

## TEXAS TRANSPORTATION COMMISSION

VARIOUS Counties

### MINUTE ORDER

Page 1 of 2

VARIOUS Districts

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

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

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

Pursuant to this legislation, in Minute Order 108970, dated July 25, 2002, the commission approved and adopted a written investment policy and written investment strategy applicable to funds of the commission held under the Indenture of Trust dated July 15, 2002 securing the outstanding bonds, notes or other obligations issued by the commission to finance a portion of the cost of the initial phase of the Central Texas Turnpike System, also known as the 2002 Project. The investment policy and investment strategy have been amended pursuant to Minute Order 109066, dated October 31, 2002, Minute Order 109339, dated July 31, 2003, Minute Order 109462, dated October 30, 2003, Minute Order 109732, dated July 29, 2004, Minute Order 109963, dated February 24, 2005, Minute Order 110087, dated May 26, 2005, Minute Order 110145, dated July 28, 2005, Minute Order 110617, dated July 27, 2006, and Minute Order 111003, dated July 26, 2007. The commission also adopted investment strategies in relation to the Texas Mobility Fund on February 24, 2005 and the Lease With an Option to Purchase Houston District Headquarters Complex Project on May 26, 2005. The commission has designated the department's Chief Financial Officer and Deputy Director of Finance as investment officers. The Debt Management Director is authorized to act as investment officer in the absence of the Chief Financial Officer and the Deputy Director of Finance.

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

TEXAS TRANSPORTATION COMMISSION

VARIOUS Counties

MINUTE ORDER

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VARIOUS Districts

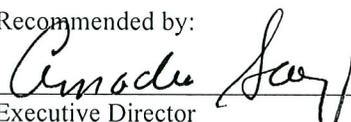
Quarterly investment reports will be prepared for each quarter of the department's fiscal year. A quarterly investment report for the 2002 Project for the period ending November 30, 2007, attached as Exhibit A, and a quarterly investment report for the Lease With an Option to Purchase Houston District Headquarters Complex Project for the period ending November 30, 2007, attached as Exhibit B, have been prepared in accordance with Government Code, §2256.023 and Section 9.0 of the investment policy.

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

Submitted and reviewed by:

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

Recommended by:

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

**111205 JAN 31 08**

Minute Number      Date Passed

**TEXAS TRANSPORTATION COMMISSION**

**QUARTERLY INVESTMENT REPORT**

**AS OF  
NOVEMBER 30, 2007**

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CERTIFICATION STATEMENT

This is to certify that I have reviewed the Quarterly Investment Report as of November 30, 2007 that is being submitted for acceptance by the Texas Transportation Commission. To the best of my knowledge and belief:

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

The investment portfolio is in compliance with the investment policy and relevant provisions of Government Code, Chapter 2256, exception stated in Section C. Investment Strategy.

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

The information presented in the Quarterly Investment Report is accurate.

I declare that the foregoing is true and correct.

Governmental Unit: Texas Department of Transportation

Signature: 

Name of Official: James M. Bass

Title: Chief Financial Officer

Date of Execution: January 23, 2008

Signature: 

Name of Official: John Muñoz

Title: Deputy Director, Finance Division

Date of Execution: January 23, 2008

Signature: 

Name of Official: Jose Hernandez

Title: Director, Debt Management Finance Division

Date of Execution: January 23, 2008

## INVESTMENT DISCUSSION – 2002 PROJECT

## INTRODUCTION

This section relates to investments made by the Texas Transportation Commission (commission) and held by The Bank of New York, acting as trustee. The investments include bond proceeds and other contributions for the purpose of financing the initial phase (“2002 Project”) of the Central Texas Turnpike System.

