

OFFICIAL STATEMENT DATED JULY 25, 2008

**NEW ISSUE - Book-Entry-Only**

**Ratings:** *Standard & Poor's "AAA;" Moody's "Aa1"*  
*See "RATINGS" herein.*

*Delivery of the Bonds is subject to receipt of the opinion of Andrews Kurth LLP, Bond Counsel, to the effect that, assuming continuing compliance by the Commission with certain covenants contained in the Resolution described herein and subject to the matters described under "TAX EXEMPTION" herein, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not includable in the alternative minimum taxable income of individuals. See "TAX EXEMPTION" for a description of the opinion of Bond Counsel, including the alternative minimum tax on corporations.*



**\$162,995,000**  
**TEXAS TRANSPORTATION COMMISSION**  
**STATE HIGHWAY FUND FIRST TIER REVENUE BONDS,**  
**SERIES 2008**

**Dated:** August 1, 2008

**Due:** April 1, as shown on the inside cover

**Interest Accrues From:** Date of Initial Delivery

The "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2008" (the "Bonds") are special and limited obligations of the Texas Transportation Commission (the "Commission"), the governing body of the Texas Department of Transportation (the "Department"), an agency of the State of Texas (the "State"). The Bonds are being issued pursuant to the authority granted to the Commission by Article III, Section 49-n of the Texas Constitution; Section 222.003, Texas Transportation Code, as amended (the "Act"); Chapter 1371, Texas Government Code, as amended; and pursuant to a "Master Resolution" adopted by minute order of the Commission on March 30, 2006, as amended (the "Master Resolution"); and a "Fourth Supplemental Resolution" (the "Fourth Supplemental Resolution") adopted by minute order of the Commission on August 23, 2007. The Master Resolution and the Fourth Supplemental Resolution are collectively referred to as the "Resolution." The Master Resolution establishes a financing program (the "Program") to provide funds for any lawful purpose and to provide a financing structure to facilitate the Commission's exercise of the power and authority conferred by the Act through the issuance, execution or delivery of obligations payable from the State Highway Fund (the "Fund"). The Bonds are being issued as "First Tier Senior Obligations" under the Resolution to (i) finance State highway improvement projects that are eligible for funding with revenues dedicated under Article VIII, Section 7-a of the Texas Constitution; and (ii) pay the costs of issuing the Bonds, as more fully described herein.

The Bonds, together with the outstanding First Tier Senior Obligations and any additional First Tier Senior Obligations, will be payable from a prior lien on the Pledged Revenues (as hereinafter defined) consisting primarily of certain funds deposited to the credit of the Fund. In the Master Resolution, the Commission has reserved the right to establish additional levels of lien seniority and payment priority (each, a "Tier") for Senior Obligations to be issued in the future. Pursuant to Article III, Section 49-n of the Texas Constitution, revenue on deposit in the Fund is appropriated in an amount necessary to pay the principal of and interest on the Bonds that mature or become due during any fiscal year and any cost related to the Bonds. This appropriation of revenue may not be modified to impair the payment of the Bonds unless provisions have been made for a full discharge of the Bonds. **NEITHER THE STATE, NOR ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS, OTHER THAN AS PROVIDED IN THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.**

The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, redemption premium, if any, and interest on the Bonds will be payable by the paying agent/registrars (the "Paying Agent/Registrar"), initially Wells Fargo Bank, N.A., to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent remittance to the owners of the beneficial interests in the Bonds. See "APPENDIX E – DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM." The Bonds will be dated August 1, 2008, but will bear interest from their date of initial delivery, calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2008.

The Bonds are subject to redemption prior to maturity in whole or in part, from time to time, as more fully described herein. See "THE BONDS – Redemption Provisions."

This cover page contains information for quick reference only. It is not a summary of the Bonds. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Investment in the Bonds is subject to certain investment considerations. See "INVESTMENT CONSIDERATIONS" herein.

**SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE**

The Bonds are offered for delivery when, as, and if issued and accepted by the Underwriters, and subject to the approval of the Attorney General of the State and the approval of certain legal matters by Andrews Kurth LLP, Bond Counsel. Certain legal matters will be passed upon for the Commission by General Counsel to the Commission and by Greenberg Traurig, LLP, Disclosure Counsel to the Commission. Certain legal matters will be passed upon for the Underwriters by Bates & Coleman, P.C., Underwriters' Counsel. It is expected that the Bonds will be delivered on or about August 19, 2008 through the facilities of DTC.

**MORGAN KEEGAN & COMPANY, INC.**

**ESTRADA HINOJOSA & COMPANY, INC.**

**FIRST SOUTHWEST COMPANY**

**SIEBERT BRANDFORD SHANK & CO., LLC**

**SOUTHWEST SECURITIES**

## MATURITY SCHEDULE

**\$162,995,000**  
**TEXAS TRANSPORTATION COMMISSION**  
**STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2008**

<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Number<sup>(1)</sup></u>
2010	\$5,405,000	5.000%	2.330%	88283L GG5
2011	5,675,000	5.000	2.790	88283L GH3
2012	5,955,000	5.000	3.060	88283L GJ9
2013	2,465,000	3.500	3.270	88283L GK6
2013	3,790,000	5.000	3.270	88283L HB5
2014	1,530,000	3.750	3.430	88283L GL4
2014	5,000,000	5.000	3.430	88283L HC3
2015	1,835,000	3.750	3.620	88283L GM2
2015	5,000,000	5.000	3.620	88283L HD1
2016	2,155,000	4.000	3.780	88283L GN0
2016	5,000,000	5.000	3.780	88283L HE9
2017	2,490,000	4.000	3.920	88283L GP5
2017	5,000,000	5.000	3.920	88283L HF6
2018	7,840,000	5.000	4.060	88283L GQ3
2019	8,235,000	5.000	4.230 <sup>(2)(3)</sup>	88283L GR1
2020	8,645,000	5.000	4.330 <sup>(2)(3)</sup>	88283L GS9
2021	9,080,000	5.000	4.430 <sup>(2)(3)</sup>	88283L GT7
2022	9,530,000	5.000	4.500 <sup>(2)(3)</sup>	88283L GU4
2023	10,010,000	5.000	4.570 <sup>(2)(3)</sup>	88283L GV2
2024	10,510,000	5.250	4.530	88283L GW0
2025	11,060,000	5.250	4.590	88283L GX8
2026	11,640,000	5.250	4.640	88283L GY6
2027	12,250,000	5.250	4.680	88283L GZ3
2028	12,895,000	5.250	4.720	88283L HA7

(Interest accrues from the date of delivery of the Bonds)

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<sup>(1)</sup> CUSIP numbers have been assigned to the Bonds by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds. Neither the Commission nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated to first optional call date of April 1, 2018. See "THE BONDS—Redemption Provisions."

<sup>(3)</sup> The Bonds maturing on April 1 in the years 2019 through and including 2023 are subject to redemption on April 1, 2018 or any day thereafter, in whole or in part, at the option of the Commission. See "THE BONDS—Redemption Provisions."

**COMMISSION MEMBERS, DEPARTMENT OFFICIALS, AND  
CONSULTANTS AND ADVISORS**

**TEXAS TRANSPORTATION COMMISSION**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Deirdre Delisi <sup>(1)</sup>	Chair	February 2012
Ted Houghton	Commissioner	February 2009
Ned S. Holmes	Commissioner	February 2011
William Meadows <sup>(1)</sup>	Commissioner	February 2012
Fred Underwood	Commissioner	February 2009

<sup>(1)</sup> Appointed to the Commission by Governor Rick Perry on April 30, 2008.

**TEXAS DEPARTMENT OF TRANSPORTATION**

<u>Name</u>	<u>Position</u>	<u>Total Service with the Department</u>
Amadeo Saenz, Jr., P.E.	Executive Director	30 years
Steven E. Simmons, P.E.	Deputy Executive Director	25 years
Edward Serna	Assist. Exec. Dir., Support Operations	3 years
David Casteel	Assist. Exec. Dir., District Operations	23 years
John Barton	Assist. Exec. Dir., Engineering Operations	21 years
Phil Russell	Assist. Exec. Dir., Innovative Project Development	25 years
James M. Bass	Chief Financial Officer	20 years
Vacant	Director, Finance Division	<sup>(1)</sup>
John Muñoz	Deputy Director, Finance Division	20 years
Jose Hernandez	Debt Management Director	2 years
Bob Jackson	General Counsel	23 years

<sup>(1)</sup> Position is currently vacant. The Department has hired Brian Ragland as the Director of the Finance Division effective on August 1, 2008.

**CONSULTANTS AND ADVISORS**

Bond Counsel..... Andrews Kurth LLP, Austin, Texas

Disclosure Counsel.....Greenberg Traurig, LLP, Houston, Texas

Financial Advisor .....RBC Capital Markets Corporation, Dallas, Texas

Paying Agent/Registrar.....Wells Fargo Bank, N.A., Austin, Texas

For additional information regarding the Commission or the Department, please contact either:

Mr. James M. Bass  
Chief Financial Officer  
Texas Department of Transportation  
125 East 11th Street  
Austin, Texas 78701-2483  
(512) 305-9507

Mr. Ron Morrison  
RBC Capital Markets Corporation  
City Place, Suite 2500  
2711 North Haskell Avenue  
Dallas, Texas 75204  
(214) 989-1607

## SALE AND DISTRIBUTION OF THE BONDS

### Use of Official Statement

No dealer, broker, salesman or other person has been authorized by the Commission to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Commission. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create the implication that there has been no change in the affairs of the Commission since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and may not be reproduced or used for any other purpose. In no instance may this Official Statement be reproduced or used in part.

Certain information set forth in this Official Statement has been furnished by the Commission, and other sources which are believed to be reliable, but such information is not to be construed as a representation by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

Neither the Commission, the Underwriters nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its Book-Entry-Only System, as provided for in "APPENDIX E - DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM," as such information was furnished by DTC.

### Marketability

THE PRICE AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS AFTER SUCH BONDS ARE RELEASED FOR SALE AND SUCH BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL SUCH BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### Securities Laws

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Commission assumes no responsibility for registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

The statements contained in this Official Statement, and in other information provided by the Commission, that are not purely historical, are forward-looking statements, including statements regarding the Commission's expectations, hopes, intentions, or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the Commission on the date hereof, and the Commission assumes no obligation to update any such forward-looking statements. See "INVESTMENT CONSIDERATIONS - Forward-Looking Statements."

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## OFFICIAL STATEMENT

### RELATING TO

**\$162,995,000**

### **TEXAS TRANSPORTATION COMMISSION STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2008**

#### INTRODUCTION

The purpose of this Official Statement (which includes the Appendices hereto) is to furnish information concerning the offering of the “Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2008” (the “Bonds”), which are being issued by the Texas Transportation Commission (the “Commission”) the governing body of the Texas Department of Transportation (the “Department”), an agency of the State of Texas (the “State”) in the principal amount set forth above. The Bonds will be issued pursuant to the authority granted to the Commission by Article III, Section 49-n of the Texas Constitution; Section 222.003, Texas Transportation Code, as amended (the “Act”); Chapter 1371, Texas Government Code, as amended; and the “Master Resolution Establishing a Financing Program for Bonds, Other Public Securities and Credit Agreements Secured by and Payable from Revenue Deposited to the Credit of the State Highway Fund” adopted by minute order of the Commission on March 30, 2006, as amended pursuant to minute order of the Commission adopted on October 26, 2006 (the “Master Resolution”), as supplemented by the “Fourth Supplemental Resolution” to the Master Resolution adopted by minute order of the Commission on August 23, 2007 (the “Fourth Supplemental Resolution”). The Master Resolution and the Fourth Supplemental Resolution are collectively referred to as the “Resolution.” Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, as set forth in APPENDIX A - “DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION,” except as otherwise indicated herein.

On September 13, 2003, the voters of the State approved an amendment to the Texas Constitution, Article III, Section 49-n, as added by Acts 2003, 78th Texas Legislature, H.J.R. No. 28, Section 1 (“Section 49-n”), which permits the Texas Legislature (the “Legislature”) to authorize the Commission to issue bonds and other public securities to fund State highway improvement projects payable from certain revenues deposited to the credit of the State Highway Fund (the “Fund” or the “State Highway Fund”) held in the State treasury.

Pursuant to the Act, the Legislature has authorized the Commission to issue bonds and other public securities to finance (i) State highway improvement projects, (ii) reserve and contingency funds for such bonds and other public securities, and (iii) the costs of issuing such bonds or securities and entering into credit agreements related to such bonds and securities. The Act provides that bonds (including the Bonds) and public securities issued, and credit agreements entered into, are secured by a pledge of and payable from certain revenues deposited to the credit of the Fund, and amounts needed for payments due on such bonds, public securities, and credit agreements are appropriated from the Fund by Section 49-n for that purpose. Section 49-n further provides that the dedication or appropriation of revenue to the credit of the Fund may not be modified so as to impair any outstanding bonds or other public securities secured by a pledge of revenues in the Fund unless provisions have been made for a full discharge of such bonds or securities. The Act, as amended in 2007, increases the authority of the Commission to issue up to \$6 billion aggregate principal amount of bonds and other public securities (from the previous \$3 billion maximum), provided the Commission may not issue more than \$1.5 billion aggregate principal amount of bonds and other public securities in any year (increased from the previous \$1 billion annual maximum). Section 49-n, however, does not restrict the authority of the Legislature to modify or remove the limitations on the issuance of bonds and other public securities contained in the Act.

Revenues deposited to the credit of the Fund include certain constitutionally dedicated revenues and certain non-dedicated revenues. Article VIII, Section 7-a of the Texas Constitution (“Section 7-a”) dedicates (i) 75% of the net revenues generated from the State motor fuels tax (net of enforcement, administrative and refund charges), (ii) the State tax on motor lubricants and (iii) the net revenues generated from the State motor vehicle registration fees (net of collection charges and the portion of such fees that is reserved for counties within the State) to the acquisition of rights-of-way; construction, maintenance, and policing of public roadways; and for the administration of laws pertaining to the supervision of traffic and safety on such public roads. Pursuant to Article VIII, Section 7-b of the

Texas Constitution (“Section 7-b”), revenues received from the federal government as reimbursement for State expenditures of funds made for the purposes authorized by Section 7-a are dedicated to those purposes. Revenues dedicated for the purposes provided by Section 7-a and Section 7-b are deposited to the credit of the Fund and, by virtue of such deposit, are pledged to the payment of the Bonds. Certain non-dedicated revenues are also deposited to the credit of the Fund, though the Legislature could seek to re-direct such revenues for other purposes, subject to Section 49-n described above. See “THE BONDS - Source of Payment for Bonds,” “THE STATE HIGHWAY FUND - General,” “- Sources of Revenue in the Fund” and “INVESTMENT CONSIDERATIONS” herein.

Pursuant to the Resolution, the Commission has established a financing program (the “Program”) to facilitate the Commission's exercise of the powers and authority conferred by the Act through the issuance, execution or delivery of obligations. In accordance with the Program, the Resolution provides for and authorizes the issuance of the Bonds as First Tier Senior Obligations, and the Commission has pledged as security for the payment of the Bonds and any additional First Tier Senior Obligations all right, title, and interest of the Commission in and to the Pledged Revenues. See “THE BONDS - Source of Payment for Bonds” and “- Flow of Funds.” See “THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations” for a description of previously issued outstanding First Tier Senior Obligations. In the Resolution, the Commission has reserved the right to issue or otherwise incur additional First Tier Senior Obligations on parity with the Bonds. In addition, the Commission has reserved the right to establish additional Tiers for Senior Obligations to be secured by a lien on the Pledged Revenues that are junior and subordinate to the lien securing payment of First Tier Senior Obligations. The Master Resolution also reserves and recognizes the right of the Commission to issue and otherwise incur Subordinate Obligations payable from or secured by the State Highway Fund Revenues, subject to the prior lien and security interest on the Fund securing payment of First Tier Senior Obligations (including the Bonds) and any other Senior Obligations. The Commission has previously issued four series of First Tier Senior Obligations in the aggregate principal amount of \$2,794,395,000, which are currently outstanding in the aggregate principal amount of \$2,722,915,000. The Fourth Supplemental Resolution authorizes the issuance of bonds in one or more Series in an aggregate principal amount not to exceed \$1.5 billion. The Bonds constitute the second installment of obligations delivered under authority of the Fourth Supplemental Resolution pursuant to an Award Certificate, executed on July 25, 2008. The “Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2007” (the “Series 2007 Bonds”), delivered on October 25, 2007 in the original aggregate principal amount of \$1,241,845,000, were the first installment of obligations delivered under authority of the Fourth Supplemental Resolution. See “THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations,” “- Issuance of Subordinate Obligations,” “THE STATE HIGHWAY FUND - Uses of the Fund - *Capital Projects and Proposed Debt Financings*,” “- Subordinate Obligations” and APPENDIX A - “DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION.”

Pursuant to the Act, the Commission may enter into “Credit Agreements” that are secured by a pledge of and payable from certain revenues deposited to the credit of the Fund. The Commission has previously entered into a Credit Agreement related to the Series 2006-B Bonds. See “THE BONDS - Credit Agreements.”

This Official Statement includes descriptions of the Bonds, the Fund, the Commission, the Department, and certain other matters, along with summaries and excerpts of portions of the Resolution and a summary of the Funds Management Agreement. The excerpts and summaries of documents contained herein do not purport to be complete or verbatim and are qualified in their entirety by reference to the respective documents. Copies of the Resolution and the Funds Management Agreement are available for inspection at the offices of the Department, DeWitt C. Greer State Office Building, 125 East 11th Street, Austin, Texas 78701. Reference is made to the section herein captioned “DESCRIPTION OF THE TRANSACTION DOCUMENTS” and APPENDIX A - “DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION” for the definition of certain terms used herein.

This Official Statement speaks only as of its date. The information contained herein is subject to change. Copies of the Final Official Statement will be filed with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the Commission's undertaking to provide certain information on a continuing basis.

**PLAN OF FINANCE**

**General**

Pursuant to the Act, the proceeds of the Bonds will be used to (i) finance State highway improvement projects that are eligible for funding with revenues dedicated under Section 7-a and (ii) pay the costs of issuing the Bonds. "Highway improvements" include the construction, reconstruction, maintenance, and the making of necessary plans or surveys before beginning construction, reconstruction, or maintenance, for public roads or parts of public roads, including the acquisition of rights-of-way, bridges, culverts, buildings, or other necessary structures related to public roads which are part of the State Highway System.

**SOURCES AND USES OF FUNDS**

The proceeds from the sale of the Bonds are estimated to be applied as follows:

**Sources:**

Par Amount of Bonds	\$ 162,995,000.00
Original Issue Premium	<u>9,799,615.00</u>
Total	<u>\$ 172,794,615.00</u>

**Uses:**

Deposit to Bond Proceeds Fund	\$ 172,004,056.54
Underwriters' Discount	595,558.36
Estimated Costs of Issuance	<u>195,000.00</u>
Total	<u>\$ 172,794,615.00</u>

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**Table 1**

**DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE**

Fiscal Year	Outstanding First Tier Senior Obligations <sup>(1)</sup>	The Bonds		Total Debt Service	Fiscal Year 2007 Pledged Revenues <sup>(2)</sup>	Debt Service Coverage
		Principal	Interest			
2009	\$ 227,099,650	-	\$ 5,038,259	\$ 232,137,909	\$5,705,700,000	24.58
2010	227,092,650	\$ 5,405,000	8,170,150	240,667,800	5,705,700,000	23.71
2011	227,091,900	5,675,000	7,899,900	240,666,800	5,705,700,000	23.71
2012	227,086,650	5,955,000	7,616,150	240,657,800	5,705,700,000	23.71
2013	227,097,900	6,255,000	7,318,400	240,671,300	5,705,700,000	23.71
2014	227,090,900	6,530,000	7,042,625	240,663,525	5,705,700,000	23.71
2015	227,089,850	6,835,000	6,735,250	240,660,100	5,705,700,000	23.71
2016	227,084,425	7,155,000	6,416,438	240,655,863	5,705,700,000	23.71
2017	227,096,025	7,490,000	6,080,238	240,666,263	5,705,700,000	23.71
2018	227,093,525	7,840,000	5,730,638	240,664,163	5,705,700,000	23.71
2019	227,088,525	8,235,000	5,338,638	240,662,163	5,705,700,000	23.71
2020	227,082,525	8,645,000	4,926,888	240,654,413	5,705,700,000	23.71
2021	227,092,525	9,080,000	4,494,638	240,667,163	5,705,700,000	23.71
2022	227,088,775	9,530,000	4,040,638	240,659,413	5,705,700,000	23.71
2023	227,092,025	10,010,000	3,564,138	240,666,163	5,705,700,000	23.71
2024	227,081,025	10,510,000	3,063,638	240,654,663	5,705,700,000	23.71
2025	227,094,250	11,060,000	2,511,863	240,666,113	5,705,700,000	23.71
2026	227,250,778	11,640,000	1,931,213	240,821,991	5,705,700,000	23.69
2027	102,585,000	12,250,000	1,320,113	116,155,113	5,705,700,000	49.12
2028	-	12,895,000	676,988	13,571,988	5,705,700,000	420.40
<b>Total</b>	<b>\$4,190,378,903</b>	<b>\$162,995,000</b>	<b>\$99,916,797</b>	<b>\$4,453,290,700</b>		

<sup>(1)</sup> For purposes of illustration, interest on the variable rate Series 2006-B Bonds, being a portion of the Outstanding First Tier Senior Obligations, is assumed at 3.44%, including remarketing and liquidity fees. See "THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations."

<sup>(2)</sup> See "THE STATE HIGHWAY FUND - Sources of Revenue in the Fund," "- Uses of the Fund - Capital Projects and Proposed Debt Financings" and "INVESTMENT CONSIDERATIONS - Appropriations from the Fund."

**THE BONDS**

**General**

The Bonds will be issued in book-entry form pursuant to the book-entry-only system described below. Beneficial owners of Bonds will not receive physical delivery of the bond certificates. The Bonds will be issued in fully registered form and purchases of Bonds are required to be in the denomination of \$5,000 or any integral multiple thereof. The Bonds will bear interest at the respective rates shown on the inside cover page of this Official Statement, calculated on the basis of a 360-day year composed of twelve months of 30 days each. The Bonds will mature in the respective principal amounts and on the respective dates shown on the inside cover page of this Official Statement. The Bonds will be dated August 1, 2008, but will bear interest from the date of initial delivery. Interest on the Bonds will be payable semiannually on each April 1 and October 1 (each an "Interest Payment Date"), commencing October 1, 2008.

**Payment of the Bonds**

The record date ("Record Date") for determining the person to whom interest is payable on any Interest Payment Date means the close of business on the fifteenth day of the calendar month immediately preceding such Interest Payment Date.

In the event of a non-payment of interest on the Bonds on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Commission. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date,” which must be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each owner of a Bond (an “Owner”) appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day immediately preceding the date of mailing of such notice.

Principal of and interest on the Bonds will be payable in any currency of the United States that, on the respective dates of payment thereof, is legal tender for the payment of public and private debts. The principal of all Bonds will be payable at the designated office of the Paying Agent/Registrar, and payment of the interest on each Bond will be made on each Interest Payment Date to the Owner thereof whose name appears in the security register at the close of business on the Record Date, by (i) check or draft mailed to such Owner at his address as it appears on such security register, or (ii) such other method, acceptable to the Paying Agent/Registrar, requested in writing by, and at the risk and expense of, the Owner.

In the event that any date for payment of the principal or interest on the Bonds is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the designated office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day that is not a Saturday, Sunday, legal holiday or day on which such banking institutions are authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date that payment was due.

### **Redemption Provisions**

*Optional Redemption.* The Bonds maturing on April 1 in the years 2019 through and including 2023 are subject to redemption on April 1, 2018 or any day thereafter, in whole or in part, at the option of the Commission, in such manner as the Commission may select, at a redemption price of par plus accrued interest to the date fixed for redemption.

If a Bond is in a denomination in excess of \$5,000, portions of the principal sum in amounts of \$5,000 or any integral multiple thereof may be redeemed, and, if less than all of the principal sum is to be redeemed, there will be issued, without charge, to the Owner, upon the surrender of the Bond at the designated office of the Paying Agent/Registrar, a new Bond or Bonds of like maturity, series, and interest rate in any Authorized Denominations provided by the Fourth Supplemental Resolution for the then unredeemed balance of the principal amount. If a Bond is selected for redemption, in whole or in part, neither the Commission nor the Paying Agent/Registrar will be required to transfer such Bond to an assignee of the Owner within 45 days of the redemption date; provided, however, that such limitation on transferability will not be applicable to any exchange by the Owner of the unredeemed balance in the event of its redemption in part.

*Retention of Rights.* To the extent that the Commission has defeased any Outstanding Bonds pursuant to the provisions of the Fourth Supplemental Resolution (the “Defeased Debt”) to their stated maturity, the Commission retains the right under State law to later call that Defeased Debt for redemption in accordance with the provisions of the Fourth Supplemental Resolution and the Award Certificate relating to the Defeased Debt. The Commission may call such Defeased Debt for redemption upon complying with the provisions of State law and upon the satisfaction of certain provisions of the Fourth Supplemental Resolution with respect to such Defeased Debt as though it was being defeased at the time of the exercise of the option to redeem the Defeased Debt, and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

### **Notice of Redemption**

The Paying Agent/Registrar will send notice of any redemption of Bonds to each Owner of a Bond called for redemption at the address listed on the security register by first-class mail (or other commercially acceptable method of communication) at least 30 days prior to the scheduled redemption date. The Paying Agent/Registrar will also send each notice of redemption to any rating agency then rating the Bonds to be redeemed and to one or more nationally recognized municipal securities information repositories. The Commission will also give notice of the

redemption of the Bonds to the Paying Agent/Registrar at least 45 days before the redemption date (unless a shorter period of time is acceptable to the Paying Agent/Registrar).

In the case of an optional redemption, the notice of redemption may state that (i) it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date or (ii) the Commission retains the right to rescind such notice at any time prior to the scheduled redemption date if the Commission instructs the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the Commission rescinds the notice. The Paying Agent/Registrar will give prompt notice of any such rescission of the notice of redemption to the affected Owners. Any Bonds for which such a conditional notice of redemption has been given and where the redemption has been rescinded shall remain Outstanding, and such rescission will not constitute an event of default. Additionally, the failure of the Commission to make funds available in part or in whole on or before the redemption date for such Bonds will also not constitute an event of default.

### **Redemption Through DTC**

The Paying Agent/Registrar and the Commission, so long as the book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Resolution, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any Direct Participant (defined in APPENDIX E - "DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM"), or of any Direct Participant or Indirect Participant (defined in APPENDIX E - "DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM") to notify the beneficial owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Commission will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners (defined in APPENDIX E - "DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM"). Any such selection of Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the Commission or the Paying Agent/Registrar. Neither the Commission nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. See "APPENDIX E - DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM."

### **Source of Payment for Bonds**

Pursuant to the Resolution, the Pledged Revenues are pledged to the Owners of the Bonds as security for the payment of the Bonds. "Pledged Revenues" means all State Highway Fund Revenues deposited to the credit of the Fund, together with any additional monies as may in the future be authorized by law to be pledged as security for Senior Obligations (and that are so pledged pursuant to a supplemental resolution). "State Highway Fund Revenues" means all revenues deposited in, or appropriated or dedicated by law for deposit into, the State treasury to the credit of the Fund, including (i) Dedicated Registration Fees, (ii) Dedicated Taxes, (iii) Dedicated Federal Revenues, (iv) amounts collected or received pursuant to other State Highway Fund Revenue Law, and (v) any interest or earnings from the investment of Dedicated Registration Fees, Dedicated Taxes and Dedicated Federal Revenues; provided that State Highway Fund Revenues do not include moneys and investments deposited in, or appropriated or dedicated by law for deposit into the following funds: (i) the State Infrastructure Bank Account and any Proceeds Fund, Interest and Sinking Fund, Reserve Fund or Rebate Fund and (ii) any special fund, subfund, account or subaccount in the Fund created for the purpose of receiving, holding and administering Restricted Revenues. "Dedicated Registration Fees" means revenues derived from the motor vehicle registration fees dedicated by Section 7-a for the purpose of acquiring rights-of-way; constructing, maintaining, and policing public roadways; and for the administration of such laws as may be prescribed by the Legislature pertaining to the supervision of traffic and safety on such roads (the "Authorized Purposes"). "Dedicated Taxes" means revenues derived from taxes on motor fuels and lubricants dedicated by Section 7-a for Authorized Purposes. "Dedicated Federal Revenues" means all revenues received from the federal government as reimbursement of State expenditures pursuant to Section 7-a made for the purposes authorized by Section 7-a and dedicated by Section 7-b to the acquisition of rights-of-way and the construction, maintenance, and policing of public roadways. See "THE STATE HIGHWAY FUND" herein.

The Act provides that bonds (including the Bonds) and public securities issued, and credit agreements entered into, are secured by a pledge of and payable from revenues deposited to the credit of the Fund, and amounts needed for payments due on bonds, public securities, and credit agreements are appropriated by Section 49-n for that purpose. Section 49-n further provides that the dedication or appropriation of revenue to the credit of the Fund may not be modified so as to impair any outstanding bonds or other public securities secured by a pledge of revenues in the Fund unless provisions have been made for a full discharge of such bonds or other public securities.

### **Flow of Funds**

Consistent with the pledge of Pledged Revenues on a prior lien basis to secure First Tier Senior Obligations, including the Bonds and other Senior Obligations, in accordance with their respective terms, Pledged Revenues will be applied for the following uses and in the order of priority shown below. “Cost,” as used herein, means any financial commitment or agreement to pay money incurred or arising in connection with or related to an Obligation, including commitments or agreements to (i) pay or reimburse principal, premium or interest in respect of a public security or other obligation, (ii) pay amounts owed in connection with or related to Credit Agreements (including scheduled payments, termination payments and other commitments to pay money arising under or pursuant to a swap or other derivative or hedging agreement) or to reimburse payments of others in connection therewith or related thereto, and (iii) pay or reimburse any fees or expenses of a Fiscal Agent or other agent retained in connection with or related to any Obligation. For the avoidance of doubt, all Annual Debt Service Requirements constitute “Costs.”

- (i) First: to the payment of all Costs incurred as First Tier Senior Obligations as, when and to the extent provided by each First Tier Senior Obligation and the related Supplemental Resolution; and
- (ii) Second: to the payment of the amounts required to be deposited and credited to each reserve, contingency or other similar fund or account created and established in accordance with the provisions of any Supplemental Resolution relating to First Tier Senior Obligations and to the payment of other Costs related to First Tier Senior Obligations, as, when, and to the extent provided in the related Supplemental Resolution; provided, that such payments will be allocated among the then Outstanding issues or series of First Tier Senior Obligations and made on a pro rata basis (with such proration to be determined on the basis that the Outstanding principal amount of each particular issue or series of First Tier Senior Obligations bears to the aggregate Outstanding principal amount of all issues or series of First Tier Senior Obligations for which payments are to be made in accordance with this clause (ii)); and
- (iii) Third: to the payment of (A) all Costs incurred as Senior Obligations other than First Tier Senior Obligations, on a priority basis consistent with their respective Tiers as, when, and to the extent provided by each such Senior Obligation and the related Supplemental Resolution, and (B) all deposits into each reserve, contingency or other similar fund or account created and established for the benefit of Senior Obligations on a priority basis consistent with their respective Tiers and in accordance with the provisions of the Supplemental Resolution relating to such Senior Obligation; and
- (iv) Fourth: to the payment of all Costs incurred as Subordinate Obligations (together with any related funding obligations) as, when and to the extent provided by each Subordinate Obligation and any order, resolution, contract or other agreement related thereto; and
- (v) Fifth: to (A) the payment of expenditures for public roadways in accordance with the State Constitution and federal law or (B) to the extent not required to be used for public roadways by the State Constitution or federal law, to the payment of any lawful expenditure for any lawful purpose.

In recognition that (i) expenditures from the Fund may be made for the foregoing uses on various dates throughout each Fiscal Year, (ii) Senior Obligations have a prior lien on and claim to the Pledged Revenues, and (iii) during each Fiscal Year, Costs incurred as Subordinate Obligations may become due and payable, and payments for lawful expenditures may be made, before the date or dates that Costs incurred as Senior Obligations have become due and payable, the Commission has covenanted that no Pledged Revenues will be used to pay Costs incurred as Subordinate Obligations or for other lawful expenditures during any Fiscal Year to the extent that such payment is reasonably expected to result in the inability of the Commission to pay any Cost of a Senior Obligation coming due during such Fiscal Year.

If at any time, the full amounts required by the Master Resolution or any Supplemental Resolution are not transferred at the times required to any fund or account maintained pursuant to the Master Resolution or any Supplemental Resolution for the benefit of the Owners of the Senior Obligations, amounts equivalent to such deficiency will be transferred to such fund or account, in order of priority based on the respective Tiers of the affected Senior Obligations, from the first available Pledged Revenues not allocated to Senior Obligations of a prior Tier (in addition to the amounts otherwise required to be transferred to such funds and accounts pursuant to the Master Resolution during any succeeding period), and no Pledged Revenues will be transferred to any fund or account established or maintained for the benefit of any Subordinate Obligation, nor shall any Pledged Revenues be used for any other purpose, until such deficiency has been restored.

### **Transfer, Exchange and Registration**

The Paying Agent/Registrar will obtain, record, and maintain in the security register the name and address of each Owner and any Bond may, in accordance with its terms and the terms of the Resolution, be transferred or exchanged for Bonds in Authorized Denominations upon the security register by the Owner, in person or by his duly authorized agent, upon surrender of such Bond to the Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Owner or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Upon surrender for transfer of any Bond at the designated office of the Paying Agent/Registrar, there will be registered and delivered in the name of the designated transferee or transferees, one or more new Bonds, executed on behalf of, and furnished by, the Commission, of Authorized Denominations and having the same maturity and of a like aggregate principal amount as the Bond or Bonds surrendered for transfer.

At the option of the Owner, the Bonds may be exchanged for other Bonds of Authorized Denominations and having the same maturity, bearing the same rate of interest, and of like aggregate principal amount as the Bonds surrendered for exchange, upon surrender of the Bonds to be exchanged at the designated office of the Paying Agent/Registrar. Whenever any Bonds are surrendered for exchange, new Bonds will be registered and delivered, executed on behalf of, and furnished by, the Commission to the Owner requesting the exchange.

All Bonds issued upon any transfer or exchange of Bonds will be delivered at the designated office of the Paying Agent/Registrar or sent by United States Mail, first-class, postage prepaid to the Owners or the designee thereof, and, upon the registration and delivery thereof, the same will be the valid obligations of the Commission, evidencing the same debt, and entitled to the same benefits under the Resolution as the Bonds surrendered in such transfer or exchange.

All transfers or exchanges of Bonds pursuant to the Resolution will be made without expense or service charge to the Owner, except as otherwise provided in such resolution, and except that the Paying Agent/Registrar will require payment by the Owner requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Bonds canceled by reason of an exchange or transfer are defined as "Predecessor Bonds," evidencing all or a portion, as the case may be, of the same debt evidenced by the new Bond or Bonds registered and delivered in the exchange or transfer. Additionally, the term "Predecessor Bonds" includes any mutilated Bond that is surrendered to the Paying Agent/Registrar or any Bond for which satisfactory evidence of the loss of which has been received by the Commission and the Paying Agent/Registrar and, in either case, in lieu of which a Bond has or Bonds have been registered and delivered pursuant to the Resolution.

See APPENDIX E - "DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

### **Outstanding and Additional Senior Obligations and Tiers of Senior Obligations**

The Commission has previously issued four series of Senior Obligations as First Tier Senior Obligations in the aggregate principal amount of \$2,794,395,000, which are currently outstanding in the aggregate principal amount of \$2,722,915,000 (the "Previously Issued First Tier Senior Obligations"). In connection with the Series 2006-B Bonds, the Commission entered into a "Standby Bond Purchase Agreement" with Banco Bilbao Vizcaya Argentaria, S.A., acting through its New York Branch, as liquidity provider. The Commission's obligation to make

payments to such liquidity provider constitute First Tier Senior Obligations under the Master Resolution secured by the Pledged Revenues on parity with the previously issued First Tier Senior Obligations, the Bonds and any additional First Tier Senior Obligations issued or incurred hereafter. See “INTRODUCTION” and “THE BONDS - Credit Agreements.”

In the Master Resolution, the Commission has reserved the right to issue or otherwise incur additional Senior Obligations for any purpose authorized by law, including the refunding of Senior Obligations, Subordinate Obligations, or other obligations of the Commission, pursuant to the provisions of the Master Resolution and any Supplemental Resolutions. The Commission has covenanted and agreed to comply with all constitutional and statutory requirements of State law and, to the extent applicable, federal law governing the issuance of Senior Obligations.

The Commission has also reserved the right to establish multiple Tiers with respect to Senior Obligations; provided, that no Outstanding Senior Obligation may be subrogated or made inferior to any other Senior Obligation unless such distinction is implemented through strict compliance with the provisions of the Master Resolution and any applicable Supplemental Resolution relating to any Outstanding Senior Obligation. Until such time as any distinction among Tiers of Senior Obligations is implemented in accordance with the terms of the Master Resolution, all Senior Obligations will be deemed and treated as First Tier Senior Obligations.

Subject to the applicable provisions of the Master Resolution, the Commission may from time to time issue, incur, assume, guarantee, or otherwise become liable in respect of Senior Obligations in accordance with the Master Resolution and a Supplemental Resolution providing for the issuance, execution and/or delivery of such Senior Obligations. Senior Obligations may be further secured by or made payable from any other source of payment lawfully available for such purpose.

Prior to the issuance, execution or delivery of any Senior Obligation under the Master Resolution, the Commission will provide:

- (i) A certified copy of the minute order or other official action of the Commission (A) approving a Supplemental Resolution establishing or providing the terms and provisions of such Senior Obligations, and (B) authorizing the issuance, execution and/or delivery of the Senior Obligations;
- (ii) An opinion or opinions of Bond Counsel to the effect that (A) issuance, execution and/or delivery of the Senior Obligations is permitted under the Master Resolution and any Supplemental Resolutions that authorized the issuance, execution and/or delivery of any then Outstanding Senior Obligations and (B) the Supplemental Resolution relating to such Senior Obligations has been duly authorized and such Senior Obligations when issued, executed and/or delivered will constitute valid, binding and enforceable limited obligations of the Commission, subject to bankruptcy, equitable principles and other standard legal opinion exceptions;
- (iii) An Officer's Certificate to the effect that (A) the Commission is not in default under the Master Resolution or any Supplemental Resolution or, upon the issuance of such Senior Obligations, any existing default will be cured and (B) following the issuance of such Senior Obligations, the maximum Annual Debt Service Requirements with respect to all then Outstanding Senior Obligations will not exceed the Maximum Allowable Debt Service (defined below) in the current or any future year; and
- (iv) Such further documents, moneys and securities as are required by the provisions of the Supplemental Resolution providing for the issuance, execution and/or delivery of such Senior Obligations.

“Maximum Allowable Debt Service” means: (a) with respect to First Tier Senior Obligations, an amount that is equal to twenty-five percent (25%) of the State Highway Fund Revenues in (i) the immediately preceding Fiscal Year or (ii) any period of twelve (12) consecutive months that begins no more than eighteen (18) months before the date on which Senior Obligations are to be issued or effective, as determined by a Designated Financial Officer; and (b) with respect to other Tiers, such amount as shall be established by the Commission at the time Senior Obligations of such Tier are initially issued or otherwise incurred.

In determining the amount of State Highway Fund Revenues during any twelve (12) month period, such amount may be adjusted to reflect any increase in State Highway Fund Revenues that a Designated Financial Officer

certifies is expected to result from any adjustment to the amounts dedicated or appropriated to the Fund which is placed into effect following the commencement of such period as if such adjustment had been in effect for the entire twelve (12) month period.

In making any determination under the Master Resolution regarding the principal amount of Obligations being issued and incurred or then Outstanding, Credit Agreements will be deemed to have no principal amount to the extent that such agreement relates to an Obligation that has already been considered in making such determination.

In connection with the issuance of Senior Obligations to refund Outstanding Senior Obligations of the same or higher Tier, the Commission may provide, in lieu of the certification required by clause (iii)(B) above, an Officer's Certificate to the effect that, following the issuance of such Senior Obligations, the Annual Debt Service Requirements will not exceed one hundred ten percent (110%) of the Annual Debt Service Requirements in effect prior to the issuance of such Senior Obligations; provided, however, that such certification does not need to address the Annual Debt Service Requirements for Fiscal Years in which no Senior Obligations (other than the Senior Obligations then being issued) will be Outstanding. See APPENDIX A - "DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION."

### **Credit Agreements**

To the extent permitted by law, the Commission may authorize the execution and delivery of one or more Credit Agreements if the Credit Agreement is determined to be in the best interest of the Commission, provided that if such agreement will constitute a Senior Obligation in whole or in part, the Commission must comply with the requirements described under the subcaption "Outstanding and Additional Senior Obligations and Tiers of Senior Obligations" above. A Credit Agreement and the Costs thereof may (in whole or in part) be a (i) Senior Obligation of the same or lower Tier as the Tier of the Senior Obligation to which such agreement relates payable from and secured by a pledge of the Pledged Revenues on parity with other Senior Obligations of such Tier or (ii) Subordinate Obligation payable from or secured by a pledge of State Highway Fund Revenues (or any portion thereof) subordinate to the Senior Obligations.

In connection with the Series 2006-B Bonds, the Commission entered into a "Standby Bond Purchase Agreement" dated as of November 1, 2006 (the "Series 2006-B Liquidity Facility") with Banco Bilbao Vizcaya Argentaria, S.A., acting through its New York Branch, as liquidity provider (the "Series 2006-B Liquidity Facility Issuer") to provide liquidity for the Series 2006-B Bonds which provides for the purchase, in accordance with the terms thereof, of the Series 2006-B Bonds which bear interest at a daily rate or a weekly rate and that are tendered for purchase but not remarketed by the remarketing agent. The Commission's obligation to make payments to the Series 2006-B Liquidity Facility Issuer under the Series 2006-B Liquidity Facility constitute First Tier Senior Obligations under the Master Resolution secured by the Pledged Revenues on parity with the Previously Issued First Tier Senior Obligations, the Bonds and any additional First Tier Senior Obligations issued or incurred hereafter.

### **Issuance of Subordinate Obligations**

The Commission may also issue or otherwise incur Subordinate Obligations for any lawful purpose in such amounts (without limitation), on such dates and having such terms as the Commission may determine. No holder of any Subordinate Obligation, or party to a transaction relating to any Subordinate Obligation, will be entitled to claim any right or benefit under the Master Resolution by virtue of the ownership of or interest in such Subordinate Obligation. The Master Resolution does not limit the right of the Commission and the Department to issue or otherwise incur Subordinate Obligations in such number of tiers and levels of payment priority as may be determined by the Commission and the Department. See "THE STATE HIGHWAY FUND - Subordinate Obligations."

### **Bondowners' Remedies**

In the event of a default in the payment of any Cost of any Senior Obligation (including the Bonds) or a default in the performance of any duty or covenant provided by law or in the Master Resolution, the owners of the Bonds may pursue all legal remedies afforded by State law to compel the Commission and the Department to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any owner of the Bonds may (at law or in equity), by suit, action, mandamus,

or other proceedings, enforce and compel performance of all duties required to be performed by the Commission and the Department under the Master Resolution.

The Master Resolution does not establish other remedies or specifically enumerate events of default with respect to any Obligations, including the Bonds. The Master Resolution does not provide for a trustee to enforce the covenants and obligations of the Commission and the Department. In no event will owners of the Bonds have the right to have the maturity of the Bonds accelerated as a remedy in the event of a payment default by the Commission. The enforcement of the remedy of mandamus may be difficult and time consuming. No assurance can be given that a mandamus or other legal action to enforce a default under the Master Resolution would be successful.

Under current State law, the Commission is prohibited from waiving sovereign immunity from suit or liability with respect to the Bonds and the owners thereof are prevented from bringing a suit against the Commission to adjudicate a claim to enforce the Bonds or for damages for breach of the Bonds. However, State courts have held that mandamus proceedings against a governmental unit, such as the Commission, as discussed above, are not prohibited by sovereign immunity.

### **BOOK-ENTRY-ONLY SYSTEM**

In reading this Official Statement it should be understood that while the Bonds are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct Participant or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC. See APPENDIX E - "DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM."

### **DESCRIPTION OF THE TRANSACTION DOCUMENTS**

#### **Selected Definitions**

Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, as set forth in APPENDIX A - "DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION," except as otherwise indicated herein. A reference to any of these terms in the singular number shall include the plural and vice versa.

#### **The Resolution**

The Bonds will be issued pursuant to the Master Resolution adopted by minute order of the Commission on March 30, 2006, as amended pursuant to a minute order of the Commission adopted on October 26, 2006; a Fourth Supplemental Resolution adopted by minute order of the Commission on August 23, 2007; and an Award Certificate executed on July 25, 2008. The Fourth Supplemental Resolution authorizes the issuance of bonds in one or more Series in an aggregate principal amount not to exceed \$1.5 billion. The Bonds constitute the second installment of obligations delivered under authority of the Fourth Supplemental Resolution. The "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2007" (the "Series 2007 Bonds"), delivered on October 25, 2007 in the original aggregate principal amount of \$1,241,845,000, were the first installment of obligations delivered under authority of the Fourth Supplemental Resolution. Excerpts of certain selected provisions from the Master Resolution and the Fourth Supplemental Resolution are contained in APPENDIX A - "DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION." The excerpted provisions in APPENDIX A do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Resolution. Copies of the Master Resolution and the Fourth Supplemental Resolution are available for examination at the offices of the Department.

#### **The Funds Management Agreement**

The Commission and the Comptroller of Public Accounts of the State (the "Comptroller") will enter into a Funds Management Agreement with respect to the Bonds. The following is a summary of certain provisions of the Funds Management Agreement providing for the administration of the proceeds of the Bonds and the availability of funds for the payment thereof. This summary does not purport to be comprehensive or definitive and is qualified in

its entirety by reference to the Funds Management Agreement. Copies of the Funds Management Agreement are available for examination at the offices of the Department.

***Establishment of Funds.*** The Comptroller has established and will administer the following funds with respect to the Bonds: the Fund, the Proceeds Fund and the Rebate Fund, if any (collectively, the “Administered Funds”).

***Deposit of Purchase Price.*** The Funds Management Agreement provides that the purchase price of the Bonds will be deposited as follows: (i) the amount received as accrued interest on the Bonds, if any, will be deposited into the First Tier Senior Obligation Debt Service Fund and (ii) all remaining proceeds will be deposited to the Proceeds Fund for the Bonds to pay costs of State highway improvement projects (including the cost of issuance of the Bonds).

