OFFICIAL STATEMENT DATED MARCH 7, 2014

NEW ISSUES - Book-Entry-Only

Ratings: *Standard & Poor's: "AAA"*
Moody's: "Aaa"
See "RATINGS"

Delivery of the Bonds, as defined below, is subject to receipt of the opinions of Andrews Kurth LLP, Bond Counsel, to the effect that, assuming continuing compliance by the Texas Transportation Commission with certain covenants contained in the Resolution as defined below and described herein and subject to the matters described under "TAX EXEMPTION", 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 opinions of Bond Counsel, including the alternative minimum tax consequences for corporations.

TEXAS TRANSPORTATION COMMISSION

$1,157,795,000
STATE HIGHWAY FUND FIRST TIER REVENUE AND REFUNDING BONDS, SERIES 2014-A

$300,000,000
STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2014-B (SIFMA INDEX FLOATING RATE BONDS)

Dated: Date of Initial Delivery

Due: April 1, as shown on pages i and ii

The Texas Transportation Commission State Highway Fund First Tier Revenue and Refunding Bonds, Series 2014-A (the "Series 2014-A Bonds") and the Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2014-B (SIFMA Index Floating Rate Bonds) (the "Series 2014-B Bonds" and, together with the Series 2014-A Bonds, 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 (the "Act"); Chapters 1207 and 1371, Texas Government Code; a Second Amended and Restated Master Resolution dated as of April 23, 2010 (the "Master Resolution"); an Amended and Restated Sixth Supplemental Resolution (the "Sixth Supplemental Resolution") adopted by minute order of the Commission on January 30, 2014; and Award Certificates of the Department Representative executed on the date of sale of the Bonds (the "Award Certificates" and, together with the Master Resolution and the Sixth Supplemental Resolution, 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 and delivery of obligations payable from the State Highway Fund (the "Fund"). The Bonds are being issued as "First Tier Senior Obligations" under the Resolution. The Bonds are being issued to (i) finance State highway improvement projects which include costs eligible for funding with revenues dedicated under Article VIII, Section 7-a of the Texas Constitution; (ii) refund the Refunded Obligations as set out on Schedule I hereto and (iii) 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 hereafter issued, will be payable from a first lien on the Pledged Revenues (defined herein) 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 and all other outstanding Senior Obligations (defined herein) that mature or become due during any fiscal year and any cost related to the Bonds and all other outstanding Senior Obligations. This appropriation of revenue may not be modified to impair the payment of the Bonds and all other outstanding Senior Obligations unless provisions have been made for a full discharge of the Bonds and all other outstanding Senior Obligations**. See "GENERAL INFORMATION REGARDING THE BONDS – Source of Payment for 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 within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, redemption premium, if any, and interest on the Bonds will be payable by the paying agent/registrar (the "Paying Agent/Registrar"), initially U.S. Bank National Association, Dallas, Texas, 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."

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."

See Pages i and ii for Maturity Schedules and Additional Information with Respect to Each Series of the Bonds

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, Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Commission by General Counsel to the Commission and by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Disclosure Counsel to the Commission. Certain legal matters will be passed upon for the Underwriters by Bracewell & Giuliani LLP, Austin, Texas and Mahomes Bolden & Warren, PC, Dallas, Texas, Co-Counsel for the Underwriters. It is expected that the Bonds will be delivered on or about April 2, 2014 through the facilities of DTC.

Piper Jaffray & Co. **Citigroup**

BofA Merrill Lynch **Barclays** **Frost Bank**
Jefferies **Loop Capital Markets** **Morgan Stanley**
Raymond James **Siebert Brandford Shank & Co., L.L.C.**

MATURITY SCHEDULES

$1,157,795,000
TEXAS TRANSPORTATION COMMISSION
STATE HIGHWAY FUND FIRST TIER REVENUE AND REFUNDING BONDS, SERIES 2014-A

Maturity (April 1)	Principal Amount	Interest Rate	Initial Yield	CUSIP Number[1]
2017	$ 60,590,000	4.750%	0.470%	88283LHV1
2017	17,080,000	5.000%	0.470%	88283LJJ6
2018	81,400,000	5.000%	0.810%	88283LHW9
2019	85,465,000	5.000%	1.130%	88283LHX7
2020	89,730,000	5.000%	1.580%	88283LHY5
2021	94,230,000	5.000%	1.970%	88283LHZ2
2022	98,935,000	5.000%	2.280%	88283LJA5
2023	103,885,000	5.000%	2.500%	88283LJB3
2024	109,070,000	5.000%	2.640%	88283LJC1
2025	58,785,000	5.000%	2.780%[2]	88283LJH0
****	****	****	****	****
2031	20,460,000	5.000%	3.370%[2]	88283LJD9
****	****	****	****	****
2033	164,960,000	5.000%	3.520%[2]	88283LJE7
2034	173,205,000	5.000%	3.570%[2]	88283LJF4

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Commission, the Department, the Financial Advisor, or the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.

(2) Initial Yield calculated to the first optional call date for the Series 2014-A Bonds of April 1, 2024.

Interest. The Series 2014-A Bonds will bear interest at the respective rates shown above, as applicable, calculated on the basis of a 360-day year composed of twelve months of 30 days each. The Series 2014-A Bonds will mature in the respective principal amounts and on the respective dates shown in the table above. The Series 2014-A Bonds will bear interest from their Date of Initial Delivery, and such interest will be payable semiannually on each April 1 and October 1, commencing October 1, 2014. See "THE SERIES 2014-A BONDS."

Optional Redemption. The Series 2014-A Bonds maturing on and after April 1, 2025 will be subject to redemption on April 1, 2024 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.

$300,000,000
TEXAS TRANSPORTATION COMMISSION
STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2014-B
(SIFMA INDEX FLOATING RATE BONDS)

Initial Index Floating Rate Period Commencement	Initial Index Floating Rate Period Expiration	Initial Mandatory Tender Date	Maturity	Applicable Spread	Stepped Rate	CUSIP No.[1]
April 2, 2014	March 31, 2017	April 1, 2017	April 1, 2032	0.35%	8.00%	88283LJG2

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Commission, the Department, the Financial Advisor or the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.

General. The Series 2014-B Bonds are multi-modal bonds, initially issued in an Index Floating Rate Mode for an Index Floating Rate Period that commences on the date of initial delivery of the Bonds (anticipated to occur on or about April 2, 2014) and expires on March 31, 2017 (the "Initial Index Floating Rate Period"). The Series 2014-B Bonds will be subject to mandatory tender for purchase (without right of retention) on the date specified above as the Initial Mandatory Tender Date (the "Initial Mandatory Tender Date"), subject to the successful remarketing of all Series 2014-B Bonds. At that time, the Commission expects to either redeem or remarket the Series 2014-B Bonds in one or more successive Index Floating Rate Periods of the same or different durations or in one or more of the several interest rate modes authorized by the Sixth Supplemental Resolution, including a Daily Mode, Flexible Mode, Weekly Mode, Monthly Mode, Quarterly Mode, Semiannual Mode, Multiannual Mode or Fixed Rate Mode (as such terms are defined in the Sixth Supplemental Resolution). The Series 2014-B Bonds are not subject to conversion to another interest rate mode prior to the Initial Mandatory Tender Date. See "THE SERIES 2014-B BONDS – Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds."

THIS OFFICIAL STATEMENT DOES NOT PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2014-B BONDS AFTER CONVERSION TO ANY NEW MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT INDEX FLOATING RATE PERIOD). PURCHASERS OF THE SERIES 2014-B BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING ANY OTHER MODE OR INTEREST RATE PERIOD FOR THE SERIES 2014-B BONDS. AT THE TIME OF ANY REMARKETING, A NEW OFFICIAL STATEMENT OR SUPPLEMENT TO THIS OFFICIAL STATEMENT WILL BE PREPARED FOR REMARKETING THE SERIES 2014-B BONDS.

Interest. During the Initial Index Floating Rate Period, the Series 2014-B Bonds will bear interest at the Initial Index Floating Rate, being a per annum interest rate, determined weekly, equal to the lesser of (i) the Maximum Rate (which is defined in the Resolution as being twelve percent (12%) per annum) and (ii) the sum of the Index (defined herein) then in effect and the Applicable Spread identified above. Interest on Series 2014-B Bonds in the Initial Index Floating Rate Period will be calculated on the basis of a 365/366 day year for the actual number of days elapsed and will be payable on the first Business Day of each month (commencing May 1, 2014), and at such other times as described herein. See "THE SERIES 2014-B BONDS – Interest During Initial Index Floating Rate Period."

Redemption. The Series 2014-B Bonds are subject to optional redemption prior to the end of the Initial Index Floating Rate Period as described herein. See "THE SERIES 2014-B BONDS – Redemption."

Optional and Mandatory Tender. The Series 2014-B Bonds are not subject to optional tender during the Initial Index Floating Rate Period. The Series 2014-B Bonds are subject to mandatory tender for purchase (without right of retention) on the Initial Mandatory Tender Date, subject to the successful remarketing of all Series 2014-B Bonds. See "THE SERIES 2014-B BONDS - Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds."

No Liquidity Support. During the Initial Index Floating Rate Period, the Series 2014-B Bonds are not subject to the benefit of a liquidity facility, nor is there any requirement to obtain such a liquidity facility. The obligation of the Commission to purchase any Series 2014-B Bond on the Initial Mandatory Tender Date is subject to the successful remarketing of all Series 2014-B Bonds. The Commission has no obligation to purchase Series 2014-B Bonds except from the remarketing proceeds. In the event that all Series 2014-B Bonds are not remarketed to new purchasers on the Initial Mandatory Tender Date, (i) the mandatory tender will be deemed to have been rescinded for that date, (ii) the failed remarketing will not result in an event of default, and (iii) until such time that all Series 2014-B Bonds are successfully remarketed, the Series 2014-B Bonds will bear interest at the Stepped Rate identified above. See "THE SERIES 2014-B BONDS — Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds – *Effects of a Failed Remarketing*."

TEXAS TRANSPORTATION COMMISSION

Name	Title	Term Expires
Ted Houghton	Chairman	February 1, 2015
Jeff Austin, III	Commissioner	February 1, 2019
Jeff Moseley	Commissioner	February 1, 2017
Fred Underwood	Commissioner	February 1, 2015
Victor Vandergriff	Commissioner	February 1, 2019

TEXAS DEPARTMENT OF TRANSPORTATION

Name	Position	Total Years of Service with the Department
James M. Bass [1]	Interim Executive Director and Chief Financial Officer	25 years
John Barton, P.E.	Deputy Executive Director and Chief Engineer	28 years
Brian Ragland, CPA	Finance Director	7 years
Benjamin Asher	Innovative Financing/Debt Management Officer	$1^1/_2$ years
Jeff Graham	General Counsel	$1^1/_2$ years

CONSULTANTS AND ADVISORS

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

Disclosure Counsel ..... McCall, Parkhurst & Horton L.L.P., Austin, Texas

Financial Advisor ..... Estrada Hinojosa & Company, Inc., Austin, Texas

Paying Agent/Registrar, Tender Agent & Calculation Agent..... U.S. Bank National Association, Dallas, Texas

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

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Texas Department of Transportation
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Austin, Texas 78701-2483
(512) 305-9507

Mr. Paul Jack
Managing Director
Estrada Hinojosa & Company, Inc.
823 Congress Avenue, Suite 1550
Austin, Texas 78701
(512) 605-2444

[1] Effective January 17, 2014, James M. Bass became Interim Executive Director and continues to serve as Chief Financial Officer. The prior Executive Director, Phil Wilson, announced in December 2013 that he would be leaving the Department for another position. On January 7, 2014, the Commission appointed a committee to select a permanent Executive Director, but currently no timeline has been established for such selection.

SALE AND DISTRIBUTION OF THE BONDS

Use of Official Statement

No dealer, broker, salesman or other person has been authorized by the Commission or the Underwriters 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 or the Underwriters. 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Commission's undertaking to provide certain information on a continuing basis. This Official Statement is submitted in connection with the sale of the Bonds 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 by the Commission, 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 respective 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.