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

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

Type II Funds: Funds in the Rate Stabilization Fund

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

Type IV Funds: Funds in the Debt Service Reserve Fund

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

The investments suitable for each fund type have been determined using the following criteria pursuant to the commission’s investment strategy:

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

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

## A. SUMMARY OF INITIAL INVESTMENTS

## SUMMARY OF INITIAL INVESTMENTS

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

(1) Key:

SSB = Salomon Smith Barney

BofA = Bank of America

ML = Merrill Lynch

WB = Wachovia Bank

BO = Bank One

(2) Collateralized Repurchase Agreement

(3) Debt Service Reserve Fund

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

## Management Discussion of Investments

Type I and Type II funds are funded primarily from daily toll revenues and are used for operating and maintaining the system, funding the rate stabilization fund and making semi-annual debt service payments to bondholders. These funds have a very short investment horizon as operating and maintenance expenses are paid frequently and debt service funds must be depleted at least annually. (The commission, however, is permitted a reasonable carryover in the debt service fund, which may be up to 1/12 of the prior year's debt service.) Various portions of the 2002 Project opened in fiscal year 2007, tolls were waived for the first two months after the opening of each section of the road. Revenues are being deposited into the Revenue Fund (Type I funds). The rate stabilization fund requirement is an amount equal to the greater of (a) all revenues, less required deposits, through August 31, 2008, or (b) \$10 million.

The capitalized interest account is used to make payments to bondholders during the construction period and through a portion of the ramp up period after the project is completed and toll revenues are being collected. Debt service payments have been capitalized through December 1, 2008. Draws from the capitalized interest accounts for fixed rate bonds are certain as to amount and timing because they are tied to the debt service schedules. Draws from the capitalized interest accounts for variable rate bonds are uncertain therefore such accounts were funded assuming higher-than-market interest rates.

The construction fund (Type III) fund was initially invested in Forward Purchase Agreements (FPAs) and U.S. Treasury and Agency securities held in the Structured Portfolio (described below). As of the end of this reporting period, all FPAs have terminated on their respective scheduled termination dates. All securities held in the Structured Portfolio Fund for the benefit of the construction fund have been expended. Due to slower than anticipated draws in the early stages of the project a significant cash balance accumulated in the fund and was

invested in a portfolio of U.S. Agency securities in October 2005. These securities have matured and the balance of the construction fund is invested in money market funds.

A portfolio of U.S. Treasury and Agency securities was purchased in 2002 to fund cash flow requirements for the capitalized interest fund and a portion of the construction fund (the Structured Portfolio Fund). The Structured Portfolio Fund consists of securities that have a high degree of marketability and a high degree of safety. At this time proceeds and income from the securities held in the Structured Portfolio Fund are being utilized to make interest payments during the capitalized interest period. No securities have been sold prior to maturity and the remaining securities are anticipated to be held to maturity.

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

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

#### **A. INVESTMENT ACTIVITY FOR PERIOD ENDING NOVEMBER 30, 2007**

Investment activity for the period consisted of securities maturing and the purchase and sale of money market funds. Consistent with the initial financial plan for 2002 Project, a draw was received on the approved TIFIA loan on May 16, 2007, in the amount of \$124,930,000 to provide funds to pay for maturing Bond Anticipation Notes (BANs). The \$124,930,000 was held in a money market fund until payment of the maturing BANs on June 1, 2007. These interest earnings are incorporated into this investment report. Attached as Schedule 1 is a summary statement that presents the beginning and ending fair values, purchases, sales and maturities, and accrued interest for the period ending November 30, 2007.

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

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

**B. INVESTMENT PORTFOLIO VALUE**

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

**C. INVESTMENT STRATEGY**

The investment instruments described in Section A are in compliance with the investment strategy of the commission. The department's investment policy states collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States shall not exceed 10% of the total of each investment portfolio. The system's investment in Federal National Mortgage Agency holdings exceeds this limitation.

**D. CURRENT MARKET CONDITIONS AND RECOMMENDED POLICY AMENDMENTS**

Various Interest Rates as of November 30, 2007:

Discount Rate – 5.00%  
3-Month Treasury – 3.35%  
90-Day LIBOR – 4.88%  
5-Year Treasury – 3.67%  
10-Year Treasury – 4.15%  
20-Year Treasury – 4.56%

See attached Schedule 2 – History of Interest Rates Graph.