***Transfers and Remittances.*** The Commission will cause vouchers to be processed through the State accounting system for the payment of costs of issuance from the Proceeds Fund. To remit money in the Proceeds Fund or any other accounts and subaccounts within the Fund to any person's account, the Commission will cause a voucher to be processed through the State accounting system. To transfer funds between the accounts and subaccounts within the Fund and between the Fund and other funds of the Commission, the Department staff will initiate transactions in the State accounting system.

***Administration of Proceeds Fund.*** Moneys and investments deposited in the Proceeds Fund will be applied to pay costs of issuance of the Bonds and to fund State highway improvement projects in accordance with the Resolution, as directed by a Department Representative. Pending disbursement for authorized purposes, amounts credited to the Proceeds Fund will be held and invested in the manner provided by the Resolution and the Funds Management Agreement. Money on deposit in the Proceeds Fund that represents investment earnings will be either (i) retained in the Proceeds Fund and used to fund State highway improvement projects or (ii) transferred to the First Tier Senior Obligation Debt Service Fund and used to pay debt service on the Bonds, as directed by a Department Representative.

***Administration of State Highway Fund; Payment Provisions.*** The Comptroller will administer the Fund in accordance with State law and will deposit, or cause to be deposited, all State Highway Fund Revenues in the Fund in a timely manner. With respect to Senior Obligations, on or before each Payment Date, the Commission will cause a voucher to be drawn on the Fund and will transfer, or cause there to be transferred, immediately available money to each Fiscal Agent that is serving as a paying agent for Senior Obligations or any other Fiscal Agent or Secured Owner that is entitled to payment directly from the Comptroller, as applicable (each, a “Payee”), in an amount sufficient for the payment of such Senior Obligations and otherwise in accordance with any instructions of such Payee. With respect to the Bonds, the Payment Date has been established by the Fourth Supplemental Resolution as the third Business Day next preceding each principal payment date and interest payment date. “THE BONDS – General.”

If on any date the Comptroller and the Commission determine that (i) State Highway Fund Revenues are required to be transmitted to any Payee and (ii) the Fund does not contain sufficient revenues for such purpose, the Commission shall direct the Comptroller to transfer State Highway Fund Revenues in accordance with Section 49-n and the Act to each Payee as such revenues are deposited in the Fund and the Commission shall refrain from directing any further withdrawals or disbursements from the Fund until amounts equivalent to such deficiency have been received in the Fund and transferred to each Payee so that each such deficiency has been fully restored and all costs owed with respect to such deficiency have been paid in full, to the extent such costs are then due. Such transfer(s) will be made to each Payee in the order of priority based on the respective Tiers of the affected Senior Obligations, as and when sufficient State Highway Fund Revenues are available for such purpose, as provided in the Master Resolution.

***Investment of Administered Funds by Comptroller.*** Money held by the Comptroller in the Administered Funds will be invested (and reinvested) by the Comptroller in Permitted Investments selected by the Comptroller. See “THE STATE HIGHWAY FUND - Investment Authority and Investment Practices for the Fund.” Uninvested money (if any) in any Administered Fund will be secured in the manner and to the extent required by law. The investments of each Administered Fund will be made under conditions that will timely provide money sufficient to meet the Commission's obligations. Except as otherwise required by the Resolution and the Funds Management Agreement, the proceeds received from the disposition of any investment acquired with money from any

Administered Fund, and any income received from any such investment, will be deposited into such Administered Fund.

The Comptroller will maintain (or cause to be maintained) detailed records accurately reflecting all investment transactions and all activity in Administered Funds held by the Comptroller, which records are subject to State audit. With respect to each purchase (except any direct purchase from the United States government) or sale of an investment, the Comptroller has represented and warranted that the price for which the investment will be purchased or sold will be the "fair market value" determined in accordance with treasury regulations and that the Comptroller will maintain records that adequately support such determination.

**Investment Losses.** Any losses from investment of any Administered Funds held by the Comptroller will be charged on a pro rata basis among the Administered Funds subject to the Funds Management Agreement and other sources of money from which such investment was made. The Comptroller will not be held liable for any losses resulting from investments made in accordance with the Funds Management Agreement.

## THE STATE HIGHWAY FUND

### General

The Fund is the general source for a substantial portion of funding for the State Highway System, the Department, and the administration of State laws relating to traffic and safety on public roads. The Fund receives revenue from a variety of sources, including, without limitation, certain federal transportation program funds received from the United States Department of Transportation ("USDOT"), State motor fuels tax funds, State motor vehicle registration funds, and State motor lubricants tax funds. See "Sources of Revenue in the Fund" below.

Pursuant to Section 7-a of the Texas Constitution, (i) 75% of the net revenues generated from the State motor fuels tax (net of enforcement, administrative and refund charges), (ii) the State tax on motor lubricants, and (iii) the net revenues generated from the State motor vehicle registration fees (net of collection charges and the portion of such fees that is reserved for counties within the State) are dedicated for acquiring rights-of-way; constructing, maintaining, and policing public roadways; and for the administration of laws pertaining to the supervision of traffic and safety on such roads. Also, pursuant to Section 7-b of the Texas Constitution, all revenues received from the federal government as reimbursement for State expenditures of funds that are themselves dedicated pursuant to Section 7-a (as described above) are constitutionally-dedicated and may be used only for those purposes.

The Fund is the general operating fund of the Department through which, generally, all revenues dedicated or appropriated to the purposes of the Department are deposited and all of the Department's administration, maintenance and operation expenses are paid. In addition, certain expenses of the Texas Mobility Fund are processed through the Fund, whereby the Texas Mobility Fund transfers amounts for such expenses to the Fund prior to such expenses being paid (except in situations where the Texas Mobility Fund is reimbursing the Fund for expenses incurred by the Fund). The Department's ongoing, "pay as you go" construction program is also paid from the Fund. Such expenses include payroll, repairs and maintenance, costs of materials and supplies, professional fees or commitments, utilities, rent and lease payments and intergovernmental payments. With the exception of certain Excluded Amounts, amounts deposited into the Fund are pledged to secure payment of the Bonds, the Previously Issued First Tier Senior Obligations and any additional Senior Obligations to be issued or otherwise incurred, and such amounts may also be used to pay debt service on and other costs associated with Subordinate Obligations, which includes non-debt obligations and commitments issued or incurred by the Commission or the Department. To accomplish all of these purposes, money in the Fund is appropriated by the Legislature to the Department, the Texas Department of Public Safety (the "DPS") and certain other agencies of the State. For the 2006 – 2007 biennium, approximately 91.83% of the money appropriated from the Fund was appropriated for Department uses. For the 2008 – 2009 biennium, approximately 89.79% of the money appropriated from the Fund is appropriated for Department uses. See "THE BONDS - Source of Payment for Bonds," "- Outstanding and Additional Senior Obligations and Tiers of Senior Obligations," "- Issuance of Subordinate Obligations," "DESCRIPTION OF THE TRANSACTION DOCUMENTS," "THE STATE HIGHWAY FUND - Table 2 - State Highway Fund Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance," "- Table 8 - Other State Revenues Deposited to the State Highway Fund," "-Table 12 - Appropriations to the Department from the State Highway Fund," "- Uses of the Fund - Capital Projects and Proposed Debt Financing," "- Subordinate Obligations," "INVESTMENT

CONSIDERATIONS – Appropriations from the Fund” and APPENDIX A - “DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION.”

In the past four years, the Commission has implemented a policy designed to accelerate the development and construction of public highways by using available funds to deliver such projects as quickly as possible. A recognized result of this policy is that the balance of the Fund, at fiscal year end, will be a nominal or negative amount, as the Commission utilizes available funds for development and construction of projects. The Commission and the Department believe the Fund, on a cash flow basis, has the resources necessary, including authority to issue certain obligations for cash flow management purposes, to meet all of the Fund's obligations. See “THE STATE HIGHWAY FUND - Subordinate Obligations.”

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**Table 2**  
**State Highway Fund**  
**Unaudited Statement of Revenue, Expenditures and Changes in Fund Balance<sup>(1)</sup>**  
Fiscal years ended August 31,

	2007	2006	2005	2004	2003
<b>REVENUES:</b>					
Taxes	\$ 36,826,897	\$ 34,887,444	\$ 33,004,285	\$ 31,735,000	\$ 31,900,114
Federal Revenues	1,941,088,023 <sup>(2)</sup>	2,899,921,273 <sup>(2)</sup>	3,339,677,113 <sup>(2)</sup>	2,853,789,446	2,642,185,443
Federal Pass Through Revenues	52,520,146	45,384,847	35,113,785	16,737,913	982,619
State Pass Through Revenues	-----	-----	-----	-----	216,867
Licenses, Fees and Permits	1,067,910,734	994,382,840	911,720,306	856,108,382	825,076,846
Interest & Investment Income <sup>(3)</sup>	82,948,919	46,640,015	11,568,206	10,884,012	12,015,904
Land Income	4,010,886	3,727,301	3,096,167	2,117,364	1,965,457
Settlement of Claims <sup>(4)</sup>	222,506	9,705	18,147,425	5,860,015	8,691,356
Sales of Goods and Services	242,385,443	215,287,020	285,211,677	158,818,806	146,623,474
Other Revenues	17,420,596	4,229,776	2,039,513	3,671,150	5,271,906
<b>TOTAL REVENUES</b>	<b>\$3,445,334,150</b>	<b>\$ 4,244,470,221</b>	<b>\$ 4,639,578,477</b>	<b>\$ 3,939,722,088</b>	<b>\$ 3,674,929,986</b>
<b>EXPENDITURES:</b>					
Salaries and Wages	\$ 631,683,100	\$ 602,105,271	\$ 561,304,081	\$ 556,478,778	\$ 560,818,125
Payroll Related Costs	218,626,564	209,883,025	193,748,668	183,283,940	188,037,599
Professional Fees and Services	526,313,527	446,387,853	393,589,686	282,174,017	255,140,146
Travel	6,860,450	7,309,542	6,369,697	5,958,716	5,719,522
Materials and Supplies	272,973,985	277,860,234	236,834,049	237,005,583	228,443,219
Communications and Utilities	57,275,932	54,530,970	45,866,002	43,980,463	45,842,341
Repairs and Maintenance	1,435,220,131	1,849,064,608 <sup>(5)</sup>	1,332,871,838	1,297,375,953	1,369,283,621
Rentals and Leases	13,303,082	13,026,431	12,179,731	11,836,500	11,705,309
Printing and Reproduction	10,010,702	7,763,054	6,959,665	6,222,650	8,971,861
Claims and Judgments	10,945,250	13,348,619	5,798,397	9,191,892	7,789,395
Federal Pass Through Expenditures	25,235,634	18,181,059	7,684,539	8,633,708	8,542,892
State Grant Pass Through Expenditures	27,010,311	25,706,999	25,348,545	34,593,274	318,365
Intergovernmental Payments	137,279,930	141,436,929	178,449,515	109,253,454	177,416,887
Public Assistance Payments	108,859,769	100,032,500	85,799,092	72,414,666	39,866,197
Other Expenditures	191,927,381	154,541,396	156,891,264	140,637,312	129,756,091
Principal on State (Highway Fund) Bonds	20,810,000	-----	-----	-----	-----
Interest on State (Highway Fund) Bonds	65,490,391	9,765,714	-----	-----	-----
Other Financing Fees	884,305	460,320	465,241	-----	-----
Capital Outlay	4,162,953,911	3,751,696,736	3,512,164,586 <sup>(2)</sup>	2,631,460,602	2,372,861,908
<b>TOTAL EXPENDITURES</b>	<b>\$ 7,923,664,355</b>	<b>\$ 7,683,101,260</b>	<b>\$ 6,762,324,596</b>	<b>\$ 5,630,501,508</b>	<b>\$ 5,410,513,478</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (4,478,330,205)</b>	<b>\$ (3,438,631,039)</b>	<b>\$ (2,122,746,119)</b>	<b>\$ (1,690,779,420)</b>	<b>\$ (1,735,583,492)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers In <sup>(6)</sup>	\$ 4,020,921,157	\$ 3,495,973,968	\$ 2,491,995,873	\$ 2,136,147,536	\$ 2,080,966,268
Operating Transfers Out	(757,386,425)	(893,280,581)	(575,093,100)	(477,265,830)	(369,048,780)
Bond & Note Issued	952,550,000	600,000,000	-----	-----	-----
Net Change in Consumable Inventories	-----	-----	-----	-----	-----
Insurance Recoveries <sup>(4)</sup>	719,463	6,457,677	-----	-----	-----
Sale of Capital Assets	4,405,583	4,313,640	10,553,783	6,447,677	10,561,813
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 4,221,209,778</b>	<b>\$ 3,213,464,704</b>	<b>\$ 1,927,456,556</b>	<b>\$ 1,665,329,383</b>	<b>\$ 1,722,479,301</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ (257,120,427)</b>	<b>\$ (225,166,335)</b>	<b>\$ (195,289,563)</b>	<b>\$ (25,450,037)</b>	<b>\$ (13,104,191)</b>
<b>FUND FINANCIAL STATEMENT-</b>					
<b>FUND BALANCES</b>					
<b>BEGINNING FUND BALANCES</b>	<b>\$ (60,585,655)</b>	<b>\$ 164,580,680</b>	<b>\$ 359,870,243</b>	<b>\$ 385,321,703</b>	<b>\$ 398,425,894</b>
Restatements	-----	-----	-----	-----	-----
<b>BEGINNING FUND BALANCES, Restated</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>	<b>-----</b>
<b>ENDING FUND BALANCES</b>	<b>\$ (317,706,082)<sup>(7)</sup></b>	<b>\$ (60,585,655)<sup>(7)</sup></b>	<b>\$ 164,580,680<sup>(7)</sup></b>	<b>\$ 359,871,666</b>	<b>\$ 385,321,703</b>

<sup>(1)</sup> The unaudited statements are prepared by the Department and are presented using a modified accrual basis of accounting. See APPENDIX B - "Excerpts From Unaudited Department Financial Statements for Fiscal Year ended August 31, 2007.

<sup>(2)</sup> The increase over fiscal year 2004 results from (i) increased Capital Outlay expenses related to projects being reimbursed by the Texas Mobility Fund (as defined herein) and (ii) acceleration of certain projects due to utilization of accelerated federal reimbursements from the Department's application of federal "tapered match" reimbursement. In fiscal year 2006, the accelerated federal "tapered match" reimbursement decreased significantly. See Footnote 6 below, "THE STATE HIGHWAY FUND - General" and "- Uses of the Fund - Capital Projects and Proposed Debt Financings."

<sup>(3)</sup> Includes \$28,150,345 of premium received from the sale of bonds for fiscal year 2006 and \$48,129,769 of premium received from the sale of bonds for the fiscal year 2007.

<sup>(4)</sup> For fiscal year 2006, Settlement of Claims was split into two categories: Settlement of Claims and Insurance Recoveries.

<sup>(5)</sup> Increases due in part to availability of proceeds of bonds and transfers from the Texas Mobility Fund.

<sup>(6)</sup> For fiscal years 2003 through 2004, transfer is State motor fuels tax revenues and, beginning in fiscal year 2005, transfer is State motor fuel tax revenues and transfers from the Texas Mobility Fund.

<sup>(7)</sup> See discussion of the Fund's fund balance in "THE STATE HIGHWAY FUND - General."

## Sources of Revenue in the Fund

The following Tables 3, 4, 6, 8 and 9 are presented using a cash basis of accounting and will not reconcile to the foregoing Table 2, which is presented using a modified accrual basis of accounting.

The following table sets out the amount of total Fund revenues derived from each of the following sources for the fiscal years 2003 through 2007 the State motor fuels tax, State motor vehicle registration fees, other State revenue sources, and reimbursements from federal funds.

**Table 3**  
**State Highway Fund Revenues By Source<sup>(1)</sup>**  
**(in Millions)**

<u>Fiscal Year</u>	<u>State Motor Fuels Tax</u>	<u>State Motor Vehicle Registration Fees</u>	<u>Other State Revenue Sources</u>	<u>Reimbursements from Federal Funds</u>	<u>Total Revenues</u>
2003	\$2,087.0	\$790.1	\$341.0	\$2,606.8	\$5,824.9
2004	2,130.0	831.6	333.5	2,792.6	6,087.7
2005	2,148.3	873.9	367.1 <sup>(2)</sup>	3,284.9	6,674.2
2006	2,194.2	932.7	527.5 <sup>(2)</sup>	3,139.5	6,793.9
2007	2,238.2	984.2	457.2 <sup>(2)</sup>	2,026.1	5,705.7 <sup>(3)</sup>

<sup>(1)</sup> Presented on a cash basis of accounting.

<sup>(2)</sup> See Footnote 2 to Table 8 – “Other State Revenues Deposited to the State Highway Fund.”

<sup>(3)</sup> Reflects a decrease from prior years primarily due to lower than expected federal reimbursements because of delays in project advancements and, to a lesser extent, the effect of tapered match reimbursements from the federal government. For an explanation in the decline in Total Revenues see "Sources of Revenue in the Fund - Federal Funds" herein.

**State Motor Fuels Tax.** The State currently levies a motor fuels tax of \$0.20 per gallon on gasoline and diesel fuel, and \$0.15 on liquefied natural gas. Pursuant to Section 7-a of the Texas Constitution, 75% of the net revenues generated from the State motor fuels tax (net of enforcement, administrative and refund charges) are deposited to the credit of the Fund and the remaining 25% of such revenues are deposited to the credit of the “Available School Fund” in support of the State's primary and secondary schools. The following table sets out the amount of the State motor fuels tax deposited into the Fund for the fiscal years 2003 through 2007 and the approximate percentage of total Fund revenues for such years that constituted State motor fuels taxes.

**Table 4**  
**State Motor Fuels Tax Revenues Deposited to the State Highway Fund<sup>(1)</sup>**  
**(In Millions)**

<u>Fiscal Year</u>	<u>Amount of Motor Fuels Tax Revenues Deposited</u>	<u>Percentage of Total Fund Revenues</u>
2003	\$2,087.0	36 %
2004	2,130.0	35
2005	2,148.3	32
2006	2,194.2	32
2007	2,238.2	39

<sup>(1)</sup> Presented using a cash basis of accounting.

The State motor fuels tax on gasoline and diesel fuel is imposed (i) upon the removal of fuel from a storage and distribution facility through a rack mechanism to a transport vehicle, railcar or other transfer means outside the bulk transfer/terminal system (no tax is imposed on qualified bulk transfers); (ii) upon the importation of fuel into the State for delivery in the State, other than by qualified bulk transfer; (iii) upon the sale or bulk transfer of fuel to a non-licensed party; (iv) upon fuel brought into the State in fuel supply tanks of an interstate trucker; and (v) upon the fuel used in the blending of fuel not in the bulk transfer/terminal system. The tax is due to the Comptroller on or before the 25<sup>th</sup> day of the month following a calendar month (except the tax from interstate truckers which is due after each calendar quarter). Certain taxpayers are entitled to retain 1.75% of the tax they pay to cover administrative expenses.

The State motor fuels tax on liquefied gas is imposed upon the user of the vehicle using such fuel and is prepaid to the Comptroller by the purchase on an annual liquefied gas license based on the weight of the vehicle and anticipated annual mileage.

The Comptroller is required to remit 75% of the net State motor fuels tax revenues (net of enforcement, administrative and refund charges) to the credit of the Fund on or before the fifth business day of each month, provided that \$7.3 million of the taxes related to gasoline are used annually to fund the county and road district highway fund, administered by the Department outside of the Fund.

The following table sets out the amount of the taxable gasoline and diesel fuel consumption in the State for the fiscal years 2003 through 2007.

**Table 5**  
**Taxable Gasoline and Diesel Fuel Consumption in Texas**  
**(In Millions of Gallons)**

<u>Fiscal Year</u>	<u>Gasoline</u>	<u>Diesel</u>
2003	11,379.2	3,216.7
2004	11,326.8	3,305.9
2005	11,285.5	3,463.3
2006	11,300.8	3,658.2
2007	11,590.2	3,961.5

**State Motor Vehicle Registration Fees.** The State currently charges motor vehicle registration fees under a number of statutory provisions. The Department shares motor vehicle registration responsibilities and revenues with county governments that assist the Department with this function. The following table sets out the amount of such revenues deposited to the Fund for the fiscal years 2003 through 2007, the approximate percentage of total motor vehicle registration fee revenues represented by such amount, and the approximate percentage of total Fund revenues for such years that constituted motor vehicle registration fees.

As a result of the 80<sup>th</sup> Regular Session, the Texas legislature enacted House Bill 3437 (“HB3437”) which amends provisions of the Texas Transportation Code relating to registration of vehicles to add provisions that apply only to a county that borders the United Mexican States, that has a population of more than 300,000, and in which the largest municipality has a population of less than 300,000. HB3437 authorizes the commissioners court of such a county by order to impose an additional fee, not to exceed \$10, for registering a vehicle in the county. The bill requires the county assessor-collector and the Department to collect the additional fee, as appropriate, and to send the fee revenue to the regional mobility authority of the county to fund long-term transportation projects in the county. The Department is required to adopt rules and to develop the necessary forms for vehicle registration by mail in the county. The bill provides for removal of the fee by the county. The Department does not believe HB3437 poses any substantive impact on the Fund’s future receipts of motor vehicle registration fees.

**Table 6**  
**State Motor Vehicle Registration Fees Deposited to the State Highway Fund<sup>(1)</sup>**  
**(In Millions)**

<u>Fiscal Year</u>	<u>Amount of Motor Vehicle Registration Fees Deposited</u>	<u>Percentage of Total Motor Vehicle Registration Fees</u>	<u>Percentage of Total Fund Revenues</u>
2003	\$790.1	65 %	14 %
2004	831.6	67	14
2005	873.9	67	13
2006	932.7	68	14
2007	984.2	69	17

<sup>(1)</sup> Presented using a cash basis of accounting.

Every owner of a motor vehicle, unless otherwise exempted, is required to register such vehicle each year the vehicle is used or is to be used on the public roads of the State. Registration fees are collected by the tax

collector of the county in which the owner of a vehicle resides. The fees vary dependent on the type and age of vehicle. The collecting county annually retains 100% of such fees collected up to an amount equal to: (i) \$60,000, plus (ii) \$350 for each mile of county road maintained by such county, not to exceed 500 miles, plus (iii) in fiscal year 2008, 70% of an amount equal to five percent of the previous calendar year motor vehicle sales tax and penalties collected in that county (the amount reflected in clause (iii) is further reduced proportionately each fiscal year until the amount is zero in fiscal year 2015 and succeeding years). After such amount is retained by the county, the collecting county then shall retain an additional amount equal to 50% of State vehicle registration fees collected until the amount retained for the calendar year equals \$125,000 and the remaining 50% (i.e., \$125,000) shall be deposited to the credit of the Fund. After this second amount of \$125,000 is retained by the collecting county, 100% of State vehicle registration fees is to be remitted to the credit of the Fund. Counties are also authorized to impose an additional road and bridge fee, not to exceed \$10, for registering a vehicle in the county, and three percent of such fee is to be remitted to the credit of the Fund.

The following table sets out the number of vehicles registered in the State for the fiscal years 2003 through 2007.

**Table 7**  
**Vehicles Registered in Texas**  
**(In Thousands)**

<u>Fiscal Year</u>	<u>Number of Vehicles</u>
2003	18,146
2004	18,453
2005	19,150
2006	20,084
2007	20,903

**Other State Revenue Sources.** The State also generates or receives funds from a variety of sources that are deposited to the credit of the Fund. Such sources of funds include, without limitation, sales taxes on motor lubricants, funds from local governments that are participating in State highway projects, interest earnings on the dedicated funds deposited to the credit of the Fund, surplus equipment sales revenues, oversize and overweight trailer permit fees, vehicle title certificate fees, revenues from *Texas Highways* magazine, and other reimbursements received by the Department. With the exception of the sales tax on motor lubricants and interest earnings on Dedicated Taxes, Dedicated Federal Revenues and Dedicated Registration Fees, these other revenue sources are not dedicated or committed by constitutional provision to the State Highway Fund. See “INVESTMENT CONSIDERATIONS – Potential Legislative Changes to Pledged Revenues.” The following table sets out the aggregate amount of funds generated from these sources and deposited to the Fund for the fiscal years 2003 through 2007 and the approximate percentage of the total Fund revenues for such years generated from such sources.

**Table 8**  
**Other State Revenues Deposited to the State Highway Fund<sup>(1)</sup>**  
**(In Millions)**

<u>Fiscal Year</u>	<u>Amount Deposited</u>	<u>Percentage of Total Fund Receipts</u>
2003	\$341.0	6 %
2004	333.5	5
2005	367.1 <sup>(2)</sup>	6
2006	527.5 <sup>(2)</sup>	8
2007	457.2 <sup>(2)</sup>	8

<sup>(1)</sup> Presented on a cash basis of accounting. Excludes loan repayments received by the State Infrastructure Bank (“SIB”).

<sup>(2)</sup> Excludes approximately \$330 million, \$1.115 billion and \$1.84 billion in Fiscal Years 2005 through 2007, respectively, deposited into the Fund from the Texas Mobility Fund for payment to contractors. For administrative purposes, expenses of the Texas Mobility Fund are processed through the Fund, whereby the Texas Mobility Fund transfers amounts for such expenses to the Fund prior to such expenses being paid.

**Federal Funds.** Federal transportation funds are currently made available to the State by the federal government. Briefly, the Federal-Aid Highway Program (“FAHP”) is an “umbrella” term that encompasses most of the federal programs providing highway funds to the states. The current multi-year authorization, the “Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users” (“SAFETEA-LU”), became law on August 10, 2005 and expires on September 30, 2009. SAFETEA-LU also extends the imposition of highway-user taxes, generally at the rates imposed by prior federal law, through September 30, 2011. The Federal Highway Administration (“FHWA”) is the federal agency within the USDOT responsible for administering the FAHP. The FAHP is financed from the transportation user-related revenues deposited in the Federal Highway Trust Fund (“HTF”). The primary source of revenues in the HTF is derived from the federal excise taxes on motor fuels, including certain alternative fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes. For a more complete description of the FAHP, the HTF and SAFETEA-LU, see APPENDIX C - “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS.”

The FAHP is a reimbursement program. Funding under the FAHP is provided to states through a multi-step funding cycle that includes: (i) multi-year authorization by Congress of the funding for various highway programs; (ii) apportionment and allocation of funds to the states each federal fiscal year according to statutory formulas or, for some funding categories, through administrative action; (iii) obligation of funds, which is the federal government's legal commitment (or promise) to pay or reimburse states for the federal share of a project's eligible costs; (iv) appropriations by Congress specifying the amount of funds available for the year to liquidate obligations; (v) program implementation which covers the programming and authorization phases; and (vi) reimbursement by the federal government of the eligible project costs. The FAHP, including SAFETEA-LU, is, however, subject to federal rescission of funds enacted by federal law which reduces the amount of funds available under an existing appropriation or authorization act. See APPENDIX C - “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS.”

State law currently provides that federal funds appropriated for public road construction in the State may only be spent by and under the supervision of the Department. Such funds are deposited to the credit of the Fund. Federal transportation program funds received and deposited to the Fund for the fiscal years 2003 through 2007, and the portion of the total Fund represented by receipts of federal funds are shown in the following table.

**Table 9**  
**Reimbursements from Federal Funds<sup>(1)</sup>**  
**(In Millions)**

<u>Fiscal Year</u>	<u>Amount Deposited</u>	<u>Percentage of Total Fund Receipts</u>
2003	\$2,606.8	45 %
2004	2,792.6	46
2005	3,284.9 <sup>(2)</sup>	49
2006	3,139.5	46
2007	2,026.1	35

<sup>(1)</sup> Presented on a cash basis of accounting. Includes certain federal aviation and transit reimbursement funds that are not constitutionally dedicated but are a component of Pledged Revenues.

<sup>(2)</sup> See Footnote 2 to “THE STATE HIGHWAY FUND - Table 2 - State Highway Fund Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance.”

SAFETEA-LU's Equity Bonus Program generally guarantees that no state's share of certain apportioned federal highway program funds may be less than 90.5% in federal fiscal years 2005 and 2006, and increasing to 92% in federal fiscal years 2008 and 2009, of its attributed share of highway user tax revenue contributed to the Highway Account of the HTF. For all federal highway funding programs, the State is a donor state receiving approximately an 88% rate of return on its share of contributions to the Highway Account of the HTF. For federal fiscal year 2007, approximately \$1,947.1 million in federal transit reimbursement funds, \$41.8 million in federal aviation reimbursement funds and \$36.9 million of federal traffic safety reimbursement funds were deposited to the credit of the Fund. Funds from the HTF support a variety of federal transportation programs that, for the purposes of this discussion, are grouped into four broad categories: (i) Guaranteed Highway Programs; (ii) Discretionary Highway Programs; (iii) Highway Safety Programs; and (iv) Transit Programs. See APPENDIX C - “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS.”

The distribution of funds using a formula provided in law is called an apportionment. Most federal-aid funds are distributed to states through apportionments. Each federal fiscal year, the FHWA has responsibility for apportioning authorized funding for the various highway programs among the states according to formulas established in the authorizing statute, currently SAFETEA-LU. When there are no formulas in law, the distributions of funds are termed “allocations” which may be made at any time during the federal fiscal year. In most cases, allocated funds are divided among states with qualifying projects applying general administrative criteria provided in the law. The annual apportionments to the Department under SAFETEA-LU are \$2.77 billion in federal fiscal year 2005, \$2.76 billion in federal fiscal year 2006, \$2.90 billion in federal fiscal year 2007, \$3.01 billion in federal fiscal year 2008 and \$3.04 billion in federal fiscal year 2009. However, in federal fiscal years 2006 and 2007, there have been five separate federal rescissions of certain amounts appropriated under SAFETEA-LU in the approximate amounts of \$3.8 billion and \$4.3 billion, respectively. Texas’ share of such rescissions was \$305,094,345 and \$360,834,408 for federal fiscal years 2006 and 2007, respectively. See APPENDIX C - “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS - Federal Aid Funding Procedures - *Apportionment, Allocations and Rescissions.*”

The following table provides a history of the apportionments and allocations, as applicable, to the State for certain federal highway funding programs in the State from the federal fiscal years 2003 through 2008.

**Table 10**  
**Federal Transportation Funds Apportioned and Allocated for Texas<sup>(1)</sup>**  
**(In Millions)**

<u>Program</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Guaranteed Highway Programs	\$2,111.5	\$2,456.6	\$2,649.1	\$2,590.5	\$2,976.5
Discretionary Highway Programs	38.7	11.4	16.7	4.9	0.4
Highway Safety Programs	18.1	21.4	16.7	23.8	163.8
Transit Programs	32.3	32.4	28.8	45.2	52.8
<b>TOTAL</b>	<b><u>\$2,200.6</u></b>	<b><u>\$2,521.8</u></b>	<b><u>\$2,711.3</u></b>	<b><u>\$2,664.4</u></b>	<b><u>\$3,193.5</u></b>

<sup>(1)</sup> Based upon data from the United States Department of Transportation. Years shown are federal fiscal years.

Obligation authority is the commitment (or promise) of the federal government to pay, through reimbursement to a state, the federal share of an approved project’s eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. Once an obligation is made, the federal government is to reimburse the states when bills or payments become due. However, Congress places a restriction or “ceiling” on the amount of federal assistance that may be obligated (promised) during a specified time period. The obligation limitation is the amount of authorized funding that Congress allows states to obligate in an individual year. This is a statutory budgetary control that does not affect the apportionment or allocation of funds. Rather, it controls the rate at which these funds can be used.

FHWA distributes obligation authority to states proportionately based on each state’s share of apportioned and allocated revenues. During the federal fiscal year, states submit requests to FHWA to obligate funds, representing the federal share of specific projects. As a state obligates funds, its balance of obligation authority is reduced. A state’s obligation authority (unlike its apportionments and allocations of authorized funding) must be used before the end of the federal fiscal year for which it is made available; if not, it will be distributed to other states to ensure that the total limitation nationwide will be used. Although a ceiling on obligations restricts how much funding may be used in a federal fiscal year, the state has flexibility within the overall limitation to mix and match the type of program funds it obligates, based on its individual needs, as long as it does not exceed the ceiling in total.

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The following table provides a history of the obligation authority to the State for certain federal highway funding programs in the State from the federal fiscal years 2003 through 2008.

**Table 11**  
**Federal Transportation Obligation Authority for Texas**  
**(In Millions)**

<u>Federal Fiscal Year</u>	<u>Amount</u>
2003	\$2,336.8
2004	2,374.6
2005	2,592.1
2006	2,542.9
2007	2,852.7

The amounts shown in Table 10 - “Federal Transportation Funds Apportioned and Allocated for Texas” above represent federal funds that have been “apportioned” or “allocated” to the State pursuant to federal legislation and the amounts shown in Table 11 - “Federal Transportation Obligation Authority for Texas” above represent federal funds that have been “obligated” to the State by the FHWA pursuant to federal legislation, but do not represent funds actually received by the State for any given period. For amounts of federal funds actually received by the State during fiscal years 2003 through 2007, see “THE STATE HIGHWAY FUND - Table 9 – Reimbursements from Federal Funds.”

**Uses of the Fund**

**General.** Funds that are required to be used for public roadways by State or federal law and that are deposited to the credit of the Fund, including federal funds deposited to the credit of the Fund pursuant to SAFETEA-LU, may be used only (i) to improve the State Highway System, (ii) to mitigate adverse environmental effects that result directly from the construction or maintenance of a state highway by the Department or (iii) by DPS to police the State Highway System and administer State laws relating to traffic safety. Money in the Fund that is not so restricted may be used for any functions performed by the Department, including expenses relating to the Department’s “pay as you go” construction program, payroll, repairs and maintenance expenses, costs of materials and supplies, professional fees or commitments, utilities, rents and lease payments and intergovernmental payments. Debt service on the Bonds, any additional Senior Obligations and Subordinate Obligations, including long-term obligations and financial commitments, are also paid from the Fund. To accomplish these purposes, money in the Fund is appropriated by the Legislature to the Department, DPS, and certain other State agencies. See “THE STATE HIGHWAY FUND - General.”

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The following table sets out the appropriation of funds by the Legislature to the Department for the four most recent State biennia, the current State biennium and the approximate percentage of total appropriations from the Fund represented by such appropriations.

**Table 12**  
**Appropriations to the Department from the**  
**State Highway Fund**  
**(In Millions)**

<u>State</u> <u>Biennium</u>	<u>Amount</u> <u>Appropriated</u>	<u>Percentage of</u> <u>Total Fund</u> <u>Appropriations</u>
2002-2003	\$ 10,579.7	93.88%
2004-2005	10,960.3	91.85
2006-2007	13,579.7	91.83
2008-2009	12,618.9 <sup>(1)</sup>	89.79

<sup>(1)</sup> Budgeted.

The Department operates under a two-year budget cycle. In preparing its Legislative Appropriations Request (“LAR”), the Department relies upon its cash flow forecast for the Fund, which delineates current and future obligations of the Department while forecasting the monthly revenue, expenditure, lowest daily balance, and ending balance for the Fund. From the forecast, the amount of expenditures (appropriations) that can be handled by the Fund can be determined. After accounting for existing obligations, the Commission then allocates the projected available resources among the competing needs identified by the various Department offices. Once these funding priorities have been determined, the data is entered into the Department's LAR and submitted to the Legislature for consideration in enacting the State appropriations bill. Once the appropriations bill takes effect, it will be implemented as the State budget for the next two-year biennium, taking effect on the next September 1. The budget is law, though it is not codified and does not otherwise appear in Vernon's Texas Statutes, and State agencies are bound by it. The Legislative Budget Board and the State Auditor's Office are responsible for monitoring compliance.

**Capital Projects and Proposed Debt Financings.** As required by various State and federal laws, the funding priorities of the Commission are outlined in various transportation plans approved by the Commission and various metropolitan and rural planning organizations within the State. The Statewide Transportation Plan is a long-range plan outlining the transportation goals of the Commission over a 20-year period. From such plan, the Commission develops the Unified Transportation Program (“UTP”) that covers transportation projects over a period which includes the current year plus 10 years. The UTP contains “Construct” transportation projects to be constructed over the next four years and for which funding is firm and “Develop” transportation projects to be developed over the following seven years and for which funding is yet to be determined. At the same time, the 25 metropolitan planning organizations and 25 rural planning organizations comprised of representatives of various local governmental entities in such regions each approve a three-year Transportation Improvement Program (the “TIP”). The TIPs approved by such local planning organizations are used to create the Statewide Transportation Improvement Plan (the “STIP”) for projects to be constructed by the Commission over the next three year period as part of the “Construct” UTP projects. All projects funded by the Department and reimbursed by the FHWA must be included in the STIP.

The Commission in the past four years has been implementing a policy designed to accelerate the development and construction of public highways. Under previous practice, the Commission utilized its annual \$250 million “Strategic Priority Funds” to develop and construct a relatively small number of projects within a three year time frame. The Commission is now implementing a policy to fund more projects over a longer period of time in order to fund as many projects as possible.

The Commission has funded a greater number of highway projects, through its Strategic Priority Funds, by funding projects over a 15 to 20 year time frame (and committing the use of the Strategic Priority Funds over such longer period), thereby decreasing the annual cost by extending the period in which a project will be paid. The Commission has used a number of different financing mechanisms to implement this strategy, including pass-through toll agreements and toll equity agreements. The Commission is also accelerating development and construction of highways through the issuance of debt secured by and payable from the Texas Mobility Fund

(described below) and through the issuance of the Bonds, additional Senior Obligations and Subordinate Obligations. See “THE STATE HIGHWAY FUND - General,” “- Subordinate Obligations,” “PLAN OF FINANCE,” “THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations” and “- Issuance of Subordinate Obligations.”

**Table 13**  
**Projected Expenditures Relating to Construction Contracts to be Let by the Department**  
**(In Millions) <sup>(1)</sup>**

Fiscal <u>Year</u>	Aggregated <u>Amount</u>
2008	2,305.6
2009	2,530.8
2010	2,409.4
2011	2,406.1
2012	2,437.1

<sup>(1)</sup> Excludes expenditures paid from the Texas Mobility Fund and proceeds of Previously Issued First Tier Senior Obligations, the Bonds or additional Senior Obligations.

The Commission intends to finance its continuing construction program through a number of methods. The Commission is issuing the Bonds to finance a portion of its construction program. Additionally, the Commission currently plans to issue up to a total aggregate principal amount of \$3.1 billion of bonds or other public securities (including the Bonds), by August 31, 2008, as additional Senior Obligations. Such amount is less than the current \$6 billion aggregate limit imposed by the Act (which was increased from the previous \$3 billion maximum by an amendment to the Act enacted by the State Legislature in 2007). The Commission also plans to issue debt payable from and secured by the Texas Mobility Fund to finance a portion of the Commission’s capital program. See “*Texas Mobility Fund*” below for a description of such fund and debt. The Commission also plans to enter into certain agreements and commitments, including pass-through toll agreements, toll equity agreements and multi-year construction contracts and agreements, to finance, assist in the financing, or outright develop and construct, highway projects. All such agreements and commitments are expected to be Subordinate Obligations. See “Subordinate Obligations” below.

***Texas Mobility Fund.*** Following the 2001 Texas Legislative Session, the Texas Constitution was amended by the adoption of Article III, Section 49-k to create the Texas Mobility Fund (the “Texas Mobility Fund”). The Texas Transportation Code was amended in 2001 to implement such constitutional provision, and in 2003, 2005 and 2007 the Legislature dedicated various State revenues to the Texas Mobility Fund. The Texas Mobility Fund is held in the State treasury and is administered by the Commission as a fund to provide a method of financing the construction, reconstruction, acquisition, and expansion of state highways, including the costs of any necessary design and costs of acquisition of rights-of-way, as determined by the Commission in accordance with standards and procedures established by law. The Texas Mobility Fund may also be used to provide participation by the State in the payment of part of the costs of constructing and providing publicly owned toll roads and other public transportation projects that are determined by the Commission to be in the best interests of the State in its major goal of improving the mobility of the residents of the State. The Texas Constitution and the Texas Transportation Code authorize the Commission to issue obligations with a maturity not to exceed 30 years, and enter into related credit agreements that are payable from and secured by a pledge of and a lien on all or part of the money on deposit in the Texas Mobility Fund in an aggregate principal amount that can be repaid when due from money on deposit in the Texas Mobility Fund, as that aggregate principal amount is projected by the Comptroller in accordance with procedures established by law. No constitutionally dedicated money in the Fund may be deposited into the Texas Mobility Fund or pledged to pay obligations secured by the Texas Mobility Fund, but money in the Fund may be used initially for projects which may be financed by the Texas Mobility Fund, with the Fund being reimbursed from the Texas Mobility Fund. Based on the Comptroller's projections of revenue in 2008 and current market conditions, the Texas Mobility Fund has a projected capacity of \$6.4 billion in obligations that may be secured by the Texas Mobility Fund, with approximately \$1.3 billion available to be issued of such capacity. The Commission has issued obligations secured by the Texas Mobility Fund totaling \$5,046,605,000 to date and expects to issue additional Texas Mobility Fund obligations in periodic installments of approximately \$1 billion every six to twelve months subject to capacity of the security to meet such financial obligation as certified by the Comptroller.

## Subordinate Obligations

**Cash Flow Financing Programs.** The Department has authority to issue short-term obligations to facilitate efficient cash management operations in the Fund in response to fluctuations in the cash balance of the Fund as a result of the cyclical nature and uncertain timing of deposits into and payments out of the Fund. The Department has utilized this authority and issued, and has currently outstanding, \$219,750,000 of “Texas Department of Transportation State Highway Fund Revenue Commercial Paper Notes” (the “Notes”). The Notes may currently be issued in a maximum principal amount of \$500,000,000. Although the Notes are payable from the Fund, the payment obligation is subordinate to the Bonds which have a prior lien pledge of the revenues deposited into the Fund.

Additionally, in anticipation of a temporary cash flow shortfall in the Fund during any fiscal year, the Commission, subject to the approval of the State cash management committee, may issue tax and revenue anticipation notes payable from the Fund. Any anticipation notes so issued must mature during the State biennium in which they are issued. Proceeds of such notes must be deposited into a special fund in the State treasury known as the highway tax and revenue anticipation note fund, and the Department must transfer amounts in such note fund to the Fund when needed to pay authorized expenditures. The Commission is also authorized to enter into credit agreements relating to such anticipation notes. To date, the Commission has not issued any such anticipation notes. Although the anticipation notes, if issued, are payable from the Fund, such payment obligation is subordinate to the Bonds which will have a prior lien pledge of the revenues deposited into the Fund.

**Other Obligations and Commitments.** In addition to the Bonds, additional Senior Obligations, the Notes and other Subordinate Obligations, including certain obligations and commitments described in “General” and “Uses of the Fund” above, there are a number of obligations and commitments that the Commission and the Department have incurred or entered into as Subordinate Obligations and that are to be paid or are expected to be paid from the Fund. Some of these long-term obligations and commitments are described below.

**State General Obligation Bonds to Fund Highway Improvements.** On November 6, 2007, voters in the State approved an amendment to the State’s constitution that authorizes the legislature to enact legislation to authorize the Texas Transportation Commission to issue State general obligation bonds in an amount not to exceed \$5 billion to provide funding for highway improvement projects; however, enabling legislation has not been enacted pursuant to this constitutional authority and general obligation bonds cannot be issued until enabling legislation is enacted. The next regular session of the Texas Legislature will convene on January 13, 2009.

**Toll Equity Obligations.** Pursuant to Sections 222.101 and 222.103, Texas Transportation Code, as amended, the Department may participate by spending money from any available source, including the Fund, in the cost of the acquisition, construction, maintenance or operation of a toll facility of a public or private entity on terms and conditions established by the Commission. The Commission may require the repayment of any money spent by the Department for the cost of a toll facility of a public entity and shall require the repayment of any money spent by the Department for the cost of a toll facility of a private entity. Under current law, money granted by the Department each fiscal year may not exceed an amount that, together with amounts granted for the preceding four fiscal years, results in an average annual expenditure of \$2 billion. This limitation does not apply to money that is required to be repaid. All toll equity obligations are subject to the appropriation of lawfully available funds to make such payments and, therefore, such payments are subordinate to the Bonds which will have a prior lien pledge of the revenues deposited into the Fund.

The Department currently has toll equity agreements or commitments for three types of projects: (i) Department projects with outstanding debt in which the Commission has covenanted to provide toll equity; (ii) Department projects with no outstanding debt; and (iii) projects of other public entities in which the commitment is by an agreement with such entity.

In connection with the issuance of approximately \$2.2 billion of revenue obligations by the Commission in August 2002 (the “Series 2002 Obligations”) to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System (the “2002 Project”) in the greater Austin metropolitan area, the Commission covenanted with the owners of the Series 2002 Obligations to pay (i) \$700,000,000 in construction costs of the 2002 Project, payable in monthly installments in each of the fiscal years 2004 through 2008, (ii) approximately \$24,560,000 toward the cost of right-of-way for the Loop 1 element of the

2002 Project and (iii) operation and maintenance costs to the extent necessary in conjunction with the 2002 Project. To date, approximately \$573 million of the funding commitment for the 2002 Project has been disbursed from the Fund.

On April 12, 2007, based upon a certification of the Chief Financial Officer of the Department and the report of the general engineering consultant, the Department has determined there are sufficient funds on hand to complete the 2002 Project and has suspended making further deposits to the 2002 Project from the Fund. In the event there is a change in circumstances, the Department has agreed to reinstitute the transfers from the Fund to the 2002 Project.

The Department is also developing a number of toll facilities for which there is no outstanding debt and is advancing the projects through the use of the Fund. As there is no outstanding debt and, therefore, no covenants, these projects are managed in the same manner as other Department developed projects.

The Department has also entered into toll equity agreements in connection with the development, construction and/or maintenance of projects being developed by other public entities:

- (i) The Central Texas Regional Mobility Authority (the “CTRMA”): In connection with the 183A toll road being developed and constructed by the CTRMA, the Department disbursed approximately \$4,017,323 in fiscal year 2008 from the Fund to the CTRMA for development and construction costs and currently estimates disbursing approximately \$13,000,000 for operation and maintenance costs in fiscal year 2010 through a toll equity grant.
- (ii) The Alamo Regional Mobility Authority (the “Alamo RMA”): The Department made a \$1,000,000 toll equity grant to the Alamo RMA to pay certain engineering, legal and financial planning costs to study and analyze competing proposals submitted for the proposed Loop 1604 and US 281 turnpike project and its impacts on other potential elements of a proposed toll system in Bexar County. The toll equity grant became a loan when the project was transferred to the Alamo RMA. \$913,890 was disbursed by late calendar year 2007.