None of the Commission, the Underwriters or 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 UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR HAS THE SEC 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 SEC under the Securities Act of 1933, in reliance upon an exemption provided thereunder, nor have the Bonds been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein. Furthermore, the Bonds have not been registered or qualified under the securities laws of any other jurisdiction (domestic or foreign).

The Commission assumes no responsibility for registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction (domestic or foreign) 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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Schedule I – Refunded Obligations

Appendix A – Definitions and Excerpted Provisions of the Resolution
Appendix B – Unaudited Department Financial Statements for Fiscal Year ended August 31, 2013
Appendix C – Information Concerning the Funding of Federal-Aid Highways
Appendix D – Forms of Opinions of Bond Counsel
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OFFICIAL STATEMENT

RELATING TO

TEXAS TRANSPORTATION COMMISSION

$1,157,795,000 **STATE HIGHWAY FUND** **FIRST TIER REVENUE AND REFUNDING BONDS, SERIES 2014-A**	**$300,000,000** **STATE HIGHWAY FUND** **FIRST TIER REVENUE BONDS, SERIES 2014-B** **(SIFMA INDEX FLOATING RATE BONDS)**

INTRODUCTION

The purpose of this Official Statement (which includes the Schedule and Appendices hereto) is to furnish information concerning the offering of the "Texas Transportation Commission State Highway Fund First Tier Revenue and Refunding Bonds, Series 2014-A" (the "Series 2014-A Bonds") and the "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2014-B (SIFMA Index Floating Rate Bonds)" (the "Series 2014-B Bonds" and, together with the Series 2014-A Bonds, 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 amounts set forth above. 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 (the "Act"); Chapters 1207 and 1371, Texas Government Code; the "Second Amended and Restated 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" dated as of April 23, 2010 (the "Master Resolution"), as supplemented by the "Amended and Restated Sixth Supplemental Resolution" to the Master Resolution adopted by minute order of the Commission on January 30, 2014 (the "Sixth Supplemental Resolution"); and Award Certificates of the Department Representative executed on the date of sale of the Bonds (the "Award Certificates" and, together with the Master Resolution and the Sixth Supplemental Resolution, 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 (increased 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 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. Also, pursuant to Article VIII, 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 for acquiring rights-of-way and constructing, maintaining and policing public roadways are constitutionally dedicated and may be used only for 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 and all other outstanding Obligations. 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 "GENERAL INFORMATION REGARDING THE BONDS - Source of Payment for Bonds," "THE STATE HIGHWAY FUND - General" and "- Sources of Revenue in the Fund" and "INVESTMENT CONSIDERATIONS."

Pursuant to the Master 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 and 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 "GENERAL INFORMATION REGARDING THE BONDS - Source of Payment for Bonds" and "- Flow of Funds." See "GENERAL INFORMATION REGARDING THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations" for a description of the presently outstanding Previously Issued First Tier Senior Obligations (defined herein). 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 six series of Senior Obligations as First Tier Senior Obligations in the aggregate principal amount of $4,457,390,000 and, following the issuance of the Bonds, First Tier Senior Obligations in the aggregate principal amount of $4,310,525,000 will be outstanding. The Sixth Supplemental Resolution authorizes the issuance of new money bonds in one or more series in an aggregate principal amount not to exceed $1,400,667,126.36 and, following the issuance of the Bonds, $700,148,786.56 of new money bonds will remain authorized but unissued. The Sixth Supplemental Resolution also authorizes the issuance of refunding bonds in one or more series in an aggregate principal amount not to exceed $1.7 billion for the purpose of refunding previously issued First Tier Senior Obligations in the event that certain savings criteria are satisfied or to refund the Department's currently outstanding variable rate Senior Obligations. The Bonds constitute the first and second series of obligations delivered under authority of the Sixth Supplemental Resolution. See "GENERAL INFORMATION REGARDING THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations" and "- Issuance of Subordinate Obligations," "THE STATE HIGHWAY FUND - Uses of the Fund - *Capital Projects and Proposed Debt Financings*" 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 "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate Bonds)." See "GENERAL INFORMATION REGARDING THE BONDS - Credit Agreements."

This Official Statement includes descriptions of the Bonds, the Fund, the Commission, the Department, the State 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 definitions of certain terms used herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement and the Escrow Agreement will be submitted to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. 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 which include costs eligible for funding with revenues dedicated under Section 7-a; (ii) refund the previously issued First Tier Senior Obligations set forth on Schedule I hereto (the "Refunded Obligations") and (iii) pay the costs of issuing the Bonds. See "SOURCES AND USES OF FUNDS." "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. See "Schedule I – Refunded Obligations" for the details of the specific series and maturities of Refunded Obligations to be refunded and their respective redemption dates and redemption prices.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled interest payment and redemption dates of each such bond, from funds to be deposited with U.S. Bank National Association as escrow agent (the "Escrow Agent"), pursuant to an escrow agreement between the Commission and the Escrow Agent (the "Escrow Agreement") to be effective as of the date of delivery of the Series 2014-A Bonds.

The Resolution provides that from the proceeds of the sale of the Series 2014-A Bonds, together with amounts contributed to the refunding of the Refunded Obligations by the Commission, if any, there shall be deposited with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, and the resolutions authorizing the issuance of the Refunded Obligations, which may include direct non-callable obligations of the United States and non-callable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and guaranteed or insured by the agency or instrumentality (the "Escrow Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. The Escrow Fund will not be available to pay principal of or interest on the Bonds.

Simultaneously with the issuance of the Series 2014-A Bonds, the Commission will give irrevocable instructions to provide notice, if any, to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity of each respective issue of Refunded Obligations and that funds will be made available to redeem the Refunded Obligations on their respective redemption dates from money held in the Escrow Fund, and the Commission will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Obligations from time to time, including any insufficiency therein caused by the failure to receive payment when due on the Escrow Securities.

The Arbitrage Group, Inc., a nationally-recognized accounting firm, will verify at the time of delivery of the Series 2014-A Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the Escrow Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of, premium, if any, and interest on the Refunded Obligations on their scheduled redemption dates. The Arbitrage Group, Inc. will also verify the yields relied on by Bond Counsel to support its opinion that none of the Series 2014-A Bonds is an arbitrage bond under section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). Such verification report will be based on information

and assumptions supplied by the Commission and the Financial Advisor, and such verifications, information and assumptions will be relied upon by Bond Counsel in rendering its opinions described herein. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" and "TAX EXEMPTION."

By the deposit of the Escrow Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the Commission will have effected the defeasance of the Refunded Obligations pursuant to the terms of the resolutions authorizing their issuance and in accordance with applicable law. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Obligations will no longer be payable from Pledged Revenues, but will be payable solely from the principal of and interest on the Escrow Securities and cash held for such purpose by the Escrow Agent, and that the Refunded Obligations, as defeased obligations, are not to be included in or considered to be indebtedness of the Commission for any other purpose.

SOURCES AND USES OF FUNDS

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

		Series 2014-A Bonds	Series 2014-B Bonds
Sources:			
	Principal Amount	$ 1,157,795,000.00	$ 300,000,000.00
	Original Issue Premium	193,586,336.05	-
	Total	$ 1,351,381,336.05	$ 300,000,000.00
Uses:			
	Deposit to Proceeds Fund	$ 400,518,339.80	$ 299,485,295.57
	Deposit to Escrow Fund	945,413,665.01	-
	Underwriters' Discount	4,482,264.79	514,704.43
	Estimated Costs of Issuance	967,066.45	-
	Total	$ 1,351,381,336.05	$ 300,000,000.00

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Table 1

DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE

Fiscal Year	Outstanding First Tier Senior Obligations[1]	Series 2014-A			Series 2014-B[2]			Refunded Obligations Debt Service[1]	BAB Subsidy Payments[3]	Total Debt Service (before BAB Subsidy)	Total Debt Service (net of BAB Subsidy)	Fiscal Year 2013 Pledged Revenues[4]	Aggregate Debt Service Coverage (before BAB Subsidy)[5]	Aggregate Debt Service Coverage (net of BAB Subsidy)[5]
		Principal	Interest	Total	Principal	Interest	Total							
2014	$ 316,949,593	$ -	$ -	$ -	$ -	$ 3,123,288	$ 3,123,288	$ -	$(24,880,308)	$320,072,880	$295,192,572	$6,761,700,000	21.13x	22.91x
2015	316,946,168	-	57,577,891	57,577,891	-	7,500,000	7,500,000	(42,962,181)	(26,056,075)	339,061,877	313,005,802	6,761,700,000	19.94	21.60
2016	316,944,793	-	57,738,275	57,738,275	-	7,508,590	7,508,590	(42,962,181)	(27,029,124)	339,229,477	312,200,353	6,761,700,000	19.93	21.66
2017	316,949,467	77,670,000	57,738,275	135,408,275	-	7,491,410	7,491,410	(120,602,181)	(27,029,124)	339,246,971	312,217,847	6,761,700,000	19.93	21.66
2018	316,950,230	81,400,000	54,006,250	135,406,250	-	7,500,000	7,500,000	(120,600,181)	(27,029,124)	339,256,299	312,227,175	6,761,700,000	19.93	21.66
2019	316,948,230	85,465,000	49,936,250	135,401,250	-	7,500,000	7,500,000	(120,599,181)	(27,029,124)	339,250,299	312,221,175	6,761,700,000	19.93	21.66
2020	316,943,343	89,730,000	45,663,000	135,393,000	-	7,508,590	7,508,590	(120,589,431)	(27,029,124)	339,255,502	312,226,378	6,761,700,000	19.93	21.66
2021	316,950,367	94,230,000	41,176,500	135,406,500	-	7,491,410	7,491,410	(120,601,181)	(27,029,124)	339,247,096	312,217,972	6,761,700,000	19.93	21.66
2022	316,945,480	98,935,000	36,465,000	135,400,000	-	7,500,000	7,500,000	(120,597,681)	(27,029,124)	339,247,799	312,218,675	6,761,700,000	19.93	21.66
2023	387,447,230	103,885,000	31,518,250	135,403,250	-	7,500,000	7,500,000	(120,598,431)	(27,029,124)	409,752,049	382,722,925	6,761,700,000	16.50	17.67
2024	386,254,105	109,070,000	26,324,000	135,394,000	-	7,508,590	7,508,590	(120,591,431)	(25,788,553)	408,565,263	382,776,710	6,761,700,000	16.55	17.66
2025	384,736,780	58,785,000	20,870,500	79,655,500	-	7,491,410	7,491,410	(84,184,406)	(24,506,450)	387,699,285	363,192,834	6,761,700,000	17.44	18.62
2026	382,920,146	-	17,931,250	17,931,250	-	7,500,000	7,500,000	(47,864,250)	(23,181,937)	360,487,146	337,305,209	6,761,700,000	18.76	20.05
2027	382,295,563	-	17,931,250	17,931,250	-	7,500,000	7,500,000	-	(21,820,908)	407,726,813	385,905,905	6,761,700,000	16.58	17.52
2028	378,719,933	-	17,931,250	17,931,250	-	7,508,590	7,508,590	-	(18,127,531)	404,159,772	386,032,241	6,761,700,000	16.73	17.52
2029	373,232,423	-	17,931,250	17,931,250	-	7,491,410	7,491,410	-	(12,448,598)	398,655,083	386,206,485	6,761,700,000	16.96	17.51
2030	367,313,129	-	17,931,250	17,931,250	-	7,500,000	7,500,000	-	(6,329,095)	392,744,379	386,415,284	6,761,700,000	17.22	17.50
2031	-	20,460,000	17,931,250	38,391,250	137,415,000	6,059,966	143,474,966	-		181,866,216	181,866,216	6,761,700,000	37.18	37.18
2032	-	-	16,908,250	16,908,250	162,585,000	2,370,134	164,955,134	-		181,863,384	181,863,384	6,761,700,000	37.18	37.18
2033	-	164,960,000	16,908,250	181,868,250	-	-	-	-		181,868,250	181,868,250	6,761,700,000	37.18	37.18
2034	-	173,205,000	8,660,250	181,865,250	-	-	-	-		181,865,250	181,865,250	6,761,700,000	37.18	37.18
Total	$5,895,446,979	$1,157,795,000	$629,078,441	$1,786,873,441	$300,000,000	$131,553,388	$431,553,388	$(1,182,752,719)	$(399,372,444)	$6,931,121,088	$6,531,748,644			

(1) As of August 31, 2013. 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 2.50%, including remarketing and liquidity fees. Includes debt service on the Refunded Obligations. See "THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations."

