

**TEXAS TRANSPORTATION COMMISSION**

**QUARTERLY INVESTMENT REPORT**

**AS OF  
AUGUST 31, 2008**

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CERTIFICATION STATEMENT

This is to certify that I have reviewed the Quarterly Investment Report as of August 31, 2008 that is being submitted for acceptance by the Texas Transportation Commission. To the best of my knowledge and belief:

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

The investment portfolio is in compliance with the investment policy and relevant provisions of Government Code, Chapter 2256.

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

The information presented in the Quarterly Investment Report is accurate.

I declare that the foregoing is true and correct.

Governmental Unit: Texas Department of Transportation

Signature: James M Bass

Name of Official: James M. Bass

Title: Chief Financial Officer

Date of Execution: October 15, 2008

Signature: Brian Ragland

Name of Official: Brian Ragland

Title: Director, Finance Division

Date of Execution: October 15, 2008

Signature: John Muñoz

Name of Official: John Muñoz

Title: Deputy Director, Finance Division

Date of Execution: October 15, 2008

Signature: Jose Hernandez

Name of Official: Jose Hernandez

Title: Director, Debt Management, Finance Division

Date of Execution: October 15, 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 Mellon, acting as trustee. The investments include bond proceeds and other contributions for the purpose of financing the (“2002 Project”) 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, funded 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 and toll revenues 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.

## 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>				<b>\$2,315,433,755</b>		

(1) Key:

SSB = Salomon Smith Barney

BofA = Bank of America

ML = Merrill Lynch

WB = Wachovia Bank

BO = Bank One

(2) Collateralized Repurchase Agreement

(3) Debt Service Reserve Fund

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

## Management Discussion of Investments

Type I and Type II funds are funded primarily from daily toll revenues and are used for operating and maintaining the system, funding the rate stabilization fund and making semi-annual debt service payments to bondholders. These funds have a very short investment horizon as operating and maintenance expenses are paid frequently and debt service funds are typically 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 and no tolls were levied for the first two months after the opening of each section of the road as a promotional incentive. The last section of the 2002 Project opened in April 2008. Revenues are being deposited into the Revenue Fund (Type I funds). In August 2008, \$63.6 million of toll revenue deposits were transferred from the Revenue Fund to the Rate Stabilization Fund. 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. At the time of the initial financing, debt service payments were 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 most recent projection on capitalized interest sufficiency shows that amounts available are expected to be adequate to provide for debt service payments throughout fiscal 2009, or nine months longer than initially planned. The reasons for the extended period that capitalized interest expected to be available are a slower than anticipated draw on construction funds (as described in the following paragraph), which resulted in greater interest earnings, higher than projected interest earnings for a period of time, and lower than modeled variable rate interest costs from September 2002 through December 2007.

However, commencing in January 2008, interest rates on the variable rate debt began to fluctuate due to the credit uncertainty of the bond insurer. Periodically interest rates on the bonds would rise and fall until credit ratings on the bond insurer were lowered, which triggered higher interest rates, the tender of bonds, and a majority of the bonds ending up being held by the standby bond repurchase bank. As of the date of this report, approximately \$17 million of the bonds remain publicly held at a 9.5% interest rate and the \$133 million in bonds held by the bank are bearing a cost of 3.75% per the terms of the standby bond purchase agreement.

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 established for the benefit of the construction fund 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. As all construction expenditures have now been made for the 2002 Project, the construction fund will be closed and the \$1.1 million in the fund will be adjusted to another fund as appropriate.

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 AUGUST 31, 2008**

Investment activity for the period consisted of securities maturing and the purchase and sale of money market funds. 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 August 31, 2008.

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 Schedule 1 are in compliance with the investment strategy of the commission.