**E. DIVERSIFICATION**

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

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

TEXAS DEPARTMENT OF TRANSPORTATION  
CENTRAL TEXAS TURNPIKE SYSTEM  
SCHEDULE 1

Public Funds Investment Act  
Quarterly Investment Activity

For the Period Ending November 30, 2007

Security Type	Description	Current Maturity Date	Book Value/Fair Value @ 8/31/2007*	Accretion/Purchases	Sales/Maturities	Book Value @11/30/07	Fair Value @11/30/07	Yield to Market (ST)	Yield to Maturity (LT)**	FY 08 1st Quarter Interest
Money Market Funds (Short Term)										
	JPM PRIME MMKT FD 3605 CAPITAL		44,344,980	32,690,162	19,982,797	57,052,345	57,052,345			616,822
	JPM US GOVT MMKT FD 3164 CAPITAL		407,132,396	23,821,729	69,739,018	361,215,107	361,215,107			5,724,328
	JPM US TREAS PLUS MMKT FD 3126 INVESTOR		8	22,164,700	22,155,343	9,365	9,365			9,357
U.S. Government Agencies (Short Term)										
	FNMA DISC NT	12/17/2007	14,999,333			14,999,333	14,999,333	4.35%		
	FNMA	10/15/2007	20,314,361		20,289,000	0	0			1,194,270
	FNMA	2/15/2008	18,356,354			18,356,354	18,367,805	5.73%		
	FNMA	5/15/2008	40,045,366			40,045,366	40,082,687	5.95%		
Flexible Repurchase Agreement (Long Term)										
	SALOMON MASTER REPO	8/15/2022	114,999,378			114,999,378	114,999,378		5.200%	
U.S. Government Agencies (Long Term)										
	FNMA	1/15/2009	5,977,588			5,977,588	6,025,899		5.169%	
			666,169,764			612,654,836	612,751,919			7,544,777

