



Annual Toll Rate Escalation Report

SH 249 System

October 2021

Overview

Title 43, Texas Administrative Code, §27.82(d) provides that the Texas Transportation Commission (commission) will establish toll rates for the use of a toll project on the state highway system. In setting toll rates, the commission is required to consider: (1) the results of traffic and revenue studies and any schedule of toll rates established in a traffic and revenue report; (2) the requirements of project bond covenants, if applicable; and (3) vehicle classifications, type and location of the facility, and similar criteria that apply to a specific project.

In Minute Order 114959, dated June 29, 2017, the commission designated Segment 1 of the SH 249 System, from FM 1774 in Pinehurst in Montgomery County to FM 1774 in Todd Mission in Grimes County, as a toll project on the state highway system. Segment 1 of the SH 249 System is an all-electronic, open road toll facility with a closed ramp system of toll collection.

Minute Order 115393, dated December 13, 2018, authorized the executive director to annually escalate toll rates on the SH 249 System (Segment 1) in accordance with established indices and the toll escalation policy set forth in Exhibit B to the minute order. The toll escalation policy provides that the toll rates are escalated by applying the toll rate escalation percentage, calculated each October 1 as the greater of (1) the consumer price index formula prescribed in the policy and (2) 2%. In the event the toll rate escalation percentage is calculated to equal less than 2.0%, then the percentage shall be deemed to equal 2.0%. The toll rate escalation percentage shall be reported to the commission each year at or before the commission's October meeting.

The consumer price index formula percentage has been calculated to be 6.0%, as shown in the Traffic Consultant's Memorandum (Exhibit A), and will be applied to the current base toll rates for each paypoint of the SH 249 System (Segment 1), generating the schedule of increased toll rates for calendar year 2022 shown on Exhibit B. The toll rate escalation percentage and the escalated toll rate table for each paypoint of the SH 249 System (Segment 1) (shown in Exhibit B) have been prepared in accordance with the toll escalation policy established in Minute Order 115393. As provided in Minute Order 115393, the percentage increase in the toll rates will be effective automatically on January 1 of the next calendar year and implemented by the executive director, unless the commission affirmatively votes prior to January 1 to modify the toll rate escalation percentage. The Texas Department of Transportation has determined that a rate escalation percentage beyond what is included in the Traffic Consultant's Memorandum (Exhibit A) is not necessary to meet covenants relating to outstanding debt obligations.

Exhibit A

Traffic Consultant's Memorandum

Toll Rate Escalation and 2022 Toll Rates – SH 249 System

(Segment 1)



Memorandum

To: Texas Department of Transportation, Toll Operations Division

From: CDM Smith

Date: September 24, 2021

Subject: Toll Rate Escalation and 2022 Toll Rates – SH 249 System (Segment 1)

Introduction

As requested by the Texas Department of Transportation (TxDOT), CDM Smith has developed the estimated nominal 2022 toll rates for the various gantries along the SH 249 System, also referred to as Segment 1, which extends from its southern terminus at FM 1774 in Pinehurst to FM 1774 in Todd Mission. Segment 1 is currently open and consists of Segment 1A, which extends from FM 1774 in Pinehurst to FM 1488, and Segment 1B, which extends from FM 1488 to FM 1774 in Todd Mission. This memorandum provides background regarding the initial toll rate setting and toll rate escalation methodology that aligns with other existing tolled segments south of the southern terminus (MCTRA 249 Tollway and HCTRA Tomball Tollway Phase I and II). The initial toll rates established as part of this memorandum align with the 2018 Comprehensive Traffic and Toll Revenue study dated December 2018 used in support of the SH 249 project financing. Tolling of the SH 249 System Segment 1A commenced on December 1, 2020, and Segment 1B commenced on March 26, 2021.

Toll Rate Escalation

Toll rates for the SH 249 System were established based on *Minute Order No. 115393*, included in this memorandum as **Appendix A**, which provides the methodology for the annual toll rate escalation to be used along the SH 249 System.

The “Toll Rate Escalation Percentage”, is a percentage amount equal to the greater of (1) $[(CPI^t - CPI^{t-12})/CPI^{t-12}]$ and (2) 2.0 percent. To determine CPI^t , *Minute Order No. 115393* prescribes the use of the most recently published non-revised index of Consumer Prices for Urban Wage Earners and Clerical Workers, also referred to as the CPI-W, before seasonal adjustment as published by the Bureau of Labor Statistics (BLS), prior to the 1st of October of each year. The CPI^{t-12} is the CPI-W published by the BLS in the month that is 12 months prior to the month used to establish CPI^t .

Table 1 provides a summary of the CPI-W trends within the Houston region since 2010 to the most current August values released in September 2021. **Table 2** highlights the August CPI-W changes and the applied Toll Rate Escalation Percentages. The calculated CPI-W annual growth rate between

Toll Rate Escalation and 2022 Toll Rates – SH 249 System

September 24, 2021

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August 2020 and August 2021 was higher than the specified minimum floor of two percent and is therefore applied as the governing Toll Rate Escalation Percentage between 2021 and 2022.