The Department approved another toll equity loan of \$7,500,000 for the Alamo RMA to pay the costs for developing preliminary feasibility, environmental, public involvement, schematics and preliminary financial plans for managed or tolled lanes on I-35 from the Bexar/Guadalupe County line to the San Antonio Central Business District, managed or tolled lanes on SH 16 west from the Interstate Loop 410 to Loop 1604 northwest, and the tolled interchange at US 281 and Wurzbach Parkway. \$4,542,185 was disbursed by late calendar year 2007.

A new toll equity loan of \$3,965,167 was approved for the Alamo RMA to pay for certain costs relating to the development of (1) SH 16 from I-410 to LP 1604 North; (2) Wurzbach Parkway from Wetmore to Blanco, including the US 281/Wurzbach Parkway Interchange; and (3) US 281 from LP 1604 to the Bexar County line, including the costs of developing environmental studies, schematics and design, preliminary financial plans, public involvement, and the procurement of bids or proposals. This financial commitment was funded from the balances of the \$1,000,000 and \$7,500,000 toll equity loans, which was \$3,043,925. Of that amount the Alamo RMA has about \$663,000 remaining which is expected to be disbursed by the end of calendar year 2008.

A toll equity grant of \$19,800,000 has been approved for the Alamo RMA to be used to fund the costs of preliminary engineering, right of way acquisition, and other related development costs for the 281 North Toll Project within the right of way of the US 281 corridor from north of Loop 1604 to the Bexar/Comal county line. This toll equity commitment is expected to be disbursed by the end of calendar year 2018.

- (iii) The Northeast Texas Regional Mobility Authority (the “NET RMA”): Loop 49 being developed by The NET RMA has received authorization for a \$12,250,000 toll equity loan to pay for costs associated with the further study and development of the Loop 49 project in Smith County,

including the costs of certain design and engineering services and legal and financial advisory services. This toll equity commitment is expected to be disbursed by the end of 2010.

- (iv) The Cameron County Regional Mobility Authority (the "Cameron County RMA"): West Loop and Second Causeway projects being developed by the Cameron County RMA has received authorization for a \$21,600,000 toll equity loan to pay for costs associated with the further study and development of West Loop (\$12,400,000) and the Second Causeway (\$9,200,000). These toll equity commitments are expected to be disbursed by the end of 2009.
- (v) North Texas Tollway Authority (the "NTTA"): The Department authorized a toll equity grant of \$160,270,000 to the NTTA to be used for the acquisition of right of way, relocation adjustments, and related costs and services for the Eastern Extension of the President George Bush Turnpike (PGBT), a planned facility extending from SH 78 to I-30 along the planned alignment of SH 190. The Department disbursed \$105,535,908 in fiscal year 2008. The remainder toll equity commitment is expected to be disbursed by the end of fiscal year 2009.
- (vi) Camino Real Regional Mobility Authority (the "CRRMA"): A toll equity loan of \$330,000 has been approved for the CRRMA to pay for the costs of independent financial and engineering advisors retained by the CRRMA to assist in negotiations with the department concerning market valuation studies of candidate toll projects comprised of Northeast Parkway Tollway, express toll lanes along Loop 375, the keystone link of Loop 375 (Cesar Chavez Border Highway Extension West), and express toll lanes along the US 62/180 (Montana) corridor, and to pay for certain administrative, legal, or other expenses related to the acquisition, construction, maintenance, and operation of those projects. This toll equity commitment is expected to be disbursed by the end of fiscal year 2008.

The Department currently estimates the payment of toll equity agreements to be funded from the Fund of approximately \$150 million in fiscal year 2008, \$115 million in fiscal year 2009, \$110 million in fiscal year 2010, \$50 million in fiscal year 2011, and \$5 million in fiscal year 2012. The Commission anticipates making additional toll equity agreements in the future. It is currently anticipated that all toll equity agreements will be funded from the Fund.

Pass-Through Toll Agreements. Pursuant to Section 222.104 of the Texas Transportation Code, as amended, the Department may enter into agreements with a public or private entity that provide for the payment of a per vehicle fee or a per vehicle mile fee that is determined by the number of vehicles using a highway ("Pass-Through Tolls") to the public or private entity as reimbursement for the design, development, financing, construction, maintenance or operation of a toll or non-toll facility on the State Highway System by the public or private entity. The Department may enter into an agreement with a private entity that provides for the payment of Pass-Through Tolls to the Department as reimbursement for the Department's design, development, financing, construction, maintenance or operation of a toll or non-toll facility on the State Highway System that is financed by the Department. The Department and a regional mobility authority ("RMA"), a regional tollway authority ("RTA") or a county may enter into an agreement that provides for: (i) the payment of Pass-Through Tolls to the RMA, RTA or county as compensation for the payment of all or a portion of the costs of maintaining a state highway or a portion of a state highway transferred to the RMA, RTA or county after being converted to a toll facility that the Department estimates it would have incurred if the highway had not been converted or (ii) the payment by the RMA, RTA or county of Pass-Through Tolls to the Department as reimbursement for all or a portion of the costs incurred by the Department to design, develop, finance, construct and maintain a state highway or a portion of a state highway transferred to the RMA, RTA or county after being converted to a toll facility. The Department may use any available funds, including money on deposit within the Fund, for the purpose of making a Pass-Through Toll payment. It is currently anticipated that all Pass-Through Toll commitments will be paid from the State Highway Fund.

To date, the Department has executed 15 Pass-Through Toll agreements. The executed Pass-Through Toll agreements with Camino Real Regional Mobility Authority (State Spur 601 in El Paso County), Bexar County, the City of Brenham, Comal County, the City of Forney, Galveston County, Grayson County, Hays County, Montgomery County, the City of San Marcos, Titus County, Val Verde County, the City of Weatherford and Williamson County range in term from four to 20 years, have a total pass-through reimbursement amount of

approximately \$1.4 billion with a minimum aggregate annual reimbursement of approximately \$97 million and a maximum aggregate annual reimbursement of approximately \$154 million. One additional Pass-Through Toll agreement has received approval by the Commission and is expected to be finalized within the next several months. This approved agreement includes an additional total pass-through reimbursement amount of approximately \$14 million from 10 to 15 years, with a minimum annual reimbursement of approximately \$1 million and a maximum aggregate annual reimbursement of approximately \$1.4 million.

The Department has adopted an internal policy to limit its financial exposure, thereby limiting the financial exposure of the Fund, with respect to Pass-Through Toll payments to not to exceed the \$250,000,000 Strategic Priority Funds per fiscal year; however, such policy is subject to change by the Commission.

State Aircraft Pooling Board Obligations. Effective June 14, 2005, legislative action changed any reference in law of the State Aircraft Pooling Board to the Department, thereby transferring all powers, duties, obligations, rights, contracts, bonds, appropriations, records, personnel, and real or personal property to the Department. At that time, the Department assumed the remaining debt from acquisition of one aircraft and two fuel trucks that had been financed through revenue bonds issued by the Texas Public Finance Authority. Debt obligations remaining to be paid to the Texas Public Finance Authority totaled \$1,236,417 on August 31, 2007. Debt obligations are scheduled to be paid in full by August 1, 2011.

### **Investment Authority and Investment Practices for the Fund**

***Investment Authority.*** The Fund is held within the State treasury and is invested and collateralized by the Comptroller in accordance with State law. Under current law, the Comptroller may commingle money on deposit in the Fund with other money and funds held within the State treasury and invest such money as authorized pursuant to Section 404.024, Texas Government Code, as amended (“Section 404.024”). State law and the Comptroller's Investment Policy are subject to change. Dedicated Revenues include interest earnings on Dedicated Taxes, Dedicated Federal Revenues and Dedicated Registration Fees, which remain within the Fund. Interest Earnings on amounts collected or received pursuant to other State Highway Fund Revenue Laws are transferred to the State's general revenue fund.

Pursuant to Section 404.024, money on deposit in the Fund may be placed by the Comptroller in time deposits with State depositories or may be invested by the Comptroller in the following obligations: (i) direct security repurchase agreements; (ii) reverse security repurchase agreements; (iii) direct obligations of or obligations the principal and interest of which are guaranteed by the United States; (iv) direct obligations of or obligations guaranteed by agencies or instrumentalities of the United States government; (v) bankers' acceptances that: (A) are eligible for purchase by the Federal Reserve System; (B) do not exceed 270 days to maturity; and (C) are issued by a bank whose other comparable short-term obligations are rated in the highest short-term rating category by a nationally recognized statistical rating organization; (vi) commercial paper that: (A) does not exceed 270 days to maturity; and (B) except as provided below, is issued by an entity whose other comparable short-term obligations are rated in the highest short-term rating category by a nationally recognized statistical rating organization; (vii) contracts written by the Comptroller in which the Comptroller grants the purchaser the right to purchase securities in the Comptroller's marketable securities portfolio at a specified price over a specified period and for which the Comptroller is paid a fee and specifically prohibits naked-option or uncovered option trading; (viii) direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation that have received the highest long-term rating categories for debt obligations by a nationally recognized statistical rating organization; (ix) bonds issued, assumed, or guaranteed by the State of Israel; (x) obligations of a state or an agency, county, city, or other political subdivision of a state; (xi) mutual funds secured by obligations that are described by subdivisions (i) through (vi) above or by obligations consistent with Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated by the Securities and Exchange Commission, including pooled funds: (A) established by the Texas Treasury Safekeeping Trust Company; (B) operated like a mutual fund; and (C) with portfolios consisting only of dollar-denominated securities; (xii) foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities; (xiii) asset-backed securities, as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7), that are rated at least “A” or its equivalent by a nationally recognized statistical rating organization and that have a weighted-average maturity of five years or less; and (xiv) corporate debt obligations that are rated at least “A” or its equivalent by a nationally recognized statistical rating

organization and mature in five years or less from the date on which the obligations were “acquired,” as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7).

Investments in direct security repurchase agreements and reverse security repurchase agreements may be made with state or national banks doing business in this State or with primary dealers as approved by the Federal Reserve System. Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received under the terms of a reverse security repurchase agreement may be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

The Comptroller may purchase commercial paper with a rating lower than the highest short-term rating to provide liquidity for commercial paper issued by the Comptroller or a State agency.

The Comptroller may lend securities under procedures established by the Comptroller. The procedures must be consistent with industry practice and must include a requirement to fully secure the loan with cash, obligations, or a combination of cash and obligations. In this paragraph, “obligation” means an item described by clauses (i) through (vi) of the second paragraph of this section.

The Comptroller may contract with a depository for the payment of interest on time or demand deposits at a rate not to exceed a rate that is lawful under an act of Congress and rules and regulations of the board of governors of the Federal Reserve System, the board of directors of the Federal Deposit Insurance Corporation, the National Credit Union Administration Board, and the Federal Home Loan Banking Board.

The Comptroller may not purchase any of the following types of investments: (i) obligations the payment of which represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (ii) obligations the payment of which represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (iii) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

The Comptroller by rule may also define other prohibited investments. The Comptroller may not purchase investments defined by rule adopted in an amount that at the time of purchase will cause the aggregate value of the investments to exceed five percent of the Comptroller’s total investments. The Comptroller may not use state funds to invest in or purchase obligations of a private corporation or other private business entity doing business in Northern Ireland unless the corporation or other entity: (i) adheres to fair employment practices; and (ii) does not discriminate on the basis of race, color, religion, sex, national origin, or disability.

To the extent practicable, the Comptroller shall give first consideration to banks that maintain main offices or branch offices in this State when investing in direct security repurchase agreements.

The Comptroller shall invest funds under the restrictions and procedures for making the investments that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the prevailing circumstances, would follow in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

The Comptroller may contract with private professional investment managers to assist the Comptroller in investing funds under the care, custody, and control of the Comptroller.

***Investment Policies and Practices.*** The Comptroller's principal investment and management objectives are as follows: (i) preservation of capital and protection of principal, first; (ii) maintenance of sufficient liquidity to meet operating needs, second; and (iii) maximization of return, third. The Comptroller will preserve capital and protect principal by investing in a diversified pool of assets of high credit quality. Interest rate risk will be managed by maintaining a weighted-average maturity of no more than two years.

Whenever practicable, the Comptroller and the Texas Treasury Safekeeping Trust Company will award investment transactions on a competitive basis by soliciting at least two bids and then placing purchase and sale orders with brokers to achieve best execution. All transactions will be fully documented by the individual executing the trade and confirmed by a second investment staff member.

The Comptroller enters into only fully collateralized repurchase agreements. The Comptroller's *Master Repurchase Agreement* governs all transactions. Repurchase agreement collateral is limited to those securities authorized for outright purchase by the Comptroller. All such collateral is held for safekeeping at the Federal Reserve Bank of Dallas, San Antonio Branch, in the name of the Comptroller or at an approved third party institution with which the Comptroller has executed a custodial undertaking agreement in connection with a master repurchase agreement. Collateral is monitored daily to ensure that margin requirements are maintained. Margin excesses or deficits will be corrected on a timely basis, generally no later than the next business day. Repurchase agreement transactions must be placed only with primary government securities dealers approved by the Federal Reserve System or state or national banks doing business in the State.

## THE COMMISSION AND THE DEPARTMENT

### The Commission

The State created the "State Highway Commission" on April 4, 1917, for the purpose of adopting and implementing a comprehensive system of state highways and promoting the construction of a state highway system by cooperation with counties or independently by the State Highway Commission. In 1975, the Legislature changed the name of the State Highway Commission to the "State Highway and Public Transportation Commission." In 1991, the Legislature changed the name again to the "Texas Transportation Commission," as it remains today. The Commission is the Department's policy-making body and is composed of five commissioners appointed by the Governor of the State (the "Governor") with the advice and consent of the State Senate. Commissioners serve overlapping six-year terms. One member is designated by the Governor as the Chair and serves as the chief executive officer of the Commission. A person is not eligible to be a member of the Commission if the person or the person's spouse is employed by or manages a business that is regulated by or regularly receives funds from the Department; directly or indirectly owns or controls more than 10% interest in a business that is regulated by or receives funds from the Department; uses or receives a substantial amount of goods, services, or funds from the Department; or is registered, certified, or licensed by the Department.

#### **Deirdre Delisi, Chair**

Deirdre Delisi, appointed as Chair of the Commission by Governor Perry on April 30, 2008, has more than 12 years experience in government policy. Ms. Delisi served as chief of staff and deputy chief of staff to Governor Perry, and served as special assistant to then Lieutenant Governor Perry. Additionally, she is a former policy advisor to the presidential campaigns of Lamar Alexander and George W. Bush, and served at the Texas Department of Commerce and as legislative aide for Texas Senator Bill Ratliff. Ms. Delisi earned a bachelor's degree from Duke University and master's degree in international policy studies from Stanford University.

#### **Ted Houghton, Commissioner**

Mr. Houghton was appointed to the Commission by Governor Perry in December of 2003. A native of El Paso, Mr. Houghton is self-employed in the fields of financial services, executive benefits, and estate planning. He is the first resident of El Paso to serve on the Commission. Mr. Houghton has served on the State of Texas School Land Board. He also served for eight years on the El Paso Water Utilities Public Service Board and on the boards of directors of the El Paso Electric Company, the El Paso Rapid Transit Board, as president of the Sun Bowl Association, and as a member of the 1984 Los Angeles Olympic Committee. Mr. Houghton received his bachelors degree in finance from The University of Texas at El Paso.

#### **Ned S. Holmes, Commissioner**

Ned S. Holmes was appointed to the Commission by Governor Perry in January of 2007. Mr. Holmes is chairman and CEO of Parkway Investments, a company that develops and manages real estate nationwide. He is a member of the Urban Land Institute, and he has previously served on the City of Houston's planning commission.

Mr. Holmes served as chairman of the Port of Houston Authority from 1988 to 2000. In April 2003, Mr. Holmes was appointed by Governor Perry to the Texas Parks and Wildlife Commission. He resigned that position to serve on the Texas Transportation Commission. He also served as chairman, board member and as an executive committee member of the Greater Houston Partnership, and as chairman of Commercial Bancshares, Inc. from 1986 to 2000, when the company merged with Prosperity Bancshares. He was chairman of Prosperity Bancshares, Inc. from 2001 to 2006. Mr. Holmes received his bachelor's degree and law degree from The University of Texas at Austin.

#### **William Meadows, Commissioner**

William Meadows was appointed to the Commission on April 30, 2008. Mr. Meadows is chairman of Hub International Rigg. He served as vice chairman of the North Texas Tollway Authority. He is also a past appointee to the Texas Water Development Board and formerly served as a city council member and mayor pro-tempore for the City of Fort Worth. Mr. Meadows was past vice chairman of the City of Fort Worth Parks and Community Services Advisory Board, and past board member of the Fort Worth Chamber of Commerce and Southwestern University. Mr. Meadows received a bachelor's degree from Southwestern University and attended the Harlaxton Institute in Grantham, England.

#### **Fred Underwood, Commissioner**

Fred Underwood was appointed to the Commission by Governor Perry in January of 2007. Mr. Underwood is president and CEO of the Trinity Company, a cotton bale storage facility. He is both past vice president and past director of the National Cotton Council, and is a director of Plains Capital Corporation. He also serves as chairman of the Ways and Means Committee of the Cotton Warehouse Association, where he previously served as president. Mr. Underwood also previously served as chairman of Lubbock International Airport Board and as a board member of the Lubbock Chamber of Commerce. Mr. Underwood received a bachelor's degree in management from Texas Tech University.

### **The Department**

The Department is a public authority and body politic and corporate created in 1917 as the "Texas Highway Department" by an act of the Legislature to administer federal funds for highway construction and maintenance. In 1975, the Legislature merged the Texas Highway Department with the "Texas Mass Transportation Commission" to form the "State Department of Highways and Public Transportation," and in 1991, the Legislature combined the State Department of Highways and Public Transportation, the Department of Aviation, and the Texas Motor Vehicle Commission to create the Department.

The mission of the Department is to provide safe, effective, and efficient movement of people and goods, and the Department's vision is to be a progressive State transportation agency recognized and respected by the citizens of the State for: (i) providing comfortable, safe, durable, cost-effective, environmentally-sensitive, and aesthetically appealing transportation systems that work together; (ii) ensuring a desirable workplace that creates a diverse team of all kinds of people and professions; (iii) using efficient and cost-effective work methods that encourage innovation and creativity; and (iv) promoting a higher quality of life through partnerships with the citizens of the State and all branches of government by being receptive, responsible, and cooperative.

The Department is charged with (i) developing and maintaining a statewide multimodal transportation network, (ii) the licensing and regulation of motor vehicles, and (iii) other transportation-related duties. The Department's operations can be divided into five major categories:

(1) **Plan It:** Includes all planning, design, right-of-way acquisition for highways and other modes of transportation, and transportation research that saves lives and money.

(2) **Build It:** Includes highway and bridge construction and airport improvements.

(3) **Use It:** Includes items like public transportation, vehicle titles and registration, vehicle dealer registration, motor carrier registration, traffic safety, travel information and auto theft prevention.

(4) ***Maintain It:*** Includes the maintenance of roadways, bridges, airports, gulf waterways and ferry systems.

(5) ***Manage It:*** Includes central and regional administration, information resources and other support services.

The Department is headquartered in Austin, Texas, with 25 district offices and 27 divisions/offices located throughout the State. Each district is responsible for the planning, design, construction, maintenance, and operation of its area's transportation systems.

The Department is managed by an Executive Director, subject to and under the direction of the Commission. The Executive Director and other key Department personnel are listed below and on page ii hereof.

**Amadeo Saenz, Jr., P.E., Executive Director**

Mr. Saenz was appointed Executive Director of the Department on September 27, 2007 by the Commission, effective October 1, 2007. After earning a bachelor of science degree in civil engineering with honors at The University of Texas at Austin, Mr. Saenz joined the Department in 1978 in the Pharr District as an engineering laboratory assistant. Mr. Saenz served in various positions of increasing responsibility within the Pharr District, and was named district engineer in 1993. Mr. Saenz served as district engineer until he was appointed Assistant Executive Director for Engineering Operations in 2001.

**Steven E. Simmons, P.E., Deputy Executive Director**

Mr. Simmons, under the direction of the Executive Director, implements and manages Department policies and programs. He assists with the daily administrative and engineering operations of the Department. Mr. Simmons was appointed Deputy Executive Director on November 1, 2001. After earning a bachelor's degree in civil engineering from The University of Houston in 1981, Mr. Simmons joined the Department's Houston District in 1982 as a project manager in the Northwest Harris/Waller Area Office. He became a licensed professional engineer in 1986 and served in several positions for the Houston District, including deputy district engineer. Mr. Simmons was named Fort Worth district engineer in June of 1998 and in that position he served on the Regional Transportation Council of the North Central Texas Council of Governments, working to solve transportation issues in that region. Under Mr. Simmons' leadership, the Fort Worth District received the Design Excellence Award for a Metropolitan District in 1997, 1998 and 1999; no other district office has attained this honor.

**Edward Serna, Assistant Executive Director for Support Operations**

On April 18, 2005, Edward Serna was appointed Assistant Executive Director for Support Operations. Under the direction of the Executive Director, Mr. Serna assists in overseeing and coordinating support operations to ensure the Department operates in an efficient and effective manner. Mr. Serna has more than 21 years of government experience at three State agencies. Immediately prior to joining the Department, Mr. Serna served as director of service delivery at the Texas Department of Information Resources where he was responsible for negotiating and managing all statewide contracts for hardware and software services as well as managing the TexasOnline and Statewide Data Center Contracts. Mr. Serna also worked for the Texas Comptroller of Public Accounts and the Texas Commission on Environmental Quality. He supervised the development of human resources, purchasing and information resource policies and procedures at all three agencies. Mr. Serna graduated in 1981 from the University of North Texas. He holds a bachelor of business administration degree with a major in finance and a minor in accounting.

**David Casteel, Assistant Executive Director for District Operations**

Mr. Casteel has served as the District Engineer for the twelve-county San Antonio District since 2003. He holds bachelors and masters degrees from Texas A&M University and is a graduate of the Governor's Executive Development Program at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin. A Department employee since his first summer job with the Department in 1983, Mr. Casteel served as District

Engineer of the Childress and Corpus Christi Districts before moving to San Antonio. As Assistant Executive Director for District Operations, Casteel will oversee the 25 Department's districts.

**John Barton, Assistant Executive Director for Engineering Operations**

Mr. Barton began working for the Department as a summer employee of the Wichita Falls District, while he was still in high school. After graduating from Texas A&M University, Mr. Barton continued his work for the Department. In 2003, Mr. Barton received the President's Award for Planning from the American Association of State Highway and Transportation Officials. In December 2003, he was named to his current position as District Engineer for the eight-county Beaumont District. As the new Assistant Executive Director for Engineering Operations, Mr. Barton will oversee and coordinate operations for nine divisions and offices. Mr. Barton will assist in directing long and short-range planning for the agency including the establishment of overall operating objectives and the technical merits of programs and policies.

**Phil Russell, Assistant Executive Director for Innovative Project Development**

Mr. Russell, a transportation engineer with 25 years state experience including leadership roles in Bryan, Dallas and Austin, has served as the Director of the Texas Turnpike Authority Division since 1998. He oversaw the planning and development of the Central Texas Turnpike Project. The first 44-miles of the project were opened under budget and a year ahead of schedule. Mr. Russell has directed efforts to relieve congestion on Interstate 35 in Texas with the development of Trans-Texas Corridor 35. He is also in charge of planning Trans-Texas Corridor 69, a 600-mile multi-use transportation corridor extending from Northeast Texas to Mexico. Mr. Russell started work for the Department in 1982. He held numerous positions in the Department's ten-county Bryan District and seven-county Dallas District before moving to the Turnpike Division in Austin. In addition to being a professional engineer, Mr. Russell is also a lawyer. In his new position as Assistant Executive Director for Innovative Project Development, Mr. Russell will oversee and coordinate turnpike/tollway projects and statewide transportation planning/programming operations for the Department. He will oversee functions related to the development and operation of turnpike projects to include comprehensive development agreements, market evaluations, pass-thru finance agreements, Trans-Texas Corridor activities, and long-term transportation planning.

**James M. Bass, Chief Financial Officer**

As the Department's Chief Financial Officer, Mr. Bass has financial oversight responsibility for the Department. Mr. Bass also oversees management of the Department's financial planning operations division (the "Finance Division"). In addition, recently announced changes in organizational responsibilities and executive administration of the Department anticipate the Chief Financial Officer's oversight of project programming and scheduling and construction letting management functions. Under his direction, the Finance Division develops and implements systems and policies related to accounting, forecasting, budgeting, payment for goods and services, municipal bond programs, and the processing of receipts and revenues. The Finance Division also conducts cost-efficiency studies, manages the State Infrastructure Bank, and analyzes and reports the financial effects of proposed legislation. Mr. Bass began his career with the Department in 1985 in the Fort Worth District where he maintained records and audited field measurements. He also worked part-time as an engineering aide for the Austin District while earning his bachelor's degree in accounting. After graduation in 1991, Mr. Bass served as an accounting clerk in the Finance Division. In 1997, Mr. Bass became a manager in the Budget and Forecasting Branch, and in that position was responsible for preparation of the Department's Legislative Appropriations Request and Operating Budget, and working with the Legislative Budget Board, State Auditor's Office, and the Comptroller. He also worked on the Department's Cash Forecasting System for the State Highway Fund. Mr. Bass was named Finance Division Director in 1999 and his title was changed to Chief Financial Officer in 2005.

**Vacant, Director, Finance Division**

The position of Director of the Finance Division is currently vacant. The Department has hired Brian Ragland as the new Director of the Finance Division effective on August 1, 2008.

**John Muñoz, Deputy Director, Finance Division**

As Deputy Director of the Finance Division, Mr. Muñoz develops and implements systems and policies related to accounting, forecasting, budgeting, payment for goods and services, and the processing of receipts and revenues. He is also a lead participant for the Department in the comprehensive development agreement process. During his 18 year tenure with the Department, Mr. Muñoz has worked in the audit, budgeting, payment processing and administrative operations. Prior to his employment with the Department, Mr. Muñoz worked for the predecessor firm to KPMG performing audit and tax work. Mr. Muñoz earned a bachelor degree in accounting from the University of Texas at Austin in 1986 and is also a CPA and Certified Internal Auditor.

**Jose Hernandez, Debt Management Director**

As Debt Management Director of the Finance Division, a position he assumed on March 1, 2006, Mr. Hernandez manages the Department's municipal bond programs, oversees the State Infrastructure Bank, and participates in the comprehensive development agreement and toll equity processes. Prior to his employment with the Department, Mr. Hernandez was the southwest regional manager of the Fitch Ratings office in Austin for over six years. Before his tenure with Fitch Ratings, Mr. Hernandez served with the Texas Bond Review Board for seven years, the last two as executive director. Mr. Hernandez's governmental finance career also includes service with the cities of San Antonio and Corpus Christi. Mr. Hernandez earned Bachelor and Master of Business Administration degrees from Corpus Christi State University.

**Bob Jackson, General Counsel**

Mr. Jackson assumed the position of General Counsel on September 15, 2006. Under his direction, the Office of General Counsel renders legal advice to the Commission and the Department. He also drafts Department rules, reviews legislation, serves as counsel at Commission meetings, and presides over public hearings. Mr. Jackson, who joined the Department 21 years ago as a planner in the Management Information, Policy and Research Section, has practiced law for 16 years. He earned his bachelor's degree in Government and Geography in 1980 and his master's degree in Public Affairs in 1985 from the University of Texas at Austin. He earned his Doctor of Jurisprudence from the University of Houston Law School in 1990.

**Retirement Plan of the Department**

The Department participates in joint contributory retirement plans of the State (collectively the "Plan") administered by the Employees Retirement System of Texas ("ERS"), which is operated by the State and which covers State employees and law enforcement and custodial officers. As of August 31, 2007, ERS had 132,497 active members and 70,455 annuitants. The Department employs over 15,000 employees and, for fiscal year 2007, approximately \$33.0 million had been budgeted from the Fund to ERS for retirement benefits for certain Department employees. The Department makes monthly payments to ERS for virtually all of its employees. ERS does not account for each State agency separately.

On an actuarial basis as of August 31, 2007, the Plan's actuarial assets were below its total actuarial liability by \$1.1 billion (the Plan's "unfunded actuarial liability"). ERS's funded ratio as of August 31, 2007 is 94.8%, meaning that the ERS could pay today 94.8% of all the retirement benefits its members have earned based on the service they have already earned and actuarial projections about when they will retire and how long they will live in retirement. The ERS fair value of pooled investments as of August 31, 2007, was \$20.8 billion.

Contributions to ERS are made by both the State and covered employees. The Texas Constitution mandates a State contribution rate of not less than 6% or more than 10% of payroll for the ERS; member contributions may not be less than six percent of payroll. The Legislature, however, may appropriate additional funds as are actuarially determined to be needed to fund benefits authorized by law. For the 2008 - 2009 biennium, the Legislature set the State's contribution rate to ERS at 6.45% of payroll. The member contribution rate to ERS is 6% for employees and 8% for legislators.

The ERS is prohibited by statute from implementing any benefit improvements that increase the actuarial cost of the ERS Plan if the period required to amortize the unfunded actuarial liability of the plan exceeds 31 years.

As of August 31, 2007, the period required to amortize the unfunded actuarial liability of the Plan was estimated at 30 years.

### **Sunset Review**

In 1977, the Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code), which provides that virtually all agencies of the State, including the Department, are subject to periodic review of the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The next scheduled review of the Department is during the Texas legislative session in 2009. If the Department is not continued in existence at that time, the Department will cease to exist as of September 1, 2009; however, the Texas Sunset Act provides that the Department will exist until September 1 of the following year (September 1, 2010) in order to conclude its business. The preliminary report from the sunset review was published in June 2008 with the final recommendations scheduled for Fall 2008. The preliminary report recommends, among other things, that the Commission should be continued for another four years at which time a subsequent sunset review would be required. In the event the Department is abolished pursuant to the Texas Sunset Act, the Governor is required to designate an appropriate State agency to carry out the Department's covenants contained in the Bonds and in the Resolution.

### **State Audit**

Additionally, pursuant to a request from the co-chairs of the Legislative Audit Committee, the Texas State Auditor's Office is auditing the Department. The audit objectives are to determine whether the Department's process for budget forecasting produces accurate and complete financial information, including budget variance reporting. The audit is not scheduled to be released until Fall 2008.

## **INVESTMENT CONSIDERATIONS**

*The Commission's ability to pay principal of and interest on the Bonds depends upon numerous factors, many of which are not subject to the control of the Commission or the Department. Described below are certain factors that could materially adversely affect the ability of the Commission to pay debt service on the Bonds.*

### **Limited Obligations**

The Bonds are limited obligations of the Commission, payable from and secured by a lien on, pledge of and security interest in the Pledged Revenues on an equal and ratable basis with the outstanding First Tier Senior Obligations and any additional First Tier Senior Obligations issued in the future in accordance with the provisions of the Resolution. Neither the State, the Commission, the Department, nor any other agency or political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the Bonds except from the Pledged Revenues and certain funds created under the Resolution. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Commission and the Department have no taxing power. See "THE BONDS - Source of Payment for Bonds" and APPENDIX A - "DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION" for a further discussion of limitations as to the source for payment of the Bonds.

### **External Conditions Affecting Pledged Revenues**

A significant portion of the Pledged Revenues is dependent on a number of economic, demographic and environmental factors. A significant portion of such Pledged Revenues is comprised of revenues from federal and State motor fuel taxes and State motor vehicle registration fees, which may fluctuate based on, among other things, the condition of the State and national economies, population growth, income and employment levels, levels of tourism, weather conditions, environmental regulation (including adverse impacts resulting from designation of large population centers within the State as non-attainment areas that do not meet federal Clean Air Act standards), fuel prices, road conditions, the availability of alternate modes of transportation and the development of alternative fuel vehicles and more fuel efficient vehicles. There can be no assurance that downturns in any of the numerous factors affecting these revenues will not significantly affect the future level of Pledged Revenues. See "GENERAL

INFORMATION REGARDING THE STATE OF TEXAS” for reference to certain economic and demographic information that relates to some of these factors.

### **Factors Affecting Federal Transportation Program Funds**

The federal transportation program funds to be deposited into the Fund have historically been authorized under multiple-year authorizing legislation. Congress passed SAFETEA-LU on July 29, 2005, a multi-year extension through September 30, 2009, which was signed into law by the President on August 10, 2005. SAFETEA-LU replaced the previous six-year authorizing legislation which expired on September 30, 2003. SAFETEA-LU also reauthorized the collection of federal gasoline excise taxes and other taxes generating revenues to the HTF through the federal fiscal year ending September 30, 2011.

SAFETEA-LU contains certain provisions designed to provide continuity in the flow of federal transportation program funds to the states, including the State. There can be no assurances that such measures will be continued under any future federal reauthorization or that, if continued, such measures will be sufficient to ensure that federal transportation program funds will be available as needed if in the future Congress amends existing laws or fails to reauthorize expired transportation legislation, or if future legislation or federal administrative action reduces the amount of federal transportation program funds available to the Commission. SAFETEA-LU has been subject to federal rescission of funds enacted by federal law in federal fiscal years 2006 and 2007 which reduced funding under SAFETEA-LU in the approximate amounts of \$3.8 billion and \$4.3 billion, respectively. Texas’ share of such rescissions was \$305,094,345 and \$360,834,408 for federal fiscal years 2006 and 2007, respectively.

There can be no assurances that there will not be future federal rescission of funds or other changes in law, regulation, policy, or the availability of revenues at the federal level which may materially adversely affect the future availability of federal transportation program funds. See “THE STATE HIGHWAY FUND - Sources of Revenue in the Fund - *Federal Funds*” and APPENDIX C - “INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS.”

### **Potential Legislative Changes to Pledged Revenues**

Although Section 49-n provides that the dedication or appropriation of revenue to the credit of the Fund may not be modified so as to impair any outstanding bonds (including the Bonds) or other public securities secured by a pledge of revenues in the Fund unless provisions have been made for a full discharge of such securities, the extent to which this provision proscribes the authority of the Legislature to alter or otherwise redirect revenues currently deposited into the Fund is unclear. In any case, Section 49-n prevents the Legislature from altering or otherwise redirecting those revenues currently deposited into the Fund pursuant to constitutional provision in a manner that would prevent the payment of debt service on the Bonds and any additional Senior Obligations.

In the 1998-1999 biennium, the Legislature, for State budget balancing purposes, delayed until fiscal year 2000 the deposit and recognition of two months (i.e., \$336.8 million) of State motor fuels tax revenues that normally would have been deposited in the Fund and recognized in fiscal year 1999. While this action of the Legislature occurred prior to the adoption of Section 49-n, when no Senior Obligations were outstanding and while such revenues were ultimately deposited into the Fund, there can be no assurances that the Legislature will not attempt to delay the deposit and recognition of all or a portion of revenues to the credit of the Fund for some period of time. The Commission has been granted the authority to issue certain obligations for cash flow management purposes which could be utilized to mitigate the effect of any similar future action. See “THE STATE HIGHWAY FUND - Subordinate Obligations - *Cash Flow Financing Programs*.”

### **Appropriations from the Fund**

Section 7-a provides that the revenues dedicated by such provision to the Fund shall be used, in part, for the policing of public roadways and for the administration of such laws pertaining to the supervision of traffic and safety on such roads. Pursuant to such authority, the Legislature appropriates moneys from the Fund to fund certain costs of DPS, the state police of the State. For fiscal years 2008 and 2009, \$658.3 million and \$619.8 million, respectively, has been appropriated from the Fund to DPS. While the Bonds have a prior lien and security interest on the Fund, under certain circumstances, State law may be interpreted to allow the State to impair the obligation of contracts in a valid exercise of the State's inherent police powers. Assuming the application of such law, there can

be no assurances given as to the enforceability of any lien or security interest on the Fund created by the Texas Constitution, statute or the Resolution in favor of the Bonds which might impair or impede any current or future appropriation from the Fund for DPS.

The Legislature has directed certain non-Dedicated Revenue sources from the Fund to pay a portion of the costs of the Texas Emissions Reduction Plan, beginning in fiscal year 2009 through fiscal year 2015. For fiscal years 2009 through 2015, the Department estimates the annual payment from the Fund to the Texas Emissions Reduction Plan to be \$96.4 million increasing to \$112 million. In addition, the Legislature has appropriated monies from the Fund for various smaller programs. For fiscal years 2008 and 2009, \$212.3 million and \$212.6 million, respectively, has been appropriated from the Fund to the other smaller programs. There can be no assurances that the Legislature will not increase or extend such funding requirements or otherwise appropriate monies from the non-Dedicated Revenue portion of the Fund to other purposes.

### **Additional Obligations**

In addition to the outstanding Previously Issued First Tier Senior Obligations and the Bonds, the Resolution permits the issuance of additional Senior Obligations and Subordinate Obligations secured by or payable from the Pledged Revenues. The Commission also has a number of other non-debt Subordinate Obligations which are payable from the Fund, including certain toll equity agreements, pass-through toll agreements and other obligations. The Commission expects to enter into additional Senior Obligations and Subordinate Obligations in the future. See "THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations," "- Issuance of Subordinate Obligations," "THE STATE HIGHWAY FUND - General," "- Uses of the Fund" and "- Subordinate Obligations."

### **Forward-Looking Statements**

The statements contained in this Official Statement, and in any other information provided by the Commission or the Department, that are not purely historical, are forward-looking statements, including statements regarding the Commission's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Commission or the Department on the date hereof, and neither the Commission or the Department assume any obligation to update any such forward-looking statements except as may be required in its continuing disclosure agreement. The Commission's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherent subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions of future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Commission. Any of such assumptions could be inaccurate and, therefore, there can be no assurances that the forward-looking statements included in this Official Statement will prove to be accurate.

### **GENERAL INFORMATION REGARDING THE STATE OF TEXAS**

The May 2008 Bond Appendix is prepared by the Comptroller and provides general and financial information regarding the State. Such document is currently on file with each NRMSIR and the Texas SID and may also be obtained from the Comptroller's web site at <http://www.cpa.state.tx.us/treasops/bondapp.html>.

**THE MAY 2008 BOND APPENDIX IS FOR THE SOLE PURPOSE OF PROVIDING ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE. NEITHER THE STATE, NOR ANY AGENCY, POLITICAL CORPORATION, OR POLITICAL SUBDIVISION OF THE STATE IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS, OTHER THAN AS PROVIDED IN THE RESOLUTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER**

## **OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.**

### **RATINGS**

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and Moody's Investors Service, Inc. have assigned ratings of "AAA" and "Aa1," respectively, to the Bonds. An explanation of the significance of the ratings may be obtained from the respective rating agency. The ratings reflect only the views of such organizations at the time the ratings were given, and the Commission makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all of such companies, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

### **TAX EXEMPTION**

In the opinion of Andrews Kurth LLP, Austin, Texas, Bond Counsel, interest on the Bonds is (i) excludable under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), from gross income of the owners thereof for federal income tax purposes and (ii) is not includable in the alternative minimum taxable income of individuals or corporations, except as described below.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Bonds. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the Commission with certain covenants set forth in the Resolution authorizing the issuance of the Bonds and in the related federal tax certificates; and has relied on representations by the Commission with respect to matters solely within the knowledge of the Commission, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Bond proceeds and any facilities financed therewith, the source of repayment of the Bonds, the investment of Bond proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Bond proceeds and certain other amounts be paid periodically to the United States and that the Commission file an information report with the Internal Revenue Service (the "Service"). If the Commission should fail to comply with the covenants in the Resolution, or if their representations relating to the Bonds that are contained in the Resolution should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings, and court decisions and the representations and covenants of the Commission described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Commission as the "taxpayer," and

the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Commission may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

### **TAX TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS**

The Bonds were offered at initial offering prices which exceed the stated redemption prices payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering prices for the Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

### **THE BONDS AS LEGAL INVESTMENTS IN TEXAS**

Under State law, obligations such as the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. The Bonds are also eligible to secure deposits of any public funds of the State, its agencies, and political subdivisions, and are lawful and sufficient security for those deposits to the extent of their market value. For political subdivisions in the State that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may need to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATINGS" herein.

The Commission has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes.

The Commission has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

## LITIGATION

There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Commission, threatened) that affects the obligation of the Commission to deliver the Bonds or the validity of the Bonds. There is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Department threatened) against or affecting the State or any of its agencies or instrumentalities (nor to the best of the knowledge of the Department is there is any basis therefor) that (i) affects the existence of the Commission or the right of the present commissioners and officers of the Department to hold their offices, (ii) affects the validity or enforceability of the provisions pursuant to which the Bonds are being issued, or (iii) would have a material adverse effect upon the power of the Commission to issue the Bonds.

## CONTINUING DISCLOSURE OF INFORMATION

### Continuing Disclosure Undertaking of the Commission

**General.** In the Fourth Supplemental Resolution, the Commission has agreed to provide certain updated financial information and operating data annually and timely notice of specified material events for the benefit of the Owners and beneficial owners of the Bonds. The Commission is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

**Annual Reports.** The Commission will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes Table 1, Tables 3 through 12 and unaudited financial statements of the Department reflected in APPENDIX B hereto. The Commission will update and provide this information within 180 days after the end of each fiscal year ending in or after 2009. The Commission will provide the updated information to each nationally recognized municipal securities information repository (a "NRMSIR") and to any state information depository (a "SID") that is designated by the State and approved by the staff of the United States Securities Exchange Commission (the "SEC").

The Commission reserves the right to commission an audit of the financial statements of the Department reflected in APPENDIX B and, if so, the Commission will provide such audited financial statements if such audit is completed within the period in which they must be provided. However, the Commission does not intend to commission any audit of the Department's financial statements. In the event that the Commission does elect to commission an audit of the Department's financial statements, the Commission shall provide such audited financial statements for the applicable fiscal year to each NRMSIR and any SID, when and if such audit report on such statements becomes available.

The Commission may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial information, if the Commission requests an audit and it is completed by the required time. Any such financial information will be prepared in accordance with generally accepted accounting principles for governmental entities or such other accounting principles as the Commission may be required to employ from time to time pursuant to State law or regulation.

The Commission's current fiscal year end is August 31. Accordingly, it must provide updated information within 180 days thereof unless the Commission changes its fiscal year. If the Commission changes its fiscal year, it will notify each NRMSIR and any SID of the change.

**Material Event Notices.** The Commission will also provide timely notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit facilities reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events

affecting the tax-exempt status of the Bonds; (vii) modifications to rights of holders of the Bonds; (viii) Bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes. In addition, the Commission will provide timely notice of any failure by the Commission to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.” The Commission will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”).

### **Availability of Information from NRMSIRs and SID**

The Commission has agreed to provide the foregoing information only to NRMSIRs and any SID, and expects to provide such information through DisclosureUSA, as described below. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas (the “MAC”) has been designated by the State as a SID and recognized by the SEC as a qualified SID. The address of the MAC is 600 West Eighth Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

The MAC has also received SEC approval to operate, and operates, a “central post office” for information filings made by municipal issuers, such as the Commission. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at [www.DisclosureUSA.com](http://www.DisclosureUSA.com). Any filing by the Commission may be made solely by transmitting such filing to the MAC as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004. The Commission intends to utilize DisclosureUSA for the filing of secondary market disclosure filings relating to the Bonds, but may discontinue making such filings through DisclosureUSA and utilize any other method of filing permitted by federal securities law at any time.

### **Limitations and Amendments**

The Commission has agreed to update information and to provide notices of material events only as described above. The Commission has not agreed to provide other information that may be relevant or material to a complete presentation of the Commission's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Commission makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Commission disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to such agreement, although holders of Bonds may seek a writ of mandamus to compel the Commission to comply with its agreements.

The Commission may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Commission if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the SEC Rule 15c2-12 and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Commission (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the Commission so amends its agreement, the Commission must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

### **Compliance with Prior Undertakings**

During the last five years, the Commission has complied in all material respects with its continuing disclosure agreements to which it is a party in accordance with the SEC Rule 15c2-12.

## **UNDERWRITING**

Morgan Keegan & Company, Inc., as representative of the Underwriters set forth on the cover of this Official Statement, has agreed, subject to certain conditions set forth in a bond purchase agreement with the Commission, to purchase the Bonds at a price of \$172,199,056.64 (which represents the par amount of the Bonds, plus an original issue premium of \$9,799,615.00, less an underwriting discount of \$595,558.36). The bond purchase agreement pertaining to the Bonds provides that the Underwriters will purchase all of the Bonds, if any are purchased.

## **FINANCIAL ADVISOR**

RBC Capital Markets Corporation is employed as Financial Advisor to the Commission in connection with the issuance of the Bonds.

Although the Financial Advisor has read and participated in the preparation of this Official Statement, it has not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the Commission's and the Department's records and from other sources which are believed to be reliable. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Financial Advisor as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

## **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2), and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Commission assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

## **LEGAL MATTERS**

Legal matters incident to the authorization, issuance, and sale of the Bonds by the Commission are subject to the unqualified approving opinions of the Attorney General of the State and the approval of certain legal matters by Andrews Kurth LLP, Bond Counsel. The compensation paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the delivery of the Bonds. Bond Counsel's approving opinion will be rendered in substantially the form attached to this Official Statement as APPENDIX D.

Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that in its capacity as Bond Counsel, such firm has reviewed the information in the Official Statement under the captions "THE BONDS" (except for the information contained under the subcaption "Bondowners' Remedies"), "DESCRIPTION OF THE TRANSACTION DOCUMENTS," "TAX EXEMPTION," "TAX TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS," "THE BONDS AS LEGAL INVESTMENTS IN TEXAS," "CONTINUING DISCLOSURE OF INFORMATION (except for the information contained under the subcaption "Compliance with Prior Undertakings")," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL MATTERS" and APPENDIX A - "DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION" to verify that the information relating to the Bonds and the Transaction Documents contained under such captions in all respects accurately and fairly reflects the provisions thereof and, insofar as such information relates to matters of law, is true and accurate. In connection with the transactions described herein, Bond Counsel and Greenberg Traurig, LLP, Disclosure Counsel, represent only the Commission. The legal opinion of Bond Counsel in the form set forth in APPENDIX D will accompany the Bonds deposited with DTC. Certain legal matters will be passed upon for the Commission by Disclosure Counsel and the General Counsel of the Commission. Certain legal matters will be passed upon for the Underwriters by their counsel, Bates & Coleman, P.C.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the transaction opined upon or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### MISCELLANEOUS

References in this Official Statement to particular laws do not purport to be a complete statement or to describe all of the provisions thereof and in each case are qualified by reference to the entire law, a copy of which will be furnished by the Commission on request.

