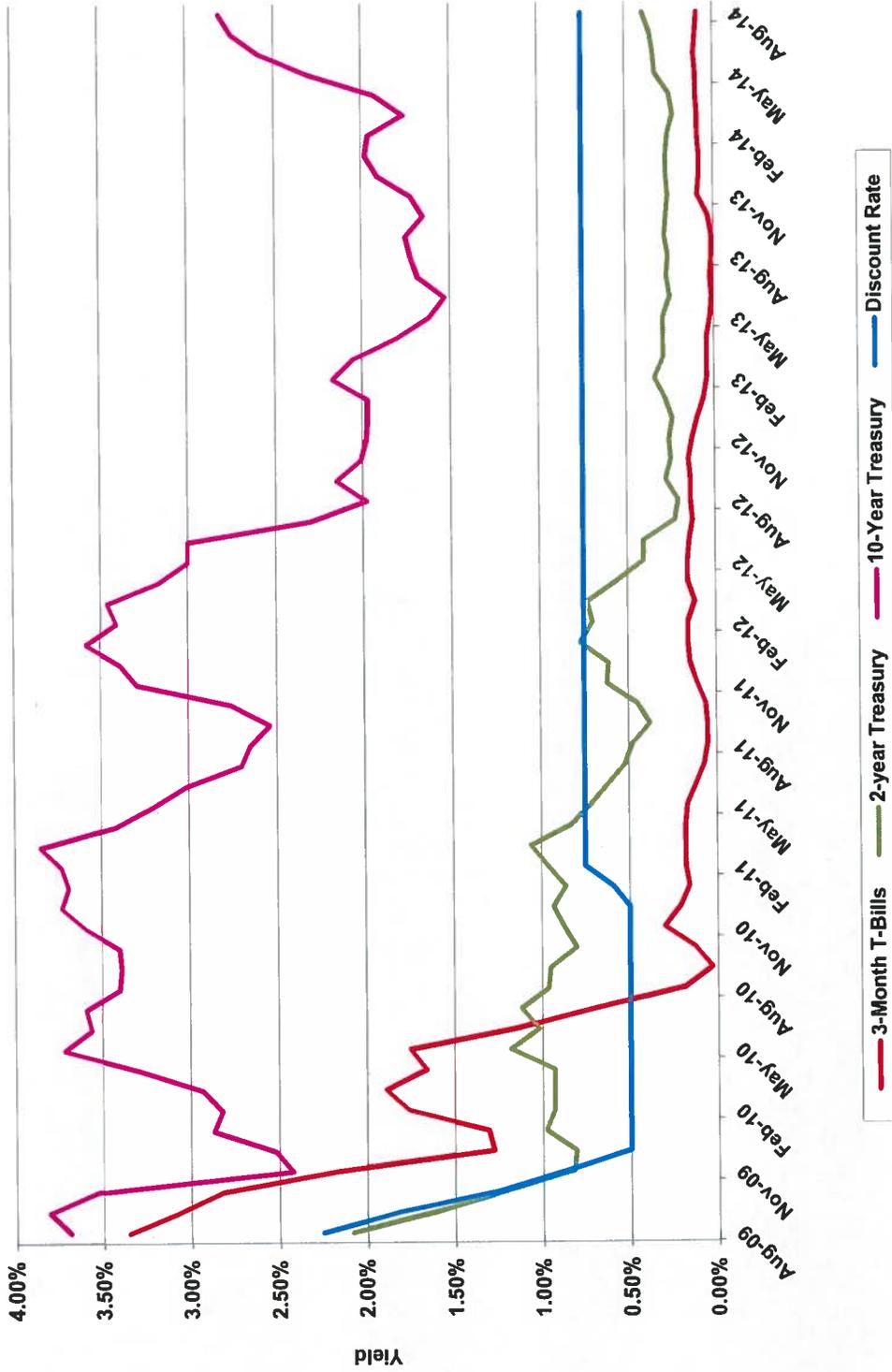
\*\*\*This security was purchased under the terms of a forward purchase agreement that was executed in August 2002 at rates that were currently available at that time.

