

TEXAS TRANSPORTATION COMMISSION

QUARTERLY INVESTMENT REPORT

**AS OF
August 31, 2012**

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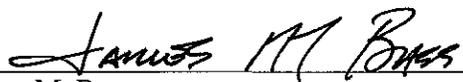
MANAGEMENT'S CERTIFICATION OF THE QUARTERLY INVESTMENT REPORT

I certify that I have reviewed the Quarterly Investment Report as of and for the period ending August 31, 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

10/3/12
Date


 James M. Bass
 Chief Financial Officer
 Investment Officer

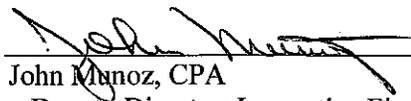
10/3/12
Date


 Brian D. Ragland, CPA
 Director, Finance Division

9-28-12
Date


 Benjamin Asher
 Director, Innovative Financing and Debt Management Office
 Investment Officer

10/2/12
Date


 John Munoz, CPA
 Deputy Director, Innovative Financing and Debt Management Office
 Investment Officer

10/2/12
Date


 Glen Knipsstein, CPA
 Director, Accounting Management, Finance Division

9/27/2012
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 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 Money Market Investments. The 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, 2012. Investment activity for the quarter consisted of the redemption of U.S. Government Agency Securities (“discount notes”), the purchase and sale of money market investments and 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. In March 2012, a portion of the funds in the 1st Tier Interest Account were transferred to the TexPool Texas Local Government Investment Pool. 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 \$6.8 million net decrease in investments during the fourth quarter. The System recognized toll and fee revenues of \$23.5 million during the fourth quarter. The decrease in investments is primarily due to debt service payments. Interest and investment income of \$3.5 million was earned during the period.

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

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 August 31, 2012 are as follow:

3-Month Treasury – 0.10%

2-Year Treasury – 0.27%

10-Year Treasury – 1.68%

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
August 31, 2012**

Portfolio Fair Value	
Beginning balance @ 06/01/12	\$ 455,668,567
Ending balance @ 08/31/12	\$ 448,889,183
Interest and Investment Income	\$3,473,322
Yield	1.44%

Description	Yield	Maturity Date	August 31, 2012	
			Book Value (Cost)	Fair Value
<i>Money Market Investments</i>				
JPM US Govt MMKT FD 3164 Capital	.01%		\$ 27,310,006	\$ 27,310,006
<i>Lone Star Investment Pool*</i>				
Government Overnight Fund	.14%		87,052,429	87,052,429
<i>TexPool**</i>				
Local Government Investment Pool	.148%		112,449,238	112,449,238
Prime	.174%		107,078,132	107,078,132
<i>Guaranteed Investment Contract</i>				
Salomon Master GIC (CUSIP S86538450)	5.20%	08/15/22	114,999,378	114,999,378
Totals			\$ 448,889,183	\$ 448,889,183