Table 1
Effective Houston CPI-W at Time of Toll Escalation Determination
(August Reference, Published Every September)

Year	Feb	Apr	Jun	Aug*	Oct	Dec	Prior 12-month Average	12-Month % Escalation	August Reference % Escalation ⁺
2010	190.351	192.447	192.696	193.276	193.110	192.863	-	-	-
2011	195.677	200.997	200.444	201.772	200.464	199.480	197.477	-	4.40%
2012	203.603	205.790	204.041	202.688	202.775	200.895	202.678	2.63%	0.45%
2013	204.336	205.918	206.269	206.706	205.656	207.269	204.483	0.89%	1.98%
2014	209.017	211.000	212.191	211.297	211.512	208.584	209.405	2.41%	2.22%
2015	206.448	208.610	210.261	210.819	210.250	208.519	209.372	-0.02%	-0.23%
2016	209.049	210.981	212.758	212.129**	213.534	213.205	210.614	0.59%	0.62%
2017	214.667	215.313	215.829	216.384	218.752	217.578	214.822	2.00%	2.01%
2018	220.882	221.383	223.561	222.481	224.175	221.965	220.773	2.77%	2.82%
2019	221.664	225.023	224.306	224.664	224.596	223.329	223.633	1.30%	0.98%
2020	224.841	220.461	223.512	223.672	224.743	224.747	223.402	-0.10%	-0.44%
2021	227.056	231.886	235.084	237.097			230.102	3.00%	6.00%

*Toll Escalation Determination Date is October 1 (according to Minute Order No. 115393). The CPI-W for August that is typically released by the BLS in mid-September qualifies for the Toll Rate Escalation Percentage determination.

** CPI for August 2016 was revised on October 18, 2016 and is slightly different from the value obtained in September 2016.

⁺ Latest August CPI-W annual growth is calculated as:

$$(CPI^{Aug2021} - CPI^{Aug2020}) / CPI^{Aug2020} = (237.097 - 223.672) / 223.672 * 100\% = 6.00\%$$

Table 2
Annual Toll Rate Escalation Comparisons

Year	August CPI-W Annual Growth	Applied Toll Rate Escalation Percentage*	Assumed in SH 249 Traffic and Toll Revenue Study ⁽¹⁾
2012 - 2013	0.45%	2.00%	-
2013 - 2014	1.98%	2.00%	-
2014 - 2015	2.22%	2.22%	-
2015 - 2016	-0.23%	2.00%	-
2016 - 2017	0.62%	2.00%	-
2017 - 2018	2.01%	2.01%	2.01%
2018 - 2019	2.82%	2.82%	2.82%
2019-2020	0.98%	2.00%	2.20%
2020-2021	-0.44%	2.00%	2.20%
2021-2022	6.00%	6.00%	2.20%

* As per TxDOT Minute Order 115393 that states the applied escalation to be the greater of 2.00 percent or effective CPI-W annual increase.
 1) Assumed CPI-W escalation in the SH 249 Comprehensive Traffic and Toll Revenue Study dated December 2018.

SH 249 System 2021 and 2022 Plaza Toll Rates

Table 3 shows the 2021 toll rates along the proposed SH 249 System. **Table 4** and **Figure 1** illustrate the 2022 toll rates for the SH 249 System with the applied Toll Rate Escalation Percentage (shown in **Table 2**). **Table 5** provides the difference in toll rates from 2021 to 2022 based on the 6.00 percent annual escalation for the SH 249 System. The two-axle vehicle with TxTag average toll rate per mile for the SH 249 System is approximately \$0.29 per mile (in 2022).

SH 249 2022 Total Toll Cost for Through Trips

The total toll cost for a two-axle vehicle for the entire through-trip traversing the SH 249 System (starting at FM 1774 in Pinehurst and ending at FM 1774 in Todd Mission, or vice versa) will be \$4.27 in 2022. The cost for this same trip for a 4-axle truck will be \$12.81 in 2022 (calculated based on the N-1 weighting rule, where N is the number of axles, such that the toll rate for an N-axle vehicle is N-1 times the equivalent two-axle vehicle toll rate).

Table 6 illustrates the toll cost, toll distance travelled and the effective average toll rate per mile for a through-trip traversing Segment 1A and 1B of the SH 249 System. The toll costs are the summation of the base auto tolls charged when paying with TxTag at all mainlane gantries when traveling the full length of each facility. Under the SH 249 System, since each segment has only one mainlane gantry, the toll cost for each segment is the toll rate of the mainlane gantry in that segment. The toll rate averages of a two-axle vehicle with TxTag are 29 cents per mile on both segments.