(2) For purposes of illustration, interest on the $300 million of Series 2014-B Bonds (initially issued as SIFMA-indexed floating rate bonds) is estimated at 2.50%.

(3) See "GENERAL INFORMATION REGARDING THE BONDS - Application of Certain BAB Subsidy Payments." Amounts reflect a reduction due to the Sequester Cuts made in the federal fiscal year ending September 30, 2013, and anticipated in the federal fiscal year ending September 30, 2014, which together impact the Department's fiscal years ending August 31, 2014 and August 31, 2015 shown in the table. Reductions in BAB subsidies that may occur due to Sequester Cuts in future federal fiscal years are not shown. The BAB Subsidy Payments shown for fiscal year 2014 reflect the total estimated BAB Subsidy Payment for such fiscal year.

(4) 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." Does not include BAB subsidy payments.

(5) The Commission anticipates issuing the remaining authorized but unissued amount of First Tier Senior Obligations, which will be approximately $700 million after the issuance of the Bonds, during the 2015 fiscal year. Assuming a tax-exempt interest rate of 4.3% and an average life of 9.3 years for such projected bond issuance, from fiscal year 2014 to fiscal year 2035, the Commission estimates that its maximum aggregate annual debt service on all outstanding First Tier Senior Obligations would be approximately $397.6 million net of any BAB Subsidy Payments. Based on fiscal year 2013 revenues of $6.761 billion, the Commission estimates that its projected debt service coverage after the issuance of such bonds would be 17.00 net of any Federal Payments.

THE SERIES 2014-A BONDS

General Description

The Series 2014-A Bonds will be issued in book-entry form pursuant to the book-entry-only system described below. Beneficial owners of Series 2014-A Bonds will not receive physical delivery of Series 2014-A Bond certificates. The Series 2014-A Bonds will be issued in fully registered form and purchases of Series 2014-A Bonds are required to be in the denomination of $5,000 or any integral multiple thereof. The Series 2014-A Bonds will be prepared as one fully registered bond certificate for each maturity and will be initially registered in the name of and delivered only to Cede & Co., as nominee for the DTC, pursuant to the Book-Entry-Only System described herein. No physical delivery of the Series 2014-A Bonds will be made to the owners thereof. DTC will act as securities depository for the Series 2014-A Bonds. Principal of, premium, if any, and interest on the Series 2014-A Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "APPENDIX E - DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM"). The Series 2014-A Bonds will bear interest at the respective rates shown on page i of this Official Statement, as applicable, calculated on the basis of a 360-day year composed of twelve months of 30 days each. The Series 2014-A Bonds will mature in the respective principal amounts and on the respective dates shown on page i of this Official Statement. The Series 2014-A Bonds will bear interest from their date of initial delivery, and such interest will be payable semiannually on each April 1 and October 1 (each a "Series 2014-A Bonds Interest Payment Date"), commencing October 1, 2014.

The record date ("Series 2014-A Bonds Record Date") for determining the person to whom interest is payable on any Series 2014-A Bonds Interest Payment Date means the close of business on the fifteenth day of the calendar month immediately preceding such Series 2014-A Bonds 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 "Series 2014-A Bonds 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 Series 2014-A Bonds Special Record Date and of the scheduled payment date of the past due interest ("Series 2014-A Bonds Special Payment Date," which must be 15 days after the Series 2014-A Bonds Special Record Date) shall be sent at least five business days prior to the Series 2014-A Bonds Special Record Date by United States mail, first-class postage prepaid, to the address of each 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.

Redemption Provisions

Optional Redemption. The Series 2014-A Bonds maturing on and after April 1, 2025 will be subject to redemption on April 1, 2024 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 Series 2014-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 Series 2014-A Bond at the designated office of the Paying Agent/Registrar, a new Series 2014-A Bond or Series 2014-A Bonds of like maturity, series, and interest rate in any Authorized Denominations provided by the Sixth Supplemental Resolution for the then unredeemed balance of the principal amount. If a Series 2014-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 Series 2014-A 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 Series 2014-A Bonds pursuant to the provisions of the Sixth 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 Sixth 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 Sixth 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

Unless waived by any Owner of the Series 2014-A Bonds to be redeemed, the Paying Agent/Registrar shall give notice of redemption or of defeasance of Series 2014-A Bonds by mail, first-class postage prepaid at least thirty (30) days prior to a redemption date and within thirty (30) days after a defeasance date to each Owner and to each registered securities depository. In addition, in the event of a redemption caused by an advance refunding of the Series 2014-A Bonds, the Paying Agent/Registrar shall send a second notice of redemption to the persons specified in the immediately preceding sentence at least thirty (30) days but not more than ninety (90) days prior to the actual redemption date. Any notice sent to a registered securities depository shall be sent so that they are received at least two (2) days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the Owner of any Series 2014-A Bond who has not sent such Series 2014-A Bonds in for redemption sixty (60) days after the redemption date therefor.

Each notice of redemption or defeasance shall contain a description of the Series 2014-A Bonds to be redeemed or defeased including the complete name of the Series 2014-A Bonds, the date of issue, the interest rate, the maturity date, the CUSIP number, the certificate numbers, the amounts called of each certificate, the publication or mailing date for the notice, the date of redemption or defeasance, the redemption price, if any, the name of the Paying Agent/Registrar, and the address at which the Bonds may be redeemed or paid, including a contact person telephone number.

All redemption payments made by the Paying Agent/Registrar to the Owners of the Series 2014-A Bonds shall include a CUSIP number relating to each amount paid to such Owner.

The failure of any Owner of the Series 2014-A Bonds to receive notice given as provided above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2014-A Bonds. Any notice mailed as provided above shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any Owner receives such notice.

So long as DTC is effecting book-entry transfers of the Series 2014-A Bonds, the Paying Agent/Registrar shall provide the notices specified above only to DTC. It is expected that DTC shall, in turn, notify its participants and that the participants, in turn, will notify or cause to be notified the beneficial owners. Any failure on the part of DTC or a participant, or failure on the part of a nominee of a beneficial owner of a Series 2014-A Bond to notify the beneficial owner of the Series 2014-A Bond so affected, shall not affect the validity of the redemption of such Series 2014-A Bonds. See "GENERAL INFORMATION REGARDING THE BONDS - Redemption Through DTC."

THE SERIES 2014-B BONDS

General Description

The Series 2014-B Bonds mature on the date and in the amount shown on page ii hereof. The Series 2014-B Bonds are multi-modal bonds, initially issued in an Index Floating Rate Mode for an Index Floating Rate Period that commences on the date of initial delivery of the Bonds (anticipated to occur on or about April 2, 2014) and expires on March 31, 2017 (the "Initial Index Floating Rate Period"). See "- Interest During Initial Index Floating Rate Period." The Series 2014-B Bonds will initially be delivered in denominations of $5,000 or any integral multiple thereof. The Series 2014-B Bonds will be prepared as one fully registered bond certificate and will be initially registered in the name of and delivered only to Cede & Co., as nominee for the DTC, pursuant to the Book-Entry-Only System described herein. No physical delivery of the Series 2014-B Bonds will be made to the owners thereof. DTC will act as securities depository for the Series 2014-B Bonds. Principal of and interest on the Series 2014-B Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "APPENDIX E - DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM."

The Series 2014-B Bonds will be subject to mandatory tender for purchase on the date specified as the Initial Mandatory Tender Date on page ii hereof (the "Initial Mandatory Tender Date"), subject to the successful remarketing of all Series 2014-B Bonds as described below under "– Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds – *Mandatory Tender*." At that time, the Commission expects to either redeem or remarket the Series 2014-B Bonds in one or more successive Index Floating Rate Periods of the same or different durations or in one or more of the several interest rate modes authorized by the Sixth Supplemental Resolution, including a Daily Mode, Flexible Mode, Weekly Mode, Monthly Mode, Quarterly Mode, Semiannual Mode, Multiannual Mode or Fixed Rate Mode (as such terms are defined in the Sixth Supplemental Resolution). The Series 2014-B Bonds are <u>not</u> convertible into any other interest rate mode prior to the Initial Mandatory Tender Date.

THIS OFFICIAL STATEMENT DOES NOT PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2014-B BONDS AFTER CONVERSION TO ANY NEW MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT INDEX FLOATING RATE PERIOD). PURCHASERS OF THE SERIES 2014-B BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING ANY OTHER MODE OR INTEREST RATE PERIOD FOR THE SERIES 2014-B BONDS. AT THE TIME OF ANY REMARKETING, A NEW OFFICIAL STATEMENT OR SUPPLEMENT TO THIS OFFICIAL STATEMENT WILL BE PREPARED FOR REMARKETING THE SERIES 2014-B BONDS.

During the Initial Index Floating Rate Period, including any deemed extension of the Initial Index Floating Rate Period because of a failed remarketing of the Series 2014-B Bonds on the Initial Mandatory Tender Date, the Series 2014-B Bonds will not be benefitted by a liquidity facility and the Commission has no obligation to purchase the Series 2014-B Bonds except from remarketing proceeds. If all Series 2014-B Bonds are not remarketed on the Initial Mandatory Tender Date, all Series 2014-B Bonds will bear interest at the "Stepped Rate", being the per annum rate of interest specified on page ii hereof, calculated on the basis of a 365/366-day year for the actual number of days elapsed. See "- Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds – *Effects of a Failed Remarketing*."

Redemption

Optional Redemption. The Series 2014-B Bonds are subject to redemption, in whole or in part, at the option of the Commission, on October 1, 2016, or on any date thereafter during the Initial Index Floating Rate Period, including any deemed extension of the Initial Index Floating Rate Period because of a failed remarketing, at a redemption price of par, plus accrued interest to the date fixed for redemption. See "- Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds – *Effects of a Failed Remarketing*."

Mandatory Sinking Fund Redemption. The Series 2014-B Bonds are subject to mandatory sinking fund redemption by the Commission prior to their stated maturity at a redemption price of par, plus accrued interest to the date fixed for redemption, on April 1 of the years and in the principal amounts indicated below:

Mandatory Sinking Fund Redemption Date (April 1)	Amount ($)
2031	137,415,000
2032†	162,585,000

†Stated maturity

The principal amount of a Series 2014-B Bond required to be redeemed pursuant to the operation of such mandatory sinking fund redemption provisions shall be reduced, at the option of the Commission, by the principal amount of any Series 2014-B Bonds of such stated maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the Commission and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the Commission with money in the applicable debt service fund at a price not exceeding the principal amount of such Series 2014-B Bonds plus accrued interest to the date of acquisition thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth herein and not previously credited against a mandatory sinking fund redemption requirement.

Notice of Redemption

Unless waived by any Owner of the Series 2014-B Bonds to be redeemed, the Paying Agent/Registrar shall give notice of redemption or of defeasance of Series 2014-B Bonds by mail, first-class postage prepaid at least thirty (30) days prior to a redemption date and within thirty (30) days after a defeasance date to each Owner and to each registered securities depository. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the Owner of any Series 2014-B Bond who has not sent in such Series 2014-B Bond for redemption sixty (60) days after the redemption date therefor.

Each notice of redemption or defeasance shall contain a description of the Series 2014-B Bonds to be redeemed or defeased including the complete name of the Series 2014-B Bonds, the date of issue, the interest rate, the maturity date, the CUSIP number, the certificate numbers, the amounts called of each certificate, the publication or mailing date for the notice, the date of redemption or defeasance, the redemption price, if any, the name of the Paying Agent/Registrar, and the address at which the Bonds may be redeemed or paid, including a contact person telephone number.

