

TEXAS TRANSPORTATION COMMISSION

QUARTERLY INVESTMENT REPORT

**AS OF
February 29, 2012**

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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 February 29, 2012, 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.

Phil Wilson
Executive Director

Date

James M. Bass
Chief Financial Officer
Investment Officer

Date

Brian D. Ragland, CPA
Director, Finance Division
Investment Officer

Date

John Munoz, CPA
Deputy Director, Finance Division
Investment Officer

Date

Brian D. Ragland, CPA
Interim Director, Debt & Portfolio Management Office
Investment Officer

Date

Glen Knipstein, CPA
Director, Accounting Management, Finance Division

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 include 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 CTTS 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, the Operating Account and the General Reserve Fund.
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 (\$15 million) is invested in a Forward Purchase Agreement (FPA) consisting of U.S. Treasury and Agency securities. The balance is invested in a Guaranteed Investment Contract 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 Guaranteed Investment Contract.

INVESTMENT ACTIVITY

Attached as Schedule 1 are the investments outstanding for the quarter ending February 29, 2012. Investment activity for the quarter consisted of the purchase and redemption of U.S. Government Agency Securities (“discount notes”), the purchase and sale of money market investments and the purchase of government pool investments.

In December 2011, funds in the Rate Stabilization Fund and the Capital Contributions Account were transferred from the JP Morgan US Government Money Market Fund to the Lone Star Government Overnight Investment Pool, the TexPool Texas Local Government Investment Pool and TexPool Prime. The Lone Star and TexPool government investment pool accounts provide greater diversification of the investment portfolio while maintaining the primary investment objectives of suitability, safety of principal, liquidity and marketability. Additionally, the government investment pools are currently providing a higher return than the money market mutual funds in which these accounts were previously invested.

The System experienced a \$18.6 million net decrease in investments during the second quarter. The System recognized toll and fee revenues of \$19.3 million during the second quarter. The decrease in investments is primarily due to debt service payments. Interest and investment income of \$1.6 million was earned during the period.

Discount notes are intended to be held to maturity. Maturities range from overnight through one year. The discount note outstanding will mature on August 1, 2012.

The Guaranteed Investment Contract is intended to be held to its maturity date of August 15, 2022. The forward purchase agreement is intended to be continued until its termination of August 15, 2012.

Investment income includes interest and dividends earned during the quarter and changes in fair value of investments.

CURRENT MARKET CONDITIONS

Various U.S. Treasury yields as of February 29, 2012 are as follow:

- 3-Month Treasury – 0.09%
- 2-Year Treasury – 0.28%
- 10-Year Treasury – 1.97%
- Discount Rate – 0.75%

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
February 29, 2012**

Portfolio Fair Value	
Beginning balance @ 12/1/11	\$ 451,947,478
Ending balance @ 02/29/12	\$ 433,313,358
Interest Income	\$1,629,282
Yield	1.61%

Description	Yield	Maturity Date	February 29, 2012	
			Book Value (Cost)	Fair Value
<i>Money Market Investments</i>				
JPM US Govt MMKT FD 3164 Capital	.01%		\$ 42,393,445	\$ 42,393,445
<i>Lone Star Investment Pool*</i>				
Government Overnight Fund	.11%		86,994,457	86,994,457
<i>TexPool**</i>				
Local Government Investment Pool	.12%		86,992,951	86,992,951
Prime	.16%		86,997,755	86,997,755
<i>U.S. Government Agency Securities***</i>				
FNMA (CUSIP 31381TR85)	4.48%	08/01/12	14,999,999	14,935,372
<i>Guaranteed Investment Contract</i>				
Salomon Master GIC (CUSIP S86538450)	5.20%	08/15/22	114,999,378	114,999,378
Totals			\$ 433,377,985	\$ 433,313,358

Notes:

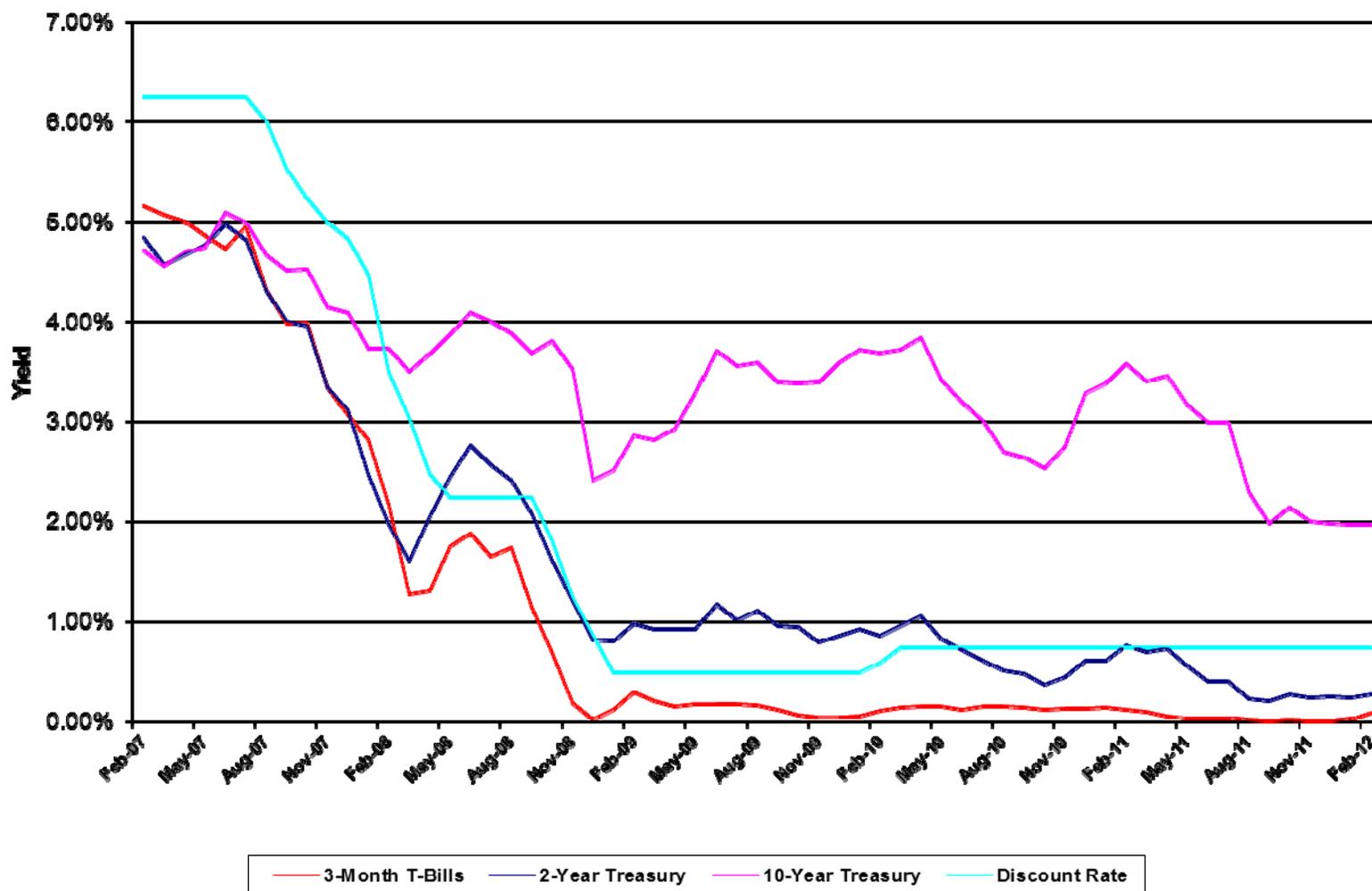
*This fund seeks to maintain a net asset value of one dollar, and its dollar-weighted average maturity is 60 days or fewer.

**These pools seek to maintain a one dollar value 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 available at that time.

Yields and Fair Values as reported on Bank of New York Mellon, Lone Star and TexPool February 2012 statements.

Schedule 2 U.S. Treasury Historical Yields



Source:

<http://www.federalreserve.gov/releases/h15/data.htm>
http://www.wsjprimerate.us/libor_rates_history.htm