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

Various Interest Rates as of August 31, 2008:

Discount Rate	– 2.25%
3-Month Treasury	– 1.72%
90-Day LIBOR	– 2.49%
5-Year Treasury	– 3.10%
10-Year Treasury	– 3.83%
20-Year Treasury	– 4.47%

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 August 31, 2008**

Security Type	Description	Current Maturity Date	Book Value/Fair Value @ 05/31/2008*	Accretion/Purchases	Sales/Maturities	Book Value @08/31/08	Fair Value @08/31/08	Yield to Market (ST)	Yield to Maturity (LT)	FY 08 4th Quarter Interest
Money Market Funds (Short Term)										
	JPM PRIME MMKT FD 3605 CAPITAL		848,460,862	9,592,018	819,772,852	38,280,028	38,280,028			1,376,486
	JPM US GOVT MMKT FD 3164 CAPITAL		339,795,406	78,562,333	84,782,970	333,574,769	333,574,769			1,869,191
	JPM US TREAS PLUS MMKT FD 3126 INVESTOR		0	157,820	157,819	1	1			1,737
U.S. Government Agencies (Short Term)										
	FNMA DISC NT	6/30/2008	15,226,598		14,999,979	0	0			251,021
	FNMA DISC NT	8/15/2008		14,999,789	14,999,789	0	0			83,211
	FNMA	1/15/2009	6,042,623			6,042,623	5,996,169	5.160%		156,083
	FNMA DISC NT	1/20/2009		14,999,990		14,999,990	15,125,408	4.320%		
Flexible Repurchase Agreement (Long Term)										
	SALOMON MASTER REPO	8/15/2022	114,999,378			114,999,378	114,999,378		5.200%	2,989,984
			<u>1,324,524,867</u>			<u>507,896,789</u>	<u>507,975,753</u>			<u>6,727,713</u>

\* 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.