All redemption payments made by the Paying Agent/Registrar to the Owners of the Series 2014-B Bonds shall include a CUSIP number relating to each amount paid to such Owner.

The failure of any Owner of the Series 2014-B Bonds to receive notice given as provided above, or any defect therein, shall not affect the validity of any proceedings for the redemption of any Series 2014-B Bonds. Any notice mailed as provided above shall be conclusively presumed to have been duly given and shall become effective upon mailing, whether or not any Owner receives such notice.

So long as DTC is effecting book-entry transfers of the Series 2014-B Bonds, the Paying Agent/Registrar shall provide the notices specified above only to DTC. It is expected that DTC shall, in turn, notify its participants and that the participants, in turn, will notify or cause to be notified the beneficial owners. Any failure on the part of DTC or a participant, or failure on the part of a nominee of a beneficial owner of a Series 2014-B Bond to notify the beneficial owner of the Series 2014-B Bond so affected, shall not affect the validity of the redemption of such Series 2014-B Bonds. See "GENERAL INFORMATION REGARDING THE BONDS - Redemption Through DTC." For information concerning alternative notice provisions following a failed remarketing of the Series 2014-B Bonds while the Series 2014-B Bonds remain in the Initial Index Floating Rate Period, see "- Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds – *Effects of a Failed Remarketing*."

Record Date for Interest Payment

The record date ("Series 2014-B Bonds Record Date") for determining the person to whom the interest on the Series 2014-B Bonds is payable on any Series 2014-B Bonds Interest Payment Date (hereinafter defined) means the close of business on the day next preceding a Series 2014-B Bonds Interest Payment Date (whether or not a Business Day). In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Series 2014-B Bonds 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 Series 2014-B Bonds Special Record Date and of the scheduled payment date of the past due interest ("Series 2014-B Bonds Special Payment Date", which must be 15 days after the Series 2014-B Bonds Special Record Date) will be sent at least five business days prior to the Series 2014-B Bonds Special Record Date by United States mail, first class postage prepaid, to the address of each Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the last Business Day next preceding the date of mailing of such notice.

Interest During Initial Index Floating Rate Period

Interest Rate; Payment of Interest. The Series 2014-B Bonds will bear interest during the Initial Index Floating Rate Period at the Index Floating Rate (hereinafter defined), as more fully described herein; provided, that the interest rate on the Series 2014-B Bonds will not exceed a per annum rate of twelve percent (12%) (the "Maximum Rate") during the Initial Index Floating Rate Period.

Interest on the Series 2014-B Bonds will be calculated on the basis of a 365/366 day year for the actual number of days elapsed. Interest on the Series 2014-B Bonds is payable (i) on the first Business Day of each month, commencing on May 1, 2014, during the Initial Index Floating Rate Period, including any deemed extension of the Initial Index Floating Rate Period because of a failed remarketing, (ii) on any scheduled mandatory sinking fund redemption date, (iii) on the Initial Mandatory Tender Date and any subsequent Mandatory Tender Date established because of a failed remarketing on the Initial Mandatory Tender Date, and (iv) on any optional redemption date (each, a "Series 2014-B Bonds Interest Payment Date" and, collectively with the Series 2014-A Bonds Interest Payment Date, an "Interest Payment Date"). Interest will be payable to the registered owner of the Series 2014-B Bonds of record on the Series 2014-B Bonds Record Date. See "- Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds – *Effects of a Failed Remarketing*."

If the day specified for any payment of principal or interest on the Series 2014-B Bonds is not a Business Day, then such payment may be made on the next Business Day without additional interest and with the same force and effect as if made on the date specified for payment.

Determination of Index Floating Rates and Calculation of Interest. During the Initial Index Floating Rate Period, interest shall accrue from one Series 2014-B Bonds Interest Payment Date to, but not including, the next Series 2014-B Bonds Interest Payment Date (or, as applicable, from the date of delivery to but not including the first Series 2014-B Bonds Interest Payment Date), at a rate per annum (not to exceed the Maximum Rate) equal to the Index Floating Rate, which is defined in the Sixth Supplemental Resolution as the sum of the Applicable Spread for such Index Floating Rate Period plus the Index, as calculated by the Calculation Agent at the time as hereafter described, rounded upward to the fifth decimal place (all dollar

amounts used in or resulting from such calculation of interest on the Series 2014-B Bonds will be rounded to the nearest cent (with one-half cent being rounded upward)). The Calculation Agent will calculate the Index Floating Rate not later than the Business Day immediately succeeding each Reset Date. The Reset Date will occur on the day immediately succeeding the Index Determination Date, which shall generally mean each Thursday, or if such day is not a Business Day, the immediately preceding Business Day.

The "Index" means, for any day, (i) the level of the most recently effective index rate which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and issued on each Index Determination Date (the "Primary Index") and (ii) if the Primary Index is no longer published, the Index for any day will mean the level of the most recently effective S&P Municipal Bond 7-Day High Grade Rate Index maintained by Standard & Poor's Securities Evaluations Inc. for a 7-day maturity as published on the day which is one U.S. Government Securities Business Day immediately preceding the effective date of such index. The effective date for each such index is every Thursday (or any other day specified by the Securities Industry and Financial Markets Association, in the case of the Primary Index). If neither such index is available, an alternative index will be calculated by an entity (which may be the Remarketing Agent) selected by the Remarketing Agent, based upon criteria for the Primary Index.

The "Applicable Spread" for the Series 2014-B Bonds during the Initial Index Floating Rate Period is set forth on page ii hereof.

Initially, the Paying Agent/Registrar will also serve as the Calculation Agent. The Resolution provides that the Remarketing Agent is also authorized to serve as the Calculation Agent. In the absence of manifest error, the determination by the Calculation Agent of any index component and the Index Floating Rate will be conclusive and binding on the Series 2014-B Bond Owners, the Paying Agent/Registrar, the Calculation Agent, the Remarketing Agent, and the Commission. If during any Index Floating Rate Period, the Calculation Agent fails to calculate or recalculate the applicable interest rate by the time specified above, such calculation may instead be made by the Remarketing Agent, the Paying Agent/Registrar, or any other banking institution, financial institution or other entity designated by a Department Representative (with notice to the Paying Agent/Registrar and the Remarketing Agent).

Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2014-B Bonds

Conversion of Interest Modes. The Series 2014-B Bonds are not convertible into any other interest rate mode prior to the Initial Mandatory Tender Date. The Series 2014-B Bonds will be subject to mandatory tender for purchase on the Initial Mandatory Tender Date, subject to the successful remarketing of all Series 2014-B Bonds as described below under "-*Mandatory Tender*." At that time, the Commission expects to either redeem or remarket the Series 2014-B Bonds in one or more successive Index Floating Rate Periods of the same or different durations or in one or more of the several interest rate modes authorized by the Sixth Supplemental Resolution, including a Daily Mode, Flexible Mode, Weekly Mode, Monthly Mode, Quarterly Mode, Semiannual Mode, Multiannual Mode or Fixed Rate Mode (as such terms are defined in the Sixth Supplemental Resolution).

Optional Tender. The Series 2014-B Bonds are not subject to optional tender during the Initial Index Floating Rate Period, including any deemed extension of the Initial Index Floating Rate Period because of a failed remarketing. See "–*Effects of a Failed Remarketing*" below.

Mandatory Tender. All Series 2014-B Bonds are subject to mandatory tender for purchase on the Initial Mandatory Tender Date (including any subsequent Mandatory Tender Date established because of a failed remarketing on the Initial Mandatory Tender Date) without right of retention. Each owner of Series 2014-B Bonds will be required to tender, and in any event will be deemed to have tendered, the Series 2014-B Bonds to the Tender Agent for purchase at a purchase price equal to 100% of the principal amount plus accrued interest, if any (payable from the limited sources of funds described in "-*Limitations on Payment of Purchase Price; Untendered Series 2014-B Bonds*" below). As described above in "– General Description," the Commission has not provided and does not intend to provide any liquidity facility for the payment of the purchase price of the Series 2014-B Bonds payable upon the mandatory tender thereof on the Initial Mandatory Tender or any subsequent Mandatory Tender Date established during a deemed continuation of the Initial Index Floating Rate Period because of a failed remarketing, nor does the Resolution require the Commission to obtain such a liquidity facility. See– *Effects of a Failed Remarketing*" below.

The Tender Agent is required to give notice of mandatory tender to each registered owner of the Series 2014-B Bonds not less than 10 days prior to the Initial Mandatory Tender Date. While the Series 2014-B Bonds are registered in the name of Cede & Co., only Cede & Co. will receive such notice from the Tender Agent. See "APPENDIX E - DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM." However, beneficial owners may register to receive such information directly by

contacting the Tender Agent. In the event that the Book-Entry-Only System is discontinued and registered bonds are issued, all notices and Series 2014-B Bonds are required to be delivered to the Tender Agent.

Effects of a Failed Remarketing. In the event that all Series 2014-B Bonds then Outstanding on the Initial Mandatory Tender Date are not remarketed to new purchasers on the Initial Mandatory Tender Date, the Commission shall have no obligation to purchase any Series 2014-B Bond tendered on such date, the failed remarketing shall not constitute an event of default under the Resolution or the Series 2014-B Bonds, the mandatory tender will be deemed to have been rescinded for that date and all Series 2014-B Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds obtained from the subsequent remarketing of all Series 2014-B Bonds, (iii) will bear interest at the Stepped Rate from the Initial Mandatory Tender Date until all Outstanding Series 2014-B Bonds are purchased upon a subsequent remarketing, (iv) will be subject to optional redemption, in whole or in part, on any date and mandatory tender for purchase on any date during the continuation of the Index Floating Rate Period until all Outstanding Series 2014-B Bonds are purchased upon a subsequent remarketing (which shall occur at the Commission's discretion upon delivery of at least one day's notice of such redemption or requirement of mandatory tender to the holders of Series 2014-B Bonds), and (v) will be deemed to continue in the Index Floating Rate Mode for all other purposes of the Resolution, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Resolution. In the event of a failed remarketing on the Initial Mandatory Tender Date or during a deemed extension of the Initial Index Floating Rate Period, the Commission has covenanted in the Resolution to use its best efforts to cause the Series 2014-B Bonds to be converted and remarketed on the earliest reasonably practicable date on which the Series 2014-B Bonds can be sold at par (or above par if the Series 2014-B Bonds are being remarketed at a fixed rate to maturity), in such interest rate mode or modes as the Commission directs, at a rate not exceeding the Maximum Rate.

Remarketing Agent. Piper Jaffray & Co. will serve as the initial remarketing agent (the "Remarketing Agent"), for the Series 2014-B Bonds, pursuant to a Remarketing Agreement, between the Commission and the Remarketing Agent.

Tender Agent. U.S. Bank National Association, Dallas, Texas, will serve as the initial tender agent (the "Tender Agent"), for the Series 2014-B Bonds.

Limitations on Payment of Purchase Price; Untendered Series 2014-B Bonds. The Tender Agent will be required to effect purchases of tendered Series 2014-B Bonds solely from and to the extent of (1) proceeds of the remarketing of the Series 2014-B Bonds pursuant to the Remarking Agreement, or, to the extent such proceeds are insufficient (2) payments, if any, elected to be made by the Commission in its sole discretion. **The Commission has no obligation to purchase tendered Series 2014-B Bonds except from remarketing proceeds.** No purchase right will pertain to Series 2014-B Bonds registered in the name or held for the benefit or account of the Commission or certain affiliates. See "– *Effects of a Failed Remarketing*" above.

ANY SERIES 2014-B BOND WHICH IS REQUIRED TO BE TENDERED OR FOLLOWING NOTICE OF MANDATORY TENDER AND FOR WHICH PAYMENT OF THE PURCHASE PRICE IS DULY PROVIDED FOR ON THE RELEVANT PURCHASE DATE WILL BE DEEMED TO HAVE BEEN TENDERED AND SOLD ON SUCH PURCHASE DATE, AND THE HOLDER OF THE SERIES 2014-B BOND WILL NOT THEREAFTER BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST ACCRUED SUBSEQUENT TO SUCH PURCHASE DATE) IN RESPECT THEREOF OTHER THAN THE PURCHASE PRICE FOR THE SERIES 2014-B BOND OR OTHERWISE BE SECURED BY OR ENTITLED TO ANY BENEFIT UNDER THE RESOLUTION.