This Official Statement has been approved by the Commission.

TEXAS TRANSPORTATION COMMISSION

By: /s/ James M. Bass  
Chief Financial Officer  
Texas Department of Transportation

## APPENDIX A

### DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION

The following are excerpts of certain provisions of the Master Resolution, as amended, and the Fourth Supplemental Resolution. Such excerpts do not purport to be complete or verbatim and reference should be made to the Master Resolution and the Fourth Supplemental Resolution, respectively, for the entirety thereof. Copies of the Master Resolution and the Fourth Supplemental Resolution are available upon request to the Commission.

The following capitalized terms appearing in this Official Statement have the meanings set forth below, unless the context otherwise requires. A reference to any of these terms in the singular number includes the plural and vice versa.

#### **Excerpted Definitions from the Master Resolution and the Fourth Supplemental Resolution**

*“Additional Security”* means any credit enhancement for specified Senior Obligations and any funds received or obligations payable to the Commission, other than Pledged Revenues, which the Commission chooses to include as security for specified Senior Obligations pursuant to a Supplemental Resolution, as provided in Section 308.

*“Annual Debt Service Requirements”* means, for any Fiscal Year, (i) the principal of, premium, if any, and interest on all Senior Obligations coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof or be payable in respect of any required purchase of such Senior Obligation by the Commission or the Department, other than by acceleration or other demand conditioned upon default, non-performance or untimely performance by the Commission or the Department) and (ii) all other payments required to be made by the Commission under each Senior Obligation (net of any credits or deductions as provided in (7) below) in such Fiscal Year (other than payments that result from or are conditioned upon unscheduled termination, default, non-performance or untimely performance by the Commission or the Department), and, for such purposes, any one or more of the following rules shall apply at the election of the Commission (which may be exercised by an Authorized Representative or Designated Financial Officer); provided, however, that this definition shall never be applied in a manner which results in Annual Debt Service Requirements for any Fiscal Year being an amount that is less than the aggregate amount actually required to be paid in such Fiscal Year with respect to Outstanding Senior Obligations:

(1) Committed Take Out. If the Commission has entered into (a) a Credit Agreement constituting a Senior Obligation and constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to discharge any of its Long-Term Obligations at their Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Long-Term Obligations at any date on which such debt is subject to required purchase, all pursuant to arrangements whereby the Commission's obligation to repay the amounts advanced for such discharge or purchase constitutes a Long-Term Obligation or (b) a bond purchase contract or similar agreement constituting a binding commitment within normal commercial practice to deliver any Obligation to an underwriter or other purchaser of investment securities or municipal debt for the purpose of discharging any Outstanding Senior Obligation, then the portion of the Long-Term Obligation committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Long-Term Obligation incurred or to be incurred for such discharge or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity, purchase date or date of discharge of the Long-Term Obligation to be discharged or purchased, shall be added to such calculation, and the remaining provisions of this definition shall be applied to such added Long-Term Obligation;

(2) Balloon Obligation. If the principal, including the accretion of interest resulting from original issue discount or compounding of interest (collectively, “Principal”), of any series or issue of Long-Term Obligations due (or payable in respect of any required purchase of such Long-Term Obligations by the Commission) in any Fiscal Year either is equal to at least twenty-five percent (25%) of the total principal of such Long-Term Obligation or exceeds by more than fifty percent (50%) the greatest amount of Principal of such series or issue of Long-Term Obligations due in any preceding or succeeding Fiscal Year (such Principal due in such Fiscal Year for such series or issue of Long-Term Obligations being referred to herein as “Balloon Obligation”), the amount of principal of such Balloon Obligation taken into account during any Fiscal Year shall be equal to the debt service calculated using the principal of such Balloon Obligation amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Obligation on the date of calculation;

(3) Funded Sinking Fund. In the case of a Balloon Obligation (as defined in clause (2) above), if an Authorized Representative or a Designated Financial Officer shall deliver to the Commission an Officer's Certificate providing for the retirement of (and the instrument creating such Balloon Obligation shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Obligation shall permit the accumulation of a sinking fund for), such Balloon Obligation according to a fixed schedule stated in such Officer's Certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other payments due on) such Balloon Obligation shall be computed as if the same were due in accordance with such schedule; provided, that this clause (3) shall apply only to a Balloon Obligation for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such obligation on or before the times required by such schedule; and, provided further, that this clause (3) shall not apply where the Commission has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Obligation. Principal of, premium, if any, and interest on Senior Obligations, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, if any, or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including, without limitation, capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Senior Obligation;

(5) Variable Rate. As to any Senior Obligation that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirements, at the election of the Commission, the interest rate for such Senior Obligation shall be determined to be one of the following: (i) an interest rate equal to the average rate borne by such Senior Obligation (or by comparable debt in the event that such Senior Obligation has not been outstanding during the preceding twenty-four (24) months) for any twenty-four (24) month period ending within thirty (30) days prior to the date of calculation, (ii) if the Senior Obligation bears interest at tax-exempt rates, an interest rate equal to the twenty-four (24) month average of the Bond Market Association Bond Index (as most recently published in The Bond Buyer), unless such index is no longer published in The Bond Buyer, in which case the index to be used in its place shall be that index which the Commission (acting through an Authorized Representative or Designated Financial Officer) determines most clearly replicates such index as set forth in an Officer's Certificate, (iii) if the Senior Obligation bears interest at taxable rates, an interest rate equal to the rate of the thirty (30) day London Interbank Offered Rate, or (iv) that interest rate which, in the judgment of a Designated Financial Officer, based, to the extent possible, upon an accepted market index which corresponds with the provisions of the subject Senior Obligation, is the average rate anticipated to be in effect with respect to such Senior Obligation;

(6) Short-Term Obligations. Notwithstanding anything in the foregoing to the contrary, with respect to any Senior Obligation issued as a Short-Term Obligation, the debt service on such Senior Obligation shall be calculated assuming that such Senior Obligation will be refunded and refinanced to mature over a 20-year period with level debt service requirements and bearing interest at then current market rates; provided, however, that if in the judgment of a Designated Financial Officer, as set forth in an Officer's Certificate, the result of the foregoing calculation is inconsistent with the reasonable expectations of the Commission, the interest on such Senior Obligation shall be calculated in the manner provided in clause (5) of this definition and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition; and

(7) Credit Agreement. If the Commission has entered into a Credit Agreement in connection with an issue of Senior Obligations, non-contingent payments due under any such Credit Agreement from either the Commission (other than payments for fees and expenses that are not deemed to be Senior Obligations) or the provider of the Credit Agreement shall be included in such calculation, except to the extent that such payments are already taken into account under clauses (1) through (6) above. Non-contingent payments due under any Senior Obligation that are otherwise included under clauses (1) through (6) above shall be excluded from such calculation to the extent that such payments are to be replaced by non-contingent payments under a Credit Agreement (from either the Commission or the provider of the Credit Agreement). Together with the certificate delivered pursuant to Section 402(a), a Designated Financial Officer shall provide a written statement concerning (i) the determination whether such non-contingent payments under a Credit Agreement are already taken into account under clauses (1) through (6) or whether payments under clauses (1) through (6) are to be replaced by non-contingent payments under a Credit Agreement and (ii) the basis for such determination, together with any schedules or formulas deemed

necessary or appropriate to support such explanation and to demonstrate the extent to which such non-contingent payments under the Credit Agreement will be taken into account under clauses (1) through (6) and/or the extent to which payments under clauses (1) through (6) will be replaced by non-contingent payments under a Credit Agreement.

“*Authorized Denominations*” means, unless otherwise provided in the Award Certificate, \$5,000 or any integral multiple thereof.

“*Authorized Representative*” means the Executive Director of the Department, each Deputy Executive Director of the Department and each Assistant Executive Director of the Department, or such other individuals so designated by the Commission to perform the duties of an Authorized Representative under this Resolution.

“*Bonds*” means the Bonds issued in one or more Series pursuant to and governed by the Fourth Supplement, as described in Article III hereof and in the Award Certificate.

“*Business Day*” means any day other than a Saturday or a Sunday or a day on which banking institutions are required or authorized by law or executive order to remain closed in the State or the City of New York or in the city in which the designated office of the Paying Agent/Registrar or the Securities Depository is located; provided, however, such term may have a different meaning for purposes of a Credit Facility.

“*Chapter 162*” means Chapter 162, Texas Tax Code, as amended, or any successor or supplemental statutory provision relating to the subject matter thereof.

“*Chapter 502*” means Chapter 502, Texas Transportation Code, as amended, or any successor or supplemental statutory provision relating to the subject matter thereof.

“*Chapter 1371*” means Chapter 1371, Texas Government Code, as amended, or any successor or supplemental statutory provision relating to the subject matter thereof.

“*Commission*” means the Texas Transportation Commission and its successors and assigns.

“*Comptroller*” means the Comptroller of Public Accounts of the State.

“*Constitutional Provision*” means Article III, Section 49-n of the Texas Constitution, relating to the issuance of bonds and other public securities payable from revenue deposited to the credit of the State Highway Fund.

“*Cost*” means, any financial commitment or agreement to pay money incurred or arising in connection with or related to an Obligation, including commitments or agreements (i) to pay or reimburse principal, premium or interest in respect of a public security or other obligation, (ii) to pay amounts owed in connection with or related to Credit Agreements (including scheduled payments, termination payments and other commitments to pay money arising under or pursuant to a swap or other derivative or hedging agreement) or to reimburse payments of others in connection therewith or related thereto, and (iii) to pay or reimburse any fees or expenses of a Fiscal Agent or other agent retained in connection with or related to any Obligation. For the avoidance of doubt, all Annual Debt Service Requirements constitute “Costs”.

“*Credit Agreement*” means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitment to purchase an Obligation, purchase or sale agreement, interest rate swap, cap and/or floor agreement or commitment, or other contract or agreement authorized, recognized, and approved by the Commission as a Credit Agreement in connection with the authorization, issuance, sale, resale, security, exchange, payment, purchase, remarketing, or redemption of an Obligation, the interest on an Obligation, or both. The use of such definition is not intended to preclude the Commission or the Department from providing the credit or liquidity support with respect to Senior Obligations directly rather than through a financial or insurance institution.

“*Dedicated Federal Revenues*” means all revenues received from the federal government as reimbursement of State expenditures of funds that are themselves dedicated pursuant to Section 7-a.

*“Dedicated Registration Fees”* means revenues derived from the motor vehicle registration fees dedicated by Section 7-a for the sole purpose of acquiring rights-of-way, constructing, maintaining, and policing public roadways, and for the administration of such laws as may be prescribed by the State Legislature pertaining to the supervision of traffic and safety on such roads, which are deposited into the State Highway Fund pursuant to Chapter 502 or other applicable law.

*“Dedicated Revenues”* means, collectively, Dedicated Federal Revenues, Dedicated Registration Fees and Dedicated Taxes, together with any interest or earnings derived from the investment of such revenues.

*“Dedicated Taxes”* means revenues derived from taxes on motor fuels and lubricants dedicated by Section 7-a for the sole purpose of acquiring rights-of-way, constructing, maintaining, and policing public roadways, and for the administration of such laws as may be prescribed by the State legislature pertaining to the supervision of traffic and safety on such roads, which are deposited into the State Highway Fund pursuant to Subchapter F of Chapter 162 or other applicable law.

*“Defeasance Securities”* means (a) Government Obligations, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Commission adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

*“Defeased Obligation”* means any Obligation and the interest thereon deemed to be paid, retired, and no longer Outstanding pursuant to the provisions of the applicable Supplemental Resolution (or, in the case of Obligations other than Senior Obligations, the applicable resolution or order authorizing such Obligation); and thus, no longer secured by, payable from, or entitled to the benefits of the Pledged Revenues (or, in the case of Obligations other than Senior Obligations, no longer secured by, payable from, or entitled to the benefits of the State Highway Fund Revenues).

*“Department”* means the Texas Department of Transportation or its successors.

*“Department Representative”* means an Authorized Representative or a Designated Financial Officer.

*“Designated Financial Officer”* means the Chief Financial Officer of the Department, the Deputy Director of the Finance Division of the Department, the Debt Management Director of the Department or such other officer or employee of the Department so designated by the Commission to perform the duties of a Designated Financial Officer under this Supplemental Resolution.

*“Enabling Act”* means Section 222.003, Texas Transportation Code, as amended, or any successor or supplemental statutory provision relating to the subject matter thereof.

*“Excluded Amounts”* means moneys and investments deposited in, or appropriated or dedicated by law for deposit into, any Excluded Fund, and such amounts, once deposited to any Excluded Fund, shall no longer constitute Pledged Revenues or be considered State Highway Fund Revenues but shall be held and administered solely in the manner provided by the law or the order or resolution providing for or authorizing the creation of such Excluded Fund.

*“Excluded Funds”* means (i) the State Infrastructure Bank Account and each Proceeds Fund, Interest and Sinking Fund, Reserve Fund and Rebate Fund and (ii) any special fund, subfund, account or subaccount in the State Highway Fund created for the purpose of receiving, holding and administering Restricted Revenues.

*“First Tier Senior Obligation”* means the Series 2006 Bonds, the Series 2006-A Bonds, the Series 2006-B Bonds, the Series 2007 Bonds and any Senior Obligation incurred pursuant to this Master Resolution on a parity therewith.

*“First Tier Senior Obligation Debt Service Fund”* means the special fund or account established for First Tier Senior Obligations pursuant to Section 302 of the Master Resolution.

“*Fiscal Agent*” means any fiscal agent, issuing agent, paying agent, remarketing agent, auction agent, market agent, broker-dealer, trustee, custodian or other similar agent or financial institution appointed pursuant to a Supplemental Resolution (and may include the Comptroller) serving in one or more of such or similar capacities in accordance with such Supplemental Resolution.

“*Fiscal Year*” means the fiscal year of the Department, currently the period commencing on the first day of September and ending on the last day of August of the following year.

“*Government Obligations*” means direct obligations of, or obligations the principal or interest on which are unconditionally guaranteed by, the United States (including interest strips of the Resolution Funding Corporation).

“*Interest and Sinking Fund*” means any special fund, account or subaccount in the State Highway Fund created for the purpose of receiving, holding and administering amounts for the payment of Costs of any Obligation.

“*Long-Term Obligation*” means all Senior Obligations created, assumed, or guaranteed by the Commission that mature by their terms (in the absence of the exercise of any earlier right of demand), or are renewable at the option of the Commission to a date, more than one (1) year after the original creation, assumption, or guarantee of such Senior Obligation by the Commission.

“*Maturity*” when used with respect to any Obligation means the date on which the principal of such Obligation or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof, by call for redemption, or otherwise.

“*Maximum Allowable Debt Service*” means: (a) with respect to First Tier Senior Obligations, an amount that is equal to twenty-five percent (25%) of the State Highway Fund Revenues deposited in the State Highway Fund pursuant to the State Highway Fund Revenue Laws in (i) the immediately preceding Fiscal Year or (ii) any period of twelve (12) consecutive months that begins no more than eighteen (18) months before the date on which Senior Obligations are to be issued or effective, as determined by a Designated Financial Officer; and (b) with respect to other Tiers, such amount as shall be established by the Commission at the time Senior Obligations of such Tier are initially issued or otherwise incurred. In determining the amount of State Highway Fund Revenues deposited during any twelve (12) month period, such amount may be adjusted to reflect any increase in State Highway Fund Revenues that a Designated Financial Officer certifies is expected to result from any adjustment to the amounts dedicated or appropriated to the State Highway Fund which is placed into effect following the commencement of such period as if such adjustment had been in effect for the entire twelve (12) month period.

“*Obligation*” means any indebtedness, commitment or other agreement of the Commission or the Department payable (in whole or in part, in which event “Obligation” refers only to the applicable part) from State Highway Fund Revenues, including without limitation any obligation of the Department or the Commission under any bond, note, lease, or Credit Agreement. For the purpose of determining the “Obligations” of the Commission, only outstanding Obligations shall be included.

“*Officer's Certificate*” means a certificate signed by an Authorized Representative or a Designated Financial Officer, as applicable.

“*Outstanding*” or “*outstanding*” means, in connection with Senior Obligations, all Senior Obligations that have been executed and delivered under this Master Resolution, and, in connection with other Obligations, all such Obligations that have been duly executed and delivered under the order or resolution authorizing their execution and delivery, except:

- (a) Obligations theretofore canceled or delivered to a Fiscal Agent for cancellation;
- (b) Obligations that are deemed to be Defeased Obligations;
- (c) Obligations upon transfer of or in exchange for and in lieu of which other Obligations have been executed and delivered pursuant to this Master Resolution or any Supplemental Resolution; and
- (d) Obligations under which the obligations of the Commission have been released, discharged or extinguished in accordance with the terms thereof.

In determining whether the Secured Owners (or owners, as applicable) of a requisite aggregate principal amount of Obligations have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions hereof, Obligations that are held by or on behalf of the Commission (unless, with respect to Senior Obligations, all of the Outstanding Senior Obligations are then owned by the Commission) shall be disregarded for the purpose of any such determination.

“*Owner*” means the Person in whose name the Series 2007 Bonds are registered on the security register maintained by the Paying Agent/Registrar.

“*Payment Date*” means, with respect to each Senior Obligation, the earlier of (a) the date on which the payment of a Cost is due and payable in connection with such Senior Obligation or (b) the date on which money is required to be transferred to or deposited in any fund or account established to secure or provide for the payment of Costs of such Senior Obligation, as provided by the terms thereof and the related Supplemental Resolution. The Payment Date for the Series of Bonds described in the body of this Official Statement is the third (3rd) Business Day next preceding each Principal Payment Date and Interest Payment Date, which is the date on which money will be transferred to the Paying Agent/Registrar for deposit to the First Tier Senior Obligation Debt Service Fund.

“*Permitted Investments*” means any security or obligation or combination thereof permitted under State law, including Section 404.024, Texas Government Code, as amended.

“*Person*” means an individual, public body, corporation, partnership, association, joint stock company, trust and any unincorporated organization.

“*Pledged Revenues*” means State Highway Fund Revenues deposited to the credit of the State Highway Fund and such additional moneys as may in the future be authorized by law to be pledged as security, and are so pledged pursuant to a Supplemental Resolution, as security for Senior Obligations.

“*Proceeds Fund*” means any special fund, account or subaccount in the State Highway Fund created for the purpose of receiving, holding and administering the proceeds of Obligations, including any bond proceeds fund and any fund, account or subaccount created pursuant to an order or resolution of the Commission providing for the issuance of a series, issue or installment of Subordinate Obligations.

“*Rebate Fund*” means any special fund, account or subaccount in the State Highway Fund created for the purpose of receiving, holding and administering amounts for payment to the government of the United States in respect of “arbitrage rebate” under Section 148(a) of the Code.

“*Reserve Fund*” means any special reserve or contingency fund, account or subaccount in the State Highway Fund created for the purpose of paying or securing any particular series, issue or installment of Obligations or any specific group of series, issues or installments of Obligations.

“*Restricted Revenues*” means revenues that are restricted as to use by (i) the laws of the State or federal law or (ii) contract or agreement controlling the receipt, disposition or payment of such revenues; provided, however, that Dedicated Revenues shall not constitute Restricted Revenues.

“*Safety Project*” means a project that reduces accidents or corrects or improves hazardous locations, as determined in accordance with 43 TAC § 15.174, or such other rule as the Commission may prescribe from time to time pursuant to the Enabling Act.

“*Section 7-a*” means Article VIII, Section 7-a of the Texas Constitution.

“*Section 7-b*” means Article VIII, Section 7-b of the Texas Constitution.

“*Secured Owner*” means each Person who is the holder of a bond, note or other public security or other obligation or evidence of indebtedness that is a Senior Obligation or who is a counterparty to a Credit Agreement or other contract or agreement that is, in whole or in part, a Senior Obligation.

“*Senior Obligation Debt Service Fund*” means the fund or funds created by Section 302 to secure payment of Senior Obligations.

“*Senior Obligations*” means all Obligations (or the applicable portion thereof, as the case may be), to the extent the same are issued or otherwise incurred as Senior Obligations pursuant to this Master Resolution (including First Tier Senior Obligations and Senior Obligations that are junior to First Tier Senior Obligations) and includes all obligations of the Commission owed to Secured Owners of Senior Obligations.

“*Series*” means a separate series or installment of Bonds as specified by or pursuant to the terms of the Fourth Supplement.

“*Series 2006 Bonds*” means the Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006, authorized by the First Supplemental Resolution.

“*Series 2006-A Bonds*” means the Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006-A, authorized by the Second Supplemental Resolution.

“*Series 2006-B Bonds*” means the Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate Bonds), authorized by the Third Supplemental Resolution.

“*Series 2007 Bonds*” means the Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2007, authorized by the Fourth Supplemental Resolution.

“*Short-Term Obligation*” means all Obligations that mature in less than 365 days. In the event a bank or other Person has extended a line of credit or the Commission has undertaken a commercial paper or similar program, only amounts actually borrowed under such line of credit or program and repayable in less than 365 days shall be considered Short-Term Obligations and the full amount of such commitment or program shall not be treated as Short-Term Obligations to the extent that such facility remains available but undrawn.

“*State*” means the State of Texas.

“*State Highway Fund*” means the fund created and maintained in the treasury of the State and held by the Comptroller for the collection, administration and safekeeping of all revenues dedicated to the uses set forth in Section 7-a and Section 7-b, and any other amounts dedicated or appropriated for deposit in the State treasury to the credit of such fund.

“*State Highway Fund Revenue Laws*” means the laws of the State (including Section 7-a and Section 7-b) providing for the use and collection of fees, taxes and other revenues that are dedicated or appropriated for deposit in the State treasury to the credit of the State Highway Fund, as in effect on the date of adoption of this Master Resolution.

“*State Highway Fund Revenues*” means all revenues (other than Excluded Amounts) deposited in, or appropriated or dedicated by law for deposit into, the State treasury to the credit of the State Highway Fund, including (a) Dedicated Revenues and (b) amounts collected or received pursuant to other State Highway Fund Revenue Laws.

“*State Highway System*” means the system of highways referred to in the Texas Transportation Code as the State Highway System.

“*State Infrastructure Bank Account*” means the account in the State Highway Fund established and administered pursuant to Subchapter D of Chapter 222, Texas Transportation Code.

“*State Legislature*” means the legislative department of the government of the State.

“*Stated Maturity*” when used with respect to any Senior Obligation or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Senior Obligation or such installment of interest as a fixed date on which the principal of such Senior Obligation or any installment thereof or the fixed date on which such installment of interest is due and payable.

“*Subordinate Obligations*” means all Obligations of any kind or class, including bonds, notes, bond anticipation notes, commercial paper, and other public securities, and credit agreements, contracts or other Obligations that are (i) payable from or secured by amounts credited to or held in the State Highway Fund and (ii) not issued or otherwise incurred as Senior Obligations pursuant to this Master Resolution.

“*Supplemental Resolution*” means any resolution (i) approved by (or pursuant to authority conferred by) the Commission (together with any supplements or amendments thereto), now or hereafter duly authorized and entered into in accordance with the provisions of Article IV hereof, approving one or more Senior Obligations, (ii) approved pursuant to Section 307 of this Master Resolution, or (iii) approved pursuant to Article VI of this Master Resolution.

“*Term of Issue*” means with respect to any Balloon Obligation a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Obligation and ending on the final maturity date of such Balloon Obligation or the maximum maturity date in the case of commercial paper or (ii) twenty (20) years.

“*Tier*” means a distinction in the level of lien seniority and payment priority applicable to any Senior Obligation (or the applicable portion thereof, as the case may be), which may be implemented (i) through specific provision in a Supplemental Resolution relating to one or more Senior Obligations issued or otherwise incurred pursuant to such Supplemental Resolution, (ii) through the amendment of this Master Resolution pursuant to Article VI hereof or (iii), to the extent permitted by this Master Resolution, in such other manner as shall be determined by the Commission.

“*United States*” means United States of America.

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### **Excerpted Provisions of the Master Resolution**

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Section 201. Establishment of Financing Program. Pursuant to authority conferred by and in accordance with the provisions of the Constitution and laws of the State, particularly the Constitutional Provision, the Enabling Act and Chapter 1371, the Commission hereby establishes a financing program (referred to herein as the “Financing Program”) to provide funds for any lawful purpose in accordance with the Constitutional Provision and the Enabling Act and to provide a financing structure to facilitate the Commission’s exercise of the powers and authority conferred by the Enabling Act and any other applicable laws through the issuance, execution or delivery of Obligations by the Commission. Obligations issued, executed or delivered by the Commission pursuant to (and secured by the lien established by) this Master Resolution are referred to herein as “Senior Obligations”. Obligations that are not issued, executed or incurred by the Commission pursuant to (or secured by the lien established by) this Master Resolution are generally referred to herein as “Subordinate Obligations.” Prior to the adoption of this Master Resolution and the issuance of the Series 2006 Bonds, no Senior Obligations have been issued, executed or delivered.

Each Senior Obligation (or series or installment of Senior Obligations) shall be issued, executed or delivered pursuant to the terms and conditions contained in a Supplemental Resolution; and each Senior Obligation shall be designated or identified by the Commission or an Authorized Representative in a manner that identifies or describes such Obligation as a Senior Obligation issued, executed or delivered pursuant to this Master Resolution.

Each Supplemental Resolution shall provide for the authorization, terms and any other matters related to the Senior Obligations authorized by such Supplemental Resolution. A Supplemental Resolution may provide for different or additional terms for the Senior Obligations of each series or installment.

Except as provided by (i) the Enabling Act (or such other law as may be enacted hereafter to increase, amend or otherwise alter the limitations and authority currently set forth in the Enabling Act) and (ii) this Master Resolution, no limitation is imposed as to the principal amount, purpose, payment terms or other terms of Senior Obligations that may be issued, executed or delivered under the provisions of this Master Resolution; provided, however, that Senior Obligations shall only be issued, executed or delivered for the purposes authorized by the

Constitutional Provision. In addition, the Commission reserves (for itself and for the Department) the right to issue, execute and deliver Subordinate Obligations at such times and in such amounts as and to the extent authorized by law, including any amendments thereto enacted after the adoption of this Master Resolution.

Section 202. State Highway Fund Revenues Pledged to Secure Senior Obligations.

(a) As provided by the Enabling Act, Senior Obligations shall be limited obligations of the Commission, payable in accordance with their respective terms from a prior lien on, pledge of and security interest in the Pledged Revenues. The Senior Obligations shall constitute a valid claim of the respective Secured Owners thereof against the Pledged Revenues, which are hereby pledged to secure the payment of all Costs incurred as Senior Obligations, and which shall be utilized for no other purpose, except to the extent expressly authorized by this Master Resolution.

(b) Chapter 1208, Texas Government Code, applies to the issuance, execution and delivery of the Senior Obligations and the pledge of, lien on and security interest in the Pledged Revenues granted by the Commission under this Master Resolution, and such pledge of, lien on and security interest in the Pledged Revenues is therefore valid, effective, and perfected. If Texas law is amended at any time while the Senior Obligations are outstanding and unpaid such that the pledge of, lien on and security interest in the Pledged Revenues granted by the Commission under this Master Resolution is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the Secured Owners the perfection of the pledge of, lien on and security interest in the Pledged Revenues, the Commission agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, to perfect such pledge of, lien on and security interest in the Pledged Revenues.

Section 203. Tiers of Senior Obligations to be Ratably Secured.

(a) The Commission reserves the right to establish multiple Tiers with respect to Senior Obligations; provided, however, that no Outstanding Senior Obligation shall be subrogated or made inferior to any other Senior Obligation unless such distinction is implemented through strict compliance with the provisions of this Master Resolution and the applicable Supplemental Resolution(s) relating to such Outstanding Senior Obligation. Until such time as any distinction among Tiers of Senior Obligations is implemented in accordance with the terms of this Master Resolution, all Senior Obligations shall be deemed and treated as First Tier Senior Obligations. The Commission may designate a portion of a Senior Obligation as being of one Tier and another portion of such obligation as being of a different Tier.

(b) Senior Obligations of each Tier issued or otherwise incurred hereunder are, and are to be, to the extent provided in this Master Resolution and the related Supplemental Resolution therefor, equally and ratably secured by the security pledged under this Master Resolution without preference, priority or distinction on account of the series or installment, or the actual time or times of the issuance, execution, authentication, delivery or maturity of the Senior Obligations of such Tier so that all Senior Obligations of the same Tier at any time Outstanding hereunder shall have the same right, lien and preference under and by virtue of this Master Resolution and shall be equally and ratably secured hereby with like effect as if they were of the same series, issue or installment and they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same, or any of them, shall actually be disposed of at such date, or whether they, or any of them, shall be disposed of at some future date. No series, issue or installment of Senior Obligations shall have any right, lien or claim to the security of or payment from any Credit Agreement unless such Credit Agreement is provided to secure or pay such Senior Obligations.

Section 204. State Highway Fund Revenues Used to Pay Subordinate Obligations.

(a) In addition to Senior Obligations, the Commission reserves the right to issue or otherwise incur Subordinate Obligations payable from and, if permitted by law, secured by a lien on and pledge of State Highway Fund Revenues (or any portion thereof), subject to the provisions of this Master Resolution and after provision has been made for the payment of all Senior Obligations in the manner set forth in this Master Resolution.

(b) Prior to the establishment of the Financing Program pursuant to this Master Resolution certain obligations and commitments to pay money or provide funds, which may be payable or paid from State Highway Fund Revenues, have been incurred by the Commission and the Department. In addition, in recognition that (i) the

State Highway Fund has been established by the Legislature, and is maintained and administered, as the general source for payment of a substantial portion of the State's transportation needs (together with numerous other governmental purposes and programs administered by the State) and (ii) the Legislature, the Commission, the Department and certain other agencies of the State have in the past and may in the future look to and utilize the State Highway Fund as a source of funds for the payment of other obligations, commitments and indebtedness incurred or to be incurred (on a subordinate basis and after provision is made for payment of all Senior Obligations hereunder), the Commission hereby acknowledges the right and authority of the Legislature, and reserves for itself and the Department the right and authority, to utilize the State Highway Fund as a source of payment for such other obligations, commitments and indebtedness; provided, however, that payment of any amount owed, and the performance of any obligation incurred, pursuant to any such other obligation, commitment or indebtedness shall be subordinate and inferior to the payment of all Costs incurred as, and the performance of all obligations with respect to, Senior Obligations. Such subordinate obligations, commitments and indebtedness shall be deemed to constitute Subordinate Obligations for purposes of this Master Resolution.

Section 205. Combined Sources of Payment or Security. In addition to Pledged Revenues, Senior Obligations may be further payable from or secured by any other source of payment lawfully available for such purpose.

Section 206. No Pledge of Full Faith and Credit or Taxing Power. Senior Obligations shall not constitute general obligations of the Commission, the Department or the State and (unless authorized or permitted by other authority) under no circumstances shall Senior Obligations be payable from, nor shall the Secured Owners have any rightful claim to, any income, revenues, funds or assets of the Commission, the Department or the State other than those pledged hereunder as security for the payment of the Senior Obligations. Neither the full faith and credit nor the taxing power of the State is pledged to the payment of any Cost related to Senior Obligations.

Section 301. State Highway Fund.

(a) Confirmation and Maintenance of State Highway Fund. The Commission hereby confirms the prior creation by the State Legislature of the State Highway Fund, which is maintained within the State treasury and held by the Comptroller for the collection, administration and safekeeping of all revenues dedicated to the uses set forth in Section 7-a and Section 7-b, and any other amounts dedicated or appropriated for deposit in the State treasury to the credit of the State Highway Fund. In recognition of the fact that the Constitutional Provision and the Enabling Act provide for and authorize the Commission to issue and incur Senior Obligations secured by and payable from revenue deposited to the credit of State Highway Fund, the Commission covenants and agrees that, so long as any Senior Obligation shall remain Outstanding hereunder, (i) except as otherwise provided by subsection (b), it shall collect and deposit, or cause to be collected and deposited, in the State treasury all State Highway Fund Revenues, which deposits shall be made to the credit of the State Highway Fund at such times and in such amounts as provided by the State Highway Fund Revenue Laws and (ii) the State Highway Fund shall be maintained and administered as provided in this Master Resolution in order to provide the source of payment and security for Senior Obligations.

(b) Constitutional Appropriation of State Highway Fund Revenues. Pursuant to the Constitutional Provision, in each Fiscal Year in which amounts become due in respect of the Senior Obligations, there shall be appropriated from State Highway Fund Revenues an amount that is sufficient to pay all Costs related to Senior Obligations that become due during such Fiscal Year.

As provided by the Constitutional Provision and Section 502 of this Master Resolution, any dedication or appropriation of revenue to the credit of the State Highway Fund may not be modified so as to impair any Outstanding Senior Obligation unless provision has been made for a full discharge of such Senior Obligation in accordance with this Master Resolution. In accordance with such provision, all State Highway Fund Revenues will be deposited to the credit of the State Highway Fund; and, during each Fiscal Year in which any Senior Obligation remains Outstanding, State Highway Fund Revenues shall be appropriated for transfer and transferred in such amounts and at such times as provided herein.

(c) Application of Pledged Revenues. Consistent with the pledge of Pledged Revenues on a prior lien basis to secure the Senior Obligations in accordance with their respective terms, Pledged Revenues shall be applied for the following uses and in the order of priority shown:

- (i) First: to the payment of all Costs incurred as First Tier Senior Obligations as, when and to the extent provided by each First Tier Senior Obligation and the related Supplemental Resolution; and
- (ii) Second: to the payment of the amounts required to be deposited and credited to each reserve, contingency or other similar fund or account created and established in accordance with the provisions of any Supplemental Resolution relating to First Tier Senior Obligations and to the payment of other Costs related to First Tier Senior Obligations, as, when and to the extent provided in the related Supplemental Resolution; provided, that such payments shall be allocated among the then Outstanding issues or series of First Tier Senior Obligations and made on a pro rata basis (with such proration to be determined on the basis that the Outstanding principal amount of each particular issue or series of First Tier Senior Obligations bears to the aggregate Outstanding principal amount of all issues or series of First Tier Senior Obligations for which payments are to be made in accordance with this clause (ii)); and
- (iii) Third: to the payment of (A) all Costs incurred as Senior Obligations other than First Tier Senior Obligations, on a priority basis consistent with their respective Tiers as, when and to the extent provided by each such Senior Obligation and the related Supplemental Resolution and (B) all deposits into each reserve, contingency or other similar fund or account created and established for the benefit of Senior Obligations on a priority basis consistent with their respective Tiers and in accordance with the provisions of the Supplemental Resolution relating to such Senior Obligation; and
- (iv) Fourth: to the payment of all Costs incurred as Subordinate Obligations (together with any related funding obligations) as, when and to the extent provided by each Subordinate Obligation and any order, resolution, contract or other agreement related thereto; and
- (v) Fifth: to (A) the payment of expenditures for public roadways in accordance with the State Constitution and federal law or (B) to the extent not required to be used for public roadways by the State Constitution or federal law, the payment of any lawful expenditure for any lawful purpose.

In recognition that (i) expenditures from the State Highway Fund may be made for the foregoing uses on various dates throughout each Fiscal Year, (ii) Senior Obligations have a first lien on and prior claim to the Pledged Revenues, and (iii) during each Fiscal Year, Costs incurred as Subordinate Obligations may become due and payable, and payments for lawful expenditures may be made, before the date or dates that Costs incurred as Senior Obligations have become due and payable, the Commission covenants that no Pledged Revenues shall be used to pay Costs incurred as Subordinate Obligations or for other lawful expenditures during any Fiscal Year to the extent that such payment is reasonably expected to result in the inability of the Commission to pay any Cost of a Senior Obligation coming due during such Fiscal Year.

If at any time there shall not be transferred to any fund or account maintained pursuant to this Master Resolution or any Supplemental Resolution for the benefit of the Secured Owners of the Senior Obligations the full amounts required herein (at the time specified herein and in each Supplemental Resolution), amounts equivalent to such deficiency shall be transferred thereto, in order of priority based on the respective Tiers of the affected Senior Obligations, from the first available Pledged Revenues not allocated to Senior Obligations of a prior Tier (in addition to the amounts otherwise required to be transferred to such funds and accounts pursuant to this Master Resolution during any succeeding period), and no Pledged Revenues shall be transferred to any fund or account established or maintained for the benefit of any Subordinate Obligation, nor shall any Pledged Revenues be used for any other purpose, until such deficiency has been restored.

Section 302. Senior Obligation Debt Service Fund; Payment of Senior Obligations. For Senior Obligations of each Tier, a separate Senior Obligation Debt Service Fund shall be created, held and administered by a Fiscal Agent (or, at the direction of a Designated Chief Financial Officer, separate accounts may be created within a single Senior Obligation Debt Service Fund for Senior Obligations of each Tier secured thereby). A Designated Financial Officer may also direct that separate accounts be created in each Senior Obligation Debt Service Fund as are deemed necessary or appropriate, including, but not limited to, separate accounts for the payment of principal and interest on Senior Obligations and accounts into which payments under or drawings on Credit Agreements are to

be deposited and from which principal (including the redemption price) of and interest on the Senior Obligations related to or secured by such Credit Agreement are to be paid.

As and to the extent provided in the Supplemental Resolution authorizing any Senior Obligation, payments under Credit Agreements shall be paid into the Senior Obligation Debt Service Fund (or the account thereof) related to the applicable Senior Obligations to which such Credit Agreement relates and, from such fund or account, there shall be paid payments to the parties other than the Commission under such Credit Agreement.

Unless otherwise directed by a Designated Financial Officer, each Senior Obligation Debt Service Fund shall be created and held as a fund outside of the State treasury.

On or before each Payment Date, the Commission shall direct the Comptroller to withdraw from the State Highway Fund and deposit (or transfer to a Fiscal Agent for deposit) into the Senior Obligation Debt Service Fund for the applicable Senior Obligations the amounts required to be deposited or paid pursuant to the applicable Supplemental Resolution related to such Senior Obligations. In the alternative, and to the extent provided by any Senior Obligation and the related Supplemental Resolution, the Commission may direct the Comptroller to withdraw amounts from the State Highway Fund to pay any Cost related to a Senior Obligation directly to the Secured Owner who is entitled to such payment.

The moneys in each Senior Obligation Debt Service Fund and any accounts therein shall be held in trust for the benefit of the Senior Obligations of the Tier secured thereby, to the extent the foregoing are payable from such fund and accounts therein; and, to such extent and pending application thereof, such moneys shall be subject to a lien and charge in favor of the Secured Owners of the Senior Obligations of the Tier secured thereby until paid out or transferred to the Secured Owners, as hereinafter provided. From time to time, there shall be withdrawn from each Senior Obligation Debt Service Fund sufficient money to pay the Costs of Senior Obligations of the Tier or Tiers secured thereby as the same shall become due, except to the extent such Costs are payable from a fund or account other than the Senior Obligation Debt Service Fund for such Tier or Tiers, as provided in any Supplemental Resolution.

If, at the time a Fiscal Agent is required to make a withdrawal from a Senior Obligation Debt Service Fund, the moneys therein shall not be sufficient for such purpose, such Fiscal Agent shall notify the Department and the Comptroller of such deficiency, and the Comptroller shall transfer Pledged Revenues to such Senior Obligation Debt Service Fund in the amount required to cure such deficiency.

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Section 305. Investment of Funds; Transfer of Investment Income.

(a) State Highway Fund. Pledged Revenues in the State Highway Fund shall be invested in accordance with applicable State law, including Chapter 404, Texas Government Code, as amended.

(b) Money in Other Funds. Moneys in any fund or account established by this Master Resolution may be invested in Permitted Investments, provided that all such deposits and investments shall be made in such manner that the money required to be expended from any such fund or account will be available at the proper time or times. Such investments shall be sold promptly when necessary to prevent any default in connection with the Senior Obligations.

All investments shall be made by the Fiscal Agent (or other custodian of such fund or account) upon the request of a Designated Financial Officer, which request shall be made or confirmed in writing by a Designated Financial Officer specifying the fund or account from which moneys are to be invested and designating the specific Permitted Investments to be acquired. Such investment instructions may take the form of standing investment directions.

The interest or income received on an investment shall remain in the fund or account to which the investment is credited, except to the extent otherwise provided in the applicable Supplemental Resolution or as otherwise directed by a Designated Financial Officer.

The Fiscal Agent having custody of any fund or account hereunder shall withdraw, redeem or sell all or a portion of any investment upon receipt of the written direction from a Designated Financial Officer or upon a determination that moneys in such fund or account are to be applied or paid pursuant to the provisions of this Master Resolution or any Supplemental Resolution, and the proceeds thereof shall be deposited in the appropriate fund or account. A Fiscal Agent shall not be liable or responsible for any depreciation in the value of Permitted Investments.

Section 306. Security for Uninvested Funds. So long as any Senior Obligation remains Outstanding, all uninvested moneys on deposit in, or credited to, any fund or account established by this Master Resolution shall be secured by the pledge of security as provided by law for funds of the State and its agencies.

Section 307. Moneys Held in Trust. All moneys deposited with a Fiscal Agent for the purpose of paying any Cost of a Senior Obligation hereby secured, either at the Stated Maturity thereof or upon call for redemption, shall be held in trust for the respective Secured Owners of such Senior Obligations. However, any moneys which shall be so held by a Fiscal Agent, and which shall remain unclaimed by the Secured Owners of such Senior Obligations for the period of three (3) years after the date on which the Cost of such Senior Obligations shall have become due and payable, shall, subject to the provisions of Title 6, Texas Property Code, be paid to the Commission or the Department upon its written request or to such officer, board or body as may then be entitled by law to receive the same; thereafter, the Secured Owners of such Senior Obligations shall look only to the Commission or the Department or to such officer, board or body, as the case may be, for payment and then only to the extent of the amounts so received without any interest thereon, and such Fiscal Agent shall have no responsibility with respect to such moneys.

Section 308. Additional Security; Additional Funds and Accounts.

(a) Except as otherwise provided or permitted herein, the Pledged Revenues securing the Senior Obligations of any Tier shall be shared on a parity with other Senior Obligations of such Tier on an equal and ratable basis. The Commission may, however, in its discretion, provide Additional Security (but shall have no obligation to provide such additional security or credit enhancement) to other Senior Obligations (even of the same Tier), except that no Additional Security shall be provided unless there shall have been first delivered an opinion of Bond Counsel to the effect that the exclusion from gross income of interest on any Senior Obligations for federal income tax purposes will not be adversely affected thereby.

(b) In lieu of or in addition to Additional Security, the Commission may, in its discretion, create and provide for the funding and administration of one or more reserve, contingency or other similar funds or accounts to provide additional security for any one or more series, issues or installments of Senior Obligations, except that no such fund or account shall be created unless there shall have been first delivered an opinion of Bond Counsel to the effect that the exclusion from gross income of interest on any Senior Obligations for federal income tax purposes will not be adversely affected thereby.

(c) The Commission also reserves the right and a Designated Financial Officer is authorized to (i) establish such additional funds and accounts pursuant to a Supplemental Resolution as are deemed necessary or appropriate to administer this Master Resolution or to provide for the payment of Costs related to Senior Obligations and (ii) establish additional funds or accounts for the purpose of holding the proceeds of Senior Obligations, holding funds obtained from any other source or to accomplish any other lawful purpose of the Commission or the Department and for such other purposes as the Commission or a Designated Financial Officer may determine from time to time.

Section 401. Issuance of Senior Obligations.

(a) The Commission reserves and shall have the right and power to issue or otherwise incur Senior Obligations for any purpose authorized by law, including the refunding of Senior Obligations, Subordinate Obligations, or other obligations of the Commission, pursuant to the provisions of this Master Resolution and Supplemental Resolutions to be hereafter authorized. The Commission hereby covenants and agrees to comply with all constitutional and statutory requirements of State law and, to the extent applicable, federal law governing the issuance of Senior Obligations.

Subject to the applicable provisions hereof, the Commission may from time to time issue, incur, assume, guarantee, or otherwise become liable in respect of Senior Obligations in accordance with this Article and a Supplemental Resolution providing for the issuance, execution and/or delivery of such Senior Obligations. Senior Obligations may be further secured by or made payable from any other source of payment lawfully available for such purpose.

Prior to the issuance, execution or delivery of any Senior Obligation hereunder, the Commission shall provide:

(i) A certified copy of the minute order or other official action of the Commission (A) approving a Supplemental Resolution establishing or providing the terms and provisions of such Senior Obligations, and (B) authorizing the issuance, execution and/or delivery of the Senior Obligations;

(ii) An opinion or opinions of Bond Counsel to the effect that (A) issuance, execution and/or delivery of the Senior Obligations is permitted under this Master Resolution and any Supplemental Resolutions that authorized the issuance, execution and/or delivery of any then Outstanding Senior Obligations and (B) the Supplemental Resolution relating to such Senior Obligations has been duly authorized and such Senior Obligations when issued, executed and/or delivered will constitute valid, binding and enforceable limited obligations of the Commission, subject to bankruptcy, equitable principles and other standard legal opinion exceptions;

(iii) An Officer's Certificate to the effect that (A) the Commission is not in default under this Master Resolution or any Supplemental Resolution or, upon the issuance of such Senior Obligations, any existing default will be cured and (B) following the issuance of such Senior Obligations, the maximum Annual Debt Service Requirements with respect to all then Outstanding Senior Obligations will not exceed the Maximum Allowable Debt Service in the current or any future year; and

(iv) Such further documents, moneys and securities as are required by the provisions of the Supplemental Resolution providing for the issuance, execution and/or delivery of such Senior Obligations.

(b) In making any determination hereunder regarding the principal amount of Obligations being issued and incurred or then Outstanding, Credit Agreements shall be deemed to have no principal amount to the extent that such Credit Agreement relates to an Obligation that has already been considered in making such determination. The effect of Credit Agreements on debt service shall be as provided in the definition of Annual Debt Service Requirements in Exhibit A hereto.

(c) In connection with the issuance of Senior Obligations to refund Outstanding Senior Obligations of the same or higher Tier, the Commission may provide, in lieu of the certification required by clause (iii)(B) of subsection (a), an Officer's Certificate to the effect that, following the issuance of such Senior Obligations, the Annual Debt Service Requirements will not exceed one hundred ten percent (110%) of the Annual Debt Service Requirements in effect prior to the issuance of such Senior Obligations; provided, however, that such certification need not address the Annual Debt Service Requirements for Fiscal Years in which no Senior Obligations (other than the Senior Obligations then being issued) will be Outstanding.

#### Section 402. Credit Agreements.

(a) To the extent permitted by law, the Commission may authorize the execution and delivery of one or more Credit Agreements upon (i) delivery of an Officer's Certificate to the effect that the Credit Agreement is in the best interest of the Commission and (ii) compliance with the requirements of Section 401, if the Credit Agreement is to constitute a Senior Obligation in whole or in part (as specified in the Credit Agreement).