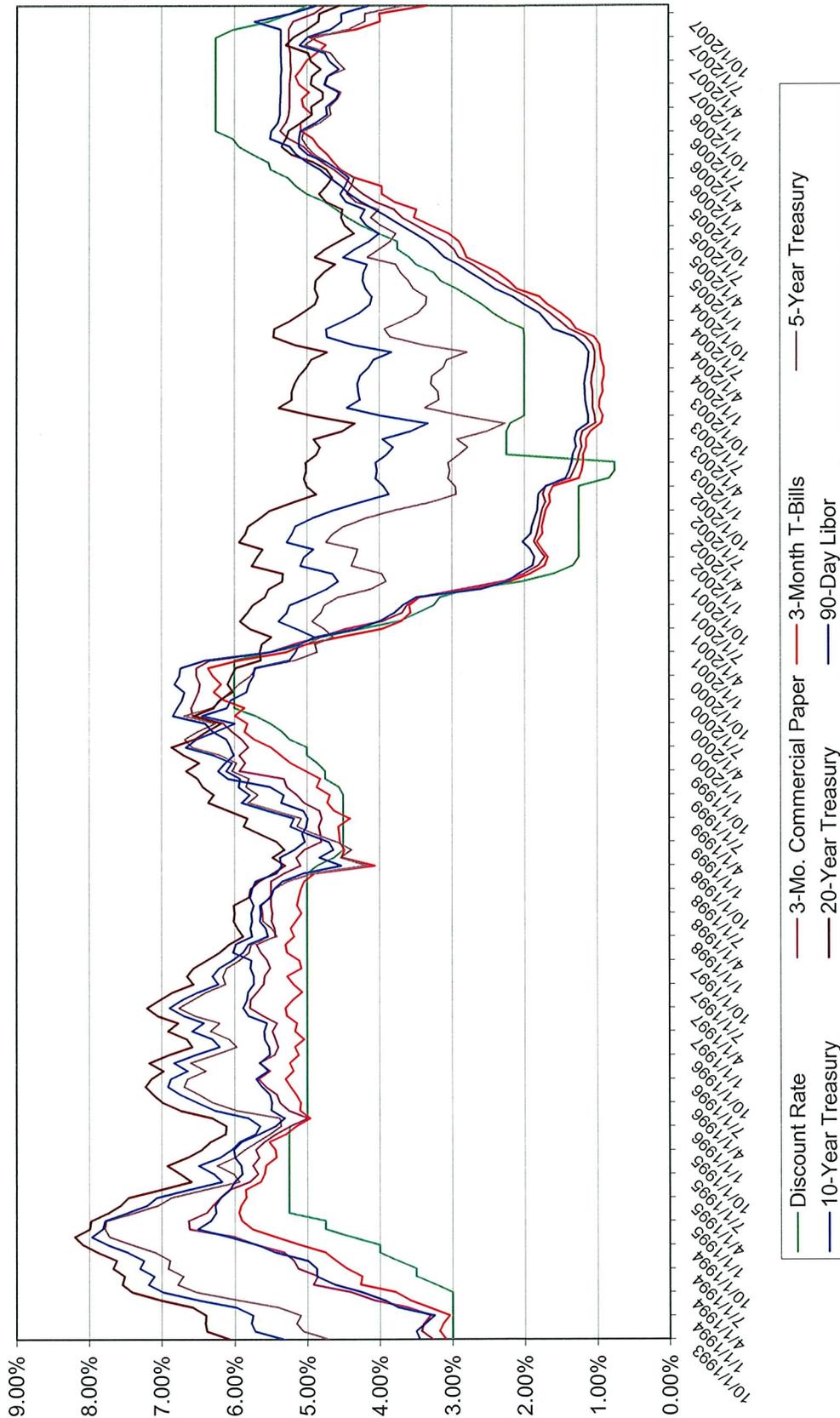
\* Per GASB 31, investments are to be reported at their fair value and any premiums or discounts should not be amortized. The resulting beginning book value of the investments is adjusted to fair value at the end of the previous reporting period.

\*\*Yield to maturity for each security is shown as reported by Bloomberg, a generally accepted source for such information in the municipal marketplace. RBC Dain has not undertaken to confirm or verify that yield to maturity values have been determined correctly.

Key:

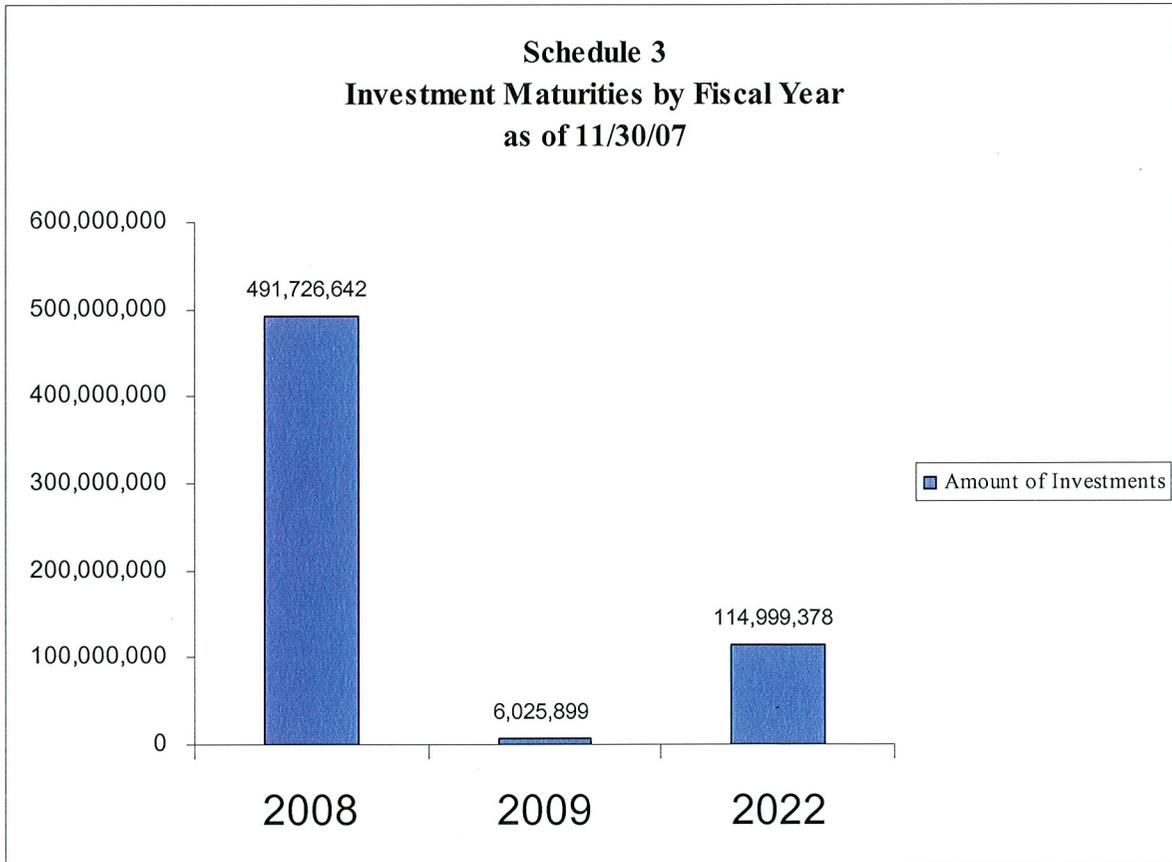
- ST = Short Term
- LT = Long Term
- FHLB = Federal Home Loan Bank
- FHLMC = Federal Home Loan Mortgage Company
- FNMA = Federal National Mortgage Association

Schedule 2:  
History of Interest Rates



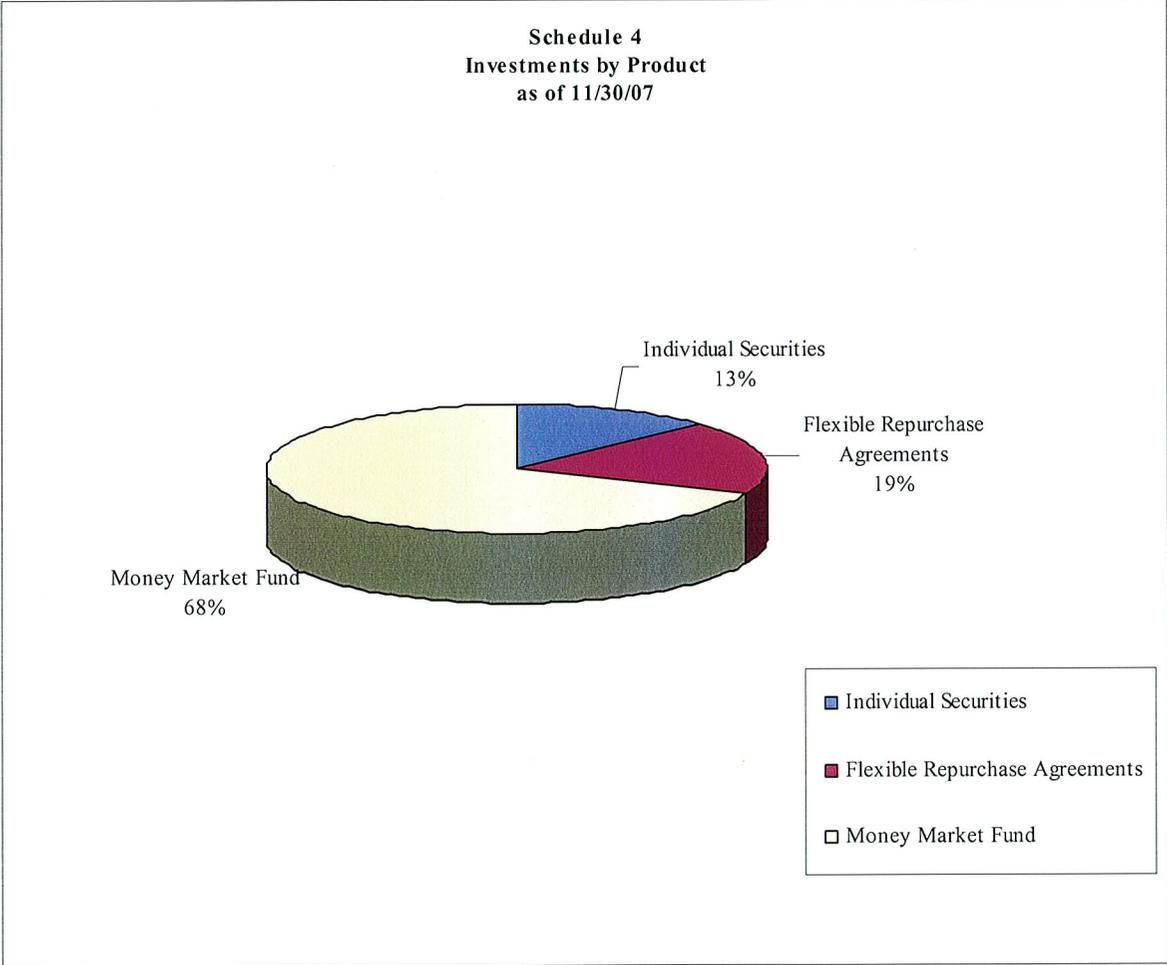
**Schedule 3**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investment Maturities by Fiscal Year**