Table 3
Toll Rates for the SH 249 System Expressed in 2021 Dollars

SH 249 System (Segment 1) – Toll Rates (Effective January 1, 2021)										
Tolling Point	Two-Axle		Three-Axle		Four-Axle		Five-Axle		Six-Axle	
	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹
Segment 1A										
Entrance and Exit Ramps: South of FM 149	\$0.54	\$0.81	\$1.08	\$1.62	\$1.62	\$2.43	\$2.16	\$3.24	\$2.70	\$4.05
Mainlane Gantry: North of FM 149	\$1.75	\$2.63	\$3.50	\$5.26	\$5.25	\$7.89	\$7.00	\$10.52	\$8.75	\$13.15
Segment 1B										
Entrance and Exit Ramps: South of CR 107 ⁽²⁾	\$0.41	\$0.62	\$0.82	\$1.24	\$1.23	\$1.86	\$1.64	\$2.48	\$2.05	\$3.10
Entrance and Exit Ramps: South of FM 1486	\$0.84	\$1.26	\$1.68	\$2.52	\$2.52	\$3.78	\$3.36	\$5.04	\$4.20	\$6.30
Entrance and Exit Ramps: South of CR 115 ⁽²⁾	\$1.14	\$1.71	\$2.28	\$3.42	\$3.42	\$5.13	\$4.56	\$6.84	\$5.70	\$8.55
Mainlane Gantry: North of CR 115 ⁽²⁾	\$2.28	\$3.42	\$4.56	\$6.84	\$6.84	\$10.26	\$9.12	\$13.68	\$11.40	\$17.10
Notes:										
1) A 50% surcharge (for PBM) over the TxTag rate is applied. The 2-axle TxTag & PBM toll rates are rounded to the nearest cent. The remaining 3+ axle toll rates are calculated using the 2-axle rates multiplied by the N-1 formula, where N is the number of axles.										
2) CR 107 and CR 115 are new roads scheduled to open in January 2030.										

Table 4
Toll Rates for the SH 249 System Expressed in 2022 Dollars

SH 249 System (Segment 1) – Toll Rates (Effective January 1, 2022)										
Tolling Point	Two-Axle		Three-Axle		Four-Axle		Five-Axle		Six-Axle	
	TxTag	PBM¹	TxTag	PBM¹	TxTag	PBM¹	TxTag	PBM¹	TxTag	PBM¹
Segment 1A										
Entrance and Exit Ramps: South of FM 149	\$0.57	\$0.86	\$1.14	\$1.72	\$1.71	\$2.58	\$2.28	\$3.44	\$2.85	\$4.30
Mainlane Gantry: North of FM 149	\$1.85	\$2.78	\$3.70	\$5.56	\$5.55	\$8.34	\$7.40	\$11.12	\$9.25	\$13.90
Segment 1B										
Entrance and Exit Ramps: South of CR 107 ⁽²⁾	\$0.44	\$0.66	\$0.88	\$1.32	\$1.32	\$1.98	\$1.76	\$2.64	\$2.20	\$3.30
Entrance and Exit Ramps: South of FM 1486	\$0.89	\$1.34	\$1.78	\$2.68	\$2.67	\$4.02	\$3.56	\$5.36	\$4.45	\$6.70
Entrance and Exit Ramps: South of CR 115 ⁽²⁾	\$1.21	\$1.82	\$2.42	\$3.64	\$3.63	\$5.46	\$4.84	\$7.28	\$6.05	\$9.10
Mainlane Gantry: North of CR 115 ⁽²⁾	\$2.42	\$3.63	\$4.84	\$7.26	\$7.26	\$10.89	\$9.68	\$14.52	\$12.10	\$18.15
Notes:										
1) A 50% surcharge (for PBM) over the TxTag rate is applied. The 2-axle TxTag & PBM toll rates are rounded to the nearest cent. The remaining 3+ axle toll rates are calculated using the 2-axle rates multiplied by the N-1 formula, where N is the number of axles.										
2) CR 107 and CR 115 are new roads scheduled to open in January 2030.										

Table 5
Change in Toll Rates from 2021 to 2022 for the SH 249 System

SH 249 System (Segment 1) – Toll Rates (Change from 2021 to 2022)										
Tolling Point	Two-Axle		Three-Axle		Four-Axle		Five-Axle		Six-Axle	
	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹
Segment 1A										
Entrance and Exit Ramps: South of FM 149	\$0.03	\$0.05	\$0.06	\$0.10	\$0.09	\$0.15	\$0.12	\$0.20	\$0.15	\$0.25
Mainlane Gantry: North of FM 149	\$0.10	\$0.15	\$0.20	\$0.30	\$0.30	\$0.45	\$0.40	\$0.60	\$0.50	\$0.75
Segment 1B										
Entrance and Exit Ramps: South of CR 107 ⁽²⁾	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.12	\$0.12	\$0.16	\$0.15	\$0.20
Entrance and Exit Ramps: South of FM 1486	\$0.05	\$0.08	\$0.10	\$0.16	\$0.15	\$0.24	\$0.20	\$0.32	\$0.25	\$0.40
Entrance and Exit Ramps: South of CR 115 ⁽²⁾	\$0.07	\$0.11	\$0.14	\$0.22	\$0.21	\$0.33	\$0.28	\$0.44	\$0.35	\$0.55
Mainlane Gantry: North of CR 115 ⁽²⁾	\$0.14	\$0.21	\$0.28	\$0.42	\$0.42	\$0.63	\$0.56	\$0.84	\$0.70	\$1.05
Notes:										
1) A 50% surcharge (for PBM) over the TxTag rate is applied. The 2-axle TxTag & PBM toll rates are rounded to the nearest cent. The remaining 3+ axle toll rates are calculated using the 2-axle rates multiplied by the N-1 formula, where N is the number of axles.										
2) CR 107 and CR 115 are new roads scheduled to open in January 2030.										