SCHEDULE 3
Allocation by Account
February 29, 2012

Allocation – Fair Value

December 1, 2011

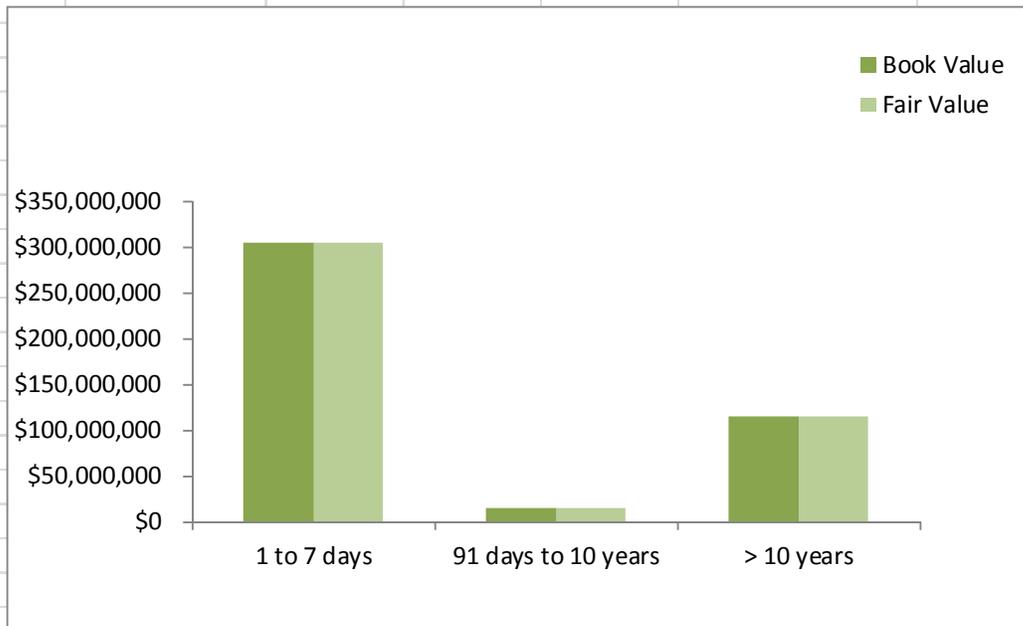
Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1 st Tier Interest Account	1 st Tier Debt Service Reserve	Sub Lien Interest Account
Money Market Investments	\$ 322,020,100	\$ 67,840,281	\$ 193,102,919	\$ 0	\$ 20,632,763	\$ 666,848	\$ 15,845,430
U.S. Government Agency Securities	14,928,000					14,928,000	
Guaranteed Investment Contract	114,999,378					114,999,378	
Totals	\$ 451,947,478	\$ 67,840,281	\$ 193,102,919	\$ 0	\$ 20,632,763	\$ 130,594,226	\$ 15,845,430

February 29, 2012

Description	Portfolio Total	Rate Stabilization Fund	Capital Contributions Account	Revenue Fund	1 st Tier Interest Account	1 st Tier Debt Service Reserve	Sub Lien Interest Account
Money Market Investments	\$ 42,393,445	\$ 242	\$ 102,372	\$ 34,991,151	\$ 6,322,383	\$ 977,297	\$ 0
Lone Star Government Overnight Fund	86,994,457	22,616,908	64,377,549				
TexPool Local Government Investment Pool	86,992,951	22,616,517	64,376,434				
TexPool Prime	86,997,755	22,617,766	64,379,989				
U.S. Government Agency Securities	14,935,372					14,935,372	
Guaranteed Investment Contract	114,999,378					114,999,378	
Totals	\$ 433,313,358	\$ 67,851,433	\$ 193,236,344	\$ 34,991,151	\$ 6,322,383	\$ 130,912,047	\$ 0

SCHEDULE 4
Maturity Distribution
February 29, 2012

Maturity Date	Book Value	Fair Value
1 to 7 days	\$303,378,608	\$303,378,608
91 days to 10 years	14,999,999	14,935,372
> 10 years	114,999,378	114,999,378
Total Investments	\$433,377,985	\$433,313,358



SCHEDULE 5
Investment Portfolio Quarter End Values
February 29, 2012

Quarter End Values	Book Value	Fair Value
3Qtr FY11	445,717,906	445,703,835
4Qtr FY11	429,595,055	429,635,828
1Qtr FY12	452,018,516	451,947,478
2Qtr FY12	433,377,985	433,313,358



SCHEDULE 6
Investments by Security Type
February 29, 2012

Security Type	Fair Value
Money Market Investments	\$42,393,445
Lone Star Government Overnight Fund	86,994,457
TexPool Local Government Investment Pool	86,992,951
TexPool Prime	86,997,755
U.S. Government Agency Securities	14,935,372
Guaranteed Investment Contract	114,999,378
Total Investments	\$433,313,358