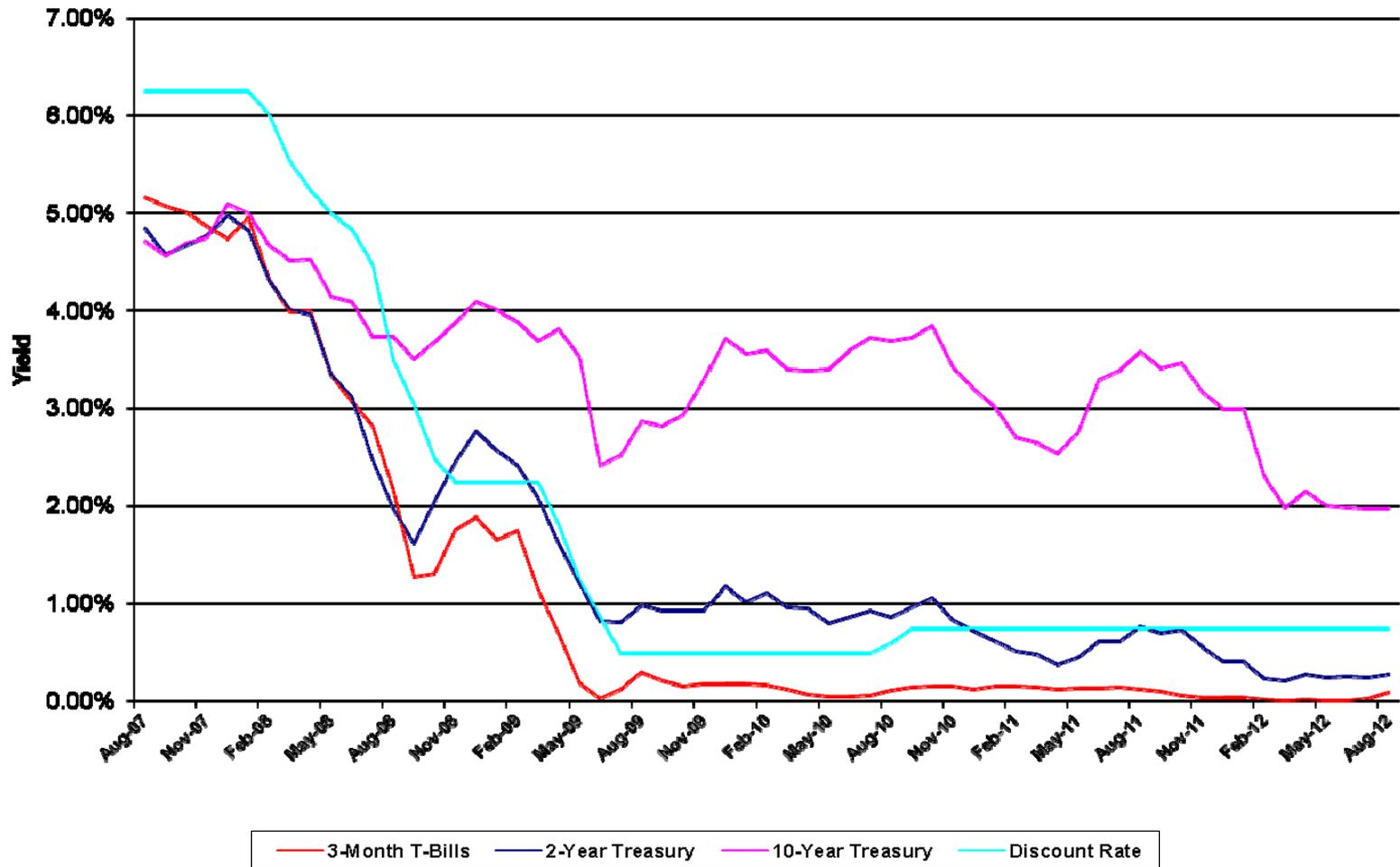
Notes:

*This fund seeks to maintain a net asset value of one dollar per share, 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.

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

Schedule 2 U.S. Treasury Historical Yields



SCHEDULE 3
Allocation by Account
August 31, 2012

Allocation – Fair Value

June 1, 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	\$ 18,266,254	\$	\$ 18,695	\$ 17,270,175	\$	\$ 977,322	\$ 62
U.S. Government Agency Securities	14,935,372					14,935,372	
Lonestar Gov't Overnight Fund	87,022,096	22,624,094	64,398,002				
TexPool Fund	113,410,965	22,623,184	64,460,426	20,003,408	6,323,947		
TexPool Prime Fund	107,034,502	22,626,450	64,404,020	20,004,032			
Guaranteed Investment Contract	114,999,378					114,999,378	
Totals	\$ 455,668,567	\$ 67,873,728	\$ 193,281,143	\$ 57,277,615	\$ 6,323,947	\$ 130,912,072	\$ 62