"Weighted average yield to maturity" is the portfolio performance measurement standard.

Yields and fair values as reported on monthly account statements.

Totals may not add due to rounding.

Schedule 2  
U.S. Treasury Historical Yields



**SCHEDULE 3**  
**Allocation by Account**  
**August 31, 2014**

**Allocation - Fair Value**

May 31, 2014

Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1st Tier Interest Account	1st Tier Debt Reserve	Sub Lien Interest Account	1st Tier Principal Account
Money Market Investments	\$ 123,066,374	\$ -	\$ 3,401,469	\$ 69,360,212	\$ 22,750,076	\$ 9,956,368	\$ 11,779,150	\$ 5,819,099
U.S. Government Agency Securities								
Lonestar Gov't Overnight Fund	87,171,854	22,663,028	64,508,826					
TexPool Fund	87,166,891	22,600,368	64,566,523					
TexPool Prime Fund	87,148,300	22,603,037	64,545,263					
Guaranteed Investment Contract	114,999,378				114,999,378			
<b>Totals</b>	<b>\$ 499,552,797</b>	<b>\$ 67,866,434</b>	<b>\$ 197,022,081</b>	<b>\$ 69,360,212</b>	<b>\$ 22,750,076</b>	<b>\$ 124,955,746</b>	<b>\$ 11,779,150</b>	<b>\$ 5,819,099</b>