## Key:

ST = Short Term

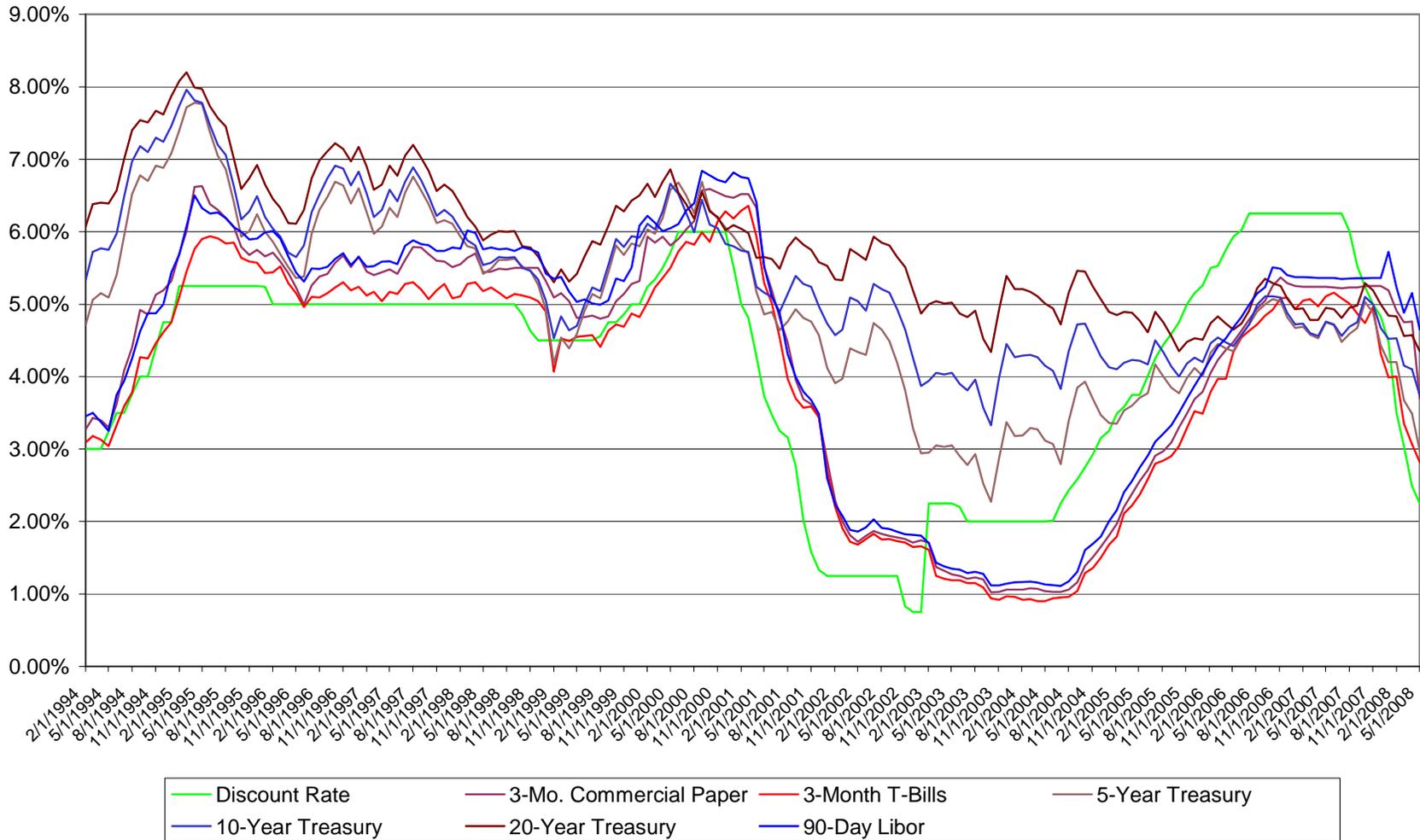
LT = Long Term

FHLB = Federal Home Loan Bank

FHLMC = Federal Home Loan Mortgage Company

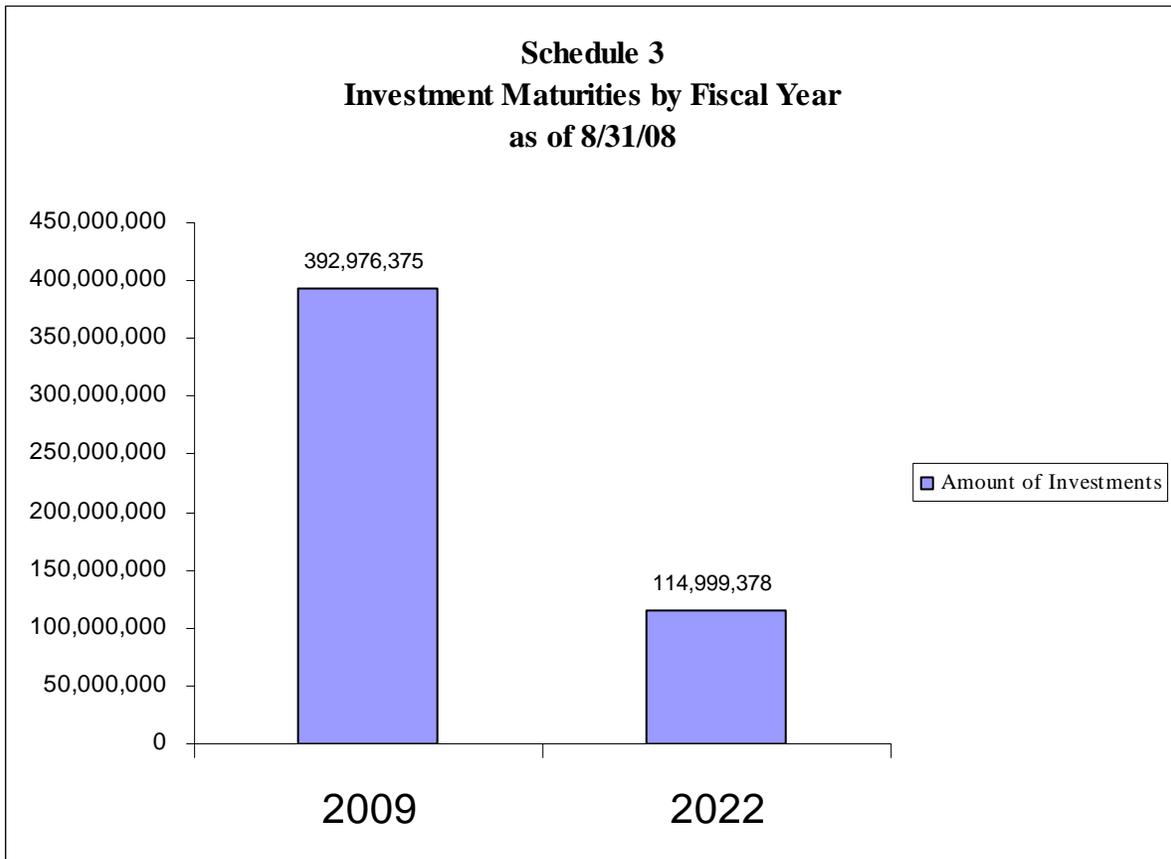
FNMA = Federal National Mortgage Association