GENERAL INFORMATION REGARDING THE BONDS

Payment of the Bonds

Principal and redemption price 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 and redemption price 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 respective 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; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "APPENDIX E – DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM."

In the event that any date for payment of the principal, redemption price 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.

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. See "THE STATE HIGHWAY FUND – General." "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 Authorized Purposes 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."

The Act provides that bonds (including the Bonds) and public securities issued, and credit agreements entered into pursuant to the Act, 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. See "INVESTMENT CONSIDERATIONS – Potential Legislative Changes to Pledged Revenues."

Flow of Funds

Consistent with the pledge of Pledged Revenues on a prior lien basis to secure Senior Obligations, including the Bonds, in accordance with their respective terms, Pledged Revenues will be applied for the following uses and in the order of priority shown below:

(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.

"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."

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 new Bonds of Authorized Denominations upon the security register by the Owner, in person or by his duly authorized agent, upon surrender of such Bond to the Paying Agent/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 a 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 the 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.

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 such 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."

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the Commission may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot, or such other random method, the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Conditional Redemption

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Master Resolution or the Sixth Supplemental Resolution have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent prior to the giving of such notice of redemption, such notice shall state that said redemption may, at the option of the Commission, be conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no further force and effect, the Commission shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Purchase in Lieu of Redemption

Notwithstanding anything in the Sixth Supplemental Resolution to the contrary, all or a portion of the Bonds to be redeemed as specified in the notice of redemption may be purchased by the Paying Agent/Registrar at the direction of a Department Representative on the date which would be the redemption date if such Bonds were redeemed rather than purchased in lieu thereof at a purchase price equal to the redemption price which would have been applicable to such Bonds on the redemption date for the account of and at the direction of a Department Representative who shall give the Paying Agent/Registrar notice at least forty-five (45) days prior to the scheduled redemption date for the Bonds accompanied by a Favorable Opinion of Bond Counsel. In the event the Paying Agent/Registrar is so directed to purchase Bonds in lieu of optional redemption, no notice to the Owners of the Bonds to be so purchased (other than the notice of redemption otherwise required under the Sixth Supplemental Resolution) shall be required, and the Paying Agent/Registrar shall be authorized to apply to such purchase the funds which would have been used to pay the redemption price for such Bonds if such had been redeemed rather than purchased. Each Bond so purchased shall not be canceled or discharged and shall be registered in the name of the Commission and such purchase is not intended to extinguish or merge such debt. The Bonds to be purchased pursuant to the foregoing provisions which are not delivered to the Paying Agent/Registrar on the purchase date shall be deemed to have been so purchased and not optionally redeemed on the purchase date and shall cease to accrue interest as to the former Owner on the purchase date.

Outstanding and Additional Senior Obligations and Tiers of Senior Obligations

The Commission has previously issued six series of Senior Obligations as First Tier Senior Obligations in the aggregate principal amount of $4,457,390,000, which were outstanding in the aggregate principal amount of $3,843,780,000 (the "Previously Issued First Tier Senior Obligations") as of February 15, 2014, a portion of which are being refunded with a portion of the proceeds of the Series 2014-A Bonds. See "PLAN OF FINANCE – Refunded Obligations." In connection with the "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate 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 constitutes 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 hereafter issued or incurred. See "INTRODUCTION" and "GENERAL INFORMATION REGARDING 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 Resolution. 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."

In addition to the Maximum Allowable Debt Service requirement set forth in the Resolution, the Act currently provides that Obligations may not have a principal amount or terms that, at the time such Obligations are entered into, are expected by the Commission to cause annual expenditures with respect to all outstanding Obligations to exceed 10 percent of the amount deposited to the credit of the Fund in the immediately preceding year. The Texas Legislature may amend the Act and change such requirement at any time; however, the terms of the Resolution (including the definition of Maximum Allowable Debt Service) may only be changed in accordance with the provisions of the Resolution. 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 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 described under the subcaption "Outstanding and Additional Senior Obligations and Tiers of Senior Obligations" above, if the Credit Agreement is to constitute a Senior Obligation in whole or in part (as specified in the Credit Agreement).

A Credit Agreement and the Costs thereof may constitute, in whole or in part, 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 "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate Bonds)," (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 that 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 constitutes 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. The Series 2006-B Liquidity Facility is scheduled to expire on November 7, 2016.

Application of Certain BAB Subsidy Payments

Pursuant to the American Recovery and Reinvestment Act of 2009, signed into law on February 17, 2009 (the "Recovery Act"), the Commission issued its "Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Taxable Series 2010 (Build America Bonds - Direct Payment)" (the "Series 2010 Bonds") as taxable "Build America Bonds" and elected to receive a subsidy payment from the United States Treasury (the "U.S. Treasury") equal to 35% of the amount of each interest payment on the Series 2010 Bonds (the "BAB Subsidy Payments").

Subject to any required State appropriation, the Commission has covenanted to deposit all collections of BAB Subsidy Payments into a subaccount of the First Tier Senior Obligation Debt Service Fund (the "Bonds Subaccount"). Funds in the Bonds Subaccount will be used solely for the purpose of paying principal of and interest on the Series 2010 Bonds and such funds will not be used to pay debt service on other First Tier Senior Obligations, other Senior Obligations or any Subordinate Obligations. The Department expects to receive future appropriations, to the extent required by applicable law, of the BAB Subsidy Payments in connection with the annual debt service requirements for the Series 2010 Bonds. The BAB Subsidy Payments have been appropriated to the Department for the State Highway Fund for the 2014-2015 biennium, and the Department expects to receive future appropriations of the BAB Subsidy Payments in connection with annual debt service payments for the Series 2010 Bonds.

The receipt of the BAB Subsidy Payments by the Commission is subject to certain requirements, including the filing of a form with the Internal Revenue Service prior to each interest payment date. In the event of a failure to file a necessary form with the Internal Revenue Service in a timely manner, the Commission may not receive a BAB Subsidy Payment. BAB Subsidy Payments are also subject to offset against certain amounts that may, for reasons unrelated to the Series 2010 Bonds, be owed by the State to an agency of the United States. In addition, the Commission can give no assurances regarding future changes in legislation or United States Treasury regulations or the netting of other liabilities of the State against BAB Subsidy Payments which may affect the timing or amount of the BAB Subsidy Payments. Accordingly, there is no assurance that the anticipated BAB Subsidy Payments will be received as anticipated. See "THE STATE HIGHWAY FUND - Sequestration Effects on the State Highway Fund."

Issuance of Subordinate Obligations

The Texas Constitution (Article III, Section 49-m) and the Texas Transportation Code (Section 201.115) authorize the Commission to borrow money from any source to carry out the functions of the Department. A loan incurred pursuant to Section 201.115 may be in the form of an agreement, a note, a contract, or another form, as determined by the Commission. The term of a loan may not exceed two years, and the amount of a loan, combined with any other loans issued and outstanding pursuant to Section 201.115, may not exceed an amount that is two times the average monthly revenue deposited to the Fund for the 12 months preceding the month in which the loan is made. A loan incurred pursuant to Section 201.115 is payable from legislative appropriation of amounts on deposit in the Fund for that purpose.

The Commission has authorized the Department to obtain financing pursuant to Section 201.115 and enter into short-term lending facilities to facilitate efficient cash management operations in the State Highway 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. Pursuant to such authorization, the Department entered into separate Note Purchase Agreements, dated as of August 15, 2013, with Wells Fargo Bank, National Association, and Citibank, N.A. (collectively, the "Lending Banks"), to obtain direct loans from the Lending Banks through the issuance of the Department's State Highway Fund Revenue Flexible Rate Revolving Notes (the "Revolving Notes") in the combined aggregate principal amount of not to exceed $750 million, which includes $250 million of direct lending capacity that is subject to cancellation at the option of the Department or the Lending Bank. The Note Purchase Agreements are scheduled to expire on August 15, 2015, subject to any extensions or renewals. The Department's direct lending program is subject to the requirements and limitations set forth in Section 201.115 and may be utilized from time

to time for cash management purposes. As of the date hereof, the Department had no outstanding loan balances pursuant to Section 201.115.

Additionally, the Texas Transportation Code (Sections 201.961, et seq.) authorizes the Commission to issue highway tax and revenue anticipation notes ("HTRANs") if the Commission anticipates a temporary cash flow shortfall in the Fund during any fiscal year. The HTRANs are subject to the approval of the Cash Management Committee (consisting of the Governor, the Lieutenant Governor, the Speaker of the House and the Comptroller), which also approves cash flow borrowings for the State. HTRANs must mature during the fiscal biennium in which they are issued, and HTRAN proceeds must be placed in a special fund in the State Treasury and transferred as necessary to the Fund to pay authorized expenditures. HTRANs and related credit agreements are payable from amounts on deposit in the Fund. To date, the Commission has not issued any such anticipation notes, and the Commission does not expect to issue HTRANs.

The obligation of the Department to pay debt service on the Revolving Notes and any other obligations incurred pursuant to Section 201.115 (or Section 201.961, et seq., relating to HTRANs) is (i) subordinate to the pledge of Fund revenues securing Senior Obligations and (ii) prior to the pecuniary obligations of the Commission and the Department in respect of other Fund obligations described below under "THE STATE HIGHWAY FUND - Other Fund Obligations and Commitments."

The Commission may also issue or otherwise incur additional 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 except after provision has been made for the payment of all Senior Obligations in the manner set forth in the Master Resolution. 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 "GENERAL INFORMATION REGARDING THE BONDS – Issuance of Subordinate Obligations."

Bondowners' Remedies

In the event of a default in the payment of any Cost (including Annual Debt Service Requirements) 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 in the Resolution 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, time consuming or unavailable. No assurance can be given that a mandamus or other legal action to enforce a default under the Master Resolution would be successful.

The statutory authority to enter into a contract (such as a bond) has been consistently construed by Texas state courts to be a legislative waiver of immunity from liability for breach of the contract; however, a State agency would need specific constitutional or legislative authority to waive immunity from suit. Under current State law, the Commission is not authorized to waive sovereign immunity from suit 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, to compel performance of a duty prescribed by law, are not prohibited by sovereign immunity. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors. See "APPENDIX D - FORMS OF OPINIONS OF BOND COUNSEL."

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

The Resolution

The Bonds are being issued pursuant to a Second Amended and Restated Master Resolution adopted by minute order of the Commission; the Sixth Supplemental Resolution adopted by minute order of the Commission on January 30, 2014; and Award Certificates of Department Representative executed pursuant to the Sixth Supplemental Resolution. The Sixth Supplemental Resolution authorizes the issuance of new money bonds in one or more series in an aggregate principal amount not to exceed the remaining authorized amount of $1,400,667,126.36 and, following the issuance of the Bonds, $700,148,786.56 of new money bonds will remain authorized but unissued. The Sixth Supplemental Resolution also authorizes the issuance of refunding bonds in one or more series in an aggregate principal amount not to exceed $1.7 billion for the purpose of refunding previously issued First Tier Senior Obligations, in the event that certain savings criteria are satisfied, and certain outstanding variable rate senior obligations, if such refunding is determined by the Department Representative to be in the best interest of the Commission. Each Series of the Bonds constitutes the first and second installment of new money and refunding obligations delivered under authority of the Sixth Supplemental Resolution. Excerpts of certain selected provisions from the Master Resolution and the Sixth 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 Sixth 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; (ii) a portion of the remaining proceeds will be deposited to the Escrow Fund to refund the Refunded Obligations and disbursed to pay costs of issuance; and (iii) 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), as directed by a Department Representative.

Transfers and Remittances. The Commission will cause vouchers to be processed through the Uniform Statewide Accounting System ("USAS") 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 USAS. 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 USAS.

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, as described below. 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 Commission 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. See "GENERAL INFORMATION REGARDING THE BONDS - Payment of the Bonds."