<b>Total Investments at Fair Value - Maturity by Fiscal Year</b>		<b>11/30/2007</b>
		<b>Fair Value</b>
	2008	491,726,642
	2009	6,025,899
	2022	114,999,378
<b>TOTAL INVESTMENTS - ALL FUNDS</b>		<u><u>612,751,919</u></u>



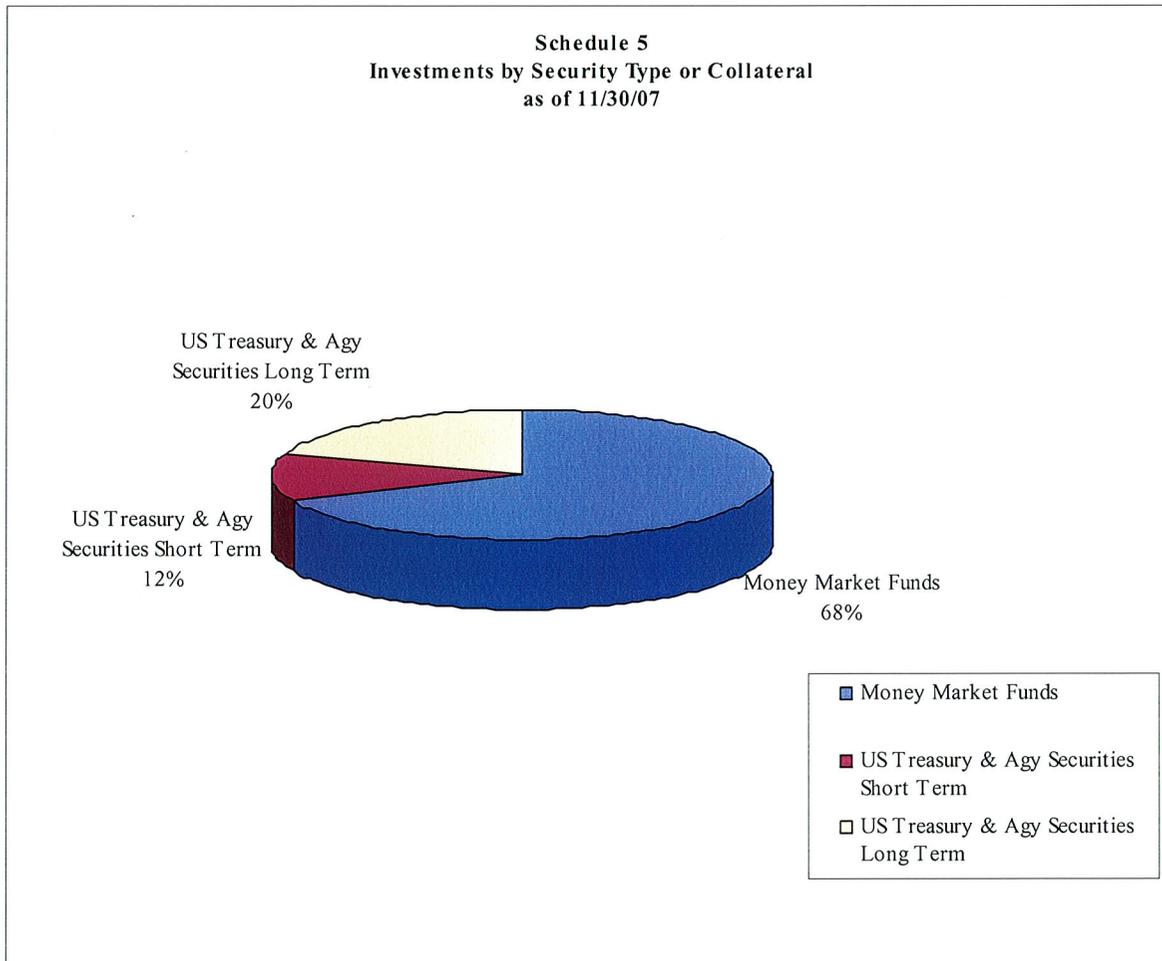
**Schedule 4**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investments by Product**

	<b>11/30/2007</b>