### Schedule 2: History of Interest Rates



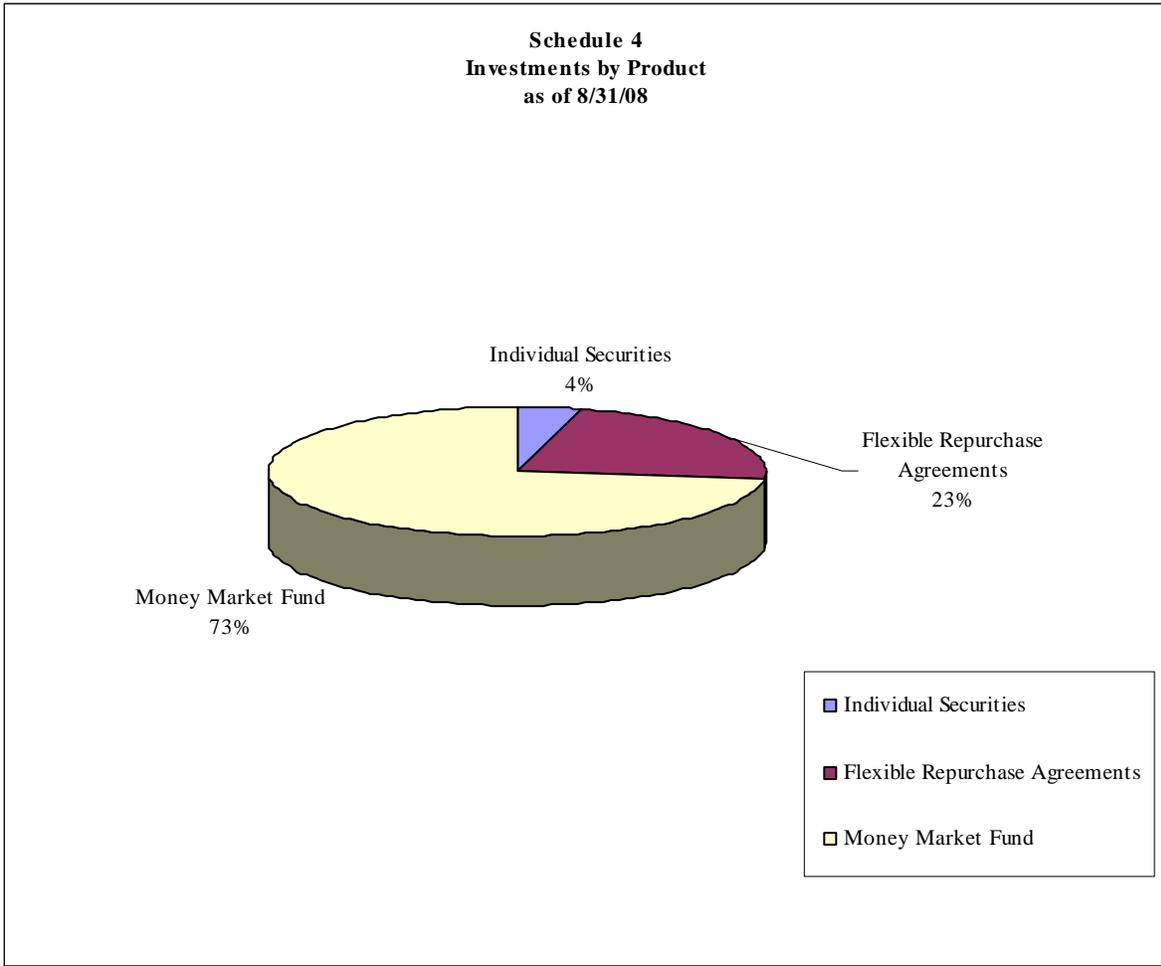
**Schedule 3**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investment Maturities by Fiscal Year**

<b>Total Investments at Fair Value - Maturity by Fiscal Year</b>		<b>8/31/2008</b>
		<b>Fair Value</b>
	2009	392,976,375
	2022	114,999,378
<b>TOTAL INVESTMENTS - ALL FUNDS</b>		<u><u>507,975,753</u></u>