Figure 1
2022 Toll Rates for the SH 249 System

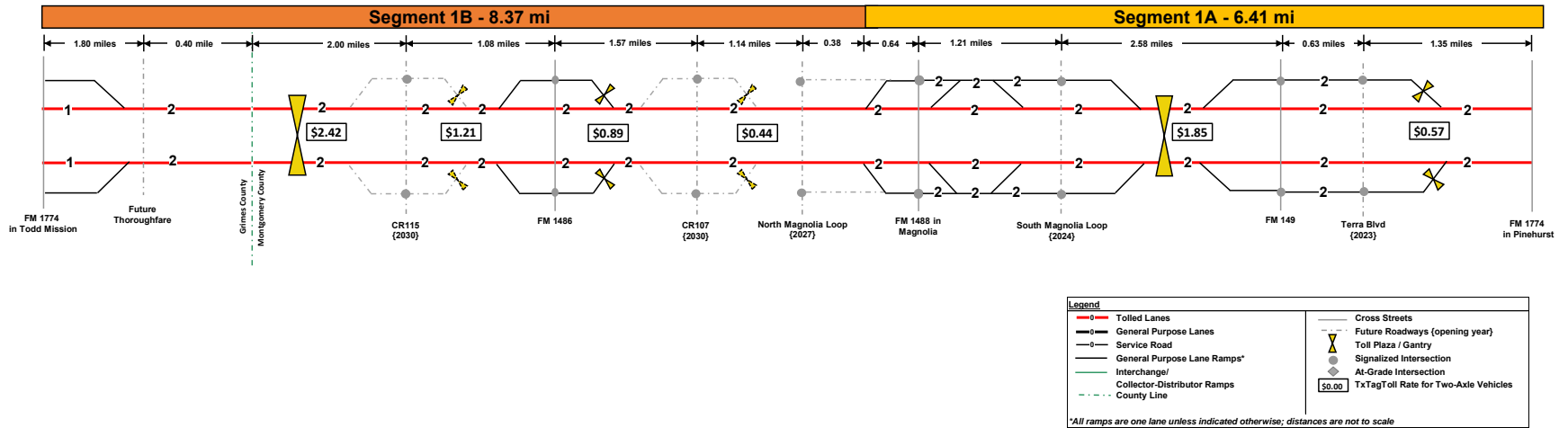


Table 6
Two-Axle TxTag Toll Cost for Through Trips along the SH 249 System Expressed in 2022 Dollars

Segment	Full Length Trip		Cents per Mile	
	Toll Cost	Miles	Calculated	Rounded
Segment 1A	\$1.85	6.41	28.9	29
Segment 1B	\$2.42	8.37	28.9	29

APPENDIX A

TEXAS TRANSPORTATION COMMISSION

MONTGOMERY and GRIMES Counties

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Planning and development of the extension of State Highway 249 (SH 249) in Harris, Montgomery and Grimes Counties (counties) has been underway since 2012. The Texas Department of Transportation (department) and the three counties in which the extension of SH 249 will be located have been proceeding regarding the development of SH 249 facilities and improvements to be operated and maintained by the various counties and the department on both a tolled and non-tolled basis.

Pursuant to Minute Order 114204, dated February 25, 2015, the department and Montgomery County Toll Road Authority (Montgomery County) entered into a toll project agreement (SH 249 agreement) authorized under Transportation Code §373.006 that identifies the responsibilities of each party for toll project-related activities and provides an alternative to the primacy determination process under Subchapter B of Chapter 373, Transportation Code. The SH 249 agreement provides for the department to finance, design, construct, operate and maintain the approximately 15-mile Segment 1 of the SH 249 extension, which is anticipated to be a new four-lane divided highway between FM 1774 in Pinehurst in Montgomery County and FM 1774 in Grimes County near Todd Mission, with an all-electronic, open road toll facility with a closed ramp system of toll collection and with intermittent two-lane, non-tolled, one-way frontage roads in each direction (SH 249 System).

By Minute Order 114959, dated June 29, 2017, the Texas Transportation Commission (commission) designated the SH 249 System as a toll facility on the state highway system. Segment 2 of the SH 249 extension will be a non-tolled two-lane to four-lane divided highway between FM 1774 in Pinehurst and SH 105 near Navasota in Grimes County.