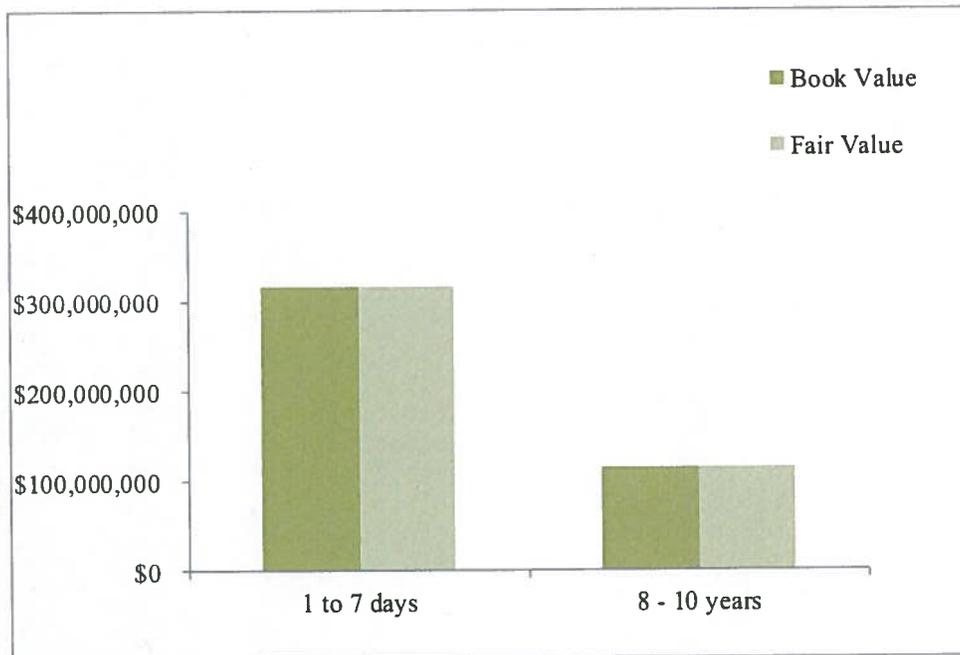
August 31, 2014

Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1st Tier Interest Account	1st Tier Debt Reserve	Sub Lien Interest Account	1st Tier Principal Account
Money Market Investments	\$ 55,388,619	\$ -	\$ 3,376,359	\$ -	\$ 17,532,700	\$ 9,955,467	\$ 18,221,593	\$ 6,302,500
U.S. Government Agency Securities								
Lonestar Gov't Overnight Fund	87,149,647	22,632,681	64,516,965					
TexPool Fund	87,173,858	22,602,175	64,571,684					
TexPool Prime Fund	87,161,571	22,606,479	64,555,092					
Guaranteed Investment Contract	114,999,378				114,999,378			
<b>Totals</b>	<b>\$ 431,873,073</b>	<b>\$ 67,841,335</b>	<b>\$ 197,020,100</b>	<b>\$ 0</b>	<b>\$ 17,532,700</b>	<b>\$ 124,954,845</b>	<b>\$ 18,221,593</b>	<b>\$ 6,302,500</b>

Fair Values as reported on monthly account statements.  
 Totals may not add due to rounding.

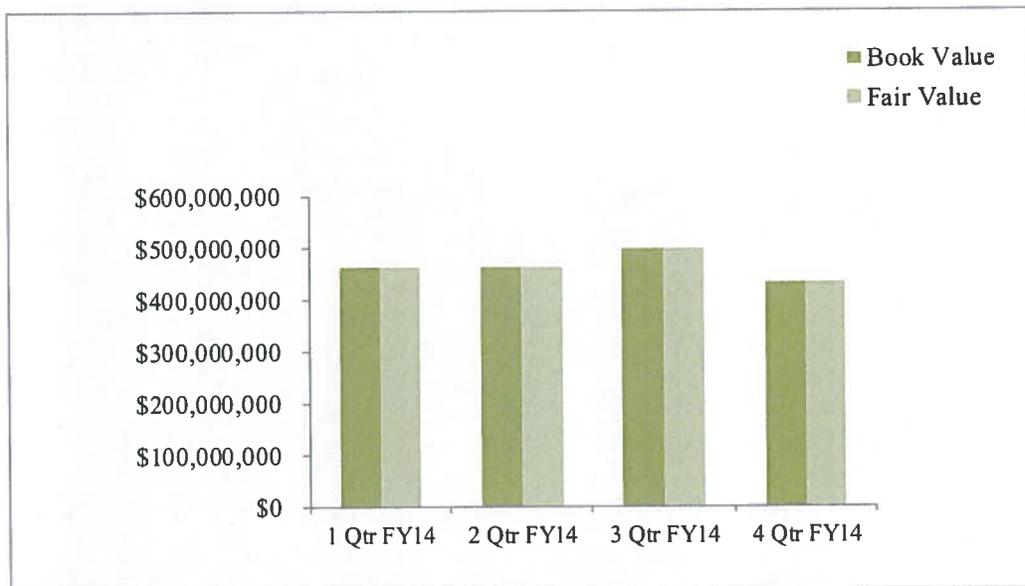
**SCHEDULE 4**  
**Maturity Distribution**  
**August 31, 2014**

<b>Maturity Date</b>	<b>Book Value</b>	<b>Fair Value</b>
1 to 7 days	\$316,873,695	\$316,873,695
8 - 10 years	114,999,378	114,999,378
<b>Total Investments</b>	<b>\$431,873,073</b>	<b>\$431,873,073</b>



**SCHEDULE 5**  
**Investment Portfolio Quarter End Values**  
**August 31, 2014**

<b>Quarter End Values</b>	<b>Book Value</b>	<b>Fair Value</b>
1 Qtr FY14	463,786,646	463,786,646
2 Qtr FY14	463,699,118	463,699,118
3 Qtr FY14	499,552,797	499,552,797
4 Qtr FY14	431,873,073	431,873,073



**SCHEDULE 6  
Investments by Security Type  
August 31, 2014**

<b>Security Type</b>	<u><b>Fair Value</b></u>
Money Market Investments	\$55,388,619
Lone Star Government Overnight Fund	87,149,647
TexPool Local Government Investment	87,173,858
TexPool Prime	87,161,571
Guaranteed Investment Contract	114,999,378
<b>Total Investments</b>	<u><b>\$431,873,073</b></u>