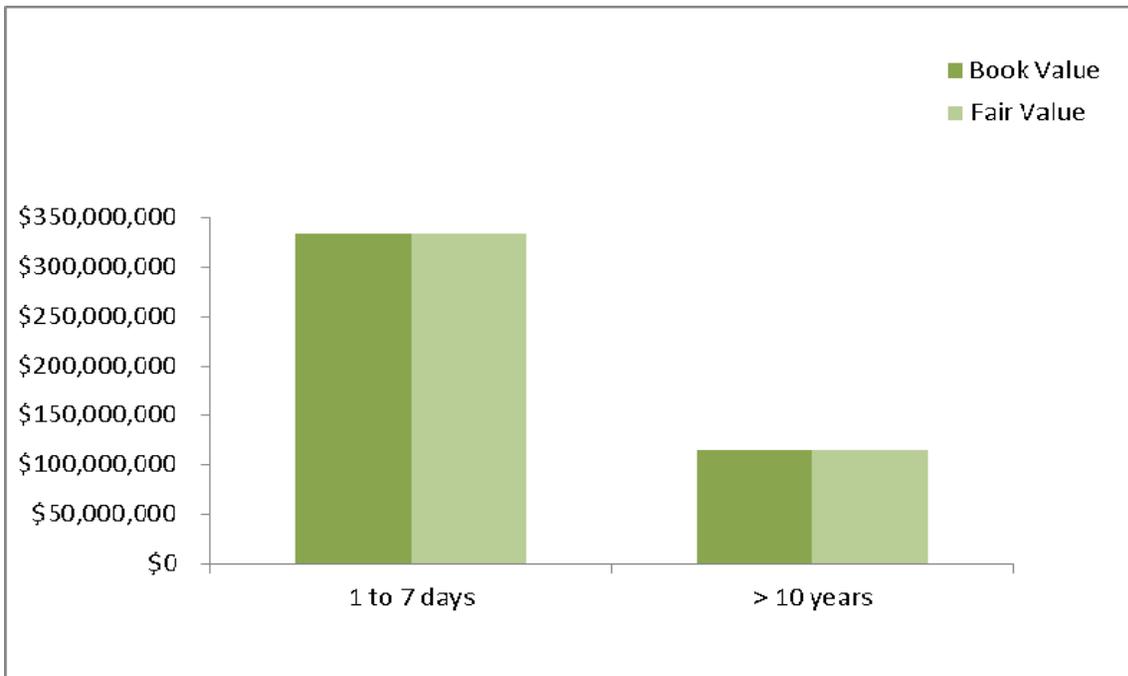
August 31, 2012

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	\$ 27,310,006	\$	\$ 2,884,305	\$ 5,122,742	\$ 2,989,984	\$ 16,312,975	\$
Lonestar Gov't Overnight Fund	87,052,429	22,631,980	64,420,449				
TexPool Fund	112,449,238	22,630,831	64,482,217	19,010,106	6,326,084		
TexPool Prime Fund	107,078,132	22,635,673	64,430,272	20,012,187			
Guaranteed Investment Contract	114,999,378					114,999,378	
Totals	\$ 448,889,183	\$ 67,898,484	\$ 196,217,243	\$ 44,145,035	\$ 9,316,068	\$ 131,312,353	\$ 0

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

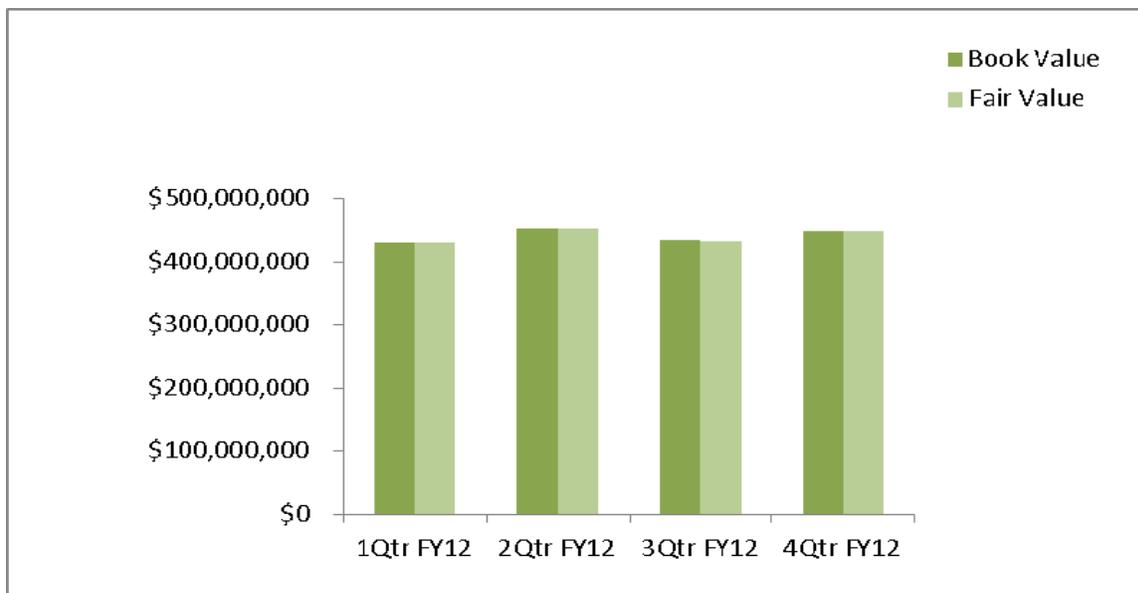
SCHEDULE 4
Maturity Distribution
August 31, 2012

Maturity Date	Book Value	Fair Value
1 to 7 days	\$333,889,805	\$333,889,805
> 10 years	114,999,378	114,999,378
Total Investments	\$448,889,183	\$448,889,183



SCHEDULE 5
Investment Portfolio Quarter End Values
August 31, 2012

Quarter End Values	Book Value	Fair Value
1Qtr FY12	429,595,055	429,635,828
2Qtr FY12	452,018,516	451,947,478
3Qtr FY12	433,377,985	433,313,358
4Qtr FY12	448,889,183	448,889,183



SCHEDULE 6
Investments by Security Type
August 31, 2012

Security Type	<u>Fair Value</u>
Money Market Investments	\$27,310,006
Lone Star Government Overnight Fund	87,052,429
TexPool Local Government Investment Pool	112,449,238
TexPool Prime	107,078,132
Guaranteed Investment Contract	114,999,378
Total Investments	<u><u>\$448,889,183</u></u>