Title 43, Texas Administrative Code, §27.82(d) provides that the commission will establish toll rates for the use of a toll project on the state highway system. In setting toll rates, the commission is required to consider: (1) the results of traffic and revenue studies and any schedule of toll rates established in a traffic and revenue report; (2) the requirements of project bond covenants, if applicable; and (3) vehicle classifications, type and location of the facility, and similar criteria that apply to a specific project.

The department desires to establish initial toll rates and a toll rate escalation policy for the SH 249 System at each tolling point as set forth in Exhibits A and B, respectively.

The department has entered into a design-build agreement with WBCCI, LLC, as authorized by the commission by Minute Order 114960, dated June 29, 2017, for the construction of both the SH 249 System (Segment 1) as well as Segment 2, extending from FM 1774 in Pinehurst in Montgomery County to SH 105 near Navasota in Grimes County.

The commission finds it to be in the best interest of the state to issue toll revenue obligations (obligations) pursuant to Subchapter C, Chapter 228, Transportation Code and Chapter 1371, Government Code to finance a portion of the costs of Segment 1, comprising the SH 249 System, and, potentially, other future improvements to the SH 249 System, and to secure SH 249 System obligations issued for the SH 249 System by entering into the master trust agreement and the first supplemental agreement, both in substantially the form provided to the commission, with such changes approved by the chief financial officer of the department or the director of the project finance, debt and strategic contracts division (each of whom is a "department representative" for

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HOUSTON and BRYAN Districts

purposes of this minute order) acting on behalf of the commission with such approval to be conclusively evidenced by execution of such agreements.

The obligations will be secured by the revenues from the operation of the tolled facilities of the SH 249 System and the master trust agreement will provide for the use of lawfully available funds of the commission to pay operating and maintenance expenses to the extent the SH 249 System revenues are insufficient or unavailable and to pay major maintenance expenditures and capital costs to the extent set forth in each budget for the SH 249 System.

Pursuant to the master trust agreement, the commission, subject to appropriation of lawfully available funds, authorizes payment of the costs of Segment 1, including costs of right-of-way, to the extent proceeds of the initial obligations and other available funds are insufficient.

Funds from sources commonly known as Proposition 1 and Proposition 7 are not lawfully available to secure and pay the obligations or to pay the costs of constructing, operating or maintaining the SH 249 System.

In addition, Montgomery County will make a cash contribution for additional improvements to Segment 1.

The master trust agreement, together with the first supplemental agreement, prescribes the terms, provisions, and covenants related to the obligations to finance a portion of Segment 1.

Government Code §1231.041 provides that a state agency may not issue a state security unless the issuance is approved by the Texas Bond Review Board (board) or exempted under law, including by board rule, from review by the board.

Under the first supplemental agreement, a department representative, acting on behalf of the commission, is authorized to determine the method of sale for each series of obligations as well as the price, lien status and other terms of each series as prescribed in each award certificate.

The commission understands that the underwriters in connection with the issuance of one or more series of obligations pursuant to the first supplemental agreement intend to distribute a preliminary official statement (POS) and final official statement (Official Statement) in substantially the form provided to the commission with such changes as approved by a department representative, on behalf of the commission, in connection with the public offering and sale of one or more series of such obligations.

Under the first supplemental agreement, a department representative is authorized to price one or more series of the obligations with various interest rate and other structures including capital appreciation bonds, variable rate bonds, put bonds, index bonds and others, which may require the use of liquidity provider(s), tender agents, remarketing agents and other entities performing various functions in connection with any such interest rate structures.

Government Code, Chapter 2256 (Public Funds Investment Act) authorizes the commission to purchase, sell, and invest its funds and funds under its control in investments that are in compliance with investment policies approved by the commission.

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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.

Pursuant to Minute Order 115317 adopted by the commission on August 30, 2018, the commission's investment policy and investment strategies applicable to all funds of the commission not otherwise required to be invested by the comptroller were approved in accordance with Government Code §2256.005(e) and Section 20.0 of the investment policy.

The commission understands that any funds held for the SH 249 System must be invested in accordance with the investment policy and investment strategies.

IT IS THEREFORE ORDERED by the commission that the chairman of the commission and the executive director of the department are authorized and directed to execute and deliver each series of the obligations and such other documents and certificates to carry out the intent of this order and a department representative, on behalf of the commission, is authorized and directed to execute and deliver the master trust agreement, the first supplemental agreement, each bond purchase agreement, as applicable, continuing covenant agreement, as applicable, paying agent agreement, trust and security agreement, if necessary, for the deposit of Montgomery County funds, award certificates and similar agreements necessary for any series of the obligations (collectively, program documents), in the forms approved by a department representative with such changes as a department representative, on behalf of the commission, executing the same may approve, such approval to be conclusively evidenced by execution of the program documents.

IT IS FURTHER ORDERED that the commission agrees, subject to appropriation of lawfully available funds, to pay (i) the costs of Segment 1, including all necessary right-of way to the extent proceeds of the initial obligations and other available funds are insufficient and (ii) all operating and maintenance expenses to the extent SH 249 System revenues are insufficient or unavailable for such purposes as well as major maintenance and capital expenditures.