<b>Investment Product</b>	<b>Fair Value</b>
Individual Securities	79,475,724
Flexible Repurchase Agreements	114,999,378
Money Market Fund	418,276,817
	<hr/>
	<b>612,751,919</b>
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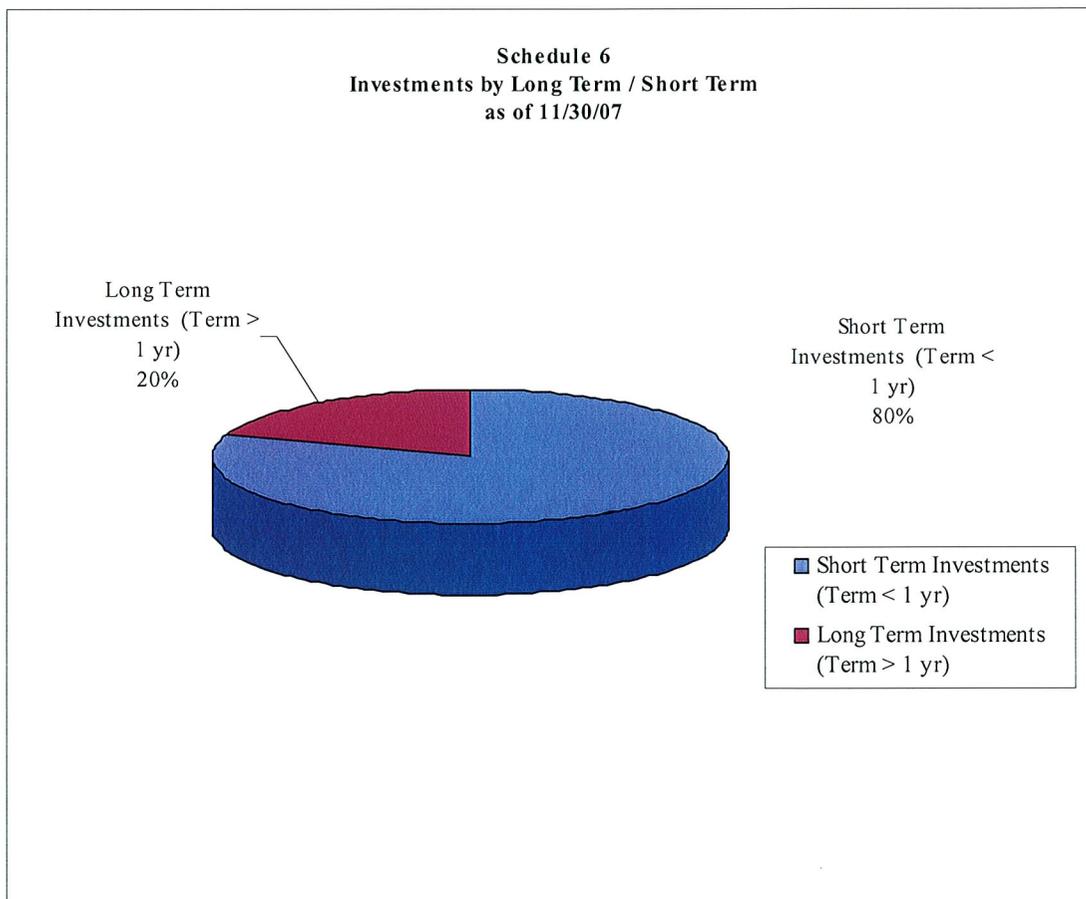
**Schedule 5**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investments by Security Type or Collateral**