(b) A Credit Agreement and the Costs thereof may, pursuant to its terms, constitute, in whole or in part, (i) a Senior Obligation of the same or lower Tier as the Tier of the Senior Obligation to which such Credit Agreement relates payable from and secured by a pledge of the Pledged Revenues on parity with other Senior Obligations of such Tier or (ii) a Subordinate Obligation payable from or secured by a pledge of State Highway Fund Revenues (or any portion thereof) subordinate to the Senior Obligations.

Section 403. Issuance of Subordinate Obligations.

(a) The Commission reserves the right to issue or otherwise incur, for any lawful purpose, Subordinate Obligations in such amounts (without limitation), on such dates and having such terms as the Commission may determine.

(b) No holder of any Subordinate Obligation, or party to a transaction relating to any Subordinate Obligation, shall have or be entitled to claim any right or benefit under this Master Resolution by virtue of the ownership of or interest in such Subordinate Obligation.

(c) Nothing in this Master Resolution shall be construed to limit or interfere with the right and authority of the Commission and the Department to issue or otherwise incur Subordinate Obligations in such number of tiers and levels of payment priority as shall be determined by the Commission and the Department.

Section 501. Payment of Senior Obligations. The Commission covenants that it will promptly pay the Costs related to every Senior Obligation issued, executed or delivered under the provisions of this Master Resolution at the places, on the dates and in the manner provided herein and in said Senior Obligations. Except as otherwise provided in this Master Resolution, such Costs are payable solely from Pledged Revenues, which Pledged Revenues are hereby pledged to the payment thereof in the manner and to the extent provided herein. Unless otherwise provided in a Supplemental Resolution therefor, neither the general credit of the Commission or the Department nor the general credit nor the taxing power of the State or any political subdivision, agency or instrumentality thereof is pledged for the payment of the Costs of Senior Obligations.

Section 502. No Modification of Dedication or Appropriation. While any Senior Obligation remains Outstanding, the Commission will protect (or take steps within its authority to protect) the dedication and appropriation of State Highway Fund Revenues to the credit of the State Highway Fund (including the dedication of Dedicated Revenues), and the Commission will enforce (or take steps within its authority to enforce) the Constitutional Provision to prevent any modification of such dedication and appropriation which might impair any Outstanding Senior Obligation.

Section 503. Performance. The Commission will faithfully perform at all times (a) any and all covenants, undertakings, stipulations, and provisions contained in this Master Resolution and in each Supplemental Resolution, and in each and every Senior Obligation or evidence thereof and (b) each and every duty imposed upon the Commission or the Department by law with respect to the State Highway Fund and the Senior Obligations; and the Commission will exercise its best efforts to cause the Comptroller to perform each and every duty imposed upon the Comptroller by law with respect to the State Highway Fund and the Senior Obligations.

Section 504. Determination of Authorized Representative and Designated Financial Officer. For all purposes of this Master Resolution, the judgment of an Authorized Representative or Designated Financial Officer, as applicable, shall be deemed final in the determination of which Obligations are currently outstanding and payable from or secured by a lien on any Pledged Revenues and in the determination of the Annual Debt Service Requirements and the principal amount and the other terms and expectations of the Commission regarding annual expenditures with respect to Senior Obligations.

Section 505. Lawful Authority. The Commission is lawfully qualified to pledge the Pledged Revenues herein pledged in the manner prescribed herein, and has lawfully exercised such right.

Section 506. Preservation of Lien. Subject to the conditions set forth in this Master Resolution, the Commission will (i) not do or suffer any act or thing to be done whereby the pledge of the Pledged Revenues might or could be impaired and (ii) take all actions to the extent necessary to ensure that no other agency of the State does or suffers any act or thing to be done whereby the pledge of the Pledged Revenues might or could be impaired.

Section 507. No Additional Encumbrance. The Commission shall not incur additional Obligations secured by or payable from the Pledged Revenues in any manner, except as permitted by this Master Resolution, unless such Obligation is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Master Resolution and any Supplemental Resolution. Any Obligation incurred by the Commission without satisfying the conditions for the issuance of Senior Obligations, as set forth in this Master Resolution, is hereby declared to be a Subordinate Obligation, junior and subordinate in all respects to the liens,

pledges, covenants, and agreements of this Master Resolution and any Supplemental Resolution whether or not such status is noted.

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Section 510. Secured Owners' Rights and Remedies. This Master Resolution shall constitute a contract between the Commission and the Secured Owners from time to time and this Master Resolution shall be and remain irrevocable until all Outstanding Senior Obligations shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of any Cost of any Senior Obligation or a default in the performance of any duty or covenant provided by law or in this Master Resolution, the Secured Owners may pursue all legal remedies afforded by the Constitution and laws of the State to compel the Commission and the Department to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Secured Owner may (at law or in equity), by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the Commission and the Department under this Master Resolution.

Section 511. Waiver of Certain Covenants. The Commission may omit in any particular instance to comply with any covenant or condition set forth in this Master Resolution or any Supplemental Resolution if before or after the time for such compliance the Secured Owners of the same percentage of Outstanding Senior Obligations, the consent of which would be required to amend the applicable provisions to permit such noncompliance, shall either waive such compliance in the particular instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Commission and the Department and the duties of the Commission and the Department in respect of any such covenant or condition shall remain in full force and effect. For the purpose of this Section, the rights and identity of the Secured Owners (and those who may consent on their behalf) shall be determined in accordance with Section 603 of this Master Resolution.

Section 601. Amendments and Supplements without Secured Owners' Consent. The Commission may from time to time and at any time amend or supplement this Master Resolution, without the consent of or notice to any Secured Owner, to effect any one or more of the following:

(a) to cure any ambiguity, defect or omission or correct or supplement any provision herein or in any Supplemental Resolution, upon receipt by the Commission of an approving opinion of Bond Counsel to the effect that such amendment or supplement is needed for such purpose, and will more clearly express the intent of this Master Resolution or such Supplemental Resolution;

(b) to grant to or confer upon the Secured Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Secured Owners which are not contrary to or inconsistent with this Master Resolution as then in effect or to subject to the pledge and lien of this Master Resolution additional revenues, properties or collateral;

(c) to add to the covenants and agreements of the Commission in this Master Resolution other covenants and agreements thereafter to be observed by the Commission or to surrender any right or power herein reserved to or conferred upon the Commission by this Master Resolution;

(d) to modify, alter, supplement or amend this Master Resolution in such manner as shall permit the qualification of this Master Resolution, if required, under the Trust Indenture Act of 1939, the Securities Act of 1933 or any similar federal statute hereafter in effect;

(e) to modify any of the provisions of this Master Resolution in any respect whatever, provided that such modification shall be, and be expressed to be, effective only after all Senior Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding;

(f) to make such other changes or amendments as the Commission may deem necessary or desirable and which shall not, in the judgment of the Commission, materially adversely affect the interests of the Secured Owners, including any change or amendment to establish Tiers; provided, however, that, except to the extent provided in the applicable Supplemental Resolution pursuant to which a then Outstanding Senior Obligation has

been issued, no then Outstanding Senior Obligation shall be subrogated or made inferior to any Senior Obligation that is issued in reliance on and as a result of such change or amendment; or

(g) to authorize the issuance, execution or delivery of Senior Obligations in accordance with the terms of this Master Resolution.

Section 602. Amendments and Supplements Requiring Secured Owners' Consent. The Commission, at any time and from time to time, may amend or supplement this Master Resolution for the purpose of making any modification or amendment to this Master Resolution, but only with the written consent (given as provided in Section 603) of the Secured Owners of at least a majority in aggregate principal amount of the Senior Obligations Outstanding at the time such consent is given or such amendment takes effect. In case less than all of the Senior Obligations then Outstanding are affected by the modification or amendment, only the written consent of the Secured Owners of a majority in aggregate principal amount of the Senior Obligations so affected and Outstanding at the time such consent is given or such amendment takes effect shall be required. If such modification or amendment will, by its terms, not take effect so long as any Senior Obligations so affected remain Outstanding, the consent of the Secured Owners of such Senior Obligations shall not be required and such Senior Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Senior Obligations under this Section.

Notwithstanding the foregoing, no modification, amendment or supplement hereof shall permit any of the following, without the consent of each Secured Owner whose rights are affected thereby:

(a) a change in the terms of Stated Maturity or redemption of any Senior Obligation or of any installment of interest thereon;

(b) a reduction in the principal amount of or redemption premium on any Senior Obligation or in the rate of interest thereon or a change in the coin or currency in which such Senior Obligation is payable;

(c) the granting of a preference or priority of any Senior Obligations over any other Senior Obligations, except to the extent permitted herein;

(d) a reduction in the aggregate principal amount of Senior Obligations of which the consent of the Secured Owners is required to effect any such modification or amendment; or

(e) a change in the provisions of this Section.

Notwithstanding the foregoing, the Secured Owner of any Senior Obligation may extend the time for payment of the principal of or interest on such Senior Obligation; provided, however, that upon the occurrence of an event of default, funds available hereunder for the payment of the principal of and interest on such Senior Obligations shall not be applied to any payment so extended until all principal and interest payments which have not been extended have first been paid in full. Notice of any amendment or supplement executed pursuant to this Section shall be given to the affected Secured Owners promptly following the approval thereof.

Section 603. Consents of Secured Owners. If at any time the Commission shall desire to supplement or amend this Master Resolution pursuant to Section 602, the Commission or the Department shall cause notice of the proposed supplement or amendment to be (i) published in a financial newspaper or journal of general circulation in the City of New York, New York (including, but not limited to, The Bond Buyer or The Wall Street Journal) or in the State (including, but not limited to, The Texas Bond Reporter) or (ii) disseminated by electronic means customarily used to convey notices of redemption, once during each calendar week for at least two (2) successive calendar weeks. Such notice shall briefly set forth the nature of the proposed supplement or amendment and shall state that a copy thereof is on file at the principal office of at least one Fiscal Agent for each Senior Obligation affected thereby for inspection by Secured Owners affected thereby. In lieu of publication of such notice (or the dissemination thereof by electronic means), the Commission or the Department may give or cause to be given such notice in writing, by certified mail, to each Secured Owner. A copy of such notice shall be provided in writing to each rating agency maintaining a rating on any Senior Obligation.

Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Commission and any Fiscal Agent identified in the notice provided by the Commission or the Department, the written consents of Secured Owners of the percentage of Senior Obligations specified in Section 602. Any such consent shall be

binding upon the Secured Owner giving such consent and upon any subsequent Secured Owner of such Senior Obligations and of any Senior Obligations issued in exchange therefor or in lieu thereof (whether or not such subsequent Secured Owner has notice thereof), unless such consent is revoked in writing by the Secured Owner giving such consent or a subsequent Secured Owner of such Senior Obligation by filing such revocation in accordance with Section 604.

Notwithstanding anything else herein, the Commission may determine in each Supplemental Resolution the treatment and identity of who may act as a Secured Owner and other matters relating to such Senior Obligation, including designating any Bond Insurer or the provider under a Credit Agreement as the sole Secured Owner of such Senior Obligation. If a Supplemental Resolution is to become effective under Section 602 on the same date as the date of issuance of additional Senior Obligations, the consents of the underwriters or purchasers of such additional Senior Obligations shall be counted for purposes of Section 602 and this Section.

With respect to any amendment or supplement undertaken pursuant to Section 602, whenever at any time the Commission shall receive an instrument or instruments executed by all of the Secured Owners or the Secured Owners of a majority in principal amount of the Outstanding Senior Obligations, which instrument or instruments shall refer to the proposed amendment or supplement described in such notice and which specifically consent to and approve such amendment or supplement in substantially the form described in the notice of amendment, the Commission may adopt the amendatory or supplemental resolution in substantially the same form.

Section 604. Consent Irrevocable. Any consent given by any Secured Owner pursuant to the provisions of this Article shall be irrevocable for a period of six (6) months from the date of such consent. Such consent may be revoked at any time after the applicable period of time that a consent is irrevocable by the Secured Owner, by filing notice thereof with the Commission and any Fiscal Agent identified in the notice provided by the Commission or the Department, but such revocation shall not be effective if the owners of the requisite amount of the Outstanding Senior Obligations, prior to the attempted revocation, consented to and approved the amendment. Notwithstanding the foregoing, any consent given by a Secured Owner at the time of and in connection with the initial sale or incurrence of an issue or series of Senior Obligations by the Commission shall be irrevocable.

Section 605. Exclusion of Certain Senior Obligations for the Purpose of Consent. Senior Obligations that are to be disregarded under the definition of "Outstanding" shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Senior Obligations provided for in this Article. At the time of any consent or other action taken under this Article or elsewhere in this Master Resolution, the Commission shall furnish a certificate of a Designated Financial Officer, upon which any party may rely, describing all Senior Obligations so to be excluded.

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Section 607. Amendment of Supplemental Resolutions. Each Supplemental Resolution may contain additional provisions governing the ability of the Commission to amend and supplement such Supplemental Resolution; provided, however, that no amendment may be made to any Supplemental Resolution for the purpose of granting to the Secured Owners of Outstanding Senior Obligations under such Supplemental Resolution a priority over the owners of any other Outstanding Senior Obligations, except as permitted by the terms governing such Outstanding Senior Obligations.

Section 608. Effect of Supplemental Resolutions. Upon the execution and delivery of any Supplemental Resolution under this Article, this Master Resolution shall be modified in accordance therewith, and such Supplemental Resolution shall form a part of this Master Resolution for all purposes; and every Secured Owner of any Senior Obligation theretofore or thereafter executed and delivered hereunder shall be bound thereby to the extent provided in such Supplemental Resolution.

Section 701. Successorship of Commission. In the event of the dissolution of the Commission, all of the covenants, stipulations, obligations, rights and agreements contained in this Master Resolution by or on behalf of, or for the benefit of, the Commission shall bind or inure to the benefit of the successor or successors of the Commission from time to time and any officer, board, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law. The word "Commission" as used in this Master Resolution shall include such successor or successors.

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Section 703. Defeasance. The Commission may defease the provisions of this Master Resolution (and discharge its obligation to the Secured Owners of any or all of the Senior Obligations to pay the principal of, premium, if any, and interest thereon) in the manner provided in the Supplemental Resolution authorizing the issuance, execution and delivery of such Senior Obligations.

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### **Excerpted Provisions of the Fourth Supplemental Resolution<sup>1</sup>**

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#### Section 201. Supplemental Resolution.

(b) The Bonds authorized by this Supplemental Resolution are First Tier Senior Obligations under the Master Resolution.

Section 202. Supplemental Resolution to Constitute a Contract; Equal Security. In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, this Supplemental Resolution shall be deemed to be and shall constitute a contract between the Commission and the Owners from time to time of the Bonds, and the pledge made in this Supplemental Resolution by the Commission and the covenants and agreements set forth in this Supplemental Resolution to be performed by the Commission shall be for the equal and proportionate benefit, security, and protection of all Owners from time to time of the Bonds, without preference, priority, or distinction as to security or otherwise of any of the Bonds authorized hereunder over any of the other Bonds by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Supplemental Resolution and the Master Resolution.

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Section 403. Purchase of Bonds. The Paying Agent/Registrar, upon the written request of a Department Representative, shall seek to purchase Bonds from an Owner as specified by the Department Representative in the open market at a price not exceeding the price specified by the Department Representative. Such purchase of Bonds shall be made with funds available under this Supplemental Resolution or provided by the Commission in such written request. Upon purchase by the Paying Agent/Registrar, such Bonds shall be treated as delivered for cancellation pursuant to Section 306. Nothing in this Supplemental Resolution shall prevent the Commission from purchasing Bonds on the open market without the involvement of the Paying Agent/Registrar and delivering such Bonds to the Paying Agent/Registrar for cancellation pursuant to Section 306. Bonds purchased pursuant to this Section that are subject to a mandatory sinking fund redemption schedule may be credited against future mandatory sinking fund redemption payments.

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Section 501. Disposition of Proceeds. The Commission shall deposit all of the net proceeds of the Bonds as follows:

(a) Deposit to the credit of the First Tier Senior Obligation Debt Service Fund in a separate account or subaccount for the Bonds of such Series, the amount representing accrued interest, if any, received from the sale of the Bonds;

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<sup>1</sup> The Fourth Supplemental Resolution authorizes the issuance of Bonds in one or more Series in an aggregate principal amount not to exceed \$1,500,000,000. The Bonds constitute the second installment of obligations delivered under authority of the Fourth Supplemental Resolution pursuant to an Award Certificate, executed on July 25, 2008. The "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2007" (the "Series 2007 Bonds"), delivered on October 25, 2007 in the original aggregate principal amount of \$1,241,845,000, were the first installment of obligations delivered under authority of the Fourth Supplemental Resolution. References in the following excerpts to the "Bonds" includes the specific Series of Bonds described in the body of this Official Statement.

(b) Deposit to the credit of the Bond Proceeds Fund established in Section 502 the balance of the proceeds of the Bonds of such Series (after deducting any costs or expenses of issuance deducted or withheld from such proceeds at the direction of a Department Representative), together with any other moneys received for deposit in the Bond Proceeds Fund, which deposits shall be disbursed for the purpose and in the manner set forth in Section 502.

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Section 705. Bond Insurance.

(b) Rights of Bond Insurer. As long as a Bond Insurer is not in default on the related bond insurance policy for the Bonds, the Bond Insurer shall be deemed to be the sole Owner of such Bonds insured by it for all purposes of this Supplemental Resolution and the Master Resolution, including initiation by the Owners of (or consent of the Owners to) any action taken pursuant to the provisions of Article VI of the Master Resolution (except with respect to those amendments set forth in Section 602(a) through (e)) and Article IX of the Supplemental Resolution (except with respect to those amendments set forth in Section 902(a)(i) through (vi)), in which case the consent of the Bond Insurer will be required in addition to the consents of the Owners of the Bonds.

Section 706. Credit Agreements. The Commission reserves the right to enter into one or more Credit Agreements in connection with the Bonds (whether concurrently with the issuance of the Bonds or thereafter), upon the written opinion of a Designated Financial Officer that such Credit Agreement is in the best interests of the Commission given the market conditions at the time. The Credit Agreement will constitute a Credit Agreement, as defined in the Master Resolution and the obligations of the Commission thereunder may, pursuant to the terms thereof, constitute, in whole or in part (i) Senior Obligations, or (ii) Subordinate Obligations, as provided by the Master Resolution.

\*\*\*\*\*

Section 801. Payment of Principal, Interest and Premium. The Commission covenants that it will promptly pay the principal of, premium, if any, and the interest on every Bond issued under the provisions of this Supplemental Resolution at the places, on the dates and in the manner provided herein and in said Bond. Except as otherwise provided herein, such principal, interest and premium are payable solely from Pledged Revenues, which Pledged Revenues are hereby pledged to the payment thereof in the manner and to the extent provided herein and in the Master Resolution. Neither the general credit of the Commission nor the general credit nor the taxing power of the State or any political subdivision, agency or instrumentality thereof is pledged for the payment of the Bond.

\*\*\*\*\*

Section 901. Amendments Without Owners' Consent. In addition to amendments authorized by the Master Resolution, this Supplemental Resolution and the rights and obligations of the Commission and of the Owners of the Outstanding Bonds may be modified or amended at any time without notice to or the consent of any Owner of the Bonds, solely for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Commission contained in this Supplemental Resolution, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Commission in this Supplemental Resolution;

(b) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Supplemental Resolution, upon receipt by the Commission of an Opinion of Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Supplemental Resolution;

(c) To supplement the security for the Bonds; or

(d) To make such other changes in the provisions hereof, as the Commission may deem necessary or desirable and which shall not, in the judgment of the Commission, materially adversely affect the interests of the Owners of the Outstanding Bonds.

Section 902. Amendments Requiring Owners' Consent.

(a) Subject to the other provisions of this Supplemental Resolution (including Section 705 hereof) and in addition to amendments authorized by the Master Resolution, the Owners of Outstanding Bonds aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment to this Supplemental Resolution (other than amendments described in Section 901 hereof) that may be deemed necessary or desirable by the Commission; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the Owners of all of the Outstanding Bonds, the amendment of the terms and conditions in this Supplemental Resolution or in the Bonds so as to:

- (i) Make any change in the maturity of the Outstanding Bonds;
- (ii) Reduce the rate of interest borne by Outstanding Bonds;
- (iii) Reduce the amount of the principal payable on Outstanding Bonds;
- (iv) Modify the terms of payment of principal of or interest on the Outstanding Bonds, or impose any conditions with respect to such payment;
- (v) Affect the rights of the Owners of less than all Bonds then Outstanding; or
- (vi) Change the minimum percentage of the Outstanding principal amount of Bonds necessary for consent to such amendment.

(b) Notice. If at any time the Commission shall desire to amend this Supplemental Resolution pursuant to subsection (a), the Commission shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in the City of New York, New York (including, but not limited to, The Bond Buyer or The Wall Street Journal) or in the State (including, but not limited to, The Texas Bond Reporter), once during each calendar week for at least two successive calendar weeks or disseminated by electronic means customarily used to convey notices of redemption. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Paying Agent/Registrar for inspection by all Owners of Bonds. Such publication is not required, however, if the Commission gives or causes to be given such notice in writing to each Owner of Bonds. A copy of such notice shall be provided in writing to each national rating agency maintaining a rating on the Bonds.

(c) Receipt of Consents. Whenever at any time not less than thirty (30) days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment, the Commission shall receive an instrument or instruments executed by all of the Owners or the Owners of Outstanding Bonds aggregating a majority in Outstanding Principal Amount, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Commission may adopt the amendatory resolution in substantially the same form.

(d) Effect of Amendments. Upon the adoption by the Commission of any resolution to amend this Supplemental Resolution pursuant to the provisions of this Section, this Supplemental Resolution shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Commission and all the Owners of Outstanding Bonds shall thereafter be determined, exercised, and enforced under the Master Resolution and this Supplemental Resolution, as amended.

(e) Consent Irrevocable. Any consent given by any Owner pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future Owners of the same Bond during such period. Such consent may be revoked at any time after six (6) months from the date of the first publication of such notice by the Owner who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar and the Commission, but such revocation shall not be effective if the Owners of Outstanding Bonds aggregating a majority in Outstanding Principal Amount prior to the attempted revocation consented to and approved the amendment. Notwithstanding the foregoing, any consent given at the time of and in connection with the initial purchase of Bonds shall be irrevocable.

(f) Ownership. For the purpose of this Section, the ownership and other matters relating to all Bonds registered as to ownership shall be determined from the Security Register kept by the Paying Agent/Registrar therefor. The Paying Agent/Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent/Registrar.

Section 1001. Defeasance of Bonds. (a) The principal of and/or the interest and redemption premium, if any, on any Bonds shall be deemed to be a Defeased Obligation within the meaning of the Master Resolution, except to the extent provided in subsections (c) and (e) of this Section, when payment of the principal of such Bonds, plus interest thereon to the due date or dates (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either

(i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or the establishment of irrevocable provisions for the giving of such notice); or

(ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such Bonds or an eligible trust company, commercial bank or financial institution for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the Commission with the Paying Agent/Registrar for such Bonds or an eligible trust company, commercial bank or financial institution for the payment of its services until all Defeased Obligation shall have become due and payable, or (3) any combination of (1) and (2).

At such time as any Bond shall be deemed to be a Defeased Obligation hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, or payable from, the Pledged Revenues as provided in the Master Resolution and this Supplemental Resolution, and such principal and interest shall be payable solely from such money or Defeasance Securities.

(b) The deposit under clause (ii) of subsection (a) of this Section shall be deemed a payment of Bonds as aforesaid when proper notice of redemption of such Bonds shall have been given or upon the establishment of irrevocable provisions for the giving of such notice, in accordance with the Master Resolution and this Supplemental Resolution. Any money so deposited with the Paying Agent/Registrar for such Bonds or an eligible trust company, commercial bank or financial institution as provided in this Section may at the discretion of the Commission also be invested in Defeasance Securities, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Defeasance Securities in possession of the Paying Agent/Registrar for such Bonds or an eligible trust company, commercial bank or financial institution pursuant to this Section which is not required for the payment of such Bonds and premium, if any, and interest thereon with respect to which such money has been so deposited, shall be remitted to the Commission.

(c) Notwithstanding any provision of any other Section of this Supplemental Resolution which may be contrary to the provisions of this Section, all money or Defeasance Securities set aside and held in trust pursuant to the provisions of this Section for the payment of principal of Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Obligation shall have become due and payable, the Paying Agent/Registrar for such Defeased Obligation shall perform the services of Paying Agent/Registrar for such Defeased Obligation the same as if they had not been defeased, and the Department shall make proper arrangements to provide and pay for such services as required by this Supplemental Resolution.

(d) Notwithstanding anything elsewhere in this Supplemental Resolution, if money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar for such Bonds or an eligible trust company, commercial bank or financial institution pursuant to this Section for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the provisions of this Section shall be made without the consent of the registered owner of each Bonds affected thereby.

(e) Notwithstanding the provisions of subsection (a) of this Section, to the extent that, upon the defeasance of any Defeased Obligation to be paid at its maturity, the Commission retains the right under State law to later call that Defeased Obligation for redemption in accordance with the provisions of this Supplemental Resolution and the Award Certificate relating to the Defeased Obligation, the Commission may call such Defeased Obligation for redemption upon complying with the provisions of State law and upon the satisfaction of the provisions of subsection (a) of this Section with respect to such Defeased Obligation as though it was being defeased at the time of the exercise of the option to redeem the Defeased Obligation and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligation.

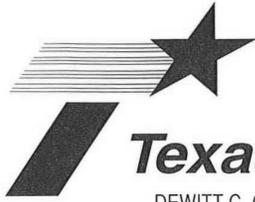
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**APPENDIX B**

**EXCERPTS FROM UNAUDITED DEPARTMENT FINANCIAL STATEMENTS FOR FISCAL  
YEAR ENDED AUGUST 31, 2007**

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# Texas Department of Transportation

DEWITT C. GREER STATE HIGHWAY BLDG. • 125 E. 11TH STREET • AUSTIN, TEXAS 78701-2483 • (512) 463-8585

November 20, 2007

TO: Honorable Rick Perry, Governor  
Honorable Susan Combs, Texas Comptroller  
Mr. John O'Brien, Director, Legislative Budget Board  
Mr. John Keel, CPA, State Auditor

We are pleased to submit the Annual Financial Report of the Texas Department of Transportation for the year ended August 31, 2007, in compliance with §2101.011 of the Texas Government Code and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all of the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions regarding the report or the Schedule of Expenditures of Federal Awards, please contact Glen T. Knipstein at (512) 486-5314.

Sincerely,

Amadeo Saenz, Jr., P.E.  
Executive Director

Enclosure

THE TEXAS PLAN

REDUCE CONGESTION • ENHANCE SAFETY • EXPAND ECONOMIC OPPORTUNITY • IMPROVE AIR QUALITY  
INCREASE THE VALUE OF OUR TRANSPORTATION ASSETS

*An Equal Opportunity Employer*

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# Combined Financial Statements



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**EXHIBIT I**

**COMBINED BALANCE SHEET/STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS  
August 31, 2007**

	GOVERNMENTAL FUND TYPES			
	GENERAL (EXH A-1)	SPECIAL REVENUE (EXH B-1)	CAPITAL PROJECTS (7604) * U/F (7604)	GOVERNMENTAL FUNDS TOTAL
	\$	\$	\$	\$
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents				
Cash on Hand		1,981,791		1,981,791
Cash in Bank (Note 3)		253,486,017		253,486,017
Cash in State Treasury (Note A)	1,221,038	1,626,732,596		1,627,953,634
Legislative Appropriations	575,917			575,917
Receivables from:				
Federal		235,774,218		235,774,218
Other Intergovernmental (Note B)		176,385,957		176,385,957
Interest and Dividends		10,308,391		10,308,391
Accounts Receivable		17,253,689		17,253,689
Due from Other Funds (Note 8)		139,228,420		139,228,420
Due from Other Agencies (Note 8)		190,343,774	1,549,831	191,893,605
Consumable Inventories		89,573,887		89,573,887
Loans and Contracts [Note 1 F(4)]	53,128	10,702,615		10,755,743
Total Current Assets	<u>1,850,083</u>	<u>2,751,771,355</u>	<u>1,549,831</u>	<u>2,755,171,269</u>
Non-Current Assets:				
Federal Receivable		11,138,145		11,138,145
Loans and Contracts [Note 1 F(4)]	449,569	223,104,569		223,554,138
Capital Assets:				
Non-Depreciable				
Land and Land Improvements				0
Infrastructure				0
Construction in Progress				0
Depreciable				
Building and Building Improvements				0
Less Accumulated Depreciation				0
Infrastructure				0
Less Accumulated Depreciation				0
Furniture and Equipment				0
Less Accumulated Depreciation				0
Vehicles, Boats, and Aircraft				0
Less Accumulated Depreciation				0
Other Capital Assets				0
Less Accumulated Depreciation				0
Other Non-Current Assets		13,842,660		13,842,660
Total Non-Current Assets	<u>449,569</u>	<u>248,085,374</u>	<u>0</u>	<u>248,534,943</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,299,652</u></b>	<b>\$ <u>2,999,856,729</u></b>	<b>\$ <u>1,549,831</u></b>	<b>\$ <u>3,003,706,212</u></b>

GOVERNMENT-WIDE ADJUSTMENT FUND TYPES

CAPITAL ASSET ADJUSTMENTS	LONG-TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF NET ASSETS
\$	\$	\$	\$
			1,981,791
			253,486,017
			1,627,953,634
			575,917
			235,774,218
			176,385,957
			10,308,391
			17,253,689
			139,228,420
			191,893,605
			89,573,887
			10,755,743
<u>0</u>	<u>0</u>	<u>0</u>	<u>2,755,171,269</u>
			11,138,145
			223,554,138
6,909,313,824			6,909,313,824
41,356,833,592			41,356,833,592
4,438,318,660			4,438,318,660
259,845,644			259,845,644
(143,160,008)			(143,160,008)
15,951,670,123			15,951,670,123
(8,972,334,794)			(8,972,334,794)
164,719,605			164,719,605
(105,364,161)			(105,364,161)
637,349,329			637,349,329
(341,144,060)			(341,144,060)
8,924,181			8,924,181
(2,357,114)			(2,357,114)
<u>60,162,614,821</u>	<u>0</u>	<u>0</u>	<u>60,411,149,764</u>
<u>\$ 60,162,614,821</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 63,166,321,033</u>

**EXHIBIT I**

**COMBINED BALANCE SHEET/STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS  
(Continued)**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	CAPITAL	GOVERNMENTAL
	(EXH A-1)	(EXH B-1)	PROJECTS (7604) * U/F (7604)	FUNDS TOTAL
<b>LIABILITIES AND FUND BALANCES</b>	\$	\$	\$	\$
Current Liabilities:				
Payables from				
Accounts Payable	76,546	939,156,784	1,549,831	940,783,161
Contracts Payable [Note 1 F(8)]		302,921,079		302,921,079
Payroll Payable	106,637	63,342,382		63,449,019
Interest Payable		92,043,437		92,043,437
Due to Other Funds (Note 8)	74,571	137,608,202		137,682,773
Due to Other Agencies (Note 8)	569,152	193,215,524		193,784,676
Deferred Revenues		330,133,267		330,133,267
Short Term Debt (Note 4)		158,000,000		158,000,000
Revenue Bonds Payable (Note 5)				0
General Obligation Bonds Payable (Note 5)				0
Employees Compensable Leave (Note 5)				0
Total Current Liabilities	<u>826,906</u>	<u>2,216,420,675</u>	<u>1,549,831</u>	<u>2,218,797,412</u>
Non-Current Liabilities:				
Revenue Bonds Payable (Note 5)				0
General Obligation Bonds Payable (Note 5)				0
Employees Compensable Leave (Note 5)				0
Total Non-Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>826,906</u>	<u>2,216,420,675</u>	<u>1,549,831</u>	<u>2,218,797,412</u>
<b>Fund Financial Statement-Fund</b>				
Fund Balances (Deficits):				
Reserved For:				
Encumbrances		151,201,200		151,201,200
Inventories		89,573,887		89,573,887
Imprest		164,473		164,473
Loans & Contracts	502,697	233,807,184		234,309,881
Unreserved:				
Designated For Other:				
Highway Construction and Maintenance		211,022,689		211,022,689
State Infrastructure Bank		96,551,907		96,551,907
Undesignated:				
Unencumbered Legislative Appropriations:				
Future Operations	473,424			473,424
Consolidated Funds	496,625			496,625
Texas Transportation Corporations		1,114,714		1,114,714
<b>TOTAL FUND BALANCES</b>	<u>1,472,746</u>	<u>783,436,054</u>	<u>0</u>	<u>784,908,800</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 2,299,652</u>	<u>\$ 2,999,856,729</u>	<u>\$ 1,549,831</u>	<u>\$ 3,003,706,212</u>

GOVERNMENT-WIDE ADJUSTMENT FUND TYPES

CAPITAL ASSET ADJUSTMENTS	LONG-TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF NET ASSETS
\$	\$	\$	\$
			940,783,161
			302,921,079
			63,449,019
			92,043,437
			137,682,773
			193,784,676
		(11,138,145)	318,995,122
	50,670,000		158,000,000
	30,900,000		50,670,000
	56,702,898		30,900,000
<u>0</u>	<u>138,272,898</u>	<u>(11,138,145)</u>	<u>2,345,932,165</u>
	1,481,070,000		1,481,070,000
	3,855,850,000		3,855,850,000
	13,131,823		13,131,823
<u>0</u>	<u>5,350,051,823</u>	<u>0</u>	<u>5,350,051,823</u>
<u>0</u>	<u>5,488,324,721</u>	<u>(11,138,145)</u>	<u>7,695,983,988</u>
			151,201,200
			89,573,887
			164,473
			234,309,881
			211,022,689
			96,551,907
			473,424
			496,625
			1,114,714
<u>0</u>	<u>0</u>	<u>0</u>	<u>784,908,800</u>
<u>\$ 0</u>	<u>\$ 5,488,324,721</u>	<u>\$ (11,138,145)</u>	<u>\$ 8,480,892,788</u>

**EXHIBIT I**

**COMBINED BALANCE SHEET/STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS  
(Concluded)**



	GOVERNMENTAL FUND TYPES			
	GENERAL (EXH A-1)	SPECIAL REVENUE (EXH B-1)	CAPITAL PROJECTS (7604) * U/F (7604)	GOVERNMENTAL FUNDS TOTAL
	\$	\$	\$	\$
<b>Government-wide Statement-Net Assets</b>				
Net Assets:				
Invested in Capital Assets,				
Net of Related Debt				
Restricted for:				
Other				
Unrestricted				
Total Net Assets				

Note (A):

	Cash in State Treasury
Consolidated Fund 0071	\$ 577,315
Consolidated Fund 0900	125,534
Consolidated Fund 5015	518,189
TOTAL	\$ <u>1,221,038</u>

Note (B): The revenue breakdown is as follows:

	Other Intergovernmental Receivable
Sales of Goods and Services	\$ 78,547,448
Licenses, Fees and Permits	97,838,509
Total	\$ <u>176,385,957</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX).

GOVERNMENT-WIDE ADJUSTMENT FUND TYPES

CAPITAL ASSET ADJUSTMENTS	LONG-TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF NET ASSETS
\$	\$	\$	\$
60,162,614,821	(4,772,660,626)		55,389,954,195
	(645,829,374)		(645,829,374)
	(69,834,721)	11,138,145	(58,696,576)
<u>\$ 60,162,614,821</u>	<u>\$ (5,488,324,721)</u>	<u>\$ 11,138,145</u>	<u>\$ 54,685,428,245</u>

**EXHIBIT II**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, & CHANGES  
IN FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
For the fiscal year ended August 31, 2007**

	GOVERNMENTAL FUND TYPES			
	GENERAL (EXH A-2)	SPECIAL REVENUE (EXH B-2)	CAPITAL PROJECTS FUND (7604)* U/F (7604)	GOV'T FUNDS TOTAL
	\$	\$	\$	\$
<b>REVENUES:</b>				
Legislative Appropriations:				
Original Appropriations	965,133			965,133
Add'l Appropriations	307,471			307,471
Taxes		36,826,897		36,826,897
Federal Revenues		1,941,088,023		1,941,088,023
Federal Grant Pass Through Revenues		52,520,146		52,520,146
Licenses, Fees and Permits [Note 1 H(4)]	936,179	1,208,391,789		1,209,327,968
Interest & Investment Income		181,172,639		181,172,639
Land Income		4,010,886		4,010,886
Settlement of Claims		222,506		222,506
Sales of Goods and Services	1,739,662	242,385,443		244,125,105
Other Revenues		21,474,727		21,474,727
<b>TOTAL REVENUES:</b>	<u>3,948,445</u>	<u>3,688,093,056</u>	<u>0</u>	<u>3,692,041,501</u>
<b>EXPENDITURES:</b>				
Salaries and Wages	1,341,872	631,683,100		633,024,972
Payroll Related Costs	405,807	218,626,564		219,032,371
Professional Fees and Services	4,514	530,584,171		530,588,685
Travel	69,689	6,860,450		6,930,139
Materials and Supplies	11,599	272,973,985		272,985,584
Communications and Utilities	10,971	57,275,932		57,286,903
Repairs and Maintenance	185	1,435,220,131		1,435,220,316
Rentals and Leases	2,115	13,303,082		13,305,197
Printing and Reproduction		10,010,702		10,010,702
Claims and Judgments		10,945,250		10,945,250
Federal Pass Through Expenditures		25,235,634		25,235,634
State Grant Pass Through Expenditures		27,010,311		27,010,311
Intergovernmental Payments	7,353,208	137,279,930	14,849,649	159,482,787
Public Assistance Payments		108,859,769		108,859,769
Other Expenditures	46,160	192,270,204		192,316,364
Principal on State Bonds		56,180,000		56,180,000
Interest on State Bonds		202,792,270		202,792,270
Other Financing Fees		1,512,224		1,512,224
Capital Outlay		4,162,953,911		4,162,953,911
Depreciation Expense				0
<b>TOTAL EXPENDITURES:</b>	<u>9,246,120</u>	<u>8,101,577,620</u>	<u>14,849,649</u>	<u>8,125,673,389</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES:</b>	<u>(5,297,675)</u>	<u>(4,413,484,564)</u>	<u>(14,849,649)</u>	<u>(4,433,631,888)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In [Note 1 H (7)]	1,364,169	4,020,921,157	14,849,649	4,037,134,975
Operating Transfers Out [Note 1 H (7)]	(46,117)	(2,537,519,924)		(2,537,566,041)
Bond & Note Proceeds		3,149,155,000		3,149,155,000
Insurance Recoveries		719,463		719,463
Sale of Capital Assets	4,152,293	4,405,583		8,557,876
Gain (Loss) on Sale of Capital Assets				
Increase in Net Assets Due to Interagency Transfer				
Decrease in Net Assets Due to Interagency Transfer				
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>5,470,345</u>	<u>4,637,681,279</u>	<u>14,849,649</u>	<u>4,658,001,273</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

GOVERNMENT-WIDE ADJUSTMENT FUND TYPES

CAPITAL ASSETS ADJUSTMENTS	LONG TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF ACTIVITIES
\$	\$	\$	\$
			965,133
			307,471
			36,826,897
		(15,613,529)	1,925,474,494
			52,520,146
			1,209,327,968
			181,172,639
			4,010,886
			222,506
			244,125,105
			21,474,727
<u>0</u>	<u>0</u>	<u>(15,613,529)</u>	<u>3,676,427,972</u>
	4,534,577		637,559,549
			219,032,371
			530,588,685
			6,930,139
			272,985,584
			57,286,903
			1,435,220,316
			13,305,197
			10,010,702
			10,945,250
			25,235,634
			27,010,311
			159,482,787
			108,859,769
			192,316,364
	(56,180,000)		0
			202,792,270
			1,512,224
(4,162,953,911)			0
552,502,342			552,502,342
<u>(3,610,451,569)</u>	<u>(51,645,423)</u>	<u>0</u>	<u>4,463,576,397</u>
<u>3,610,451,569</u>	<u>51,645,423</u>	<u>(15,613,529)</u>	<u>(787,148,425)</u>
			4,037,134,975
	(3,149,155,000)		(2,537,566,041)
			0
			719,463
(8,557,876)			0
(1,013,794)			(1,013,794)
218,133			218,133
(17,588)			(17,588)
<u>(9,371,125)</u>	<u>(3,149,155,000)</u>	<u>0</u>	<u>1,499,475,148</u>

**EXHIBIT II**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, & CHANGES  
IN FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
(Concluded)**

	GOVERNMENTAL FUND TYPES			
	GENERAL (EXH A-2)	SPECIAL REVENUE (EXH B-2)	CAPITAL PROJECTS FUND (7604)* U/F (7604)	GOVT FUNDS TOTAL
<b>Net change in Fund Balances/Net Assets</b>	\$ 172,670	\$ 224,196,715	\$ 0	\$ 224,369,385
<b>Fund Financial Statement - Fund Balances</b>				
<b>FUND BALANCES, Sept. 1, 2006</b>	1,300,076	559,239,339		560,539,415
<b>FUND BALANCES, Aug. 31, 2007 (Exh. I)</b>	<u>\$ 1,472,746</u>	<u>\$ 783,436,054</u>	<u>\$ 0</u>	<u>\$ 784,908,800</u>
<b>Government-wide Statement of Net Assets</b>				
Net Assets/Net Change in Net Assets				
Net Assets-Beginning				
Restatements (Note 18)				
Net Assets-September 1, 2006, as restated				
Net Assets as of August 31, 2007				

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX).

The accompanying notes to the financial statements are an integral part of this financial statement.

GOVERNMENT-WIDE ADJUSTMENT FUND TYPES

CAPITAL ASSETS ADJUSTMENTS	LONG TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF ACTIVITIES
\$ 3,601,080,444	\$ (3,097,509,577)	\$ (15,613,529)	\$ 712,326,723
			560,539,415
			784,908,800
<u>3,601,080,444</u>	<u>(3,097,509,577)</u>	<u>(15,613,529)</u>	<u>487,957,338</u>
56,565,350,970	(2,390,815,144)	26,751,674	54,201,287,500
(3,816,593)			(3,816,593)
<u>56,561,534,377</u>	<u>(2,390,815,144)</u>	<u>26,751,674</u>	<u>54,197,470,907</u>
\$ <u><u>60,162,614,821</u></u>	\$ <u><u>(5,488,324,721)</u></u>	\$ <u><u>11,138,145</u></u>	\$ <u><u>54,685,428,245</u></u>

**EXHIBIT III**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**August 31, 2007**

	(0865)* U/F 0865	ENTERPRISE FUND TOTAL
	\$	\$
<b>ASSETS</b>		
Current Assets:		
Cash on Hand	44,263	44,263
Cash in Bank (Note 3)	9,921,017	9,921,017
Short Term Investments	545,192,798	545,192,798
Receivable:		
Interest and Dividends	3,695,995	3,695,995
Local Governments	2,071,255	2,071,255
NTTA	329,806	329,806
Total Current Assets	<u>561,255,134</u>	<u>561,255,134</u>
Non-Current Assets:		
Restricted:		
Cash In State Treasury	127,156	127,156
Investments	120,976,966	120,976,966
Deferred Charges	47,689,533	47,689,533
Capital Assets:		
Non- Depreciable		
Land	610,604,766	610,604,766
Roadways	1,073,996,517	1,073,996,517
Construction in Progress	518,413,907	518,413,907
Depreciable		
Buildings	7,728,382	7,728,382
less Accumulated Depreciation	(546,334)	(546,334)
Infrastructure	367,341,057	367,341,057
less Accumulated Depreciation	(7,725,347)	(7,725,347)
Total Non- Current Assets	<u>2,738,606,603</u>	<u>2,738,606,603</u>
Total Assets	<u>3,299,861,737</u>	<u>3,299,861,737</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Payables		
Accounts Payable	38,727,112	38,727,112
Contracts Payable - Retainage	13,248,565	13,248,565
Payable to CTRMA	615,893	615,893
Payable to HCTRA	41,775	41,775
Deferred Revenue	40,837,735	40,837,735
Payable From Restricted Assets-Current Portion	13,098,129	13,098,129
Due to Other Funds (Note 8)	1,545,647	1,545,647
Notes/Loans Payable (BANS) (Note 5)	786,411,630	786,411,630
Total Current Liabilities	<u>894,526,486</u>	<u>894,526,486</u>
Non-Current Liabilities:		
Revenue Bonds Payable (Note 5)	1,434,608,570	1,434,608,570
Notes/Loans Payable (TIFA) (Note 5)	124,930,000	124,930,000
Total Non-Current Liabilities	<u>1,559,538,570</u>	<u>1,559,538,570</u>
Total Liabilities	<u>2,454,065,056</u>	<u>2,454,065,056</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	845,796,681	845,796,681
Total Net Assets	<u>\$ 845,796,681</u>	<u>\$ 845,796,681</u>

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX)

The accompanying notes to the financial statements are an integral part of this financial statement.

**EXHIBIT IV**

**STATEMENT OF REVENUES, EXPENSES, and CHANGES in NET ASSETS  
- PROPRIETARY FUNDS  
For the Fiscal Year Ended August 31, 2007**

	(0865)* U/F 0865	ENTERPRISE FUND TOTAL
<b>Operating Revenues</b>		
Toll Receipts	\$ 16,743,690	\$ 16,743,690
Total Operating Revenues	<u>16,743,690</u>	<u>16,743,690</u>
<b>Operating Expenses</b>		
Professional Fees and Services	(53,337)	(53,337)
Materials and Supplies	(1,089,459)	(1,089,459)
Communication and Utilities	(561,225)	(561,225)
Repairs and Maintenance	(3,097,147)	(3,097,147)
Depreciation and Amortization Expense	(1,309,471)	(1,309,471)
Prompt Payment Interest	(23,962)	(23,962)
Contracted Services-Laborers	(16,167,968)	(16,167,968)
Advertising	(2,810,896)	(2,810,896)
Other Operating Expenses	(243,641)	(243,641)
Total Operating Expenses	<u>(25,357,106)</u>	<u>(25,357,106)</u>
Operating Income (Loss)	<u>(8,613,416)</u>	<u>(8,613,416)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Lease Revenue	12,864	12,864
Interest and Investment Income	31,894,867	31,894,867
Interest Expense	(65,005,276)	(65,005,276)
Accretion on Capital Appreciation Bonds	(23,731,792)	(23,731,792)
Net Realized and Unrealized (Loss) on Investments	(249,652)	(249,652)
Settlement of Claims	16,799	16,799
Other Financing Fees	(283,484)	(283,484)
Total Nonoperating Revenues (Expenses)	<u>(57,345,674)</u>	<u>(57,345,674)</u>
Income (Loss) before Other Revenues, Expenses, Gains/Losses and Transfers	<u>(65,959,090)</u>	<u>(65,959,090)</u>
<b>Other Revenues, (Expenses), Gains/(Losses) and Transfers</b>		
Capital Contributions	2,156,549	2,156,549
Operating Transfer In [Note 1 H(7)]	147,880,001	147,880,001
<b>Total Other Revenues, (Expenses), Gains/(Losses) and Transfers</b>	<u>150,036,550</u>	<u>150,036,550</u>
Change in Net Assets	<u>84,077,460</u>	<u>84,077,460</u>
Total Net Assets, September 1, 2006	761,719,221	761,719,221
Total Net Assets, August 31, 2007	<u>\$ 845,796,681</u>	<u>\$ 845,796,681</u>

\* Appropriated Fund is noted as (XXXXX), USAS D23 Fund is noted as U/F (XXXXX)

The accompanying notes to the financial statements are an integral part of this financial statement.