If on any date the Comptroller and the Commission determine that (i) 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.

Pursuant to Article VIII, 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 Article VIII, 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 for acquiring rights-of-way and constructing, maintaining and policing public roadways 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 operating expenses are paid. In prior years, certain expenses of the Texas Mobility Fund were processed through the Fund, whereby the Texas Mobility Fund transferred amounts for such expenses to the Fund prior to such expenses being paid (except

in situations where the Texas Mobility Fund was reimbursing the Fund for expenses incurred by the Fund). Beginning in fiscal year 2013, these expenditures are reported as capital outlays from the Texas Mobility Fund instead of transfers to 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. 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.

With the exception of certain restricted funds held in special accounts or subaccounts in the Fund (collectively "Restricted Revenues"), amounts deposited into the Fund are pledged to secure payment of Senior Obligations (as defined in the Resolution) and such amounts may also be used to pay debt service on and other costs associated with certain subordinate obligations issued or incurred by the Commission or the Department. See "- Uses of the Fund" below.

Restricted Revenues include amounts held in the State Infrastructure Bank account established as an account in the State Highway Fund pursuant to Subchapter D of Chapter 222, Transportation Code, which had a balance of approximately $291 million as of August 31, 2013, and amounts held in special accounts or subaccounts established pursuant to Section 228.012, Transportation Code, for payments received by the Department under comprehensive development agreements ("CDA's"), surplus revenues of toll projects or systems, and payments received under former Section 228.0111(g)(2) and (i)(2) of the Transportation Code (which was repealed by legislation enacted in 2011) for the right to develop, finance, construct and operate toll projects. The Department has created subaccounts in the Fund in accordance with Section 228.012, Transportation Code, holding balances as of August 31, 2013 (i) under the State Highway 130 CDA for segments 5 and 6 totaling approximately $127 million and (ii) from the North Texas Tollway Authority for the right to develop, finance, design, construct, operate, and maintain the State Highway 121 toll project totaling $1.76 billion and the State Highway 161 toll project totaling $145 million, pending distribution of such funds from time to time for their designated purposes.

Restricted Revenues must be used for certain limited purposes and are not available to pay debt service on Senior Obligations, including the Bonds.

The unaudited Department Financial Statements (the "Department Financial Statements") for fiscal year ended August 31, 2013, are on file with the Municipal Securities Rulemaking Board ("MSRB") and can be examined using the Electronic Municipal Market Access system ("EMMA") of the MSRB. The Department Financial Statements for such fiscal year are attached to this Official Statement as APPENDIX B.

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Table 2

State Highway Fund
Statement of Revenue, Expenditures and Changes in Fund Balance[1]

	Fiscal years ended August 31,				
	2013	2012	2011	2010	2009
REVENUES:					
Taxes	$ 2,419,421,000	$ 2,366,486,000	$ 2,313,016,731	$ 40,356,000	$ 39,631,000
Federal Revenues	2,653,415,000	2,525,989,000	2,173,412,716	1,769,065,005 [2]	2,667,476,975
Federal Pass Through Revenues	1,412,000	5,811,000	8,495,483	22,022,375	1,496,510
State Pass Through Revenues				74,465	
Licenses, Fees and Permits	85,417,000	120,952,000	157,367,465	220,221,514	1,255,425,482
Interest & Investment Income	16,275,000	21,288,000	46,176,400	41,999,592	89,868,109
Land Income	15,637,000	9,650,000	6,678,675	6,409,404	14,151,673
Settlement of Claims	11,616,000	22,715,000	26,856	223,259	1,530,671
Sales of Goods and Services	53,108,000	7,871,000	213,065,533	203,085,940	242,997,226
Other Revenues	713,000	866,000	4,070,861	5,838,669	3,487,854
TOTAL REVENUES	$ 5,257,014,000	$ 5,081,628,000	$ 4,922,310,720	$ 2,309,296,223	$ 4,316,065,500
EXPENDITURES:					
Salaries and Wages	$ 601,523,000	$ 579,906,000	$ 574,756,797	$ 586,938,512	$ 631,841,865
Payroll Related Costs	237,336,000	221,711,000	219,547,835	214,350,484	214,421,433
Professional Fees and Services	431,175,000	294,370,000	321,569,523	242,930,694	285,999,868
Federal Pass Through Expenditures	24,157,000	16,334,000	11,880,752	10,930,353	8,341,187
State Grant Pass Through Expenditures	2,508,000	864,000	534,221	54,895	1,799,550
Travel	4,923,000	4,641,000	4,066,909	3,804,326	4,004,156
Materials and Supplies	392,222,000	419,097,000	349,209,577	321,980,431	272,182,628
Communications and Utilities	45,514,000	45,984,000	47,932,975	52,637,938	53,742,544
Repairs and Maintenance	1,888,871,000	1,493,112,000	812,847,008	1,217,294,804	1,043,226,001
Rentals and Leases	10,022,000	9,040,000	10,823,155	10,510,477	12,060,836
Printing and Reproduction	1,754,000	1,973,000	1,994,242	3,145,966	5,993,863
Claims and Judgments	6,155,000	5,861,000	8,142,112	11,189,471	10,094,356
Intergovernmental Payments	542,648,000	474,900,000	378,540,115	379,763,046	629,237,110
Public Assistance Payments	10,388,000	34,938,000	15,818,122	23,109,292	15,834,123
Other Expenditures	250,715,000	22,370,000	465,746,591	208,029,225	191,786,457
Principal on Pass-Through Tolls	105,113,000	57,846,000	34,338,576	205,000	205,000
Interest on State Highway Fund Bonds			332,518		66,941,288
Other Financing Fees	1,977,000	5,132,000	5,554,751	13,241,374	3,137,921
Capital Outlay	1,972,758,000	2,385,290,000	2,506,286,713	2,120,039,450	3,269,002,730
TOTAL EXPENDITURES	$ 6,529,759,000	$ 6,073,369,000	$ 5,769,922,492	$ 5,420,155,738	$ 6,719,852,916
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	$ (1,272,745,000)	$ (991,741,000)	$ (847,611,772)	$ (3,110,859,515)	$ (2,403,787,416)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In[3]	$ 1,565,247,000	$ 1,721,623,000	$ 1,265,716,909	$ 3,381,833,527	$ 2,826,404,826
Operating Transfers Out	(1,082,000,000)	(1,063,308,000)	(1,079,344,660)	(929,457,966)	(1,114,091,280)
Bond & Note Issued			-	1,727,781,852	16,000,000
Insurance Recoveries			10,608,977	10,557,622	13,828,826
Sale of Capital Assets	4,318,000	11,064,000	3,362,776	4,531,775	5,084,641
TOTAL OTHER FINANCING SOURCES (USES)	$ 487,565,000	$ 669,379,000	$ 200,344,002	$ 4,195,246,810	$ 1,747,227,013
NET CHANGE IN FUND BALANCES	$ (785,180,000)	$ (322,362,000)	$ (647,267,770)	$ 1,084,387,295	$ (656,560,403)
BEGINNING FUND BALANCES	277,340,000	216,080,028	864,931,942	(219,455,353)	382,654,785
Restatements[4]	36,303,000	383,621,972	(1,584,144)		54,450,265
BEGINNING FUND BALANCES, Restated	313,643,000	599,702,000	863,347,798		437,105,050
ENDING FUND BALANCES[5]	$ (471,537,000)	$ 277,340,000	$ 216,080,028	$ 864,931,942	$ (219,455,353)

(1) The Department prepared audited statements in fiscal year 2012. For fiscal years 2008 through and including 2011 and fiscal year 2013 the unaudited statements were prepared by the Department and are presented using a modified accrual basis of accounting. See "APPENDIX B - Department Financial Statements for Fiscal Year ended August 31, 2013."

(2) The decrease of Federal Revenues in fiscal year 2010 reflects a decrease primarily due to lower than expected reimbursements because of delays in project advancements and, to a lesser extent, the effects of decreased tapered match reimbursements from the federal government. See Footnote 4 below, "THE STATE HIGHWAY FUND - General" and "- Uses of the Fund - *Capital Projects and Proposed Debt Financings*."

(3) Beginning in fiscal year 2011, "Transfers In" mainly reflect vehicle fees transferred from the Department of Motor Vehicles. Prior to fiscal year 2011, "Transfers In" mainly reflected State Motor Fuel Tax Revenues, which were reported as revenues beginning in fiscal year 2012. Transfers from the Texas Mobility Fund to reimburse certain Fund project costs were included through fiscal year 2012. Beginning in fiscal year 2013, these expenditures are reported as capital outlays from the Texas Mobility Fund instead of transfers to the Fund.

(4) Restatements are primarily the result of various deferred revenues and accrued liabilities which were booked in one fiscal year but were subsequently adjusted after the close of the respective fiscal year. In addition, debt issued by some of the Commission's partners was initially booked as debt of the Commission but later determined to be solely debt of the partner, which is reflected in the restatements shown above. Various other factors also contributed to the restatements including routine adjustments, delay in receipt of an updated inventory list from a Department district office and the impact of removal of certain capital assets that, although funded by the Department primarily through the Fund, are assets of certain local toll project entities.

(5) See discussion of the Fund's fund balance in "THE STATE HIGHWAY FUND - General."

Sources of Revenue in the Fund

The following table sets out the amount of total State Highway Fund Revenues, which are derived from each of the following sources for the last five fiscal years: State motor fuels tax, State motor vehicle registration fees, other State revenue sources, and reimbursements from federal funds. Such sources are affected by a number of economic, demographic and environmental factors, including population growth in the State. See "INVESTMENT CONSIDERATIONS – External Conditions Affecting Pledged Revenues" and "GENERAL INFORMATION REGARDING THE STATE OF TEXAS." Revenues in the following tables are presented on the modified accrual basis of accounting, unless otherwise indicated, and exclude Restricted Revenues.

Table 3
State Highway Fund Revenues By Source[1]
(In Millions)

Fiscal Year	State Motor Fuels Tax	State Motor Vehicle Registration Fees[1]	Other State Revenue Sources[1]	Reimbursements from Federal Funds	Total Revenues
	(Table 4)	*(Table 6)*	*(Table 8)*	*(Table 9)*	
2009	$2,226.4	$1,141.9	$524.1	$2,668.9	$6,561.3
2010	2,230.1	1,171.6	249.8	1,791.1[2]	5,442.6
2011	2,272.0	1,137.5	429.0	2,182.1	6,020.6
2012	2,318.2	1,316.5	357.0	2,560.6	6,552.3
2013	2,376.9	1,355.0	326.9	2,702.9	6,761.7

(1) Fiscal Years 2009 – 2012 reflect minor reclassifications between Motor Vehicle Registration Fees and other State revenue sources.

(2) The reduction in federal funds from 2009 to 2010 is related to the timing that federal funds were obligated to certain projects and the pace at which those projects progressed.

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 per gallon equivalent on liquefied natural gas and compressed natural gas. Sales of motor fuels for the exclusive use of the federal government or a public school district in the State are exempt, and sales of liquefied gas for the exclusive use of the federal government, local county government or a public school district in the State are exempt. The Comptroller of Public Accounts (the "Comptroller") retains 1% of the gross receipts for administration and enforcement, and after providing for refunds or non-highway use collections, distributes the remainder as hereinafter described. Pursuant to Article VIII, Section 7-a of the Texas Constitution, 25% 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 "Available School Fund" in support of the State's primary and secondary schools, and 50% of such revenues are deposited to the credit of the Fund. The remaining 25% is deposited to the county and road district highway fund, which is administered by the Comptroller, until a maximum of $7.3 million annually has been deposited, after which the remaining amount is deposited to the Fund. The following table sets out the amount of the State motor fuels tax credited to the Fund for the last five fiscal years, which has increased approximately 1.65% over the last five fiscal years, and the approximate percentage of total Fund revenues for such years that constituted State motor fuels taxes. Not shown in the table below, is the average Percentage of Total Fund Revenues from the State Motor Fuels Tax over the last five fiscal years, excluding Reimbursements from Federal Funds, which is approximately 58.8%.