IT IS FURTHER ORDERED by the commission that a department representative, on behalf of the commission, is authorized and directed to execute and deliver any remarketing agreement, liquidity agreement, tender agent agreement and other agreements necessary for any variable rate obligations (collectively, variable rate documents), and the variable rate documents and similar agreements in connection with any variable rate bonds are authorized in such form approved by a department representative executing the same may approve, such approval to be conclusively evidenced by execution of the variable rate documents.

IT IS FURTHER ORDERED by the commission that any necessary ancillary documents in connection with the issuance of each series of the obligations, the program documents, and the variable rate documents, if any, are hereby approved, and a department representative, on behalf of the commission, is authorized and directed to execute and deliver such documents.

IT IS FURTHER ORDERED by the commission that each POS and Official Statement is approved for distribution in substantially the forms provided to the commission with such changes as a department representative, on behalf of the commission, executing the same may approve, such approval to be conclusively evidenced by execution of such POS and Official Statement, and a department representative, on behalf of the commission, is authorized to deem any POS and Official

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Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission (rule) with such omissions as permitted by the rule.

IT IS FURTHER ORDERED by the commission that a department representative, on behalf of the commission, is authorized and directed to file with the board an application for approval or exemption, as applicable, in connection with the issuance of each series of obligations.

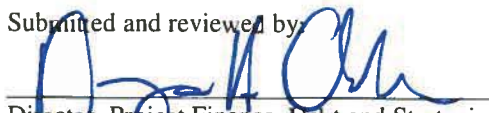
IT IS FURTHER ORDERED by the commission that each member of the commission, each department representative, and the executive director and general counsel of the department are authorized and directed to perform all such acts and execute such documents and notices, including execution of certifications to any underwriters or purchasers, the Attorney General, the Comptroller of Public Accounts, the board and other parties, as may be necessary to carry out the intent of this order and other orders of the commission relating to the SH 249 System, the program documents and the variable rate documents.

IT IS FURTHER ORDERED by the commission that the department is authorized to charge tolls on Segment 1 based on a fixed pricing schedule, in the amounts stated in Exhibit A, beginning in Summer 2021, or at such time thereafter when all toll systems have been tested and are functioning.

IT IS FURTHER ORDERED that the executive director is authorized to annually escalate toll rates on Segment 1 in accordance with established indices and the toll rate escalation policy as shown in Exhibits A and B.

IT IS FURTHER ORDERED by the commission that the investment strategy for the SH 249 System attached hereto as Exhibit C is hereby approved and authorized to be included as part of the commission's investment policy.

Submitted and reviewed by:


Director, Project Finance, Debt and Strategic
Contracts Division

Recommended by:


Executive Director

115393 DEC 13 '18
Minute Date
Number Passed

Exhibit A

SH 249 System (Segment 1: Opening Summer 2021¹) - Toll Rates²

Tolling Point	Two-Axle		Three-Axle		Four-Axle		Five-Axle		Six-Axle	
	TxTag	Video ³	TxTag	Video ³	TxTag	Video ³	TxTag	Video ³	TxTag	Video ³
Entrance and Exit Ramps: South of FM 149	\$0.52	\$0.78	\$1.04	\$1.56	\$1.56	\$2.34	\$2.08	\$3.12	\$2.60	\$3.90
Mainlane Gantry: North of FM 149	\$1.68	\$2.52	\$3.36	\$5.04	\$5.04	\$7.56	\$6.72	\$10.08	\$8.40	\$12.60
Entrance and Exit Ramps: South of CR 107 ⁽⁴⁾	\$0.40	\$0.60	\$0.80	\$1.20	\$1.20	\$1.80	\$1.60	\$2.40	\$2.00	\$3.00
Entrance and Exit Ramps: South of FM 1486	\$0.81	\$1.22	\$1.62	\$2.43	\$2.43	\$3.65	\$3.24	\$4.86	\$4.05	\$6.08
Entrance and Exit Ramps: South of CR 115 ⁽⁴⁾	\$1.09	\$1.64	\$2.18	\$3.27	\$3.27	\$4.91	\$4.36	\$6.54	\$5.45	\$8.18
Mainlane Gantry: North of CR 115 ⁽⁴⁾	\$2.19	\$3.29	\$4.38	\$6.57	\$6.57	\$9.86	\$8.76	\$13.14	\$10.95	\$16.43

Notes:

- 1.) Tolling of the SH 249 System, from FM 1774 in Pinehurst to FM 1774 in Todd Mission, is anticipated to commence subsequent to substantial completion, tentatively scheduled for Summer 2021, and therefore, subject to change.
- 2.) Toll rates are expressed in 2019 dollars.
- 3.) A 50 percent surcharge over the TxTag rate is applied to the Video Rate.
- 4.) CR 107 and CR 115 are new roads scheduled to open in January 2030.