**EXHIBIT V**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
For the Fiscal Year Ended August 31, 2007**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	(0865)* U/F 0865	ENTERPRISE FUND TOTAL
	\$	\$
Receipts from Customers	24,720,889	24,720,889
Payments to Vendors	(23,290,345)	(23,290,345)
Net Cash Provided by Operating Activities	<u>1,430,544</u>	<u>1,430,544</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Leave Revenue	12,864	12,864
Proceeds from Capital Contributions	1,836,831	1,836,831
Capitalized Interest Payments	(98,636,318)	(98,636,318)
Payments for Additions to Land and Construction in Progress	(204,993,858)	(204,993,858)
Payments for Remarketing Fees and Other Costs	(283,484)	(283,484)
Net Cash Provided by Capital and Related Financing Activities	<u>(302,063,965)</u>	<u>(302,063,965)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales of Investments	897,050,444	897,050,444
Proceeds from Interest and Investment Income, net of fees	47,263,122	47,263,122
Payments to Acquire Investments	(577,115,558)	(577,115,558)
Net Cash Provided by Investing Activities	<u>367,198,008</u>	<u>367,198,008</u>
Increase (Decrease) in Cash and Cash and Cash Equivalents	<u>66,564,587</u>	<u>66,564,587</u>
Cash and Cash Equivalents - September 1, 2006	395,005,233	395,005,233
Cash and Cash Equivalents - August 31, 2007	<u>\$ 461,569,820</u>	<u>\$ 461,569,820</u>

**EXHIBIT V**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONCLUDED)**  
**For the Fiscal Year Ended August 31, 2007**

	(0865)* U/F 0865	ENTERPRISE FUND TOTAL
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	\$	\$
Operating Income (Loss)	<u>(8,613,416)</u>	<u>(8,613,416)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Amortization and Depreciation	1,309,471	1,309,471
Operating Income and Cash Flow Categories Classification Differences		
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(682,335)	(682,335)
Increase (Decrease) in Payables	1,420,228	1,420,228
Increase (Decrease) in Due to Other Funds	2,147,063	2,147,063
Increase (Decrease) in Deferred Revenue	5,849,533	5,849,533
Total Adjustments	<u>10,043,960</u>	<u>10,043,960</u>
Net Cash Provided by Operating Activities	<u>\$ 1,430,544</u>	<u>\$ 1,430,544</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:**

Enterprise Fund 865 is reporting Unrealized and Realized Loss of \$249,652 for the twelve month period ended August 31, 2007.

**Reconciliation of Cash**

Open-end Mutual Funds classified in Short Term Investments	\$ 451,477,384
Cash and Cash Equivalents	<u>10,092,436</u>
	<u>\$ 461,569,820</u>

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F(XXXX).

The accompanying notes to the financial statements are an integral part of this financial statement. Note 1 describes the accounting policy on cash and cash equivalents.

## EXHIBIT VI

### Statement of Fiduciary Net Assets - Fiduciary Funds August 31, 2007

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	Agency Funds (EXH C)
	\$ _____
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	
Cash on Hand	472,912
Cash In State Treasury	99,809,349
Total Current Assets	<u>100,282,261</u>
 Total Assets	 <u>100,282,261</u>
 <b>LIABILITIES</b>	
Current Liabilities:	
Payables	
Other Intergovernmental Payables	6,537,457
Funds Held for Others	93,744,804
Total Current Liabilities	<u>100,282,261</u>
 Total Liabilities	 <u>100,282,261</u>
 <b>NET ASSETS</b>	
Total Net Assets	\$ <u><u>0</u></u>

# **Notes to the Financial Statements**

## NOTES TO THE FINANCIAL STATEMENTS

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Scope of Entity**

The Texas Department of Transportation (TxDOT), “the department,” governed by the five-member Texas Transportation Commission and an executive director selected by the “Commission” is an agency of the State of Texas. Its operations are conducted by a central office with twenty-one functional divisions, six offices, and twenty-five geographic districts. Further details are provided in the addendum.

The Texas Legislature created the State Highway Department in 1917 to grant financial aid to counties for highway construction and maintenance.

The Sixty-fourth Legislature (1975) created the State Department of Highways and Public Transportation by combining the authorities and responsibilities of the Texas Mass Transportation Commission and the State Highway Department. It also established the Public Transportation Fund and gave the department the responsibility for its administration.

On May 5, 1976, the functions of the Governor's Office of Traffic Safety were transferred to the department by Executive Order D.B. 28.

The Seventy-second Legislature (1991) created the Texas Department of Transportation (TxDOT) by merging the State Department of Highways and Public Transportation with the Texas Department of Aviation (effective September 1, 1991) and the Texas Motor Vehicle Commission (effective September 1, 1992).

H.B. 2845, signed June 1995, established the seven member Texas Automobile Theft Prevention Authority in the Texas Department of Transportation. The Authority is not an advisory body to TxDOT. TxDOT provides the Authority with staffing assistance and related administration services to implement Authority decisions.

S.B. 370, signed June 1997, abolished the Texas Turnpike Authority and created the Texas Turnpike Authority Division within the Texas Department of Transportation, along with the creation of regional tollway authorities. This bill also established the State Infrastructure Bank.

#### **Blended Component Units**

The Texas Transportation Corporations, created pursuant to H.B. 1986 - Article 15281 to perform many functions normally undertaken by the department, have been included in the reporting entity because it is the professional judgment of management that the department exercises sufficient authority over assets, operations, and management to warrant their inclusion. As a result, the Texas Transportation Corporations are shown as a special revenue fund, Fund 999 [See Note 1C-(4)]. Even though the Texas Transportation Corporations are a part of the Texas Department of Transportation accounting entity, inclusion of these corporations should not be taken as an admission for legal proceedings that the state is liable for debts of these corporations, nor is entitled to the assets of these corporations.

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### Discrete Component Units

No component units have been identified which require discrete presentation in the accompanying financial statements.

### B. Basis of Presentation

The accompanying financial statements were prepared in conformity with procedures specified by the Texas State Comptroller's Office. The primary purpose of this report is to comply with legislative requirements to provide data for the Comptroller's Office. This data are combined by the Comptroller's Office with similar data from the other state agencies and activities in order to prepare a Comprehensive Annual Financial Report for the state.

Due to significant changes related to Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the Comptroller of Public Accounts does not require the accompanying annual financial report to be in compliance with generally accepted accounting principles (GAAP). The financial report will be considered for audit by the State Auditor as part of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

### C. Fund Structure

The financial statements are organized on the basis of funds, each of which is reported as a separate accounting entity within the department. Each fund's operations are accounted for in a separate set of accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. These funds are reported separately within the department.

The department's funds fall under three categories. The first category, Governmental Fund Type and Government-wide Adjustment Fund Types, includes General, Special Revenue, Capital Projects and Government-wide Adjustment Fund Types. The second category, Proprietary Funds Types, includes Enterprise Funds. The third category, Fiduciary Fund Types, includes Agency Funds.

(1) Governmental Fund Type and Government-wide Adjustment Fund Types - General and Special Revenue Funds are used to account for the department's appropriations from the state's General Revenue Fund and proceeds from specific revenue sources that are legally restricted to expenditures for specified purposes. Capital Projects Funds are established to account for resources that are to be used to acquire major long-lived capital facilities. Their principal purpose is to assure the economical and legal expenditure of the resources, but they also serve as cost accounting mechanisms for the accumulation of the cost of major capital outlay projects. Adjustment Fund Types are used to convert governmental fund types' from modified to full accrual.

(a) General Revenue Fund (001) - The General Revenue Fund is used to account for all financial resources of the state except those required to be accounted for in another fund. As of August 31, 1993, the Texas Highway Beautification Fund was consolidated into the General Revenue Fund. As of September 1, 2001, the Texas

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Collegiate License Plate Account and Suspense Fund 900 were consolidated into the General Revenue Fund. The Texas Collegiate License Plate Account and Suspense Fund 900 were previously presented as Agency Funds.

- 1.) Texas Highway Beautification Fund Account (071) - This account was established to implement the Texas highway beautification program. Revenues are obtained from outdoor advertising license and permit fees.
  - 2.) Suspense Fund (900) - This fund is used to temporarily hold and account for receipts, until the correct disposition of the items is determined.
  - 3.) Texas Collegiate License Plate Account (5015) - This fund is used to receive and account for fees charged from special collegiate license plates in addition to motor vehicle registration fees.
- (b) State Highway Fund (006) - This fund is restricted to expenditures for the building, maintaining, and policing of state highways. It derives its financing primarily from legally dedicated revenues such as motor fuels tax and vehicle registration fees, and from federal reimbursements for selected construction projects.
- (c) State Infrastructure Bank (099) - This account receives federal along with state matching funds. This account also receives loan principal and interest repayments. These receipts are used for loans to public and private entities to encourage the development of transportation projects and facilities. As these loans are repaid, these repayments are deposited into a separate program cost account in the State Infrastructure Bank account.
- (d) Texas Mobility Fund (365) - This fund was created to account for the construction, reconstruction, acquisition, and expansion of state highways, including costs of design and acquisition of right-of-way. This fund may also be used to provide state participation in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects. This fund is to be financed primarily from the sale of obligations of the state, appropriations made by the legislature of revenue, including taxes, other money not otherwise dedicated by the construction and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to the fund.
- (e) Local Fund (999) - This fund presents the combined activities of the one transportation corporation [See Note 1C-(4)].
- (f) Capital Projects Fund (7604) - This fund is used to account for general obligation bonds issued by the Texas Public Finance Authority. The purpose of these bonds is to provide financial assistance to counties for roadway projects serving border colonias. The program is aimed at providing access roads to colonias to connect residents to other public roads and not necessarily for paving all roads and streets within any particular colonia. TxDOT is responsible for administering this program in cooperation with the Office of the Governor, Secretary of State and the Texas A&M Center for Housing and Urban Development.
- (g) Capital Asset Adjustment Fund Type - The Capital Asset Adjustment Fund Type will be used to convert

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governmental fund types' capital assets from modified accrual to full accrual.

- (h) Long - Term Liabilities Adjustment Fund Type - The Long - Term Liabilities Adjustment Fund Type will be used to convert governmental fund types' debt from modified accrual to full accrual. The composition of this Adjustment Fund Type is discussed in Note 5 under employees' compensable leave, general obligation bonds, and revenue bonds.
  - (i) Other Adjustment Fund Type - The Other Adjustments Fund Type will be used to convert all other governmental fund types activity from modified accrual to full accrual. TxDOT will use this column to convert FHWA deferred revenue, that is collectable but not collectable within one year, to revenue under full accrual.
- (2) Proprietary Fund Types - Enterprise Funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the three following criteria is met: The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Laws and regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.
- (a) Turnpike Authority Project Disbursing Account (865)-This fund shows the local and treasury activity of the Central Texas Turnpike System.
- (3) Fiduciary Fund Type - Agency Funds are used to account for assets held in a custodial capacity for other entities and do not involve measurement of results of operations.
- (a) General Revenue Fund (001) - This fund receives certificate of title fees, oversize/overweight permit receipts, sales tax receipts and other collections of monies that are used to fund other state entities. During fiscal year 2007, this fund received \$ 2,226 in pay telephone receipts and no vending machine receipts.
  - (b) Proportional Registration Distributive Trust Fund (021) - This fund is used primarily to collect and distribute registration fees from trucking companies that operate in more than one state. These fees are distributed to the individual states based on mileage driven.
  - (c) Employees' Savings Bond Account (901) - This fund receives and disburses employee payroll deductions for U.S. Savings Bonds.
  - (d) County, Political Subdivision, Local Government Road/Airport Trust Account (927) - This fund is used to hold money paid in advance by cities, counties, and others to reimburse the department for expenditures on specific projects from the State Highway Fund (006).
  - (e) Direct Deposit Correction Account (980) - This fund is used to temporarily hold and account for direct deposits that are unable to be processed, until the correct disposition of the items is determined.

- (4) Component Units - The implementation of GASB #14 requires government entities to describe any component units of the primary government, as well as the method used to report their activities. The one Texas Transportation Corporation is considered a component unit, per GASB #14. It is presented in the financial statements of the department as a special revenue fund, Fund 999.

This transportation corporation is a nonprofit organization which may (1) contract with the department to construct and/or improve projects designated by the department, (2) sell the projects to the department in accordance with the terms of the contract, and (3) contract with the department to supervise construction and provide construction management services for highways being constructed on behalf of the department. These projects must be intended to become part of the federal or state highway system, and as such, the department will assume responsibility for their maintenance.

This corporation may issue bonds and notes to finance the cost of its projects. These bonds and notes must be approved by the Attorney General and state on their face that they are not obligations of the State of Texas. As of August 31, 2007 this corporation had no bond issues outstanding. The Commission approves the creation of the corporation, approves the articles of incorporation, appoints directors, and approves by-laws. At any time, the Commission may terminate and dissolve the corporation. In the event of dissolution or liquidation of the corporation, all assets shall be turned over to the department.

D. Basis for Accounting

The basis of accounting determines when revenues and expenditures are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and agency funds are accounted for on the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Expenditures are generally recognized when the related fund liability is incurred. Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual method of accounting. This includes capital assets and unpaid employee compensable leave.

A proprietary fund is accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. A proprietary fund distinguishes operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for an enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets.

E. Budgets and Budgetary Accounting

(1) General Budget Policies

The Texas Department of Transportation's budget is prepared on a performance-based concept, and is represented by biennial appropriations authorized by the legislature, and approved by the governor. Encumbrance

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accounting is employed for budgetary control purposes.

(2) Encumbrances

An encumbrance is defined as a purchase order for equipment ordered but not yet received as of the end of the fiscal year, contracts awarded for buildings and land, or contracts awarded to reimburse grantees. Highway construction contracts, spot purchases, and other contract obligations extending beyond the current year are not reported as encumbrances, in accordance with Comptroller requirements. Encumbrances are included in the accounts to reserve a portion of fund equity for future obligations. At year end, encumbrances are reported as a category of the fund equity section of the balance sheet.

F. Assets, Liabilities and Fund Balance

(1) Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. On the Statement of Cash Flows, cash and cash equivalents are considered to be cash in bank, cash in State Treasury, and money market funds with original maturities of three months or less from the date of acquisition.

(2) Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund notes/loans, revenue bonds, and revenues set aside for statutory or contractual requirements.

(3) Consumable Inventories

Inventory items are reported at a weighted-average cost. The inventory consists of supplies and roadway materials on hand for future use. Governmental accounting principles allow the costs to be reported as an expenditure of the purchasing fund when the items are acquired or deferred until the items are used. Comptroller policy requires that the consumption method of accounting be used to account for inventories and prepaid items, and that the cost of these items be expensed when the items are consumed. Inventories are also reported in the fund equity section as a reservation of fund equity, to show they do not constitute future spendable resources, even though they are a component of current assets. Included in inventories were prepaid postage items totaling \$ 754,626 as of August 31, 2007.

(4) Notes/Loans Receivable

The Fund 1 account represents loans of \$248,323 to the City of Castroville; \$199,765 to the City of Hondo; \$34,315 to the City of Paris; \$16,473 to Zapata County; and \$3,821 to Nueces County. Of this amount, \$53,128 is receivable within one year from August 31, 2007.

The Fund 6 account represents a 4.6 million dollar loan to the North Texas Tollway Authority and a \$3,950,416

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loan to Alamo Regional Mobility Authority. This entire amount is considered long term.

The Fund 99 account represents loans of 135 million dollars to the North Texas Tollway Authority; \$24,011,001 to the City of Round Rock; \$19,500,000 to the City of Laredo; \$14,000,000 to the City of Kyle; \$5,932,916 to the City of El Paso; \$5,243,716 to the City of Mesquite; \$4,000,000 to the City of Corpus Christi; \$3,500,000 to Wise County; \$2,800,000 to the City of Kerrville; \$2,264,865 to Bexar County; \$2,004,394 to Hidalgo County; \$1,039,630 to the City of Baytown; \$851,016 to the City of Atlanta; \$605,551 to the City of Rockdale; \$550,000 to the City of Sequin; \$500,120 to the City of Cameron; \$409,718 to the City of Socorro; \$353,315 to the City of Kennedale; \$329,950 to Duck Creek Water Supply Corporation; \$314,864 to the City of W. Columbia; \$286,026 to the Town of Anthony; \$230,492 to Taylor County; \$229,458 to the City of Pinehurst; \$221,156 to Goliad County; \$184,810 to the City of Winnsboro; \$170,000 to the City of Sinton; \$125,507 to the City of Weatherford; \$108,029 to the City of Gregory; \$105,837 to the City of Robstown; \$101,292 to the City of Easton; \$86,326 to the City of Henderson; \$58,824 to the City of Clyde; \$55,191 to Horizon City; \$39,567 to the City of Stamford; \$24,223 to the City of Dawson; \$18,974 to Lavaca County for a total receivable of \$225,256,768. Of this amount, \$10,702,615 is receivable within one year from August 31, 2007.

(5) Capital Assets

Assets with an initial, individual cost at or above the thresholds established by the Texas Comptroller of Public Accounts and having an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost if purchased, or if not purchased, at the appraised fair value of the assets as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as land are not depreciated. The roads and highway system for which the Texas Department of Transportation is responsible are reported on the modified basis. Assets, including bridges, are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair market value on the date of acquisition. Interest and amortization expenses, net of interest income, incurred during construction are capitalized. As permitted by GASB Statement No. 34, Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments ("GASB 34"), the State of Texas has adopted the modified approach for reporting its highway system. Depreciation will be calculated on bridges and infrastructure assets not included as part of the highway system.

Through fiscal year 2006, the Department reported condition assessments on the highway system based solely on the results of its Texas Maintenance Assessment Program (TxMAP). TxMAP involves yearly condition assessments (GASB requirement is every three years) which determine the overall condition levels of the Interstate and Non-Interstate highway systems. The Texas Transportation Commission has adopted condition levels of 80% for the Interstate system and 75% for the Non-Interstate system based on condition assessments conducted under TxMAP. In fiscal year 2007, the Department began revising the process by which it assesses the condition levels of the state's Interstate and Non-Interstate highways. The new process, known as the Texas Condition Assessment Program (TxCAP), will combine data from the Texas Maintenance Assessment Program (TxMAP), TxDOT's Pavement

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Management Information System (PMIS), and the Texas Traffic Assessment Program (TxTAP). As a result, TxCAP will provide a more comprehensive assessment of the Interstate and Non-Interstate highway systems.

(6) Non-Current Assets

For special revenue funds, the category of "Other Non-Current Assets" represents long-term interest receivables on Notes and Loans. For the proprietary funds, the costs associated with debt issuance totaled \$59,351,773. These costs are not reported as an expense of the period in which they were incurred, but instead are reported as an adjustment to interest expense throughout the period during which the related debt is outstanding. Unamortized deferred charges equaled \$47,689,533 as of August 31, 2007.

(7) Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

(8) Contracts Payable

Contracts Payable represents the amount of contract retainage held in the State Highway Fund or Turnpike Authority Project Disbursing Account, or in a contractor's local bank on highway construction contracts. State law permits the department to allow the contractor to have the retainage held in a bank of his choice rather than in the state treasury. Departmental policy limits this to individual contracts exceeding \$300,000. For contracts under \$300,000, the retainage is kept in the state treasury. In either case, the retained cash still belongs to the State Highway Fund until released to the contractor. By law, interest earned on the bank deposits belongs to the contractors. For contracts of the Central Texas Turnpike System, retainage is held by the Trustee, Bank of New York.

(9) Employee's Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the statement of net assets.

(10) Bonds Payable – General Obligation Bonds

General Obligation bonds relate to the Texas Mobility Fund (365) and are accounted for in the Long-Term Liabilities Adjustment Fund Type. Premiums and discounts are reported as "interest and investment income" in the period the bonds are sold. Payables are reported separately as either current or non-current in the statement of net assets.

(11) Bonds Payable – Revenue Bonds

Revenue bonds are accounted for in the State Highway Fund (006) and the Turnpike Authority Project Disbursing Account (865). The Revenue bonds related to the State Highway Fund are accounted for in the Long-

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Term Liabilities Adjustment Fund Type. Premiums and Discounts are reported as “interest and investment income” in the period the bonds are sold. The bonds payable related to the Turnpike Authority Project Disbursing Account are reported at par less unamortized discount or plus unamortized premium. Interest expense is reported on the accrual basis, with amortization of discount or premium. Payables are reported separately as either current or non-current in the statement of net assets.

(12) Reservations of Fund Balance

- (a) Reserved for Encumbrances - This represents commitments of the value of contracts awarded or assets ordered prior to year-end, but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.
- (b) Reserved for Imprest Accounts - This represents funds held for travel advances and petty cash as of August 31, 2007.
- (c) Reserved for Inventories - This represents the amount of inventories held to be used in future periods.
- (d) Unreserved - This amount represents the unexpended balance at year end which is available for use in subsequent years.

G. Net Assets – The difference between fund assets and liabilities is ‘Net Assets’ on the government-wide, proprietary fund statements.

(1) Invested In Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt (net of unspent proceeds) that are attributed to the acquisition, construction, or improvement of those assets.

(2) Restricted Net Assets

Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Restricted assets expected to be used for debt service payments in the next twelve months are classified as current assets. There were no restricted net assets as of August 31, 2007.

(3) Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but which can be removed or modified. There were no unrestricted net assets as of August 31, 2007.

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H. Revenues, Expenditures, Transfers, and Restatements

(1) Taxes

This represents state sales tax from the sale of lubricants (6.25%), as estimated by the Texas Comptroller of Public Accounts, which is deposited to the State Highway Fund.

(2) Federal Revenues

The department receives a substantial portion of its revenues from the Federal Highway Administration, which reimburses the department for certain costs incurred for engineering, construction, right-of-way acquisition, research activities, and general and administrative costs. Federal reimbursement is based on a percentage of the costs expended from state funds on approved projects. The percentage of reimbursement for allowable costs varies from 50 to 100 percent.

The reimbursements by the Federal Highway Administration are based on apportionments to the states from the Federal Highway Trust Fund on a federal fiscal year basis. State plans for construction projects must be approved by the Federal Highway Administration within a given period to be eligible for the apportionments.

<u>Year</u>	<u>Apportionments</u>
2007	\$ 2,624,581,025
2006	2,788,187,765
2005	2,746,192,572
2004	2,476,675,713
2003	2,437,914,381

The department also receives federal funds from the National Highway Traffic Safety Administration in support of the State Traffic Safety Program. Federal participation consists of reimbursement for costs expended on approved traffic safety projects.

Additionally, the department receives funds from the U.S. Federal Transit Administration (FTA) for costs incurred in the administration and technical support of the Public Transportation Program. The FTA sets the maximum amount allowable each fiscal year, and the department is reimbursed for its administrative expenditures up to that amount. The department also receives funds from FTA in support of Rural Public Transportation Projects and the Improved Mobility of Elderly Persons and Persons with Disabilities.

Finally, the department receives federal funds from the Federal Aviation Administration for the airport improvement program and receives some federal funds directly from the U.S. Department of Transportation for the state and community highway safety program.

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(3) Federal Pass Through Revenues

Federal pass through revenues represent amounts passed through to the department from the Texas Department of Public Safety for Department of Homeland Security public assistance grants, from the Texas Health and Human Services Commission for Department of Health and Human Services medical transportation program grants, from the Texas Commission on Environmental Quality for Environmental Protection Agency performance partnership grants, and from the Texas Facilities Commission for General Services Administration federal surplus personal property. See Schedule 1A.

(4) Licenses, Fees, and Permits

This account includes certificate of title fees, motor vehicle registration fees, and outdoor advertising license and permit fees. The Certificate of Title Act is administered by the department, with the various counties of the state acting as its agent. Twenty-eight dollars or \$33.00 is charged for the issuance or reissuance of a Certificate of Title. Fifteen or twenty dollars goes to General Revenue Fund Account 5071-Emission Reduction Plan. The county retains \$5.00 and remits the remaining \$8.00: Three dollars (\$3) to the State Highway Fund, and five dollars (\$5) to the General Revenue Fund.

Motor vehicle registration fees are collected by the county tax assessor-collector and remitted to the department after service fees and a statutory apportionment to the County Road and Bridge Fund, a non-Texas Department of Transportation activity, are deducted. The service fee is \$1.90 for each receipt issued. The apportionments to a County Road and Bridge Fund are 100 percent of the first \$60,000 of collections net of service fees; 100 percent of net collections equal to \$350 per mile of county-maintained roads up to 500 miles (\$175,000); 80% of the 5% of the tax and penalties collected on the sales of motor vehicles in the county during the preceding calendar year; and 50 percent of the next \$250,000 of net collections. Thus the maximum amount apportioned to any County Road and Bridge Fund is \$360,000 plus 5% of the preceding year's motor vehicle sales tax collections. The remainder of the fees is remitted by the counties to the department for deposit in the State Highway Fund.

For fiscal year 2005, counties retained 100% of the 5% of their Motor Vehicle Sales Tax allocation from their Vehicle Registration collections as part of the county road and bridge formula. Beginning in fiscal year 2006, counties began to retain 10% of the motor vehicles sales tax allocation directly from motor vehicle sales tax collections while the remainder continues to be retained from vehicle registration fees. This annual reallocation will continue until the motor vehicle sales tax allocation is fully funded from Motor Vehicle Sales tax collections.

In fiscal year 2007, the Texas Mobility Fund fee revenue was from United We Stand License Fees, Motor Vehicle Inspection Fees, and Driver Record Information Fees. Driver License Fees will be added in fiscal year 2008 and Certificate of Title Fees in fiscal year 2009.

Most revenues in the Texas Highway Beautification fund account in the General Revenue Fund are obtained from outdoor advertising license and permit fees.



(5) Other Revenues

This account includes collection of damages which are recognized on the modified accrual basis, recognizing the receivable and revenue when the damages occurred, rather than when collected.

Section 201.109 of the Transportation Code concerning Revenue Enhancement states that the department shall adopt a program to enhance existing, and to generate alternate, sources of revenue. In accordance with this, the department has initiated an action plan to enhance revenue by leasing right-of-way, such as rest areas, to commercial enterprises.

The department, through its toll road operations, has entered into agreements with local governments whereby the local governments transfer funds to the department to fund purchases of right of way land and related costs. In some instances, the funds are paid for in advance by the local governments. TxDOT policy is to defer recognition of this revenue until the right of way parcels are purchased. Recognition of these monies paid in advance by local governments is contingent upon the department purchasing the parcels for the stated purpose in the agreement.

(6) Pass-Through Expenditures

During fiscal year 2007, the department made numerous GASB 24 Federal and State Pass-Through payments to different agencies. See Schedule 1A and Schedule 1B.

(7) Operating Transfers In/Out

During fiscal year 2007, the department had numerous transfers between funds and agencies. Individual interfund and intrafund transfers at August 31, 2007, were as follows:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>	<u>REFERENCE</u>
\$		\$	
Appd Fund 0001, D23 Fund 0001:			
(Agency 902, Appd Fund 0001)	1,364,169		(a)
(Agency 902, Appd Fund 0001)		45,952	(b)
(Agency 902, Appd Fund 0001)		165	(c)
Total Transfers for D23 Fund 0001	1,364,169	46,117	
Appd Fund 0006, D23 Fund 0006:			
(Agency 241, Appd Fund 0006)		1,122,307	(d)
(Agency 302, Appd Fund 0006)		5,825,717	(e)
(Agency 347, Appd Fund 0507)		348,168	(f)
(Agency 347, Appd Fund 0735)		7,615	(f)
(Agency 360, Appd Fund 0006)		3,723,947	(g)
(Agency 405, Appd Fund 0006)		531,752,539	(h)
(Agency 529, Appd Fund 0006)		10,000,000	(i)

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>	<u>REFERENCE</u>
	\$	\$	
(Agency 601, Appd Fund 0365)	1,780,133,499		(j)
(Agency 601, Appd Fund 0865)		147,880,001	(k)
(Agency 701, Appd Fund 0006)		50,000,000	(l)
(Agency 727, Appd Fund 0001)		6,726,131	(m)
(Agency 902, Appd Fund 0001)	2,240,787,658		(n)
Total Transfers for D23 Fund 0006	4,020,921,157	757,386,425	
Appd Fund 0365, D23 Fund 0370/ 0371/0372:			
(Agency 601, Appd Fund 0006)		1,780,133,499	(j)
Total Transfers for D23 Fund 0370/0371/0372		1,780,133,499	
Appd Fund 0865, D23 Fund 0865:			
(Agency 601, Appd Fund 0006)	147,880,001		(k)
Total Transfers for D23 Fund 0865	147,880,001		
Appd Fund 7604, D23 Fund 7604:			
(Agency 347, D23 Fund 7604)	14,849,649		(o)
Total Transfers for D23 Fund 7604	14,849,649		
Total (Exh.II & Exh.IV)	\$ 4,185,014,976	\$ 2,537,566,041	

- (a) This reflects amounts transferred from the Comptroller's Office to the General Revenue Fund in accordance with S.B. 1, 79<sup>th</sup> Legislature, R.S., Section V11-27, Rider 36.
- (b) This reflects amounts transferred to the Comptroller's Office in accordance with Texas Government Code 403.021.
- (c) This reflects amounts transferred to the Comptroller's Office in accordance with Texas Government Code 2175.191.
- (d) This reflects amounts provided from the State Highway Fund to the Judiciary Section of the Texas Comptroller of Public Accounts, in accordance with statutory requirements.
- (e) This reflects amounts provided from the State Highway Fund to the Attorney General's Office, in accordance with statutory requirements.
- (f) This reflects amounts provided from the State Highway Fund for the Master Lease Purchase Program (MLPP)

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related to equipment capital leases for the aircraft equipment capital leases. Even though this agency makes these MLPP payments, the associated long-term liability is reported on the financial statements of the Texas Public Finance Authority.

- (g) This reflects amounts provided from the State Highway Fund to the State Office of Administrative Hearings, in accordance with statutory requirements.
- (h) This reflects amounts provided from the State Highway Fund to the Department of Public Safety, in accordance with statutory requirements.
- (i) This reflects amounts provided from the State Highway Fund to the Health and Human Services Commission, in accordance with statutory requirements.
- (j) This reflects the amounts transferred from the Texas Mobility Fund to the State Highway Fund to speed up the completion of various transportation projects.
- (k) This reflects amounts transferred from the State Highway Fund to the Turnpike Authority Project Disbursing Account.
- (l) This reflects amounts provided from the State Highway Fund to the Texas Education Agency, in accordance with statutory requirements.
- (m) This reflects amounts provided from the State Highway Fund to the Texas Transportation Institute, in accordance with statutory requirements.
- (n) This primarily represents the transfer of gallonage taxes on motor fuels sold in Texas, collected by the Texas Comptroller of Public Accounts and transferred to the State Highway Fund. The distribution of these taxes, which are constitutionally dedicated revenues, is as follows:

Gasoline Tax - Generally, twenty cents per gallon on all gasoline sold for highway use. Sales for the exclusive use of the federal government, or a public school district in Texas, are exempt.

The Texas Comptroller of Public Accounts retains 1 percent of the gross receipts for administration and enforcement, and after providing for refunds of non-highway use collections, distributes the remainder:

- a. Available School Fund 25%
- b. State Highway Fund 75%, less \$7,300,000 deposited to the County and Road District Highway Fund

Diesel Fuel Tax - Twenty cents per gallon. Federal government and Texas public school sales are exempt.

The Texas Comptroller of Public Accounts retains 1 percent of gross receipts for administration and



enforcement, and after providing for refunds of non-highway use collections, distributes the remainder:

- a. Available School Fund 25%
- b. State Highway Fund 75%

Liquefied Gas Tax - Fifteen cents per gallon for gas used in motor vehicles on public highways. Sales for the exclusive use of the federal government, local county government, or a public school district in Texas, are exempt. Users of liquefied gas for propulsion of motor vehicles on public highways are required to prepay the tax each year by purchasing a liquefied gas tax permit decal. The tax is based on the weight of the vehicle and the miles driven. Certain transit companies pay a flat fee of \$444 for the liquefied gas tax permit decal.

The Texas Comptroller of Public Accounts retains 1 percent of gross receipts for administration and enforcement, and after providing for refunds of non-highway use collections, distributes the remainder:

- a. Available School Fund 25%
- b. State Highway Fund 75%

- (o) This reflects amounts provided from the Texas Public Finance Authority to the Capital Projects Fund 7604, in accordance with statutory requirements.

**NOTE 2 – CAPITAL ASSETS**

A summary of changes in Capital Assets for the year ended August 31, 2007 is presented below:

	PRIMARY GOVERNMENT							Balance 8/31/2007
	Balance 9/1/2006	Adjustments	Reclassifications			Additions	Deletions	
			Completed CIP	Inc-Int' agy Transfers	Dec Int' agy Transfers			
<b>Governmental Activities:</b>								
<b>Non-depreciable Assets</b>								
Land and Land Improvements	\$ 6,411,195,646					\$ 500,464,554	\$ (2,346,376)	\$ 6,909,313,824
Infrastructure	38,815,948,158	\$ (18,692,538)	\$ 2,559,577,972					41,356,833,592
Construction in Progress	3,825,681,765	(2,520,611)	(2,982,475,194)			3,597,632,700		4,438,318,660
Total non-depreciable assets:	49,052,825,569	(21,213,149)	(422,897,222)	-	-	4,098,097,254	(2,346,376)	52,704,466,076
<b>Depreciable Assets:</b>								
Buildings and Building Improvements	256,731,814	528,928	3,110,697				(525,785)	259,845,644
Infrastructure	15,539,719,569	18,692,538	419,786,535				(26,528,519)	15,951,670,123
Furniture and Equipment	158,335,010	(1,207,249)		195,195	(8,416)	15,026,434	(7,621,369)	164,719,605
Vehicles, Boats, & Aircraft	623,624,928	65,368			(306,839)	49,830,223	(35,864,351)	637,349,329
Other Capital Assets	8,924,181							8,924,181
Total depreciable assets at historical cost:	16,587,335,502	18,079,585	422,897,222	195,195	(315,255)	64,856,657	(70,540,024)	17,022,508,882
Less accumulated depreciation for:								
Buildings and Building Improvements	(136,547,114)					(7,112,389)	499,495	(143,160,008)
Infrastructure	(8,491,265,723)	(669,177)				(504,765,615)	24,365,721	(8,972,334,794)
Furniture and Equipment	(102,176,785)	12,616		(26,119)	5,929	(10,057,747)	6,877,945	(105,364,161)
Vehicles, Boats, & Aircraft	(342,867,873)	(26,468)			271,096	(30,162,083)	31,641,268	(341,144,060)
Other Capital Assets	(1,952,606)					(404,508)		(2,357,114)
Total accumulated depreciation:	(9,074,810,101)	(683,029)	-	(26,119)	277,025	(552,502,342)	63,384,429	(9,564,360,137)
Depreciable assets, net	7,512,525,401	17,396,556	422,897,222	169,076	(38,230)	(487,645,685)	(7,155,595)	7,458,148,745
Governmental activities capital assets, net:	\$ 56,565,350,970	\$ (3,816,593)	\$ -	\$ 169,076	\$ (38,230)	\$ 3,610,451,569	\$ (9,501,971)	\$ 60,162,614,821

	PRIMARY GOVERNMENT							Balance 8/31/2007
	Balance 9/1/2006	Adjustments	Reclassifications			Additions	Deletions	
			Completed CIP	Inc-Int' agy Transfers	Dec Int' agy Transfers			
<b>Business-Type Activities:</b>								
<b>Non-depreciable Assets</b>								
Land and Land Improvements	\$ 561,306,282					\$ 49,298,484		\$ 610,604,766
Infrastructure	-		\$ 1,073,996,517					1,073,996,517
Construction in Progress	1,653,103,840		(1,427,816,829)			293,126,696		518,413,907
Total non-depreciable assets:	2,214,410,122	-	(353,820,112)	-	-	342,425,180	-	2,203,015,190
<b>Depreciable Assets:</b>								
Buildings and Building Improvements	7,385,377		343,005					7,728,382
Infrastructure	13,863,950		353,477,107					367,341,057
Total depreciable assets at historical cost:	21,249,327	-	353,820,112	-	-	-	-	375,069,439
Less accumulated depreciation for:								
Buildings and Building Improvements	(212,609)					(333,725)		(546,334)
Infrastructure	(277,279)					(7,448,068)		(7,725,347)
Total accumulated depreciation:	(489,888)	-	-	-	-	(7,781,793)	-	(8,271,681)
Depreciable assets, net	20,759,439	-	353,820,112	-	-	(7,781,793)	-	366,797,758
Business-type activities capital assets, net:	\$ 2,235,169,561	\$ -	\$ -	\$ -	\$ -	\$ 334,643,387	\$ -	\$ 2,569,812,948

**NOTE 3 - DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS**

Government Code, Chapter 2256 (Public Funds Investment Act) authorizes the Commission to purchase, sell, and invest its funds and funds under its control in accordance with investment policies approved by the Commission. Government Code, 2256.005 requires the commission to adopt a written investment policy regarding the investment of its funds and funds under its control, including a separate written investment strategy for each of the funds or group of funds. The Department is authorized by statute to make investments following the “prudent person rule.” Authorized investments include obligations of or guaranteed by governmental entities, certificates of deposit and share certificates, repurchase agreements, banker's acceptance, commercial paper, mutual funds, investment pools, guaranteed investment contracts, forward purchase contracts, and securities lending program. Except for the violation of the diversification requirement in the investment policy detailed in the Concentration of Credit Risk, there were no significant violations of legal provisions during the period.

**Deposits of Cash in Bank**

As of August 31, 2007, the carrying amount of deposits was \$263,407,034 as presented below.

<b>Governmental and Business-Type Activities</b>	
Cash in Bank – Carrying Value	\$263,407,034
Cash in Bank per AFR	\$263,407,034
Governmental Funds Current Assets Cash in Bank	\$253,486,017
Proprietary Funds Current Assets Cash in Bank	\$9,921,017
Cash in Bank per AFR	\$263,407,034

These amounts consist of all cash in local banks. These amounts are included on the Combined Statement of Net Assets as part of the “Cash and Cash Equivalents” accounts.

As of August 31, 2007, the total bank balance was as follows.

Governmental and Business-Type Activities	\$263,407,034
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**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. All of the Texas Department of Transportation’s deposits are held in the State Treasury or local banks. Deposits of the State of Texas are normally managed by the State Comptroller of Public Accounts (the “Comptroller”) and are protected by \$100,000 of insurance by the Federal Deposit Insurance Corporation (FDIC). Collateral pledged must be equal to at least 105% of the principal amount deposited by the Department. The Comptroller has full responsibility for insuring adequate

collateralization of all state deposits, including those held in local banks. On August 31, 2007, the State Treasury deposits were fully collateralized with securities held by an agent of the Comptroller, in the Department's name, in accordance with the Comptroller's requirements. The proprietary fund's bank deposits were collateralized at August 31, 2007.

**Investments**

As of August 31, 2007, the proprietary fund 865 holds all TxDOT investments. The fair value of investments and maturities are presented below:

Governmental and Business-Type Activities	Maturities (in Years)			Fair Value
	Less than 1	1 – 5	More than 5	
U.S. Government Agency Obligations	\$ 93,715,414	\$5,977,588		\$ 99,693,002
Repurchase Agreement			\$114,999,378	114,999,378
Fixed Income Money Market and Bond Mutual Fund	451,477,384			451,477,384
<b>Total</b>	<b>\$545,192,798</b>	<b>\$5,977,588</b>	<b>\$114,999,378</b>	<b>\$666,169,764</b>

**Custodial Credit Risk – Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission's investment policy states that all securities purchased by the Commission shall be designated as assets of the Commission and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee. As of August 31, 2007, the Commission's investments in U.S. Government Agency obligations and mutual funds were held in the Commission's name. The repurchase agreement is collateralized with U.S. Government and Agency securities. Collateral for the repurchase agreement is held by the Bank of New York with the underlying securities being the property of the JPMorgan Trustee Bank, held in trust for the Commission.

**Credit Risk – Investments**

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policy of the Commission limits investment agreements or other ongoing investment transactions to those with a final maturity or termination date of longer than six months with any financial institution that initially has a long term rating of less than "AA" by a nationally recognized investment rating firm. All investments made by the Commission have been through the list of Qualified Financial Institutions approved by the Commission. The Commission's policy does not limit the amount of investment in obligations of the United States or its agencies. These securities are rated AAA by two major rating agencies, therefore the risk of default is considered remote. Citigroup is rated Aa1, AA-, and AA+ by Moody's, Standard &

Poors ("S & P"), and Fitch Ratings respectively. The Bank of New York is rated Aa3, A+ by Moody's, and S & P Ratings, respectively.

As of August 31, 2007, TxDOT's investments had the following ratings:

Fund Type	GAAP Fund	Investment Type	Fair Value	Moody's Rating	S & P Rating	Fitch Rating	% of Portfolio
05	0865	U.S. Government Agency Obligations	\$ 99,693,002	Aaa	AAA	AAA	14.96%
05	0865	Repurchase Agreement	114,999,378	Aa1	AA-	N/R	17.26%
05	0865	Fixed Income Money Market and Bond Mutual Fund	451,477,384	Aaa	AAA	N/R	67.78%
		Total	\$666,169,764				

#### Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. More than 5 percent of the department's investments are in the Federal National Mortgage Association and in a Salomon Smith Barney Master GIC. These investments are 14.96% and 17.26%, respectively, of the department's total investments. See the table above. The Money Market and Mutual Funds are not exposed to concentration of credit risk due to the diversification requirements required for mutual funds by the Securities and Exchange Commission. The Commission addresses diversification in the Department's Investment Policy. Assets held in particular funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Investment Officer for all funds. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- (a) Portfolio maturities shall be matched versus liabilities to avoid undue market risk.
- (b) Investments selected shall provide for stability of income and liquidity as long as there is preservation and safety of principal.
- (c) Disbursement dates shall be covered through maturing investments and cash equivalent instruments such as money market mutual funds designated under the Public Funds Investment Act and the Investment Policy as an eligible investment.
- (d) No investment shall have maturity in excess of the shorter of the maximum maturity permitted by the Bond Documents or limits specified by Type of Funds in the applicable Investment Strategy Statement.
- (e) If rating restrictions on Securities are breached, prudent action must be taken, consistent with the Investment Policy and the Public Funds Investment Act, to rectify the situation.

**Interest Rate Risk - Investments**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission has addressed interest rate risk in its various accounts by matching as closely as possible anticipated cash flows with income and return of principal on investments. Interest rate risk is essentially eliminated in the Capitalized Interest account as investments have been made such that securities mature on debt service payment dates and will not need to be liquidated prior to maturity. For variable rate bonds, an estimated draw amount has been used to account for the fluctuating nature of the interest payments at a rate higher than current market in order that securities will not need to be liquidated or sold prior to their stated maturities. In general, all securities held by the Commission are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption. Additionally, security maturities have been staggered and in the event the sale of security is required to meet unexpectedly higher construction draws, the proximity of the security to its stated maturity date will minimize the impact of interest rate fluctuations.

**Derivatives**

As of August 31, 2007, the department had not entered into any investment derivative transactions.

**NOTE 4 - SHORT TERM DEBT**

**Changes in Short-Term Liabilities**

During the year ended August 31, 2007, the department utilized a Short-Term Borrowing Program using Commercial Paper. The Commercial Paper proceeds are being used to cover funding shortfalls for capital expenditures.

Governmental Activities	Balance 09-01-06	Additions	Deletions	Balance 08-31-07
Commercial Paper	\$88,850,000	\$170,000,000	\$100,850,000	\$158,000,000
Total Governmental Activities	\$88,850,000	\$170,000,000	\$100,850,000	\$158,000,000

**NOTE 5 - SUMMARY OF LONG TERM LIABILITIES**

**Changes in Long-Term Liabilities**

As detailed on the following page, the following changes occurred in liabilities during the year ended August 31, 2007:



Governmental Activities	Balance 09-01-06	Additions	Reductions	Balance 08-31-07	Amounts Due Within One Year
Compensable Leave	\$ 65,300,144	\$ 95,420,539	\$ 90,885,962	\$ 69,834,721	\$ 56,702,898
General Obligation Bonds	1,725,515,000	2,196,605,000	35,370,000	3,886,750,000	30,900,000
Revenue Bonds	600,000,000	952,550,000	20,810,000	1,531,740,000	50,670,000
<b>Total Governmental Activities</b>	<b>\$2,390,815,144</b>	<b>\$3,244,575,539</b>	<b>\$147,065,962</b>	<b>\$5,488,324,721</b>	<b>\$138,272,898</b>

Business-Type Activities	Balance 09-01-06	Amortization	Interest on CABs	Additions	Reductions	Balance 08-31-07	Principal Due Within One Year
Bond Anticipation Notes	\$ 922,683,259	\$(11,341,629)			\$124,930,000	\$ 786,411,630	\$775,070,000
TIFIA Note Payable	0			\$124,930,000		124,930,000	\$0
Revenue Bonds Payable	1,402,338,648	286,375	\$31,983,547			1,434,608,570	\$0
<b>Total Business-Type Activities</b>	<b>\$2,325,021,907</b>	<b>\$(11,055,254)</b>	<b>\$31,983,547</b>	<b>\$124,930,000</b>	<b>\$124,930,000</b>	<b>\$2,345,950,200</b>	<b>\$775,070,000</b>

**Notes and Loans Payable**

The department issued \$900,000,000 of Bond Anticipation Notes (BANS) on August 29, 2002 for the purpose of paying a portion of the cost of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater City of Austin, Texas metropolitan area in Travis and Williamson Counties, Texas. The proceeds of the Series 2002 Second Tier BANS will be used, together with certain other funds to (i) finance a portion of the costs of planning, designing, engineering, developing and constructing the 2002 CTPP Project (ii) pay the capitalized interest with respect to the Series 2002 Second Tier BANS to their respective maturities and (iii) pay certain issuance costs of the Series 2002 Second Tier BANS. The Second Tier BANS are also payable from the proceeds of any bonds, notes or obligations issued to retire the Series 2002 Second Tier BANS. Interest began accruing on the Series 2002 Second Tier BANS on August 15, 2002, is payable on December 1 and June 1 of each year, from December 1, 2002, until maturity, and is calculated on the basis of a 360-day year of twelve 30-day months. See Note 13 for the related Bonds Payable.