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Table 4
State Motor Fuels Tax Revenues Credited to the State Highway Fund
(In Millions)

Fiscal Year	Motor Fuels Tax Revenues	Percentage of Total Fund Revenues
2009	$2,226.4	34%
2010	2,230.1	41%
2011	2,272.0	38%
2012	2,318.2	35%
2013	2,376.9	35%

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 removal of fuel from the bulk transfer/terminal system; (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 25th day of the month following a calendar month (except the tax from interstate truckers which is due after each calendar quarter). Licensed distributors and importers of the motor fuels tax on gasoline and diesel fuel that remit the tax in a timely manner may retain 1.75% of the tax. Suppliers that remit the tax on gasoline and diesel fuel may retain 2% of the tax. Licensed dealers and interstate truckers that remit the tax on liquefied natural gas and compressed natural gas in a timely manner may retain 1% and 0.5% of the tax, respectively. Certain taxpayers that remit the tax in a timely manner 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 collected by a licensed dealer at the time of delivery into a motor vehicle's fuel supply tank.

The State motor fuels tax on compressed natural gas and liquefied natural gas is imposed (i) on the dealer upon the sale of sale of compressed natural gas or liquefied natural gas that is delivered into the fuel supply tank of a motor vehicle in connection with a sale of the compressed natural gas or liquefied natural gas and (ii) on a fleet user or other dealer upon the delivery of compressed natural gas or liquefied natural gas into the fuel supply tank of a motor vehicle by a fleet user or other dealer not in connection with a sale of the compressed natural gas or liquefied natural gas.

Total motor fuel consumption has increased at an average annual rate of approximately 3.00% over the past five fiscal years, with gasoline consumption increasing at an average annual rate of approximately 1.93% and diesel consumption increasing at an average annual rate of approximately 6.38% during such period. The following table sets out the amount of the taxable gasoline and diesel fuel consumption in the State for the last five fiscal years.

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

Fiscal Year	Gasoline	Diesel
2009	11,587.9	3,583.4
2010	11,700.0	3,494.3
2011	11,822.6	3,726.1
2012	11,994.7	4,270.9
2013	12,506.7	4,558.4

State Motor Vehicle Registration Fees. The State currently charges motor vehicle registration fees under a number of statutory provisions. The Texas Department of Motor Vehicles ("TxDMV") shares motor vehicle registration

responsibilities with county governments that assist with this function. Revenues from vehicle registrations are shared between the Fund and the counties and have increased at an average annual rate of approximately 4.59% during the last five fiscal years. Table 6 below sets out the amount of such revenues credited to the Fund for the last five fiscal years, 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. Not shown in the table below, is the average Percentage of Total Fund Revenues from Motor Vehicle Registration Fees over the last five fiscal years, excluding Reimbursements from Federal Funds, which is approximately 31.5%.

Table 6
State Motor Vehicle Registration Fees Credited to the State Highway Fund
(In Millions)

Fiscal Year	Motor Vehicle Registration Fees[1]	Percentage of Total State Motor Vehicle Registration Fees	Percentage of Total Fund Revenues[1]
2009	$1,141.9	71%	17%
2010	1,171.6	73%	22%
2011	1,137.5	73%	19%
2012	1,316.5	75%	20%
2013	1,355.0	76%	20%

[1] Fiscal Years 2009 – 2012 reflect minor reclassifications between Motor Vehicle Registration Fees and other State revenue sources.

Effective September 1, 2011, the base vehicle registration fee for cars and light trucks was changed to $50.75 per vehicle, regardless of the age or weight of the vehicle. For trucks other than light trucks, higher fees apply based on weight. Prior to September 1, 2011, the base registration fee for cars and light trucks has ranged from approximately $29 to $59, depending on the age (for cars) or weight (for light trucks) of the vehicle.

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 2014, 10% 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 reduced to 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 are 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 most counties, for registering a vehicle in the county, and retain the revenue from said fee.

The following table sets out the number of vehicles registered in the State for the last five fiscal years, which has increased at an average annual rate of 2.04% over the last five fiscal years.

Table 7
Vehicles Registered in Texas
(In Millions)

Fiscal Year	Number of Vehicles
2009	21.4
2010	21.6
2011	21.9
2012	22.6
2013	23.2

Other State Revenue Sources. The State also generates or receives funds from a variety of sources that are credited to 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, 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 funds, these other revenue sources are not dedicated or committed by constitutional provision to the 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 credited to the Fund for the last five fiscal years and the approximate percentage of the total Fund receipts for such years generated from such sources. Not shown in the table below, is the average Percentage of Total Fund Revenues from Other State Revenue Sources over the last five fiscal years, excluding Reimbursements from Federal Funds, which is approximately 9.7%.

Table 8
Other State Revenue Sources Credited to the State Highway Fund[1]
(In Millions)

Fiscal Year	Other State Revenue Sources[1]	Percentage of Total Fund Receipts
2009	$524.1	8%
2010	249.8	4%
2011	429.0	7%
2012	357.0	6%
2013	326.9	5%

(1) Excludes loan repayments received by the State Infrastructure Bank and amounts credited to 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 and reimbursed from the Texas Mobility Fund. Fiscal Years 2009 – 2012 reflect minor reclassifications between Motor Vehicle Registration Fees and other State revenue sources.

During the 83rd regular legislative session that ended on May 27, 2013, the State Legislature passed House Bill 2202 which provides for the diversion of certain fees which historically have been deposited into the State Highway Fund. In concert with House Bill 6, House Bill 2202 requires such fees to be deposited into the General Revenue Fund or in some cases causes the collecting entity to retain certain fee revenues. The estimated aggregate amount of such fees is an average of $104 million annually from fiscal year 2014 through 2018. To partially offset the diversion of revenues from the State Highway Fund to the General Revenue Fund, appropriations made to the Department of Motor Vehicles out of the State Highway Fund have been reduced by $95,385,000 in fiscal year 2014 and by $96,330,000 in fiscal year 2015 and such amounts are appropriated to the Department of Motor Vehicles instead from the General Revenue Fund.

During the 3rd called special session of the 83rd State Legislature that ended on August 5, 2013, Senate Joint Resolution Number 1 ("SJR 1") was approved which proposes a constitutional amendment to be submitted to the State's voters at an election to be held on November 4, 2014. If approved, SJR 1 provides for the use and dedication of certain money transferred to the Fund to assist in the completion of transportation construction, maintenance and rehabilitation projects, not including toll roads. The amendment would require the Comptroller to transfer from the General Revenue Fund an amount of certain excess oil and gas production taxes to the economic stabilization fund and the Fund. House Bill 1 ("HB 1"), which was also approved at the 3rd called special session of the 83rd State Legislature, establishes a legislative process to ensure an appropriate amount of revenue is available in the economic stabilization fund each biennium. HB 1 further provides that the Comptroller, before making any transfers to the economic stabilization fund or Fund each year, shall determine whether the sum of the balance of the economic stabilization fund plus any projected transfers to the economic stabilization fund is less than the sufficient balance adopted by the State Legislature. If the Comptroller determines that this amount is less than the sufficient balance adopted by the State Legislature, then the Comptroller shall reduce the allocation to the Fund and increase the allocation to the economic stabilization fund, in an equal amount, until the sufficient balance adopted by the State Legislature for the economic stabilization fund is achieved. Although no assurances can be given until a sufficient balance has been established, the Comptroller reported the potential positive impact to the Fund to be $1.38 billion in 2015.

Federal Funds. Federal transportation funds are 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 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"). Federal government funding for infrastructure projects is usually accomplished through federal highway authorization legislation, which establishes funding over a multi-year period.

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) appropriations by Congress specifying the amount of funds available for the year to liquidate obligations; (iv) 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; (v) program implementation which covers the programming and authorization phases; and (vi) reimbursement by the federal government of the eligible project costs. The FAHP is 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."

The primary source of revenues in the HTF is derived from federal excise taxes on motor fuels, including certain alternative fuels. The HTF is a dedicated federal fund with revenues dedicated for reimbursement of expenditures by the states, including Texas, for costs of eligible transportation projects, including highway projects, and was created as a user-supported fund intended to finance highways with taxes paid by users of highways. Deposits of such taxes into the HTF must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for limited periods of time. For a more complete description of the FAHP and the HTF, see "APPENDIX C - INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS."

Failure to replenish the HTF expeditiously and maintain the flow of federal revenues to states may have an adverse impact on the Department and the Commission. In addition, funding appropriations may be revised and federal funding for infrastructure projects may be reduced which may impact the funding available to the Department for payment of its obligations, including obligations to developers pursuant to pass-through toll agreements and obligations under toll equity agreements and obligations to support the operations of the Central Texas Turnpike System ("CTTS"). See"THE STATE HIGHWAY FUND" and "INVESTMENT CONSIDERATIONS -- Factors Affecting Federal Transportation Program Funds."

The most recent highway authorization legislation, "Moving Ahead for Progress in the 21st Century" ("MAP-21"), is authorized from June 30, 2012 to September 30, 2014 and also reauthorizes the collection of federal gasoline excise taxes and other taxes generating revenues to the HTF through the federal fiscal year ending September 30, 2016. Prior federal highway authorization legislation has been periodically subject to rescission, including reductions to funding under the previous authorization in each of the years 2005 through 2011. Although no rescission was built into MAP-21, a rescission through the appropriations process remains a possibility. In addition, the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, required certain automatic reductions in federal spending that impacted MAP-21 funding. See "- Sequestration Effects on the State Highway Fund" below. For a more complete description of MAP-21, 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 as reimbursements.

Federal transportation program funds credited to the Fund for the last five fiscal years, and the portion of the total Fund Revenues represented by federal reimbursements, are shown in the following table.

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Table 9
Reimbursements from Federal Funds[1]
(In Millions)

Fiscal Year	Reimbursements from Federal Funds[1]	Percentage of Total Revenue
2009	$2,668.9	41%
2010	1,791.1[2]	33%
2011	2,182.1	36%
2012	2,560.6	39%
2013	2,702.9	40%

(1) Excludes funds received for projects financed through the American Reinvestment and Recovery Act (ARRA) beginning in Fiscal Year 2009.
(2) The reduction in federal funds from 2009 to 2010 is related to the timing that federal funds were obligated to certain projects and the pace at which those projects progressed.

The Equity Bonus Program in the previous multi-year authorization bill, the "Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users" ("SAFETEA-LU") has been removed from MAP-21. The Equity Bonus Program had previously guaranteed a minimum return of certain apportioned federal highway program funds. In its place, MAP-21 makes an adjustment to part of the apportionment formula such that no state receives less than a 95% share of the state's attributed share of highway user tax revenue contributed to the Highway Account of the HTF. Due to recent federal general revenue transfers to the HTF, every state is now receiving more funds than were deposited into the HTF. Funds from the HTF support a variety of federal transportation programs that, for the purposes of this discussion, are grouped into three broad categories: (i) funds distributed proportionally to states through a dedicated formula program ("Guaranteed Highway Programs"); (ii) discretionary funds ("Discretionary Programs"); and (iii) Transit Programs. See "APPENDIX C - INFORMATION CONCERNING THE FUNDING OF FEDERAL AID HIGHWAYS."

The allocation of funds using a formula provided in law is called apportionment. Most federal-aid funds are formula allocated 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 MAP-21. When there are no formulas in law, the non-formula allocations (discretionary) of funds may be made at any time during the federal fiscal year. In most cases, non-formula 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 and MAP-21 were $3.15 billion, $3.13 billion, $3.12 billion, $2.91 billion and $3.05 billion in federal fiscal years 2009 through 2013, respectively. However, in federal fiscal years 2009 through 2011, there were federal rescissions of certain amounts appropriated under SAFETEA-LU in the approximate aggregate amounts of $11.9 billion, $2.2 billion and $2.5 billion, respectively. Texas' share of such rescissions was $1,014,643,500, $190,367,982 and $200,895,021 for federal fiscal years 2009 through 2011, respectively. In February 2010, Congress passed HR2847, which restored $8.7 billion of the authorization rescinded in 2009, including $742,240,415 of Texas's share of such rescinded authorization; while contract authority was restored, no obligation authority was given. 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 Department for certain federal highway funding programs in the State for the last five federal fiscal years.