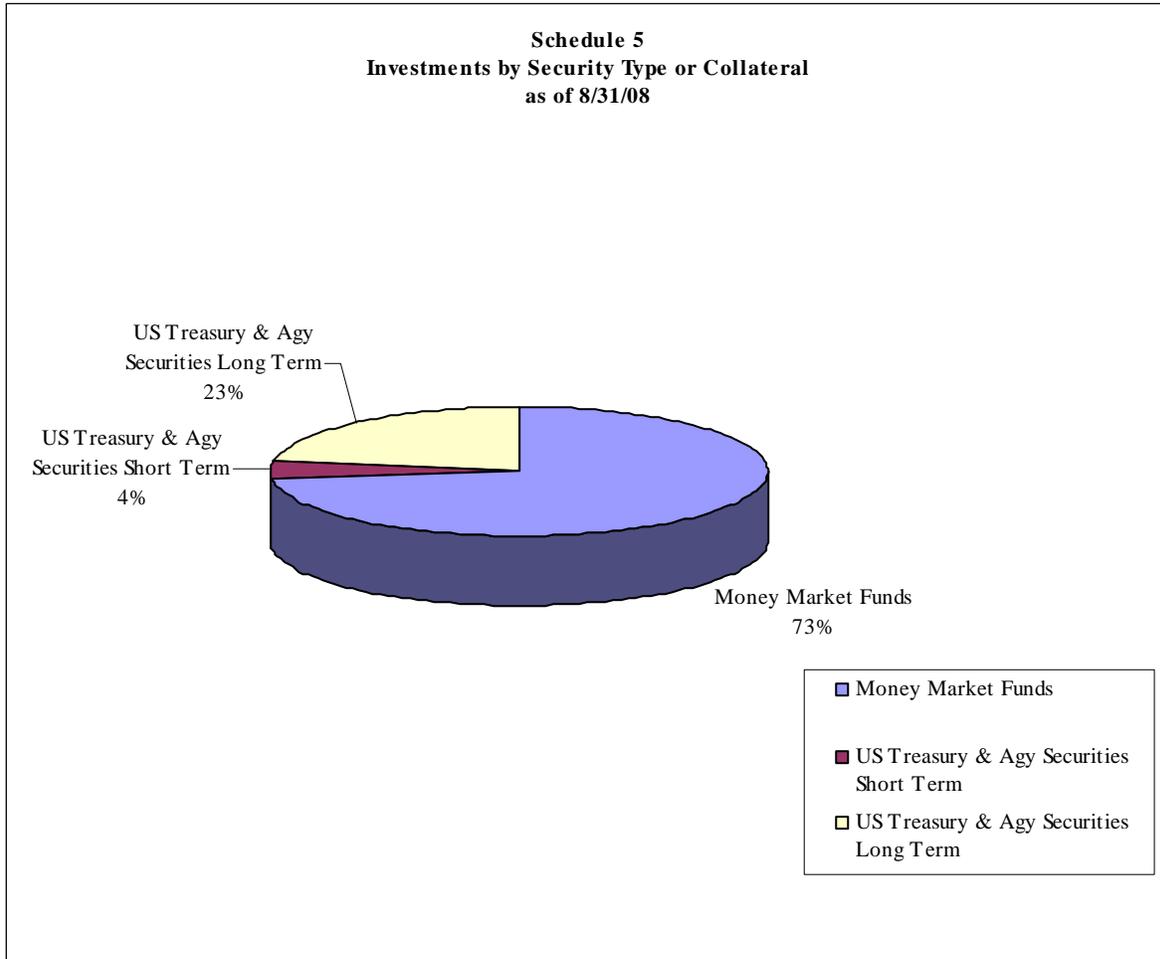
**Schedule 4**  
**Texas Department of Transportation**  
**Central Texas Turnpike System**  
**Investments by Product**

<b>Investment Product</b>	<b>8/31/2008</b>
	<b>Fair Value</b>
Individual Securities	21,121,577
Flexible Repurchase Agreements	114,999,378
Money Market Fund	371,854,798
	<hr/>
	<b>507,975,753</b>



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

<b>Security Type/Collateral</b>	<b>8/31/2008</b>
	<b>Fair Value</b>
Money Market Funds	371,854,798
US Treasury & Agy Securities Short Term	21,121,577
US Treasury & Agy Securities Long Term	114,999,378
	<hr/>
	<b>507,975,753</b>



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

	<b>8/31/2008</b>
<b>Maturity</b>	<b>Fair Value</b>
Short Term Investments (Term < 1 yr)	392,976,375
Long Term Investments (Term > 1 yr)	114,999,378
	<hr/>
	<b>507,975,753</b>
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