The United States Department of Transportation (“USDOT”) has agreed to lend to the Commission up to \$916,760,000 to pay or reimburse a portion of the costs of the Central Texas Turnpike System’s 2002 Project under the Secured Loan Agreement. The Secured Loan Agreement was entered into pursuant to the provisions of the Transportation Infrastructure Finance and Innovation Act of 1998, 23 United States Code, Section 181, et. Seg. As of August 31, 2007, the Department has drawn \$124,930,000 under the Secured Loan Agreement evidenced by the 2002 TIFIA Bond. The System anticipates that the remainder of the loan will be drawn in 2008 to retire the maturing BANS. Funds under the Secured Loan Agreement are transferred from the United States Department of Treasury upon presentation by the Commission of a request for disbursement in accordance with the provisions of the Secured Loan Agreement.

The obligations of the Commission under the Secured Loan Agreement are evidenced by the 2002 TIFIA Bond, a Subordinate Lien Obligation under the Indenture, payable from a subordinate lien on the Trust Estate described above;

provided, however, that the 2002 TIFIA Bond is not secured by any funds or accounts established under the Indenture established for the benefit of the First Tier Obligations, Second Tier Obligations, or other specific Subordinate Lien Obligations issued pursuant to a supplemental indenture under the Indenture. Upon the occurrence of a Bankruptcy Related Event under the Secured Loan Agreement, the 2002 TIFIA Bond becomes a First Tier Obligation.

The debt service requirements for Notes payable in the Business-Type Activities are as follows:

	BANS		TIFIA*		TOTAL
	Principal	Interest	Principal	Interest	
2008	\$775,070,000	\$38,399,081	\$ 0	\$ 0	\$ 813,469,081
2009	0	0	0	0	0
2010	0	0	0	18,836,749	18,836,749
2011	0	0	0	30,671,121	30,671,121
2012	0	0	0	32,310,794	32,310,794
2013-2017	0	0	0	197,625,169	197,625,169
2018-2022	0	0	0	272,229,659	272,229,659
2023-2027	0	0	28,767,155	338,968,123	367,735,278
2028-2032	0	0	155,720,092	326,025,476	481,745,568
2033-2037	0	0	324,738,825	266,981,116	591,719,941
2038-2042	0	0	754,726,875	139,179,050	893,905,925
<b>Total</b>	<b>\$775,070,000</b>	<b>\$38,399,081</b>	<b>\$1,263,952,947</b>	<b>\$1,622,827,257</b>	<b>\$3,700,249,285</b>

Fixed interest rates vary from 3.125% to 5.510% depending on maturities.

\* Debt service assuming the remainder of the loan is drawn in FY 2008 to retire the maturing BANS.

**Claims and Judgements**

The department’s involvement in claims and judgements is discussed in detail in Note 9. Management’s opinion is that the probable outcome of claims and judgements against the department will not materially affect the financial position of the department; therefore, no liability amount has been accrued.

**Employees’ Compensable Leave**

An employee who terminates his or her employment with the department is entitled to payment for accumulated annual leave up to the maximum allowed. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. Full-time employees earn annual leave from 8 to 21 hours per month, depending on the respective employee’s years of state employment. The maximum number of hours that may be carried forward from the 2006 fiscal year to the next was up to 532 for those with 35 or more years of state employment. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. No employees are paid from proprietary fund types. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**NOTE 6 - CAPITAL LEASES**

In fiscal year 2004, TxDOT assumed the operational responsibilities of the State Aircraft Pooling Board. In assuming this responsibility, TxDOT assumed capital leases under the Master Lease Purchase Program (MLPP). The liabilities associated with these leases are reported in the financial statements of the Texas Public Finance Authority. However, the

capital assets associated with these leases are reported in these statements.

**NOTE 7 - OPERATING LEASE OBLIGATIONS**

To minimize long-term costs, and to ensure future availability of essential services, the department, in routine transactions, enters into leases which extend beyond the end of the fiscal year. The portion of these obligations extended beyond the current year is not a recognized liability, since the benefits have not been received as of the end of the fiscal year. However, these leases will be claims against future appropriations, and consist of the agreements below for the future periods presented.

FISCAL YEAR	EQUIPMENT	FACILITIES	TOTAL
2008	\$3,657,863	\$ 4,269,499	\$ 7,927,362
2009	1,600,829	3,952,017	5,552,846
2010	1,168,475	3,805,835	4,974,310
2011	418,137	3,683,971	4,102,108
2012	58,135	2,760,120	2,818,255
2013-2017	0	1,534,016	1,534,016
2018-2022	0	0	0
<b>TOTAL</b>	<b>\$6,903,439</b>	<b>\$20,005,458</b>	<b>\$26,908,897</b>

The facility operating lease figures listed above include leases which are considered operating leases to the department, but are considered capital leases to the Texas Facilities Commission. The portion of the facility operating leases considered capital leases by the Texas Facilities Commission is listed below. The leases are scheduled to expire on June 30, 2012 and November 30, 2013.

<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY2012</u>	<u>FY 2013-2017</u>
\$2,878,848	\$2,916,366	\$2,916,366	\$2,916,366	\$2,634,841	\$1,534,016

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating leases:

Fund Type	Amount
Special Revenue Funds	\$7,729,811

**NOTE 8 - INTERFUND BALANCES / ACTIVITIES**

The department has numerous transactions between funds and agencies. Individual interfund balances at August 31, 2007 were as follows:

Due From/To Other Agencies:

	DUE FROM OTHER AGENCIES	DUE TO OTHER AGENCIES	SOURCE
	\$	\$	
<b>GENERAL REVENUE</b>			
Appd Fund 0900, D23 Fund 0090: (Agency 902, Appd Fund 0001)		50,963	N/A
Appd Fund 5015, D23 Fund 5015: (Agency 506, Appd Fund 5015)		5,734	N/A
(Agency 711, Appd Fund 0001)		87,990	N/A
(Agency 713, Appd Fund 0001)		1,188	N/A
(Agency 714, Appd Fund 5015)		724	N/A
(Agency 715, Appd Fund 0001)		33,015	N/A
(Agency 717, Appd Fund 0001)		11,239	N/A
(Agency 721, Appd Fund 5015)		109,677	N/A
(Agency 724, Appd Fund 0001)		5,099	N/A
(Agency 730, Appd Fund 5015)		2,836	N/A
(Agency 731, Appd Fund 5015)		1,078	N/A
(Agency 732, Appd Fund 0001)		2,158	N/A
(Agency 733, Appd Fund 0001)		96,562	N/A
(Agency 734, Appd Fund 5015)		660	N/A
(Agency 735, Appd Fund 5015)		418	N/A
(Agency 738, Appd Fund 5015)		3,304	N/A
(Agency 743, Appd Fund 5015)		1,650	N/A
(Agency 747, Appd Fund 5015)		728	N/A
(Agency 751, Appd Fund 0001)		5,527	N/A
(Agency 752, Appd Fund 5015)		9,653	N/A
(Agency 753, Appd Fund 5015)		10,176	N/A
(Agency 754, Appd Fund 5015)		9,892	N/A
(Agency 755, Appd Fund 5015)		3,828	N/A
(Agency 756, Appd Fund 5015)		3,876	N/A
(Agency 757, Appd Fund 0001)		8,116	N/A
(Agency 759, Appd Fund 5015)		5,286	N/A
(Agency 760, Appd Fund 0001)		4,180	N/A
(Agency 765, Appd Fund 5015)		716	N/A
(Agency 781, Appd Fund 5015)		87,516	N/A
(Agency 783, Appd Fund 0001)		66	N/A
(Agency 784, Appd Fund 5015)		5,297	N/A
<b>SPECIAL REVENUE</b>			
Appd Fund 0006, D23 Fund 0006: (Agency 241, Appd Fund 0006)		1,575,547	Transfer
(Agency 302, Appd Fund 0006)		1,022,228	Transfer



	DUE FROM OTHER AGENCIES	DUE TO OTHER AGENCIES	SOURCE
	\$	\$	
(Agency 360, Appd Fund 0006)		46,229	Transfer
(Agency 405, Appd Fund 0006)		40,784,772	Transfer
(Agency 727, Appd Fund 0001)		773,884	Transfer
(Agency 902, Appd Fund 0001)	190,343,774		Transfer
<b>Federal Pass-Throughs</b>			
(Agency 405, Appd Fund 0006)		500,512	Federal P-T
(Agency 458, Appd Fund 0001)		49,379	Federal P-T
(Agency 555, Appd Fund 9999)		41,966	Federal P-T
(Agency 715, Appd Fund 9999)		33,948	Federal P-T
(Agency 716, Appd Fund 9999)		195,638	Federal P-T
(Agency 727, Appd Fund 9999)		3,045,962	Federal P-T
(Agency 732, Appd Fund 9999)		120,691	Federal P-T
(Agency 733, Appd Fund 9999)		215,493	Federal P-T
(Agency 754, Appd Fund 9999)		14,667	Federal P-T
(Agency 757, Appd Fund 9999)		18,269	Federal P-T
(Agency 760, Appd Fund 9999)		21,804	Federal P-T
(Agency 784, Appd Fund 9999)		35,605	Federal P-T
<b>State Pass-Throughs</b>			
(Agency 320, Appd Fund 0001)		276,042	State P-T
(Agency 405, Appd Fund 0006)		32,360	State P-T
(Agency 696, Appd Fund 0001)		61,960	State P-T
Appd Fund 0365, D23 Fund 0370/0371/0372:			
(Agency 902, Appd Fund 0001)		144,348,568	N/A
<b>CAPITAL PROJECTS</b>			
Appd Fund 7604, D23 Fund 7604:			
(Agency 347, Appd Fund 7604)	1,549,831		Transfer
<b>Total Due From/To Other Agencies (Exh I)</b>	<b>\$ 191,893,605</b>	<b>\$ 193,784,676</b>	

Due From/To Other Funds:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	SOURCE
	\$	\$	
<b>GENERAL REVENUE</b>			
Appd Fund 0900, D23 Fund 0090:			
(Agency 601, Appd Fund 0006)		74,571	N/A



	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS	SOURCE
	\$	\$	
<b>SPECIAL REVENUE</b>			
Appd Fund 0006, D23 Fund 0006:			
(Agency 601, Appd Fund 0365)	137,608,202		N/A
(Agency 601, Appd Fund 0865)	1,545,647		N/A
(Agency 601, Appd Fund 0900)	74,571		N/A
Appd Fund 0365, D23 Fund			
0370/0371/0372:			
(Agency 601, Appd Fund 0006)		137,608,202	N/A
<b>ENTERPRISE FUND</b>			
Appd Fund 0865, D23 Fund 0865:			
(Agency 601, Appd Fund 0006)		1,545,647	N/A
<b>Total Due From/To Other Funds</b>			
(Exh I and III)	\$ <u>139,228,420</u>	\$ <u>139,228,420</u>	

Operating Transfers In/Out (\*):

	TRANSFERS IN	TRANSFERS OUT
	\$	\$
Appd Fund 0001, D23 Fund 0001:		
(Agency 902, Appd Fund 0001)	1,364,169	46,117
<b>Total Transfers for D23 Fund 0001</b>	<u>1,364,169</u>	<u>46,117</u>
Appd Fund 0006, D23 Fund 0006:		
(Agency 241, Appd Fund 0006)		1,122,307
(Agency 302, Appd Fund 0006)		5,825,717
(Agency 347, Appd Fund 0507)		348,168
(Agency 347, Appd Fund 0735)		7,615
(Agency 360, Appd Fund 0006)		3,723,947
(Agency 405, Appd Fund 0006)		531,752,539
(Agency 529, Appd Fund 0006)		10,000,000
(Agency 601, Appd Fund 0365)	1,780,133,499	
(Agency 601, Appd Fund 0865)		147,880,001
(Agency 701, Appd Fund 0006)		50,000,000
(Agency 727, Appd Fund 0001)		6,726,131
(Agency 902, Appd Fund 0001)	2,240,787,658	
<b>Total Transfers for D23 Fund 0006</b>	<u>4,020,921,157</u>	<u>757,386,425</u>



	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
	\$	\$
Appd Fund 0365, D23 Fund 0370/0371/0372: (Agency 601, Appd Fund 0006)		1,780,133,499
<b>Total Transfers for D23 Fund 0370/ 0371/0372</b>		<u>1,780,133,499</u>
 Appd Fund 0865, D23 Fund 0865: (Agency 601, Appd Fund 0006)	147,880,001	
<b>Total Transfers for D23 Fund 0865</b>	<u>147,880,001</u>	
 Appd Fund 7604, D23 Fund 7604: (Agency 347, D23 Fund 7604)	14,849,649	
<b>Total Transfers for D23 Fund 7604</b>	<u>14,849,649</u>	
 <b>Total Operating Transfers (Exh. II and IV)</b>	<u>\$ 4,185,014,976</u>	<u>\$ 2,537,566,041</u>

- See Note 1 H (7) for detailed information on Transfers In/Out.

**NOTE 9 - CONTINGENT LIABILITIES**

A. Litigation

<u>Type of Suit</u>	<u>Number of Suits</u>	<u>Amount in Controversy</u>
Contract	17	Amounts claimed range from \$7,590 to \$2,976,088. Total claims with amounts indicated came to approximately \$10,299,573. Three of the 17 indicated only an approximate amount of the claim or did not specify the amount.
Inverse Condemnation	36	Amounts claimed range from \$204,000 to \$370,000. Total claims with amounts indicated came to approximately \$574,000. Thirty-four of the thirty-six indicated only an approximate amount of the claim or did not specify the amount.
Employment Law and Related Lawsuits	16	Monetary amounts have not been specified in the majority of these cases. Liability against the department is limited to \$300,000. However, there is no limit on attorney fees and front pay.
Tort Claims	122	Statutory limits of liability on these cases are \$250,000 per person or \$500,000 per accident. Amounts claimed range from \$625 to \$500,000. Total claims, including estimates of liability limits where no amounts were specified, came to approximately \$37,522,306.

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<u>Type of Suit</u>	<u>Number of Suits</u>	<u>Amount in Controversy</u>
Workers' Comp	4	Amounts of claims were not specified.
Declaratory Judgment	4	Monetary amounts have not been specified in three of the four cases. Total claimed with amounts indicated is \$30,000,000.

The type and volume of activity for which the department is responsible exposes it to a large number of lawsuits. The department has vigorously contested lawsuits brought against it and has usually prevailed or made settlements substantially less than the amounts originally sought.

Settlements are paid by the Texas Comptroller of Public Accounts from the Claims and Refunds Appropriation. Attorney General records indicate that the lawsuits listed above were pending as of August 31, 2007. The department management's opinion is that the probable outcome of these cases will not materially affect the financial position of the department.

B. Claims by Contractors

The type and volume of activity for which the department is responsible exposes it to claims by contractors. The department will most likely settle these claims at substantially less than the amount originally sought. However, if a settlement between the department's claims committee and the contractor can not be reached, these claims will result in future litigation. The department management's opinion is that the probable outcome of these claims will not materially affect the financial position of the department. As of August 31, 2007 the contingent liability as a result of claims by contractors was \$ 13,521,093.

C. Federal Reimbursements and Grants

The federal eligibility for funds received by the department is subject to review by federal agencies. While the reviews may result in refunds or adjustments, past reviews have resulted in only minor adjustments which had no material financial impact.

D. Sick Leave

Sick leave, which can be accumulated indefinitely, is earned at the rate of eight hours per month, and is paid only to an employee when actually ill, or to the employee's estate upon death of the employee. The maximum sick leave that may be paid to an estate is one-half of the employee's accumulated hours, or 336 hours, whichever is less. A liability for sick leave entitlement is not recorded in the General Long-Term Debt Account Group, since experience indicates the probability of a material effect on any given year's operations as a result of deaths, or an abnormally high rate of illnesses, is minimal.

E. Derivatives

As of August 31, 2007, the department had not entered into any investment derivative transactions.

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**NOTE 10 - CONTINUANCE SUBJECT TO REVIEW**

The department is currently subject to a continuance review. Under the Texas Sunset Act, the department will be abolished effective September 1, 2009, unless continued in existence by the 81st Legislature as provided by the Act. If abolished, the department may continue until September 1, 2010 to close out its operations.

**NOTE 11 - RISK FINANCING & RELATED INSURANCE**

The department is exposed to a wide range of risks, due to the size, scope, and nature of its activities. Some of these risks include, but are not limited to, property and casualty losses, workers' compensation and health benefit claims, theft, damage of assets, etc.

The department retains these risks, and manages them through self-insurance and safety programs, which are the responsibility of the Occupational Safety Division [See page 78].

**NOTE 12 - SEGMENT INFORMATION**

TxDOT has a single enterprise fund (Fund 865) related to the construction, operation, and maintenance of the Central Texas Turnpike System; therefore, segment information is not being reported.

**NOTE 13 - BONDED INDEBTEDNESS**

**Bonds Payable:**

Detailed supplemental bond information is disclosed in Schedule 2-A, Miscellaneous Bond Information, Schedule 2-B, Changes in Bond Indebtedness, Schedule 2C, Debt Service Requirements-Enterprise Fund, and Schedule 2D, Analysis of Funds Available for Debt Service.

**Governmental Activities**

**A. General Obligation Bonds – Texas Mobility Fund**

Transportation Code, Chapter 201, Subchapter M. Obligations for Certain Highway and Mobility Projects authorized the Commission to issue Texas Mobility Fund Bonds. In May 2005, the Texas Bond Review Board approved \$4,000,000,000 of bonds through one or more issuances from the Texas Mobility Fund.

Information related to the Texas Mobility Fund General Obligation bonds is summarized below:

**1. Series 2005-A Fixed Rate Bonds**

- Issued 06-08-05
- \$900,000,000
- Rated AA+, Aa1, and AA, by Fitch Ratings, Moody's, and S & P, respectively

**2. Series 2005-B Variable Rate Bonds**

- Issued 06-08-05

- 
- \$100,000,000
  - Rated AA+/F1+, Aa1/VMIG 1, and AA/A-1+, by Fitch Ratings, Moody's, and S & P, respectively
3. Series 2006 Fixed Rate Bonds
    - Issued 06-08-06
    - \$750,000,000
    - Rated AA+, Aa1, and AA, by Fitch Ratings, Moody's, and S & P, respectively
  4. Series 2006-A Fixed Rate Bonds
    - Issued 10-31-06
    - \$1,040,275,000
    - Rated AA+/AAA enhanced, Aa1/Aaa enhanced, and AA/AAA enhanced, by Fitch Ratings, Moody's, and S & P, respectively
  5. Series 2006-B Variable Rate Bonds
    - Issued 12-13-06
    - \$150,000,000
    - Rated AA+/F1+ and Aa1/VMIG 1 by Fitch Ratings and Moody's, respectively
  6. Series 2007 Fixed Rate Bonds
    - Issued 06-21-07
    - \$1,006,330,000
    - Rated AA+, Aa1, and AA, by Fitch Ratings, Moody's, and S & P, respectively

**Purpose of the bonds:** to pay, or reimburse the State Highway Fund for the payment of part of the costs of (i) constructing, reconstructing, acquiring, and expanding State highways and providing participation by the State in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects and (ii) issuing the Bonds.

**Source of revenue for debt service:** Pursuant to the Enabling Act, the Commission must secure payment of Parity Debt with all or part of the revenues dedicated to and on deposit in the Fund, and may pledge the full faith and credit of the State to payments due on Parity Debt if revenues in the Fund are insufficient to make payments due on such obligations. With respect to Parity Debt, the Commission has pledged to the Owners as security for the payment of the Bonds and the previously issued Outstanding Parity Debt, a first lien interest in the "Security," which consists of: (i) all Pledged Revenues; (ii) all Transportation Assistance Bonds in the Portfolio Account and all amounts in the General Account and the Interest and Sinking Account; (iii) any additional account or subaccount within the Fund that is subsequently established and designated as being included within the Security; (iv) all of the proceeds of the foregoing, including, without limitation, investments thereof; (v) any applicable Credit Agreement to the extent set forth in such Credit Agreement; and (vi) any applicable guarantee of the State. Funds deposited to the Mobility Fund through 8/31/2006 include revenues from Court Fines and Driver License Point Surcharge Fees. On September 1, 2005, the initial revenue sources of the Fund were redirected to the State of Texas General Revenue Fund. New sources of revenue for the Fund are being phased into the Fund. In FY 2006 the sources of revenue were the United We Stand License Plate Fees, Investment Income, and Motor Vehicle Inspection Fees. Driver Record Information Fees were added in fiscal year 2007, Driver License

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Fees in fiscal year 2008, and Certificate of Title Fees in fiscal year 2009.

With respect to the Series 2005-B Bonds and the Series 2006-B Bonds, liquidity facilities have been executed with DEPFA Bank PLC (for Series 2005-B), and State Street Bank and Trust along with California Public Employees' Retirement System (for Series 2006-B), to provide liquidity in the event such bonds are tendered for purchase and such bonds are not remarketed by the remarketing agent. The repayment obligations under the liquidity facilities are parity debt and payable from the same source of revenues as the outstanding parity obligations.

#### **B. Revenue Bonds – State Highway Fund**

Transportation Code, Chapter 222, Subchapter A. authorized the Commission to issue State Highway Fund Revenue Bonds. The aggregate principal amount of the bonds and other public securities that are issued may not exceed \$6 billion. The Commission may only issue bonds or other public securities in an aggregate principal amount of not more than \$1.5 billion each year.

Information related to the State Highway Fund Revenue Bonds is summarized below:

##### **1. 1<sup>st</sup> Tier Revenue Bonds, Series 2006 Fixed Rate**

- To fund State highway improvement projects
- Issued 05-03-06
- \$600,000,000
- Rated Aa1 and AAA by Moody's and S & P, respectively

##### **2. 1<sup>st</sup> Tier Revenue Bonds, Series 2006-A Fixed Rate**

- To fund State highway improvement projects
- Issued 11-21-06
- \$852,550,000
- Rated Aa1 and AAA by Moody's and S & P, respectively

##### **3. 1<sup>st</sup> Tier Revenue Bonds, Series 2006-B Variable Rate**

- To fund State highway improvement projects
- Issued 11-08-06
- \$100,000,000
- Rated Aa1/VMIG1 and AAA/A-1+ by Moody's and S & P, respectively

**Purpose of the bonds:** (i) financing State highway improvement projects that are eligible for funding with revenues dedicated under Article VIII, Section 7-a of the Texas Constitution; and (ii) to pay the costs of issuing the bonds.

**Source of revenue for debt service:** The First Tier Obligations are special, limited obligations of the Commission and are payable from pledged revenues deposited to the credit of the State Highway Fund. Pledged revenues means all State Highway Fund Revenues deposited to the credit of the Fund, together with any additional monies as may in the future be authorized by law to be pledged as security for Senior

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Obligations. State Highway Revenues means all revenues deposited in, or appropriated or dedicated by law for deposit into, the State treasury to the credit of the Fund, including (i) Dedicated Registration Fees, (ii) Dedicated Taxes, (iii) Dedicated Federal Revenues, (iv) amount collected or received pursuant to other State Highway Fund Revenue Law, and (v) any interest or earnings from the investment of Dedicated Registration Fees, Dedicated Taxes and Dedicated Federal Revenues; provided that State Highway Fund Revenues do not include moneys and investments deposited in, or appropriated or dedicated by law for deposit into the following funds: (i) the State Infrastructure Bank Account and any Proceeds Fund, Interest and Sinking Fund, Reserve Fund or Rebate Fund and (ii) any special fund, subfund, account or subaccount in the Fund created for the purpose of receiving, holding and administering Restricted Revenues.

With respect to the Series 2006-B Bonds, a liquidity facility has been executed with Banco Bilbao Vizcaya Argentaria, S.A., acting through its New York Branch to provide liquidity in the event such bonds are tendered for purchase and such bonds are not remarketed by the remarketing agent. The repayment obligation under the liquidity facility is parity debt and payable from the same source of revenues as the outstanding parity obligations.

#### **Business-Type Activities**

##### **A. Revenue Bonds – Central Texas Turnpike System**

The Commission issued \$1,149,993,782 of First Tier Revenue Bonds, Series 2002-A, \$150,000,000 of First Tier Revenue Bonds, Series 2002-B and \$900,000,000 of BANS on August 29, 2002 for the purpose of paying a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System (CTTP) located in the greater City of Austin, Texas metropolitan area in Travis and Williamson Counties, Texas. The proceeds of the Series 2002-A, 2002-B Bonds and BANS will be used, together with certain other funds to (i) finance a portion of the costs of planning, designing, engineering, developing and constructing the 2002 CTTP Project (ii) pay a portion of capitalized interest during construction and for the first 11 months following the anticipated completion date of the 2002 CTTP Project, (iii) fund a portion of the First Tier Debt Service Fund Requirement, and (iv) pay certain issuance costs of the Series 2002-A, 2002-B Bonds and BANS. For further information on the BANS, please refer to Note 5.

Information related to the Central Texas Turnpike System Revenue Bonds is summarized below:

##### **1. 1<sup>st</sup> Tier Revenue Bonds, Series 2002A, Fixed Rate (Non-callable Capital Appreciation Bonds, Callable Capital Appreciation Bonds, and Current Interest Bonds)**

- To study, design, construct, operate, expand, enlarge, and extend the Central Texas Turnpike Project
- Issued 08-29-02
- \$1,149,993,782 has been issued
- Rated BBB+/AAA enhanced, Baa1/Aaa enhanced, and BBB+/AAA by Fitch Ratings, Moody's and S & P, respectively

##### **2. 1<sup>st</sup> Tier Revenue Bonds, Series 2002B, Variable Rate**

- To study, design, construct, operate, expand, enlarge, and extend the Central Texas Turnpike Project
- Issued 08-29-02
- \$150,000,000 has been issued

- Rated BBB+/AAA enhanced/F1+, Baa1/Aaa enhanced, BBB+/AAA enhanced/A-1 by Fitch Ratings, Moody's and S & P, respectively

**Source of revenue for debt service** – The First Tier Obligations are special, limited obligations of the Commission and are payable from, and secured solely by a first lien on and pledge of the Trust Estate, consisting of (i) all Project Revenues, and to the extent set forth in a supplemental indenture, any Additional Obligation Security, (ii) all Project moneys, including investment earnings, deposited into the Revenue Sub-Fund, the Construction Sub-Fund (except for any amounts held in a sub account containing moneys derived from the State Highway Fund or any moneys received by the Commission that are restricted to another use, such as right-of-way contributions that may be used only for that purpose), the First Tier Debt Service Sub-Fund, the First Tier Debt Service Reserve Sub-Fund (provided, however, that the principal portion of any Series 2002-B Bonds while they are Liquidity Provider Bonds shall not be secured by, or entitled to any benefit of, such reserve sub-fund), the Rate Stabilization Sub-Fund and the General Reserve Sub-Fund, (iii) any Project insurance proceeds and other moneys required to be deposited in the pledged funds listed in (ii) above and (iv) all payments received by the Commission pursuant to Approved Swap Agreements with respect to First Tier Obligations.

None of the State of Texas, the Commission, the department, or any other agency or political subdivision of the State of Texas is obligated to pay the principal of, premium, if any, or interest on the Series 2002 Obligations except from the trust estate. Neither the faith and credit nor the taxing power of the State of Texas or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Series 2002 Obligations. Neither the Commission nor the department has any taxing power. The bond indenture does not create a mortgage on the system.

In addition to the First Tier Revenue Bonds, Series 2002A, the First Tier Revenue Bonds, Series 2002B, and the BANS, the United States Department of Transportation (“USDOT”) has agreed to lend to the Commission up to \$916,760,000 to pay or reimburse a portion of the costs of the 2002 Project under the Secured Loan Agreement. The Secured Loan Agreement was entered into pursuant to the provisions of the Transportation Infrastructure Finance and Innovation Act of 1998, 23 United States Code, Section 181, et. Seg. As of August 31, 2007, the Department has drawn \$124,930,000 under the Secured Loan Agreement evidenced by the 2002 TIFIA Bond. The System anticipates that the remainder of the loan will be drawn in 2008 to retire the maturing BANS. Funds under the Secured Loan Agreement are transferred from the United States Department of Treasury upon presentation by the Commission of a request for disbursement in accordance with the provisions of the Secured Loan Agreement. On April 30, 2007, the Commission requested a disbursement under the Secured Loan Agreement in the amount of \$124,930,000 and funds were transferred on May 14, 2007. For further information on the TIFIA bond, please refer to Note 5.

The obligations of the Commission under the Secured Loan Agreement are evidenced by the 2002 TIFIA Bond, a Subordinate Lien Obligation under the Indenture, payable from a subordinate lien on the Trust Estate described above; provided, however, that the 2002 TIFIA Bond is not secured by any funds or accounts established under the Indenture established for the benefit of the First Tier Obligations, Second Tier Obligations, or other specific

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Subordinate Lien Obligations issued pursuant to a supplemental indenture under the Indenture. Upon the occurrence of a Bankruptcy Related Event under the Secured Loan Agreement, the 2002 TIFIA Bond becomes a First Tier Obligation.

**Derivatives:**

**Pay-Variable, Receive-Variable Interest Rate Swaps**

**A. Objective of the Swaps**

The Texas Transportation Commission (Commission) is currently a party to three pay-variable, receive-variable Constant Maturity Swaps (CMS basis swaps) associated with the Commission's State of Texas General Obligation Mobility Fund Series 2006-A fixed-rate bonds. The CMS basis swaps exchange the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index (formerly known as Bond Market Association (BMA) Municipal Swap Index) for the London Interbank Offered Rate (LIBOR) Swap Index. The purpose of the CMS basis swaps is to achieve reduced overall borrowing costs through the assumption of yield curve risk (the difference between short-term and long-term rates) and tax risk (the spread between the SIFMA/BMA tax-exempt rate and the LIBOR taxable rate).

**B. Significant Terms**

The \$400 million forward starting CMS basis swap was competitively bid on October 5, 2006 and agreements were executed with the following counterparties on October 6, 2006: JPMorgan Chase Bank, N.A., Goldman Sachs Mitsui Marine Derivative Products, L.P., and Morgan Stanley Capital Services Inc. The notional amount of the JPMorgan Chase CMS basis swap is \$200 million and the notional amounts of the Goldman Sachs and Morgan Stanley CMS basis swaps are each \$100 million. As of August 31, 2007 there was \$1,040,080,000 of Series 2006-A Bonds outstanding and the notional amount of the CMS basis swaps was \$400 million. Effective September 1, 2007, the Commission will pay to each swap counterparty an amount equal to the SIFMA/BMA Municipal Swap Index on the notional amount of the swap agreements. In return, each swap counterparty will pay the Commission an amount equal to 69.42 percent of the USD-ISDA-Swap Rate assuming a 10-year Designated Maturity (which is a reported market rate at which 10-year interest rate swaps for a one month U.S. dollar LIBOR rate are entered into from time to time) on the notional amounts of each swap agreement. Regularly scheduled amounts owed by the Commission and the swap counterparties will be due under the basis swap agreements on a net basis on the first business day of each month following the effective date of the basis swap agreements, commencing October 2007 and ending on September 1, 2027. Following certain events, such as a credit rating downgrade of a counterparty, collateral posts may be required according to the credit support annex. In addition, the Commission has the option to terminate any swap transaction, in whole or in part, at any time. In the event that the Commission elects to terminate one or more swap transactions, amounts due to and from the counterparty/counterparties will be calculated by an external calculation agent.



<b>TERMS OF THE \$400 MILLION CMS BASIS SWAP</b>					
<i>Counterparty</i>	<i>Notional Amount</i>	<i>Variable Rate Paid</i>	<i>Variable Rate Received</i>	<i>Fair Value as of 8/31/07</i>	<i>Credit Ratings F/M/S&amp;P</i>
JPMorgan Chase	\$200 million	SIFMA/BMA	69.42% of 10-yr LIBOR	\$ 831,730	AA-/Aaa/AA
Goldman Sachs	\$100 million	SIFMA/BMA	69.42% of 10-yr LIBOR	415,865	AA-/Aa3/AAA
Morgan Stanley	\$100 million	SIFMA/BMA	69.42% of 10-yr LIBOR	415,865	AA-/Aa3/AA-
	\$400 million			\$1,663,460	

**C. Fair Value**

As of August 31, 2007, the fair market values of the CMS basis swaps with JPMorgan Chase, Goldman Sachs, and Morgan Stanley were \$831,730, \$415,865, and \$415,865, respectively for a total market value of \$1,663,460. The valuations are intended to serve as theoretical estimates of the market value of the swaps as of the date indicated.

**D. Risks Involved**

- a. Credit Risk: Credit risk is the risk that a counterparty will not fulfill its obligations according to the swap agreement. The Commission mitigates credit risk associated with swap transactions by only entering into transactions with highly-rated counterparties. Upon entering a derivative transaction, the Commission requires that counterparties have a minimum credit rating of AA-/Aa3 by at least one of the three nationally recognized rating agencies. Additionally, the Commission diversifies exposure to counterparty credit risk through multiple awards. Although the original notional award amount for the CMS basis swap was \$400 million, the actual award was split amongst three counterparties. Lastly, CMS basis swap agreements contain provisions for collateral posts by counterparties in the event of a credit rating downgrade. Acceptable forms of collateral include cash in the form of U.S. Dollars, negotiable debt obligations issued by the U.S. Treasury Department, and agency securities. Agency securities include negotiable debt obligations which are fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation, but excluding 1) interest only and principal only securities, and 2) Collateralized Mortgage Obligations, Real Estate Mortgage Investment Conduits and similar derivative securities. Collateral will be held by the Commission and/or its designated custodian.
- b. Interest Rate Risk: Yield curve risk, a form of interest rate risk, exists when short-term and long-term interest rates change causing a change in the shape of the yield curve. Yield curve risk has been assumed in

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the swap transactions, with the anticipated benefit dependent upon the yield curve's return to a slope more closely related to historical norms. Long-term exposure to yield curve risk is mitigated through the Commission's unilateral ability to terminate the swaps at any time should the yield curve not return to normal as projected.

- c. Basis Risk: Basis risk is the risk that occurs when derivative transactions incorporate variable interest rates based on different indexes, such as taxable versus tax-exempt indexes. Tax risk, a form of basis risk, is the risk that tax law changes would cause the SIFMA/BMA tax-exempt index to rise higher than the established percentage of the LIBOR taxable index. This change could cause the Commission's net cash outflows to be greater than the net cash inflows, thus reducing the cumulative interest rate savings intended by the swap transaction. To mitigate tax risk, the Commission executes swap agreements where the percentage of LIBOR closely matches historical trading relationships creating a net inflow of payments to the Commission, thus reducing interest cost. The Commission also mitigates tax risk by limiting the portion of the total portfolio that can be exposed to tax risk at a given time.
- d. Termination Risk: Termination risk exists if
- i. The Commission opts to terminate the swap prior to maturity;
  - ii. The credit rating assigned to the long-term, unenhanced senior lien Texas Mobility Fund Revenue Financing Program Obligations of the Commission is withdrawn, suspended or falls below Baa2/BBB or the Commission fails to have any rated long-term, unenhanced senior lien Texas Mobility Fund Revenue Financing Program Obligations and the Commission is unable or not required to post collateral;
  - iii. The credit rating assigned to the long-term, unsecured, unenhanced, unsubordinated debt of a counterparty is withdrawn, suspended or falls below Baa2/BBB or a counterparty fails to have any rated long-term, unsecured, unenhanced, unsubordinated debt and the counterparty is unable to post collateral; or
  - iv. If the Commission or counterparty fails to perform under the terms of the respective swap agreements.

The Commission mitigates termination risk by maintaining a strong financial standing for its financing programs thus making involuntary termination unlikely. The Commission targets maintenance of sufficient reserves to cover all or part of a termination payment due to a counterparty if the swap is terminated prior to maturity and the swap has a negative fair value. Risk of involuntary termination due to counterparty downgrade is mitigated by a collateral posting requirement, and the use of a diverse group of highly-rated counterparties. Risk of involuntary termination due to a downgrade of the State of Texas below Baa2/BBB is highly unlikely given the General Obligation pledge and Aa1/AA/AA+ ratings supporting the obligations of the Texas Mobility Fund. In addition, the Commission also has the sole option to terminate and cancel any swap transaction, at any time, in whole or in part.

- e. Rollover Risk: Rollover risk is the risk that the duration of the swap transaction does not match the final maturity of the underlying debt issue. This presents risk because once the swap terminates, the Commission will no longer benefit from the anticipated reduced interest cost provided by the swap. The CMS basis

swaps present rollover risk because the swaps will terminate on September 1, 2027 and the final maturity of the associated debt series is April 1, 2035. The Commission accepted rollover risk because extending the term of the swap agreements to match the maturity of the bonds would have continued counterparty credit risk for only marginal projected benefit.

- f. Market-access Risk: Market-access risk is the risk that an entity will not be able to enter credit markets or that credit will become more costly. The CMS basis swap does not present market-access risk because the transaction does not require access to the credit market.

**E. Associated Debt**

The CMS basis swaps are associated with the Commission’s State of Texas General Obligation Mobility Fund Series 2006-A fixed-rate bonds. The debt service schedule for the bonds is shown in the table below. The effective date of the exchange of payments for the CMS basis swap is September 1, 2007; thus no cash flows had commenced nor were due, hence none occurred. Projected cash flows according to assumptions are listed in the table below.

<b>Debt Service Schedule</b>				
<b>State of Texas General Obligation Mobility Fund Series 2006-A Fixed-Rate Bonds</b>			<b>Constant Maturity Swaps</b>	<b>NET DEBT SERVICE</b>
<b>FY</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>PAYMENTS*</b>	
2008		\$ 49,794,500	\$ (4,682,333)	\$ 45,112,167
2009	\$ 375,000	49,794,500	(5,108,000)	45,061,500
2010	1,325,000	49,779,500	(5,108,000)	45,996,500
2011	2,275,000	49,726,500	(5,108,000)	46,893,500
2012	3,215,000	49,635,500	(5,108,000)	47,742,500
2013-2017	31,195,000	245,489,300	(25,540,000)	251,144,300
2018-2022	102,985,000	232,640,250	(25,540,000)	310,085,250
2023-2027	223,925,000	195,721,950	(25,540,000)	394,106,950
2028-2032	381,200,000	127,826,100	(425,667)	508,600,433
2033-2037	293,585,000	26,330,250		319,915,250
	<b>\$1,040,080,000</b>	<b>\$1,076,738,350</b>	<b>\$(102,160,000)</b>	<b>\$2,014,658,350</b>

\*Swap payments projected using the historical average annual spread differential of 1.277%, between BMA and 69.42% of 10-Year USD-ISDA-Swap Rate since 1985.

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**NOTE 14 - SUBSEQUENT EVENTS**

On October 25, 2007, the Commission issued \$1,241,845,000 in State Highway Fund First Tier Revenue Bonds Series 2007 for the purpose of (i) financing State highway improvement projects that are eligible for funding with revenues dedicated under Article VIII, Section 7-a of the Texas Constitution; and (ii) to pay the costs of issuing the bonds. The interest rate on the Series 2007 bonds range from 4.814 to 5.00 percent and the final maturity date is April 1, 2027.

**NOTE 15 - RELATED PARTIES**

The department currently has no related parties to report.

**NOTE 16 - STEWARDSHIP, COMPLIANCE, & ACCOUNTABILITY**

The department is not aware of any material violations of finance-related legal or contractual provisions.

**NOTE 17 - THE FINANCIAL REPORTING ENTITY**

The accompanying financial statements include the financial position and results of operations of all organizations, activities, and functions considered to be within the scope of the department's reporting entity.

As required by generally accepted accounting principles, the one transportation corporation is shown as a component unit of the department because of the significance of its financial relationship with the department. Although the corporation is a separate legal entity, the department exercises sufficient authority over its assets, management and operations, to require its inclusion in the accompanying financial statements. The financial activities of the corporation are shown as local fund 999 and presented in a blended format on the department's financial statements [See Note 1-C(4)]. Complete financial information can be obtained by contacting the corporation directly:

Grand Parkway Association  
4544 Post Oak Place, Suite 222  
Houston, Texas 77027

The Texas Department of Transportation is a component unit of the state of Texas, and of the statewide Consolidated Annual Financial Report to be issued by the Texas Comptroller of Public Accounts. As such, the department will be audited by the state auditor only to the extent necessary to express an opinion on the financial position of the state as a whole. Accordingly, the state auditor will not express an opinion on the financial statements contained in this report.

**NOTE 18 - RESTATEMENT OF FUND BALANCES AND NET ASSETS**

In the Capital Asset Adjustment Fund Type, the \$3,816,593 restatement of fixed assets is caused by corrections to property in fiscal year 2007. When an asset is incorrectly accounted for in one fiscal year and corrected in a subsequent fiscal year, the value and accumulated depreciation, if depreciable, must be adjusted.

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**NOTE 19 - EMPLOYEES' RETIREMENT PLAN**

The state has joint contributory retirement plans for virtually all its employees. The department participates in the plans administered by the Employees Retirement System of Texas by making monthly payments based on actuarial calculations. Future pension costs are the liabilities of the retirement system. The system does not account for each state agency separately. Annual financial reports prepared by the system include audited financial statements and actuarial assumptions and conclusions.

**NOTE 20 - DEFERRED COMPENSATION**

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., sec. 609.001.

The state's 457 plan complies with the Internal Revenue Code Sec. 457. Deductions, purchased investments and earnings attributed to the 457 plan are the property of the state subject only to the claims of the state's general creditors. Participant's rights under the plan are equal to those of the general creditors of the state in an amount equal to the fair market value of the 457 account for each participant. The state has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The state also administers another plan; 'TexaSaver' created in accordance with Internal Revenue Code Sec. 401(k). The assets of this plan do not belong to the state. The state has no liability related to this plan.

**NOTE 21 - DONOR-RESTRICTED ENDOWMENTS**

The department did not have any donor-restricted endowments.

**NOTE 22 - MANAGEMENT DISCUSSION AND ANALYSIS**

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the State has adopted the modified approach for reporting its highway system. Through FY 2006, the Texas Department of Transportation (TxDOT) reported condition assessments on the highway system based solely on the results of its Texas Maintenance Assessment Program (TxMAP). TxMAP involves yearly condition assessments (GASB requirement is every three years) which determine the overall condition levels of the Interstate and Non-Interstate highway systems. The Texas Transportation Commission has adopted condition levels of 80% for the Interstate system and 75% for the Non-Interstate system based on condition assessments conducted under TxMAP. However, in FY 2007, the Texas Department of Transportation (TxDOT) began revising the process by which the Department assesses the condition levels of the state's Interstate and Non-Interstate highways. The new process, known as the Texas Condition Assessment Program (TxCAP), will combine data from the Texas Maintenance Assessment Program (TxMAP), TxDOT's Pavement Management Information System (PMIS), and the Texas Traffic Assessment Program (TxTAP). As a result, TxCAP will provide a more comprehensive assessment of the Interstate and Non-Interstate highway systems.

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Because TxDOT is currently revising the process by which the department conducts condition assessments, the results for FY 2007 are not available for this report. However, the condition assessment results for FY 2006 were 83.4% for the Interstate system and 78.0% for the Non-Interstate system.

The modified approach also requires that the State estimate the expenditures that will be required to maintain the highway system at or above the adopted condition levels. For FY 2007, TxDOT computed estimates of \$438 million for the Interstate system and \$1.7 billion for the Non-Interstate system. Actual expenditures were \$472 million for the Interstate system and \$1.88 billion for the Non-Interstate system.

***NOTE 23 - POST EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS***

See the financial statements of the Employees Retirement System for information regarding post employment health care and life insurance benefits.

***NOTE 24 - SPECIAL OR EXTRAORDINARY ITEMS***

The department did not have any special or extraordinary items in fiscal year 2007.

***NOTE 25 - DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES***

Federal Receivable as of August 31, 2007 was \$246,912,363. Of this amount, \$235,774,218 is current and \$11,138,145 is non-current. Even though the category of Contracts Payable is shown on our paper copy annual report, the Comptroller's Office has requested this liability be shown as Other Current Liabilities in the Uniform Statewide Accounting System. As of August 31, 2007, Retainage Contracts Payable was \$302,921,079 in the State Highway Fund and was \$13,248,565 in the Turnpike Authority Project Disbursing Account. Also, see Note 1F(8).

***NOTE 26 - TERMINATION BENEFITS***

For the fiscal year ended August 31, 2007, the department did not have any termination benefits related payments.

***NOTE 27 - PASS THROUGH TOLLS***

As a means of financing state highway capital improvements and related maintenance costs, TxDOT has entered into pass through toll agreements with a number of local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects. Upon completion of the projects, TxDOT will make payments (i.e. pass through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll to TxDOT. These agreements are not recognized as a liability, since none of the local entities have actually completed the construction of a project at this date; however, the maximum amounts of future obligations for the executed agreements as of August 31, 2007 are listed on the following page.



FISCAL YEAR							
2008	2009	2010	2011	2012	2013-2017	2018-2022	TOTAL
\$ 0	\$ 27,480,719	\$ 77,175,539	\$ 129,037,539	\$ 133,037,539	\$ 634,671,132	\$ 243,979,649	\$ 1,245,382,117

## Required Supplementary Information

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the State has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the State:

- Maintain an asset management system that includes an up-to date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the State has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

### Condition Assessments

In FY 2007, the Texas Department of Transportation (TxDOT) began revising the process by which the Department assesses the condition levels of the state’s Interstate and Non-Interstate highways. The new process, known as the Texas Condition Assessment Program (TxCAP), will combine data from the Texas Maintenance Assessment Program (TxMAP), TxDOT’s Pavement Management Information System (PMIS), and the Texas Traffic Assessment Program (TxTAP). As a result, TxCAP will provide a more comprehensive assessment of the Interstate and Non-Interstate highway systems. Because of this ongoing process, the condition levels for FY 2007 are not available for this report.

In FY 2006 and prior years, TxDOT reported yearly condition levels based only on the results of assessments performed under TxMAP. Under this program, visual inspections are conducted on approximately 10% of the Interstate system and 5% of the Non-Interstate system (US, State, and FM roadways). For each section of highway observed, twenty-one elements separated into three highway components are assessed scores from 0 to 5 (0 = N/A, 1 = Failed, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1 = 20%, 2 = 40%, 3 = 60%, 4 = 80%, 5 = 100%).