Exhibit B

Toll Rate Escalation Policy

In Grimes and Montgomery counties, an extension of State Highway 249 from FM 1774 in Pinehurst, Texas to SH 105 near Navasota, Texas (the “SH 249 System”), is being constructed as a two-lane to four-lane divided highway on the state highway system. In Minute Order 114959, dated June 29, 2017, the Texas Transportation Commission (the “Commission”) designated Segment 1 of the SH 249 System, from FM 1774 in Pinehurst in Montgomery County to FM 1774 in Todd Mission in Grimes County, as a toll project on the state highway system.

Beginning on October 1, 2019 and on each October 1 thereafter (the “Toll Escalation Determination Date”), a percentage increase in the toll rates charged on the SH 249 System being developed, constructed, financed, expanded, operated and maintained by the Texas Department of Transportation (the “Department”) acting on behalf of the Commission, will be determined in an amount equal to the Toll Rate Escalation Percentage. The Toll Rate Escalation Percentage, as calculated on each Toll Escalation Determination Date, shall be reported to the Commission each year at or before the Commission’s October meeting, beginning in 2019. The percentage increase in the toll rates shall be effective automatically on January 1 of the next calendar year and implemented by the executive director of the Department, unless the Commission affirmatively elects prior to January 1 to modify the Toll Rate Escalation Percentage.

For purposes of determining the Toll Rate Escalation Percentage, the following capitalized terms shall have the meanings given below:

“Toll Rate Escalation Percentage” shall mean a percentage amount equal to the greater of (1) $[(CPI^t - CPI^{t-12})/CPI^{t-12}]$ and (2) 2.0%.

“CPI” = the most recently published non-revised index of Consumer Prices for Urban Wage Earners and Clerical Workers, also referred to as CPI-W, before seasonal adjustment (“CPI”), as published by the Bureau of Labor Statistics of the U.S. Department of Labor (“BLS”) prior to the Toll Escalation Determination Date for which such calculation is being made. The CPI is published monthly and the CPI for a particular month is generally released and published during the following month. The CPI is based on the expenditures of households included in the more broadly defined “CPI-U,” the measure of the average change in consumer prices over time for a fixed market basket of goods and services representing their importance in the spending of urban households in the United States. The CPI (CPI-W), however, also meets two additional requirements: more than one-half of the household's income must come from clerical or wage occupations, and at least one of the household's earners must have been employed for at least 37 weeks during the previous 12 months. The CPI population represents about 32 percent of the total U.S. population and is a subset, or part, of the CPI-U population. The CPI is expressed in relative terms in relation to a time base reference period for which the level is set at 100.0. The base reference period for the CPI is the 1982-1984 average.

“ CPI^{t-12} ” = the CPI (CPI-W) published by the BLS in the month that is 12 months prior to the month used to establish CPI^t .

If the CPI (CPI-W) is discontinued or substantially altered, as determined in the sole discretion of the department, the department will determine an appropriate substitute index or, if no such substitute index is able to be determined, the commission reserves the right to modify its obligations under this policy.

Escalated toll rates calculated in accordance with the above formula will be rounded to the nearest cent.

TEXAS TRANSPORTATION COMMISSION

INVESTMENT STRATEGY

Relating to

Obligations issued for the SH 249 System
Under a Master Trust Agreement by and between

U.S. Bank National Association
as Trustee

and

Texas Transportation Commission

PREFACE

It is the policy of the Texas Transportation Commission (the “Commission”) that, giving due regard to the safety and risk of investment, all funds subject to the Master Trust Agreement, as supplemented by and between the Texas Transportation Commission and U.S. Bank National Association as Trustee securing the State Highway 249 System Toll Revenue Obligations (collectively, the “Trust Agreement”), shall be invested in conformance with the State and Federal Regulations, the Trust Agreement and related bond document requirements, adopted Investment Policy and adopted Investment Strategy. This Investment Strategy is effective upon the dated date of the Trust Agreement.

In accordance with the Public Funds Investment Act, Commission investment strategies shall address the following priorities (in order of importance):

INVESTMENT STRATEGY STATEMENT

In accordance with the Public Funds Investment Act, Commission investment strategies shall address the following priorities (in order of importance):

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield.

Effective investment strategy development coordinates the primary objectives of the Commission’s Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission’s Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated project cashflows when prudently implementing these strategies. The Commission’s portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy and the Trust Agreement.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. Funds held under the Trust Agreement shall be analyzed and invested according to the following major fund types:

- a. Type I Funds: Funds in the Revenue Fund, Debt Service Fund, and General Reserve Fund
- b. Type II Funds: Funds in the Rate Stabilization Fund

- c. Type III Funds: Funds in the Construction Fund and Capitalized Interest Fund
- d. Type IV Funds: Funds in Debt Service Reserve Fund
- e. Type V Funds: Rebate Fund

INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate and market fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

a. Type I Funds: Revenue Fund, Debt Service Fund, and General Reserve Fund (excluding Capitalized Interest Funds)

Suitability - Any investment eligible in the Investment Policy is suitable for the Type I Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Market price fluctuations will occur, however, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days and restricting the maximum allowable maturity to one year. The General Reserve Fund has a maximum allowable maturity of five years.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the Commission. Adhering to the Investment Policy’s maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an average rolling three-month Treasury bill portfolio shall be the minimum yield objective.

b. Type II Funds: Rate Stabilization Fund

Suitability - Any investment eligible in the Investment Policy is suitable for the Type II Funds. Bond document constraints and insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. The allowable maximum maturity is 5 years.