<b>Security Type/Collateral</b>	<b>11/30/2007 Fair Value</b>
Money Market Funds	418,276,817
US Treasury & Agy Securities Short Term	73,449,825
US Treasury & Agy Securities Long Term	121,025,277
	612,751,919



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

	<b>11/30/2007</b>
<b>Maturity</b>	<b>Fair Value</b>
Short Term Investments (Term < 1 yr)	545,192,798
Long Term Investments (Term > 1 yr)	120,976,966
	<hr/>
	<b>612,751,919</b>
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INVESTMENT DISCUSSION – LEASE WITH AN OPTION TO PURCHASE  
HOUSTON DISTRICT HEADQUARTERS COMPLEX PROJECT

INTRODUCTION

This section relates to investments made pursuant to the Lease With an Option to Purchase Agreement between the commission and GP DOT Houston Holdings LP (the Lessor). In July 2005, the Lessor issued Certificates of Participation to fund the Houston Headquarters Complex project, the proceeds of which were deposited with JPMorgan Chase Bank (the Trustee) pursuant to a Trust Agreement between GP DOT Houston Holdings, LP and JP Morgan Chase Bank. In December 2006, the Trustee responsibilities were transferred to The Bank of New York.

The proceeds from the Certificates of Participation of \$35,745,022 were deposited into the Project Development Account and were invested in a Repurchase and Custody Agreement between MBIA (as provider), the Trustee, and Wells Fargo Bank (as custodian). The last of the Certificates of Participation matured on August 15, 2007. The department also exercised its option to purchase the facilities with the balance of the proceeds of the Certificates of Participation transferred and deposited to the State Highway Fund. Listed below is a summary statement that presents the sale, purchase and repurchase of securities and money market funds for the period ending November 30, 2007.

**F. INVESTMENT PORTFOLIO VALUE**

Lease With an Option to Purchase  
Houston District Headquarters Complex Project  
Quarterly Investment Activity  
For the Period Ended November 30, 2007

Security Type	Description	Current Maturity Date	Fair Value @ 08/31/07	Purchases	Sales/ Maturities	Book Value @ 11/30/07	Fair Value @ 11/30/07	Yield to Market	FY 2008 1st Quarter Interest Received
Money Market Funds (Short Term)									
	JPM US GOV'T MMKT Fd 3916		0	0	0	0	0		457
TOTAL			0			0	0		457