### Assessed Conditions

TxDOT has adopted a minimum condition level of 80% for the Interstate System and 75% for the Non-Interstate system based on TxMAP assessments.

With the exception as noted in the prior section, the results of the condition assessments for the current year and four prior years are as follows:

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)
2007	N/A	N/A
2006	83.4%	78.0%
2005	82.1%	77.9%
2004	82.3%	79.1%
2003	81.3%	78.5%

## Required Supplementary Information

### Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Interstate Highways	2007	2006	2005	2004	2003
Estimate	\$438,460,363	\$469,817,714	\$ 314,000,000	\$ 400,000,000	\$ 400,000,000
Actual	\$471,924,721	\$434,087,757	\$ 427,107,013	\$ 383,933,309	\$ 330,766,442
Other Highways	2007	2006	2005	2004	2003
Estimate	\$1,702,612,423	\$1,608,015,154	\$ 1,590,416,683	\$ 1,450,000,000	\$ 1,450,000,000
Actual	\$1,881,284,935	\$1,750,437,888	\$ 1,604,781,208	\$ 1,378,862,635	\$ 1,483,209,510

### Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints, and environmental effects (rainfall, drought, freeze thaw, etc) should be considered as they may have a major impact on needed funds and the condition of Texas roads.



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# Combining Financial Statements



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**Exhibit A-1**

**COMBINING BALANCE SHEET -ALL GENERAL AND CONSOLIDATED FUNDS  
August 31, 2007**

	GENERAL FUND ACCOUNT (0001)* U/F (0001)	TEXAS HIGHWAY BEAUTIFICATION ACCOUNT (0071)* U/F (0071)
	\$	\$
<b>ASSETS:</b>		
Current Assets:		
Cash and Cash Equivalents:		
Cash in State Treasury		577,315
Legislative Appropriations	575,917	
Loans and Contracts [Note 1 F(4)]	53,128	
<b>Total Current Assets</b>	<u>629,045</u>	<u>577,315</u>
Non-Current Assets:		
Loans and Contracts [Note 1 F(4)]	449,569	
<b>Total Non-Current Assets</b>	<u>449,569</u>	<u>0</u>
<b>TOTAL ASSETS:</b>	<u><u>1,078,614</u></u>	<u><u>577,315</u></u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Current Liabilities:		
Payables:		
Accounts Payable	29,509	47,037
Payroll Payable	72,984	33,653
Due to Other Funds (Note 8)		
Due to Other Agencies (Note 8)		
<b>Total Current Liabilities</b>	<u>102,493</u>	<u>80,690</u>
<b>TOTAL LIABILITIES:</b>	<u>102,493</u>	<u>80,690</u>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>		
FUND BALANCES (DEFICITS):		
Reserved For:		
Loans & Contracts	502,697	
Unreserved:		
Undesignated:		
Unencumbered Legislative Appropriations		
Future Operations	473,424	
Consolidated Funds		496,625
<b>TOTAL FUND BALANCES</b>	<u>976,121</u>	<u>496,625</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<u><u>\$ 1,078,614</u></u>	<u><u>\$ 577,315</u></u>

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX)

The accompanying notes to the financial statements are an integral part of this financial statement.

SUSPENSE FUND ACCOUNT (0900)* U/F (0090)	TEXAS COLLEGIATE LICENSE PLATE PROGRAM ACCOUNT (5015)* U/F (5015)	TOTAL
\$ _____	\$ _____	\$ _____
125,534	518,189	1,221,038
		575,917
		53,128
<u>125,534</u>	<u>518,189</u>	<u>1,850,083</u>
		449,569
<u>0</u>	<u>0</u>	<u>449,569</u>
<u>125,534</u>	<u>518,189</u>	<u>2,299,652</u>
		76,546
74,571		106,637
50,963	518,189	74,571
<u>125,534</u>	<u>518,189</u>	<u>569,152</u>
<u>125,534</u>	<u>518,189</u>	<u>826,906</u>
		502,697
		473,424
		496,625
<u>0</u>	<u>0</u>	<u>1,472,746</u>
<u>\$ 125,534</u>	<u>\$ 518,189</u>	<u>\$ 2,299,652</u>

**Exhibit A-2**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN  
FUND BALANCES -ALL GENERAL AND CONSOLIDATED FUNDS  
For the fiscal year ended August 31, 2007**

	GENERAL FUND ACCOUNT (0001)* U/F (0001)	TEXAS HIGHWAY BEAUTIFICATION ACCOUNT (0071)* U/F (0071)
<b>REVENUES:</b>	\$	\$
Legislative Appropriations:		
Original Appropriations	965,133	
Additional Appropriations	307,471	
Licenses, Fees and Permits [Note 1 H(4)]	302,421	633,758
Sale of Goods & Services	1,739,662	
<b>TOTAL REVENUES</b>	<u>3,314,687</u>	<u>633,758</u>
<b>EXPENDITURES:</b>		
Salaries and Wages	937,664	404,208
Payroll Related Costs	262,159	143,648
Professional Fees and Services		4,514
Travel	60,954	8,735
Materials and Supplies	11,243	356
Communications and Utilities	8,227	2,744
Repairs and Maintenance	185	
Rentals and Leases	2,115	
Intergovernmental Payments	7,353,208	
Other Expenditures	7,535	38,625
<b>TOTAL EXPENDITURES</b>	<u>8,643,290</u>	<u>602,830</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(5,328,603)</u>	<u>30,928</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Transfers In [Note 1 H(7)]	1,364,169	
Transfers Out [Note 1 H(7)]	(46,117)	
Sale of Fixed Assets	4,152,293	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>5,470,345</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCES</b>	141,742	30,928
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>		
<b>FUND BALANCES, Sept. 1, 2006</b>	834,379	465,697
<b>FUND BALANCES, Aug. 31, 2007 (Exhibit A-1)</b>	<u>\$ 976,121</u>	<u>\$ 496,625</u>

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX)

SUSPENSE FUND ACCOUNT (0900)* U/F (0090)	TEXAS COLLEGIATE LICENSE PLATE PROGRAM ACCOUNT (5015)* U/F (5015)	TOTAL
\$ _____	\$ _____	\$ _____
		965,133
		307,471
		936,179
		1,739,662
<u>0</u>	<u>0</u>	<u>3,948,445</u>
		1,341,872
		405,807
		4,514
		69,689
		11,599
		10,971
		185
		2,115
		7,353,208
		46,160
<u>0</u>	<u>0</u>	<u>9,246,120</u>
<u>0</u>	<u>0</u>	<u>(5,297,675)</u>
		1,364,169
		(46,117)
		4,152,293
<u>0</u>	<u>0</u>	<u>5,470,345</u>
0	0	172,670
0	0	1,300,076
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,472,746</u>

**EXHIBIT B-1**  
**COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS**  
**August 31, 2007**

	STATE HIGHWAY FUND (0006)* U/F (0006 and 014-016, 0513-0514)	STATE INFRA- STRUCTURE BANK (0006)* U/F (0099)
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents:		
Cash on Hand	1,981,791	
Cash in Bank	252,644,640	
Cash in State Treasury	428,786,509	72,400,856
Receivables:		
Federal	235,774,218	
Other Intergovernmental	176,385,957	
Interest and Dividends		10,308,391
Accounts Receivable	16,161,380	
Due from Other Funds (Note 8)	139,228,420	
Due from Other Agencies (Note 8)	190,343,774	
Consumable Inventories	89,573,887	
Loans and Contracts [Note 1 F(4)]		10,702,615
Total Current Assets	<u>1,530,880,576</u>	<u>93,411,862</u>
Non-current Assets:		
Federal Receivable	11,138,145	
Loans and Contracts [Note 1 F(4)]	8,550,416	214,554,153
Other Non-Current Assets		13,842,660
Total Non-Current Assets	<u>19,688,561</u>	<u>228,396,813</u>
<b>TOTAL ASSETS</b>	<u><u>1,550,569,137</u></u>	<u><u>321,808,675</u></u>
<b>LIABILITIES AND FUND BALANCES:</b>		
Liabilities:		
Current Liabilities:		
Payables:		
Accounts Payable	935,608,289	
Contracts Payable [Note 1 F(8)]	302,921,079	
Payroll Payable	63,342,382	
Interest Payable	29,403,246	
Due to Other Funds (Note 8)		
Due to Other Agencies (Note 8)	48,866,956	
Deferred Revenues	330,133,267	
Short Term Debt (Note 4)	158,000,000	
Total Current Liabilities	<u>1,868,275,219</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<u>1,868,275,219</u>	<u>0</u>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>		
FUND BALANCES (DEFICITS):		
Reserved For:		
Encumbrances	151,201,200	
Inventories	89,573,887	
Imprest	164,473	
Loans & Contracts	8,550,416	225,256,768
Unreserved Designated for:		
Highway Construction and Maintenance	(567,196,058)	
State Infrastructure Bank		96,551,907
Undesignated:		
Texas Transportation Corporations		
<b>TOTAL FUND BALANCES</b>	<u>(317,706,082)</u>	<u>321,808,675</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCES:</b>	<u>\$ 1,550,569,137</u>	<u>\$ 321,808,675</u>

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX)

The accompanying notes to the financial statements are an integral part of this financial statement.

TEXAS MOBILITY FUND (0365)* U/F (0365-0372)	TEXAS TRANSPORTATION CORPORATIONS (9999)* U/F (0999)	TOTAL
\$ 1,125,545,231	\$ 841,377	1,981,791 253,486,017 1,626,732,596
<u>1,125,545,231</u>	<u>1,092,309</u>	<u>235,774,218</u> <u>176,385,957</u> <u>10,308,391</u> <u>17,253,689</u> <u>139,228,420</u> <u>190,343,774</u> <u>89,573,887</u> <u>10,702,615</u>
<u>1,125,545,231</u>	<u>1,933,686</u>	<u>2,751,771,355</u>
<u>0</u>	<u>0</u>	<u>11,138,145</u> <u>223,104,569</u> <u>13,842,660</u>
<u>1,125,545,231</u>	<u>1,933,686</u>	<u>248,085,374</u> <u>2,999,856,729</u>
2,729,523	818,972	939,156,784 302,921,079 63,342,382 92,043,437 137,608,202 193,215,524 330,133,267 158,000,000
62,640,191 137,608,202 144,348,568	<u>818,972</u>	<u>2,216,420,675</u>
<u>347,326,484</u>	<u>818,972</u>	<u>2,216,420,675</u>
347,326,484	818,972	151,201,200 89,573,887 164,473 233,807,184
778,218,747	1,114,714	211,022,689 96,551,907
<u>778,218,747</u>	<u>1,114,714</u>	<u>1,114,714</u> <u>783,436,054</u>
\$ <u>1,125,545,231</u>	\$ <u>1,933,686</u>	\$ <u>2,999,856,729</u>

**EXHIBIT B-2**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN  
FUND BALANCES -SPECIAL REVENUE FUNDS  
For the fiscal year ended August 31, 2007**

	STATE HIGHWAY FUND (0006)* U/F (0006 and 014-016, 0513-0514)	STATE INFRA- STRUCTURE BANK (0006)* U/F (0099)
	\$	\$
<b>REVENUES:</b>		
Taxes	36,826,897	
Federal Revenues	1,941,088,023	
Federal Pass Through Revenues	52,520,146	
Licenses, Fees and Permits [Note 1 H(4)]	1,067,910,734	
Interest & Investment Income	82,948,919	12,885,447
Land Income	4,010,886	
Settlement of Claims	222,506	
Sales of Goods and Services	242,385,443	
Other Revenues	17,420,596	
<b>TOTAL REVENUES</b>	<u>3,445,334,150</u>	<u>12,885,447</u>
<b>EXPENDITURES:</b>		
Salaries and Wages	631,683,100	
Payroll Related Costs	218,626,564	
Professional Fees and Services	526,313,527	
Travel	6,860,450	
Materials and Supplies	272,973,985	
Communications and Utilities	57,275,932	
Repairs and Maintenance	1,435,220,131	
Rentals and Leases	13,303,082	
Printing and Reproduction	10,010,702	
Claims and Judgments	10,945,250	
Federal Pass Through Expenditures	25,235,634	
State Grant Pass Through Expenditures	27,010,311	
Intergovernmental Payments	137,279,930	
Public Assistance Payments	108,859,769	
Other Expenditures	191,927,381	
Principal on State Bonds	20,810,000	
Interest on State Bonds	65,490,391	
Other Financing Fees	884,305	
Capital Outlay	4,162,953,911	
<b>TOTAL EXPENDITURES</b>	<u>7,923,664,355</u>	<u>0</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(4,478,330,205)</u>	<u>12,885,447</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Operating Transfers In [Note 1 H (7)]	4,020,921,157	
Operating Transfers Out [Note 1 H (7)]	(757,386,425)	
Bond & Note Issued	952,550,000	
Insurance Recoveries	719,463	
Sale of Capital Assets	4,405,583	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>4,221,209,778</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(257,120,427)</u>	<u>12,885,447</u>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>		
<b>FUND BALANCES, Sept. 1, 2006</b>	(60,585,655)	308,923,228
<b>FUND BALANCES, Aug. 31, 2007 (Exh. B-1)</b>	<u>\$ (317,706,082)</u>	<u>\$ 321,808,675</u>

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX)

The accompanying notes to the financial statements are an integral part of this financial statement.

TEXAS MOBILITY FUND (0365)* U/F (0365-0372)	TEXAS TRANSPORTATION CORPORATIONS (9999)* U/F (0999)	TOTAL
\$	\$	\$
		36,826,897
		1,941,088,023
		52,520,146
140,481,055		1,208,391,789
85,313,879	24,394	181,172,639
		4,010,886
		222,506
		242,385,443
	4,054,131	21,474,727
<u>225,794,934</u>	<u>4,078,525</u>	<u>3,688,093,056</u>
		631,683,100
		218,626,564
913,497	3,357,147	530,584,171
		6,860,450
		272,973,985
		57,275,932
		1,435,220,131
		13,303,082
		10,010,702
		10,945,250
		25,235,634
		27,010,311
		137,279,930
		108,859,769
12,991	329,832	192,270,204
35,370,000		56,180,000
137,301,879		202,792,270
627,919		1,512,224
		<u>4,162,953,911</u>
<u>174,226,286</u>	<u>3,686,979</u>	<u>8,101,577,620</u>
51,568,648	391,546	(4,413,484,564)
		4,020,921,157
(1,780,133,499)		(2,537,519,924)
2,196,605,000		3,149,155,000
		719,463
		<u>4,405,583</u>
<u>416,471,501</u>	<u>0</u>	<u>4,637,681,279</u>
468,040,149	391,546	224,196,715
310,178,598	723,168	559,239,339
\$ <u>778,218,747</u>	\$ <u>1,114,714</u>	\$ <u>783,436,054</u>

**EXHIBIT C**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
AGENCY FUNDS  
For the fiscal year ended August 31, 2007**

	Balances September 1, 2006	Additions	Deductions	Balances August 31, 2007
	\$	\$	\$	\$
<b>UNAPPROPRIATED RECEIPTS</b>				
<b>General Revenue Fund (0001), U/F (1001) *</b>				
Assets:				
Current:				
Cash on Hand	0	73,666,510	73,666,510	0
Total Assets	<u>0</u>	<u>73,666,510</u>	<u>73,666,510</u>	<u>0</u>
Liabilities:				
Current:				
Funds Held for Others	0	73,666,510	73,666,510	0
Total Liabilities	<u>0</u>	<u>73,666,510</u>	<u>73,666,510</u>	<u>0</u>
<b>OTHER AGENCY FUNDS</b>				
<b>Proportional Registration Distributive Fund (0021), U/F (0021)</b>				
Assets:				
Current:				
Cash on Hand	295,495	38,096,607	37,919,190	472,912
Cash in State Treasury	2,310,045	37,919,190	34,164,690	6,064,545
Total Assets	<u>2,605,540</u>	<u>76,015,797</u>	<u>72,083,880</u>	<u>6,537,457</u>
Liabilities:				
Current:				
Other Intergovernmental Payables	2,605,540	38,096,607	34,164,690	6,537,457
Total Liabilities	<u>2,605,540</u>	<u>38,096,607</u>	<u>34,164,690</u>	<u>6,537,457</u>
<b>Employees' Savings Bond Account (0901), U/F (0901)</b>				
Assets:				
Current:				
Cash in State Treasury	39,866	404,535	408,425	35,976
Total Assets	<u>39,866</u>	<u>404,535</u>	<u>408,425</u>	<u>35,976</u>
Liabilities:				
Current:				
Funds Held for Others	39,866	404,535	408,425	35,976
Total Liabilities	<u>39,866</u>	<u>404,535</u>	<u>408,425</u>	<u>35,976</u>

\* Appropriated Fund is noted as (XXXX), USAS D23 Fund is noted as U/F (XXXX)

The accompanying notes to the financial statements are an integral part of this statement.

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
AGENCY FUNDS (Concluded)**

	Balances September 1, 2006	Additions	Deductions	Balances August 31, 2007
	\$	\$	\$	\$
<b>OTHER AGENCY FUNDS</b>				
<b>County/Political Subdivision, Local Government Road/Airport Trust Account (0927), U/F (0927)</b>				
Assets:				
Current:				
Cash in State Treasury	9,907,053	105,942,976	22,153,978	93,696,051
<b>Total Assets</b>	<u>9,907,053</u>	<u>105,942,976</u>	<u>22,153,978</u>	<u>93,696,051</u>
Liabilities:				
Current:				
Funds Held for Others	9,907,053	105,942,976	22,153,978	93,696,051
<b>Total Liabilities</b>	<u>9,907,053</u>	<u>105,942,976</u>	<u>22,153,978</u>	<u>93,696,051</u>
<b>Direct Deposit Correction Account (0980), U/F (0980 and 9014)</b>				
Assets:				
Current:				
Cash in State Treasury	189	525,015	512,427	12,777
<b>Total Assets</b>	<u>189</u>	<u>525,015</u>	<u>512,427</u>	<u>12,777</u>
Liabilities:				
Current:				
Funds Held for Others	189	525,015	512,427	12,777
<b>Total Liabilities</b>	<u>189</u>	<u>525,015</u>	<u>512,427</u>	<u>12,777</u>
<b>TOTALS - ALL AGENCY FUNDS</b>				
Assets:				
Current:				
Cash on Hand	295,495	111,763,117	111,585,700	472,912
Cash in State Treasury	12,257,153	144,791,716	57,239,520	99,809,349
<b>Total Assets</b>	<u>12,552,648</u>	<u>256,554,833</u>	<u>168,825,220</u>	<u>100,282,261</u>
Liabilities:				
Current:				
Other Intergovernmental Payables	2,605,540	38,096,607	34,164,690	6,537,457
Funds Held for Others	9,947,108	180,539,036	96,741,340	93,744,804
<b>Total Liabilities</b>	<u>\$ 12,552,648</u>	<u>\$ 218,635,643</u>	<u>\$ 130,906,030</u>	<u>\$ 100,282,261</u>

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## APPENDIX C

### INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS

#### The Federal-Aid Highway Program

The Federal-Aid Highway Program (“FAHP”) is an “umbrella” term that encompasses most of the federal programs providing highway funds to the states. The FAHP must be periodically reauthorized by Congress. Authorizing legislation for highways began with the Federal-Aid Road Act of 1916 and the Federal Highway Act of 1921. These acts provided the foundation for the FAHP as it exists today. Since that time, the FAHP has been continued or renewed through the passage of multi-year authorization acts. Since 1978, Congress has passed highway legislation as part of larger, more comprehensive, multi-year (i.e. four or more years) surface transportation acts. There is no guarantee, however, that reauthorization of the FAHP will occur on a multi-year basis. The current multi-year authorization, the “Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users” (“SAFETEA-LU”), became law on August 10, 2005 and expires on September 30, 2009. SAFETEA-LU also extends the imposition of highway-user taxes, generally at the rates imposed by prior federal law, through September 30, 2011. See “SAFETEA-LU” below.

The Federal Highway Administration (“FHWA”) is the federal agency within the U.S. Department of Transportation responsible for administering the FAHP. Title 23, United States Code, entitled “Highways,” includes most of the laws that govern the FAHP arranged systematically or codified. Generally, Title 23 embodies those substantive provisions of highway law that Congress considers to be continuing and which need not be reenacted each time the FAHP is reauthorized. Periodically, sections of Title 23 may be amended or repealed through surface transportation acts.

Although there are other programs administered through FAHP, the major funding for the FAHP is made available in seven major categories: the Interstate Maintenance Program, the Highway Bridge Program, the National Highway System Program, the Surface Transportation Program, the Highway Safety Program, the Congestion Mitigation and Air Quality Program and the Equity Bonus Program. Although FHWA provides funding for eligible highway projects, federal-aid highways are under the administrative control of the state or local government responsible for their operation and maintenance.

The FAHP is financed from the transportation user-related revenues deposited in the Federal Highway Trust Fund (“HTF”). The primary source of revenues in the HTF is derived from the federal excise taxes on motor fuels, including certain alternative fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes.

The FAHP is a reimbursement program. Once projects are approved by FHWA and funds are obligated, the federal government makes payments to the states for costs as they are incurred on projects, which may include debt service on obligations issued to finance a project. With few exceptions, the federal government does not pay for the entire cost of a federal-aid project. Federal reimbursements are typically to be matched with state and/or local funds. The maximum federal share is specified in the federal legislation authorizing the program. Under current law, most projects have an 80 percent federal share, while Highway Safety Program and Interstate Maintenance Program projects, as well as certain interstate highway construction projects, are funded with a 90 percent federal share.

Funding under the FAHP is provided to states through a multi-step funding cycle that includes: (i) multi-year authorization by Congress of the funding for various highway programs; (ii) apportionment and allocation of funds to the states each federal fiscal year according to statutory formulas or, for some funding categories, through administrative action; (iii) obligation of funds, which is the federal government's legal commitment (or promise) to pay or reimburse states for the federal share of a project's eligible costs; (iv) appropriations by Congress specifying the amount of funds available for the year to liquidate obligations; (v) program implementation which covers the programming and authorization phases; and (vi) reimbursement by the federal government of the eligible project costs. Each of these steps is described in more detail under “Federal-Aid Funding Procedures” below.

THE TERMS AND CONDITIONS OF PARTICIPATION IN THE FAHP AS DESCRIBED HEREIN ARE THOSE IN SAFETEA-LU AND ARE SUBJECT TO CHANGE AT THE DISCRETION OF CONGRESS. THERE CAN BE NO ASSURANCE THAT THE LAWS AND REGULATIONS NOW GOVERNING THE FAHP WILL NOT BE CHANGED IN THE FUTURE IN A MANNER THAT MAY ADVERSELY AFFECT THE ABILITY OF THE DEPARTMENT TO RECEIVE FEDERAL AID REVENUES.

### The Federal Highway Trust Fund

The HTF provides the primary funding for the FAHP. Funded by a collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a fund established by law to hold dedicated highway-user revenues that are used for reimbursement of the state's cost of eligible transportation projects (which may include debt service on obligations issued to finance a federal-aid project), including highway projects. The HTF is composed of two accounts: the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel revenues, with the remaining share of such revenues deposited in the Mass Transit Account and the Leaking Underground Storage Tank Trust Fund. Federal fuel excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.44 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account.

The following table shows annual and projected HTF collections in the Highway Account for the federal fiscal years 1997 through 2006.

#### Receipts into the Highway Account of the Federal Highway Trust Fund (In Millions)

<u>Federal Fiscal Year</u>	<u>Receipts<sup>(1)</sup></u>
2006	\$33,701.6
2005	32,908.7
2004	29,785.0
2003	28,961.7
2002	27,981.6
2001	26,915.8
2000	30,347.2
1999	33,821.4
1998	23,140.9
1997	20,509.3

<sup>(1)</sup> Excludes interest earned on balances.

Source: Table FE-210, Highway Statistics 2006, Office of Highway Policy Information, FHWA and FHWA.

The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates which must be extended periodically. The life of the HTF has been extended several times since its inception, most recently by SAFETEA-LU, described below. SAFETEA-LU extends the imposition of taxes through September 30, 2011, and the transfer of the taxes to the HTF through September 30, 2009. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

### SAFETEA-LU

SAFETEA-LU passed the Congress and was signed into law by the President on August 10, 2005 and authorizes a total of \$244.1 billion guaranteed for highways, highway safety and public transportation programs in federal fiscal years 2004 through 2009. This represents a 38% increase in authorization over the Transportation Equity Act for the 21st Century ("TEA-21"). The federal-aid highway obligation limitations are set at these levels: \$34.4 billion in federal fiscal year 2005, \$36.0 billion in federal fiscal year 2006, \$38.2 billion in federal fiscal year 2007, \$39.6 billion in federal fiscal year 2008 and \$41.2 billion in federal fiscal year 2009. SAFETEA-LU retains the firewall and minimum guarantee provisions of TEA-21, increasing each state's minimum rate of return of HTF contributions from 90.5% in federal fiscal years 2005 and 2006 and gradually increasing to 92% by federal fiscal year 2008. In any given year, no state is to receive less than a specified percentage (117% in federal fiscal year

2005 to 121% in federal fiscal year 2009) of its average annual apportionments and High Priority Projects under TEA-21.

Guaranteed Highway Programs funds represent the highway construction and planning funds that provide the 90.5% guaranteed return to the states that was assured under TEA-21 and continued under SAFETEA-LU. Guaranteed Highway Program funds are the most significant source of federal transportation funding received by the states. On average, the State has received approximately 91% of its federal transportation funds since 1998 through the Guaranteed Highway Programs.

Discretionary Highway Programs funds are generally awarded or allocated to states on a competitive basis. However, in recent years the Congress has earmarked most discretionary funds in annual appropriations bills for specific projects. Discretionary Highway Programs funds include various federal transportation programs including, among others, the following categories: National Corridor Infrastructure Improvement; Construction of Ferry Boats and Ferry Terminal Facilities; Innovative Bridge Research and Construction; Intelligent Transportation Systems Development; Transportation, Community, and System Preservation; Public Lands Highways Discretionary; National Scenic Byways, Discretionary Interstate Maintenance; Projects of National and Regional Significance; and Transportation Infrastructure Finance and Innovation Act programs.

Highway Safety Programs funds are made available to states by a variety of methods, including apportionment and allocation based on competitive selection or satisfaction of performance based criteria for incentive grants. The various programs that comprise the Highway Safety Programs include, among others, State and Community Highway Safety Grants, Seat Belt Incentive Grants, and Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons.

The Federal Transit Administration provides financial assistance to develop new transit systems and improve, maintain, and operate existing systems. The bulk of available federal transit funds is received directly by urban areas rather than by the states. Federal Transit Program funds are additional federal transit funds that are made available to the states by both apportionment through statutory formulas and allocation on a discretionary basis. The various programs that comprise the Transit Programs include, among others, Nonurbanized Area Formula Grants, Capital Investment Program, Formula Grants for Special Needs of Elderly and Persons with Disabilities, Metropolitan Planning, Job Access and Reverse Commute, New Freedom Program, and State Planning and Research.

A limitation on obligations and the process for distribution is included for each of the years in SAFETEA-LU. Through the limitation on obligations, Congress controls the program, making it more responsive to prevailing budget and economic policy each year. The obligation ceilings set in SAFETEA-LU for federal fiscal years 2005 through 2009 were based on a guaranteed level of spending for transportation through the Equity Bonus Program, discussed below. SAFETEA-LU contains provisions which attempt to maintain funding levels for transportation through reduced incentives to divert such funds to other uses (i.e., reductions in highway or transit spending as a result of federal deficit reduction legislation will not allow increased spending in other non-transportation programs) as further discussed below. Unlike TEA-21 where approximately 10% of its authorizations were unprotected and part of the general discretionary budget category available to Congress in the annual appropriations process, SAFETEA-LU protects its entire \$244.1 billion multi-year authorizations.

### **Protected Funding**

SAFETEA-LU extends the practice (established in TEA-21) of establishing separate budget categories for highway and transit discretionary spending and establishing budgetary “firewalls” between highway and transit discretionary spending and all other domestic discretionary programs. Prior to TEA-21, the highway and transit discretionary programs competed for annual budgetary resources with other domestic programs. Currently, both programs are still subject to budget constraints, but reductions in highway or transit spending can only be used for deficit reduction and cannot be used to increase spending in other non-transportation programs. This removes a principal incentive for Congress to limit highway or transit spending in the budget/appropriation process.

The highway firewall “protects” the obligation limitations for highways and highway safety programs. The firewall amount for highways is tied to the projected receipts of the Highway Account of the HTF and beginning with federal fiscal year 2007 will be adjusted each year during development of the President’s budget as new receipt projections and actual receipts became available. When the firewall is adjusted, equal adjustment will be made to authorizations called Revenue Aligned Budget Authority and to highway obligation limits. To smooth out the effects of any adjustment, the adjustment will be split over two years

Under SAFETEA-LU, a total of \$244.1 billion in funding for surface transportation is guaranteed to be available for obligation. The total protected amount available for highways and highway safety under SAFETEA-LU is \$198.8 billion. The protected amount available for highways had two components: the amount behind the budgetary firewall of \$195.9 billion and the amount of \$3.7 billion for programs exempt from the obligation limitation. The protected funding for transit programs has a single component – the firewall amount of \$45.3 billion that was not tied to HTF receipts.

### **Highway Minimum Funding – Equity Bonus Program**

Federal-aid highway funds for individual programs are apportioned by formula using factors relevant to the particular program. After those computations are made, additional funds are distributed to ensure that each state receives an amount based on equity considerations. In SAFETEA-LU, this provision is called the Equity Bonus (replaces TEA-21’s Minimum Guarantee) and ensures that each state will be guaranteed a minimum rate of return on its share of contributions to the Highway Account of the HTF, and a minimum increase relative to the average dollar amount of apportionments under TEA-21, and that certain states will maintain the share of total apportionments they each received during TEA-21. An open-ended authorization is provided, ensuring that there will be sufficient funds to meet the objectives of the Equity Bonus.

Each state’s share of apportionments from the Interstate Maintenance Program, the National Highway System Program, the Highway Bridge Program, the Surface Transportation Program, the Highway Safety Improvement Program, the Congestion Mitigation and Air Quality Improvement Program, the Highway Safety Improvement Program, the Coordinated Border Infrastructure Program and several smaller programs, the Equity Bonus program itself, along with certain high priority projects, will be at least a specified percentage of that state’s share of contributions to the Highway Account of the HTF. The specified percentage, referred to as a *relative rate of return*, is 90.5% for federal fiscal years 2005 and 2006, 91.5% for Federal Fiscal Year 2007, and 92% for federal fiscal years 2008 and 2009.

States with certain characteristics (e.g., low population density or total population, low median household income, high interstate fatality rate, high indexed state motor fuel rate) are guaranteed a share of apportionments and high priority projects not less than the state’s average annual share under TEA-21. In any given year, no state is to receive less than a specified percentage (117% for federal fiscal year 2005, 118% for federal fiscal year 2006, 119% for federal fiscal year 2007, 120% for federal fiscal year 2008, and 121% for federal fiscal year 2009) of its average annual apportionments and high priority projects under TEA-21.

### **Federal Aid Funding Procedures**

The FAHP continues to enable the construction of an extensive national transportation system through reimbursement of a large percentage of state expenditures for approved highway projects. The financial assurance provided by the FAHP is unusual among federal programs in that: (i) the FAHP is funded by dedicated revenues, from a user-tax source, deposited in a special trust fund, i.e., HTF; (ii) the contract authority of the FHWA is established by a multi-year authorization act rather than through annual appropriation acts; and (iii) contract authority is not subject to the annual appropriations process (as budget authority is in most other federal programs), although an appropriations act is required in order to liquidate obligations.

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The following summarizes the major steps in funding the Federal-Aid Highway Program.

### **Authorization**

The first and most important step in financing the FAHP is the development and enactment of authorizing legislation. The authorization act not only shapes and defines programs, but also sets upper limits (authorizations) on the funding for programs and includes provisions related to the operation of the HTF.

Once Congress has established authorizations, the next step involves how funds are made available to states. Typically, federal programs operate using appropriated budget authority which means that funds, although authorized, are not available until passage of an appropriations act. However, most programs within the FAHP do not require this two-step process. Through what is termed “contract authority” (a special type of budget authority), authorized amounts become available for obligation according to the provisions of the authorization act without further legislative action. For the FAHP, funds authorized for a federal fiscal year are available for distribution through apportionments or allocations. The use of contract authority gives the states advance notice of the level of federal funding at the time an authorization act is enacted, eliminating much of the uncertainty associated with the authorization-appropriation sequence.

The existence of dedicated revenues in the HTF and of multi-year contract authorizations are designed to provide a predictable and uninterrupted flow of reimbursements to the states. The risk of contract authority lapsing between authorizing acts is minimal, since sufficient unobligated balances generally exist that can be used by the states, with the approval of Congress, to cover gaps in funding between multi-year reauthorization acts. See “Lapsing of Authorization” below.

### **Apportionment, Allocations and Rescissions**

For most components of the FAHP, the authorization act sets the distribution of contract authority to be apportioned and/or allocated to the states. The authorized amount for a given federal fiscal year is distributed to the states through apportionments and allocations.

(a) **Apportionments.** The distribution of funds using a formula provided in law is called an apportionment. Most federal-aid funds are distributed to states through apportionments. Each federal fiscal year, the FHWA has responsibility for apportioning authorized funding for the various highway programs among the states according to formulas established in the authorizing statute. Apportionment factors include items such as lane miles, vehicle miles traveled, taxes paid into the HTF and diesel fuel usage. Each highway program has a unique set of factors that determine the apportionments to the states. Annual apportionments are generally made on the first day of the federal fiscal year.

(b) **Allocations.** Some categories do not have a legislatively mandated distribution formula. When there are no formulas in law, the distributions of funds are termed “allocations” which may be made at any time during the federal fiscal year. In most cases, allocated funds are divided among states with qualifying projects applying general administrative criteria provided in the law.

Federal-aid highway apportionments are available to states for use for more than one year. Their availability does not terminate at the end of the federal fiscal year, as is the case with most other federal programs. In general, apportionments are available for three years plus the year that they are apportioned. Consequently, when new apportionments or allocations are made, the amounts are added to a state's carryover apportionments from the previous year. Should a state fail to obligate a year's apportionment within the period of availability specified for a given program (usually a total of four years), the authority to obligate any remaining amount lapses.

(c) **Rescissions.** A federal rescission of funds reduces the amount of federal funds provided by an appropriations or authorization act that has already become law. Similar to an appropriation or authorization act, a rescission must be passed by both chambers of the U.S. Congress and signed into law by the President. In most instances, a rescission is used to provide funding for a new or emergency legislative priority without increasing federal spending government-wide or by a particular agency. Another common scenario is to accommodate for

budget shortfalls caused by federal revenue predictions that are discovered to be too high after a spending bill is passed into law. Rescissions are generally targeted at unobligated apportionments. In federal fiscal year 2006, a rescission totaling \$1,999,999,000 nationwide was mandated by the Transportation, Treasury, HUD Appropriations Act of 2006 which was signed into law November 30, 2005. Texas' share of this amount was \$158,707,654. The Defense Appropriation Act of 2006, signed into law December 30, 2005, mandated a \$1,143,000,000 rescission nationwide. Texas' share was \$90,670,526. The third rescission for federal fiscal year 2006 was the Emergency Supplemental Appropriations Act of 2006, signed into law June 15, 2006, mandating an additional \$702,362,500 rescission nationwide, of which Texas' share was \$55,716,165. In federal fiscal year 2007, there have been two transportation rescissions enacted. The 2007 Continuing Resolution, signed into law February 15, 2007, mandated a \$3,471,582,000 rescission nationwide and the US Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, signed into law May 25, 2007, mandated an additional \$871,022,000 rescission nationwide. Of these, Texas' share was \$288,459,698 and \$72,374,710 respectively.

### **Obligation**

Obligation is the commitment (or promise) of the federal government to pay, through reimbursement to a state, the federal share of an approved project's eligible costs, which may include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. Once an obligation is made, the federal government is to reimburse the states when bills or payments become due. However, Congress places a restriction or "ceiling" on the amount of federal assistance that may be promised (obligated) during a specified time period. The obligation limitation is the amount of authorized funding that Congress allows states to obligate in an individual year. This is a statutory budgetary control that does not affect the apportionment or allocation of funds. Rather, it controls the rate at which these funds can be used.

Once Congress establishes an overall obligation limitation and after deducting amounts for certain exempt programs and various set-aside<sup>1</sup>, FHWA distributes obligation authority ("OA") to states proportionately based on each state's share of apportioned and allocated revenues. The actual ratio of OA to apportionment and allocations may vary from state to state, since some federal-aid programs are exempt from the obligation limitation. During the federal fiscal year, states submit requests to FHWA to obligate funds, representing the federal share of specific projects. As a state obligates funds, its balance of OA is reduced. A state's OA (unlike its apportionments and allocations of authorized funding) must be used before the end of the federal fiscal year for which it is made available; if not, it will be distributed to other states to ensure that the total limitation nationwide will be used. A state may receive additional OA through a redistribution process each year in August which reallocates OA from states or programs unable to fully obligate their share to other states that are able to obligate more than their initial share.

Although a ceiling on obligations restricts how much funding may be used in a federal fiscal year, the state has flexibility within the overall limitation to mix and match the type of program funds it obligates, based on its individual needs, as long as it does not exceed the ceiling in total. Also, the unobligated balance of apportionments or allocations that the state has remaining at the end of any federal fiscal year is carried over for use by that state during the next federal fiscal year.

### **Highway Program Implementation**

In order to receive federal reimbursements for transportation projects, states are required to develop long-range transportation plans that are based on realistic projections of state and federal funding. Projects are not eligible for federal reimbursements unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans and are included in the three-year Statewide Transportation Improvement Program ("STIP") which lists all projects proposed for financing in that three-year period. The STIP requires FHWA approval.

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<sup>1</sup> Unlike TEA-21 and previous multi-year highway authorizations, SAFETEA-LU provides a separate authorization for the administration costs of FAHP, not as a takedown from the various apportionment programs.

States are required to follow federal fiscal management procedures as they implement projects that are included in the STIP. These fiscal management processes ensure that the process is managed efficiently from project authorization to actual payment of FHWA reimbursements to the state. Further, states are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states.

States may request FHWA approval for eligible projects either through the traditional process or through the advance construction procedure as discussed below:

(a) Traditional Approach. Under the traditional highway funding approach, a state obligates the full federal share of the funding for a project at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funds on a project. The project sponsor submits plans, specifications and estimates (“PS&E’s”) for a project to the FHWA Division Office, and requests that the FHWA approve the use of federal funding for the appropriate federal share of the project. The project must be in the STIP and PS&Es must identify the category of federal funding that will be used.

FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements. Provided that all requirements are satisfied, FHWA authorizes federal participation on the project, and obligates the federal share of project costs. By obligating the funds, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of the state’s OA, and also sets aside an equivalent amount of apportionments by program. Accordingly, the state must have sufficient OA to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. The state awards the contract to the lowest responsive bidder and submits a request to FHWA asking for any necessary adjustments to federal obligations to reflect the actual bid amount. If approved, the amounts agreed to are included in a project agreement which identifies the funds that will be encumbered by the state, and the amount that will be reimbursed by the federal government.

(b) Advance Construction Approach. In recent years, FHWA has implemented several new fiscal management techniques that provide states additional flexibility in managing their OA and cash flow. Advance construction (“AC”) and partial conversion of advance construction are two key techniques that facilitate federal-aid project funding.

The AC approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the full federal share of costs at the beginning of the project. This allows states to begin a project before accumulating all of the Obligation Authority needed to cover the federal share of the project. Similar to the traditional approach, the state submits PS&E’s to FHWA and requests project authorization. Under AC, however, FHWA is asked to authorize the project without obligating federal funds. The state will provide the up-front financing for the project and then at a later date “convert” the advance construction project to a regular federal-aid project and obligate the full federal share of the project costs, when sufficient OA is available. At the time of conversion, the state can be reimbursed for the federal share of costs incurred up to the point of conversion.

Partial conversion of AC is a form of advance construction in which the state converts, obligates, and receives reimbursement for only a portion of its funding of an AC project in a given year. This removes any requirement to wait until the full amount of OA for the project is available. The state can therefore obligate varying amounts for the project’s eligible cost in each year, depending on how much of the state’s OA is available. Using the technique to partially convert the federal share makes bond and note financing more viable and federal-aid funds available to support a greater number of projects. The National Highway System Act of 1995 provided additional flexibility in the use of advance construction by allowing partial conversion of advance construction as implemented through a Federal Register Notice dated July 19, 1995.

## Reimbursement

As work progresses on a federal-aid highway project, a state will pay the contractor for completed work from available state funds. The state electronically transmits vouchers for the federal share of completed work and the FHWA certifying officer certifies the claims for payment. After review and approval by the FHWA Division office, payment is scheduled. The timing of the federal payment to the state is governed by an agreement between the state and the United States Treasury. The FHWA's payments are generally deposited in the state's account on the same day payments to the contractor are made.

## **Lapsing of Authorization**

All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. Indeed, for most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the FAHP, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide OA by administrative action.

Though recent federal surface transportation legislation has been authorized for four to six years at a time, there occasionally have been periods in which the previous authorizing legislation had expired and the future legislation had yet to be enacted. In such circumstances, Congress and/or the FHWA have found ways to avoid disruptions to state highway programs and, more importantly, have been able to maintain the flow of federal revenues to states in each instance. Two mechanisms in particular have kept revenues flowing:

- Short-Term Authorization: TEA-21 expired on September 30, 2003 and Congress enacted nine interim authorization measures for varying periods over twenty-two months until the enactment of SAFETEA-LU on August 10, 2005. Additionally, since most states have unobligated balances of at least half their normal annual OA levels and an authorization act need not be in place for the FHWA to give states new OA, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated OA. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the HTF. Similarly, the Intermodal Surface Transportation Efficiency Act of 1991 ("ISTEA") expired on September 30, 1997 and until approval of TEA-21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on OA through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997, Congress passed the Surface Transportation Extension Act of 1997 ("STEA"), which provided a six-month authorization for highway funding and established a limit on the amount of new OA states could use at funding levels equal to about a quarter of federal fiscal year 1997 authorization levels.
- Access to Unobligated Balances: The 1987 Surface Transportation and Uniform Relocation Assistance Act expired on September 30, 1991 and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal-aid funding flowing because states could use their unobligated balances to provide contract authority to use new OA.

ALTHOUGH THESE MEASURES HAVE BEEN ENACTED BY CONGRESS AND/OR FHWA IN THE PAST, NO ASSURANCE CAN BE GIVEN THAT SUCH MEASURES WOULD OR COULD BE ENACTED IN THE FUTURE TO MAINTAIN THE FLOW OF FEDERAL-AID FUNDING UPON TERMINATION OF AN AUTHORIZATION PERIOD.

**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

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\_\_\_\_\_, 2008

WE HAVE ACTED AS BOND COUNSEL to the Texas Transportation Commission (the “Commission”), the governing body of the Texas Department of Transportation (the “Department”), in connection with an issue of bonds (the “Bonds”) described as follows:

TEXAS TRANSPORTATION COMMISSION STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2008, dated August 1, 2008, in the aggregate principal amount of \$162,995,000, maturing on April 1 in each of the years 2010 through 2028, inclusive. The Bonds are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bearing interest, subject to redemption prior to maturity, and subject to transfer and exchange as set forth in the Bonds and in the Master Resolution Establishing a Financing Program for Bonds, Other Public Securities and Credit Agreements Secured by and Payable from Revenue Deposited to the Credit of the State Highway Fund, adopted pursuant to Minute Order Number 110472 approved by the Commission on March 30, 2006, as amended pursuant to Minute Order Number 110729 approved by the Commission on October 26, 2006 (the “Master Resolution”), the Fourth Supplemental Resolution to the Master Resolution, adopted pursuant to Minute Order Number 111050 approved by the Commission on August 23, 2007 (the “Fourth Supplemental Resolution”), and the Award Certificate of Department Representative dated as of July 25, 2008 (the “Award Certificate” and, together with the Master Resolution and the Fourth Supplemental Resolution, the “Resolution”), authorizing the issuance of the Bonds.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Commission; certain certifications and representations and other material facts within the knowledge and control of the Commission and the Department, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. R-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial

condition or capabilities of the Commission or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Commission's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. Capitalized terms used herein and not otherwise defined have the meaning assigned in the Resolution.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the issuance, execution and delivery of the Bonds is permitted under the Resolution; and the Bonds and the Resolution have been duly authorized, executed and delivered in accordance with law;
- (2) The covenants and agreements in the Resolution constitute valid and legally binding obligations of the Commission, and the Bonds constitute valid, binding and enforceable limited obligations of the Commission, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and governmental agencies and the exercise of judicial discretion in appropriate cases; and
- (3) The Bonds are First Tier Senior Obligations secured by and payable solely from a first lien on the Pledged Revenues described in the Resolution.

THE COMMISSION HAS RESERVED THE RIGHT in the Master Resolution, and the Master Resolution permits the Commission, to issue or incur from time to time other series and installments of First Tier Senior Obligations which are equally and ratably secured, on parity with the Bonds, by a first lien on and pledge of the Pledged Revenues. The Commission also has reserved the right to issue or incur additional Senior Obligations, and to establish additional Tiers for the payment thereof, which are secured by a pledge of and lien on the Pledged Revenues that is junior and subordinate to the lien of the Master Resolution with respect to First Tier Senior Obligations (including the Bonds). In addition, the Resolution recognizes and reserves to the Commission the right to issue or incur Subordinate Obligations which may be payable from or secured by a lien on State Highway Fund Revenues that is junior and subordinate to the lien of the Master Resolution with respect to First Tier Senior Obligations and Senior Obligations of any additional Tiers established hereafter.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described,

corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Commission comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commission has covenanted in the Resolution to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all tax-exempt obligations, including the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed. Purchasers of Bonds are directed to the discussion entitled "TAX EXEMPTION" set forth in the Official Statement.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

PROSPECTIVE PURCHASERS OF THE BONDS should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, taxpayers who own an interest in a FASIT that holds tax-exempt obligations, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who otherwise may qualify for the earned income tax credit and taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the

Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

## APPENDIX E

### DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM

This appendix describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Commission and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Commission cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to Direct Participants (defined herein), (2) Direct Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with Direct Participants are on file with DTC.

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized

representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the applicable County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Paying Agent, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the County or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the County and the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) under the circumstances set forth in the Orders. In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that County believes to be reliable, but County takes no responsibility for the accuracy thereof

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