Liquidity - Type II Funds may be expended for debt service payments, maintenance, and/or operation expenses. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type II Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio shall be the objective.

c. Type III Funds: Construction Fund and Capitalized Interest Fund

Suitability - Any investment eligible in the Investment Policy is suitable for investment of Type III Funds. Bond document constraints and insurance company restrictions may create bond issue-specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type III Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type III Funds may not exceed the final draw date for capitalized interest payments or estimated construction draws, or three years, whichever is shorter.

Liquidity - Type III Funds have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and longer maturities. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - For Type III Funds that do not have an arbitrage yield; attaining a competitive market yield for comparable security-types and portfolio restrictions while complying with the priorities established in this strategy is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Construction and Capitalized Interest Fund portfolio will be the minimum yield objective for performance. For Type III Funds that have an arbitrage yield, achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective.

d. Type IV Funds: Debt Service Reserve Fund

Suitability - Any investment eligible in the Investment Policy is suitable for the Type IV Funds. Bond document constraints and bond insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the Type IV Fund's portfolio maturities should be managed to reduce the investment's market risk if the Commission's bonds are called and the reserve fund liquidated. In no case shall any investment maturity exceed the lesser of final maturity of the bond issue or 20 years. Annual mark-to-market requirements or specific maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type IV Funds have no anticipated expenditures of principal. The funds are deposited to provide annual debt service payment protection to the Commission's bondholders. The funds are “returned” to the Commission at the final debt service payment or earlier if bonds are defeased or redeemed. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the

Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type IV Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield is the desired objective.

e. Type V Funds: Rebate Account

Suitability - Any investment eligible in the Investment Policy, except (d) Guaranteed Investment Contracts and (i) Forward Purchase Contracts, is suitable for Type V Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type V Fund's portfolio to match rebate payment date requirements as prescribed by federal tax law. The maximum allowable maturity of investments for Type V Funds may not exceed the date on which rebate requirements are due.

Liquidity - Type V Funds have a predictable draw schedule and will not be expended prior to the rebate payment date for each applicable series of obligations. Therefore, investments for this fund type do not need a high level of liquidity.

Marketability - Securities with secondary markets less active and efficient are acceptable for Type V Funds.

Diversification - Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type V Funds. At no time shall investment maturities exceed the rebate payment date in an attempt to boost yield.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Rebate Account Fund portfolio will be the benchmark for performance.

Exhibit B

SH 249 System (Segment 1) Toll Rates (Effective January 1, 2022)

Exhibit B

SH 249 System (Segment 1) Toll Rates (Effective January 1, 2022)										
Tolling Point	Two-Axle		Three-Axle		Four-Axle		Five-Axle		Six-Axle	
	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹	TxTag	PBM ¹
Segment 1A										
Entrance and Exit Ramps: South of FM 149	\$0.57	\$0.86	\$1.14	\$1.72	\$1.71	\$2.58	\$2.28	\$3.44	\$2.85	\$4.30
Mainlane Gantry: North of FM 149	\$1.85	\$2.78	\$3.70	\$5.56	\$5.55	\$8.34	\$7.40	\$11.12	\$9.25	\$13.90
Segment 1B										
Entrance and Exit Ramps: South of CR 107 ⁽²⁾	\$0.44	\$0.66	\$0.88	\$1.32	\$1.32	\$1.98	\$1.76	\$2.64	\$2.20	\$3.30
Entrance and Exit Ramps: South of FM 1486	\$0.89	\$1.34	\$1.78	\$2.68	\$2.67	\$4.02	\$3.56	\$5.36	\$4.45	\$6.70
Entrance and Exit Ramps: South of CR 115 ⁽²⁾	\$1.21	\$1.82	\$2.42	\$3.64	\$3.63	\$5.46	\$4.84	\$7.28	\$6.05	\$9.10
Mainlane Gantry: North of CR 115 ⁽²⁾	\$2.42	\$3.63	\$4.84	\$7.26	\$7.26	\$10.89	\$9.68	\$14.52	\$12.10	\$18.15

Notes:

- 1.) A 50% surcharge (for PBM) over the TxTag rate is applied. The 2-axle TxTag & PBM toll rates are rounded to the nearest cent.
The remaining 3+ axle toll rates are calculated using the 2-axle rates multiplied by the N-1 formula, where N is the number of axles.
- 2.) CR 107 and CR 115 are new roads scheduled to open in January 2030.