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Table 10
Federal Transportation Funds Apportioned and Allocated to the Department[1]
(In Millions)

Federal Fiscal Year	Guaranteed Highway Programs[2]	Discretionary/ Allocated Highway Programs	Transit Programs	Total
2009	$3,150.9	$2.7	$111.9	$3,265.5
2010	3,296.2	2.7	60.8	3,359.8
2011	3,288.1	3.2	60.9	3,352.1
2012	3,065.7	2.8	75.4	3,143.9
2013	3,049.7	10.2	62.8	3,122.7

(1) Apportionments reflect minor revisions based upon data from the United States Department of Transportation.
(2) Includes Guaranteed Highway Safety Programs.

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) 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.

The following table provides a history of the obligation authority to the Department for Guaranteed Federal Highway Programs in the State for the last five federal fiscal years.

Table 11
Federal Transportation Obligation Authority for the Department Guaranteed Highway Programs[1]
(In Millions)

Federal Fiscal Year	Amount
2009	$3,022.4
2010	3,107.5
2011	3,084.5
2012	2,914.1
2013	2,947.2

(1) Obligation Authority reflects minor revisions based upon data from the United States Department of Transportation.

The amounts shown in Table 10 - "Federal Transportation Funds Apportioned and Allocated to the Department" 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 the Department Guaranteed Highway Programs" represent federal funds that have been "obligated" to the State by the FHWA pursuant to federal legislation, but

do not represent funds actually credited to the Department for any given period. For federal reimbursements credited to the Department during the last five fiscal years, see 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, 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 Fund revenue bonds and other 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, TxDMV and certain other State agencies. See "THE STATE HIGHWAY FUND – General."

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

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

State Biennium	Amount Appropriated[1]	Percentage of Total State Highway Fund Appropriations
2006-07	$13,579.7	91.78%
2008-09	12,598.5	89.49
2010-11	11,728.8	90.05
2012-13	12,060.3	87.97
2014-15[2]	16,491.4	92.86

(1) Amounts include appropriations made to other State Agencies (e.g., the Employees Retirement System of Texas) for the benefit of the Department. Minor revisions reflect final adjustments to the General Appropriations Act.

(2) The Department received an increase in State Highway Fund appropriations in fiscal year 2014-2015 mainly due to a large beginning balance in the fund, increased federal funds, and higher than anticipated registration fee revenue.

Budget Process. 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 State Highway Fund, which delineates current and future obligations of the Department and forecasts the monthly revenue, expenditure, lowest daily balance, and ending balance for the State Highway Fund. From the forecast, the amount of expenditures (appropriations) that can be handled by the State Highway 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 the Department offices, including obligations under pass-through toll agreements and toll equity agreements. 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 is 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 of 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 six years and for which funding is yet to be authorized. At the same time, the 25 metropolitan planning organizations and 25 rural planning organizations composed 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 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 Fund, the State Highway Fund Obligations and general revenues of the State. See "THE STATE HIGHWAY FUND - General", "PLAN OF FINANCE" and "GENERAL INFORMATION REGARDING THE BONDS – Outstanding and Additional Senior Obligations and Tiers of Senior Obligations" and "- Issuance of Subordinate Obligations."

Table 13
Projected Contract Awards to Construction Contracts to be Let by the Department
(In Millions)[1]

Fiscal Year	Amount
2014	$3,636.40
2015	2,668.12
2016	2,588.65
2017	2,480.00
2018	2,477.27

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

Capital Financing Process. The Commission has the ability 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. The principal amount of the Bonds, when added to the Previously Issued First Tier Senior Obligations, will consume approximately $700 million of the current $6 billion aggregate limit imposed by the Act; provided, however, that the Texas Legislature may amend the Act in the future to increase the limit imposed by the Act. After the issuance of the Bonds, the Commission may issue up to a total aggregate principal amount of approximately $700 million of bonds or other public securities as additional Senior Obligations (hereinafter defined) which may occur by 2015. See "GENERAL INFORMATION REGARDING THE BONDS – Outstanding and Additional Senior Obligations and Tiers of Senior Obligations." The Commission may also issue State general obligation debt to finance a portion of the Commission's capital program. In addition, the Commission may also enter into certain agreements and commitments, including pass-through financing agreements, toll equity agreements and multi-year construction contracts and agreements, to finance, assist in the financing, or outright develop and construct, highway projects. See "GENERAL INFORMATION REGARDING THE BONDS – Issuance of Subordinate Obligations" and "- Other Fund Obligations and Commitments" below.

Other Fund Obligations and Commitments

In addition to Senior Obligations, the Revolving Notes and other subordinate obligations (see "GENERAL INFORMATION REGARDING THE BONDS -- Outstanding and Additional Senior Obligations and Tiers of Senior Obligations" and "—Issuance of Subordinate Obligations"), the Department has the ability to issue and incur additional bonds, credit agreements and short-term obligations (including commercial paper notes, direct lending obligations or tax and revenue anticipation notes). The Department may also enter into toll equity loan agreements, pass- through toll agreement obligations, CDAs and other obligations that are payable from the Fund, all of which constitute Subordinate Obligations. Some of these long-term obligations and commitments are described below.

Neither the Commission nor the Department has adopted any policy limiting the ability to enter into toll equity or other agreements payable from the Fund.

Central Texas Turnpike System

The Commission has a toll equity commitment, subject to the appropriation of available funds, to pay operation and maintenance expenses, current capital expenditures and certain unusual or extraordinary maintenance costs as determined by the Commission ("CTTS Reserve Maintenance"), all of which constitute Subordinate Obligations to the extent the CTTS toll revenues are not sufficient to pay such expenses. Certain of the CTTS Obligations were refinanced in November 2012 to achieve a debt service savings. The Commission raised the CTTS toll rates effective January 1, 2013 and established an annual toll escalation policy based on the Consumer Price Index-Urban (or "CPI-U"), with any adjusted toll rates effective on January 1 every year thereafter.

The recent debt service savings and toll rate increases are expected to reduce the amount of operation and maintenance and CTTS Reserve Maintenance expenses projected to be paid by the Commission. Based upon projections revised to reflect cost benefits of new performance-based maintenance contracts (implementation began in fiscal year 2013 and anticipated to be completed in fiscal year 2014), the Commission anticipates $50.8 million will be needed for payment of CTTS operation and maintenance and CTTS Reserve Maintenance expenses through fiscal year 2042, from the Fund or other eligible sources that are available therefor. These other funding sources include: (1) surplus CTTS toll revenues; (2) interest and investment earnings on accounts in the CTTS Trust Estate to the extent eligible for such purposes; and (3) previously contributed federal funds in the CTTS Capital Contribution Account to the extent eligible for such purposes.

Toll Equity Obligations

The Department is authorized to spend money from any available source, including the Fund, for the construction, maintenance, and operation of toll facilities. The Department may also participate in the acquisition, construction, maintenance, or operation of a toll facility with a public or private entity authorized by state law to construct or maintain a toll facility. Money provided by the Department for these purposes may be in the form of loans (to either public or private entities) or grants (to public entities only). As of August 31, 2013, the Commission had outstanding toll equity grant commitments and toll equity loan commitments payable from the Fund totaling $324 million and $15.6 billion, respectively.

Of the outstanding toll equity loan commitments, $6.02 billion is related to a toll equity loan agreement with the North Texas Tollway Authority ("NTTA"). These funds are to be used to enhance project feasibility and expedite delivery of the State Highway 161 (also known as the President George Bush Western Extension) and the State Highway 121 (also known as the Chisholm Trail Parkway) projects in the Dallas/Fort Worth area. These roads comprise NTTA's Special Projects System and are separate from the NTTA System as a whole. Under NTTA's toll equity loan agreement, the Department has agreed to lend a negotiated maximum amount each year should revenues of the projects and funds held in reserve be insufficient to cover operations and maintenance, including debt service. The debt service of NTTA was structured so that in each year through maturity total debt service plus certain estimated operating expenses do not exceed the maximum annual amounts for that year as further provided in the NTTA toll equity loan agreement. As of the date hereof, no drawdowns of funding have been requested by NTTA under its toll equity loan agreement.

The Department also entered into a toll equity loan agreement with the Grand Parkway Transportation Corporation (the "GPTC") which was approved by the Commission on September 27, 2012 (the "GPTC Agreement"). The GPTC Agreement authorized a maximum aggregate principal loan amount of $9.6 billion, payable as advances made from time to time on the terms and conditions set out in the GPTC Agreement to provide funds to the Corporation to pay for certain costs relating to the development, construction, operation, maintenance and financing of Segments D (but only the portion located in Harris County, Texas), E, F- 1, F-2 and G and the pre-development of possible extensions or expansions of the Grand Parkway project. Under the GPTC Agreement, the Department has agreed to lend a negotiated maximum amount each year should revenues of the project and funds held in reserve be insufficient to cover operations and maintenance, including debt service. GPTC's debt service was structured so that in each year through maturity total debt service plus certain estimated operating expenses do not exceed the maximum annual amount for that year as further provided in the GPTC Agreement. As of the date hereof, no drawdowns of funding have been requested by GPTC under its toll equity loan agreement.

The Commission anticipates entering into additional toll equity agreements in the future, and it is currently anticipated that all toll equity obligations will be funded from the Fund. All toll equity obligations are subject to the

appropriation of lawfully available funds to make such payments; and, such payments are subordinate to Senior Obligations, which have a prior lien pledge of the revenues deposited into the Fund, and are subordinate to obligations issued or incurred pursuant to Section 201.115, Texas Transportation Code, including any Revolving Notes or HTRANS described above.

The following table shows the expected deposits to and uses of revenues in the Fund during the term of the toll equity loan commitments.

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Table 14
Analysis of Impact of Toll Equity Obligations on the State Highway Fund

Fiscal Year Ending 8/31	Total Forecasted SHF Revenues[1][2]	1st Tier Debt Service[3]	Other Existing Obligations[1][4]	Other Agencies[1]	Current Letting Cashflow Commitments[1]	Revenue After All Obligations[5]	PGBTWE and CTP TELA MAAA[6]	Grand Parkway TELA MAAA[7]	Total TELA MAAA[7][8] (PGBTWE, CTP, GP)	% TELA MAAA[7][8] Total Forecasted SHF Revenues	% TELA MAAA[7][8] Revenue After All Obligations
	A	B	C	D	E	F=A-B-C-D-E	G	H	I=G+H	J=I/A	K=I/F
2014	$8,395,756,587	$320,072,880	$1,290,396,654	$984,850,286	$2,300,672,074	$3,499,764,693	$51,087,582	$3,109,364	$54,196,946	0.65%	1.55%
2015	8,558,002,446	339,061,877	852,836,066	936,077,001	1,094,984,669	5,335,042,833	82,605,216	17,632,283	100,237,499	1.17%	1.88%
2016	7,946,087,304	422,729,227	293,823,163	1,057,312,000	713,130,716	5,459,092,198	99,149,601	35,370,268	134,519,869	1.69%	2.46%
2017	7,578,467,569	422,730,471	219,939,061	1,059,675,000	353,876,856	5,522,246,181	112,172,417	321,211,829	433,384,246	5.72%	7.85%
2018	7,603,922,511	422,729,049	218,857,341	1,062,058,000	217,285,216	5,682,992,905	130,284,173	298,339,721	428,623,895	5.64%	7.54%
2019	7,430,076,161	422,726,299	207,626,776	1,064,517,000	160,533,534	5,574,672,552	145,256,478	279,325,185	424,581,662	5.71%	7.62%
2020	7,512,068,121	422,726,502	185,869,085	939,090,000	108,448,234	5,855,934,300	164,113,035	283,343,355	447,456,390	5.96%	7.64%
2021	7,692,769,092	422,728,346	164,485,601	939,090,000	76,869,026	6,089,596,119	173,815,799	293,234,019	467,049,818	6.07%	7.67%
2022	7,747,397,277	422,726,549	144,628,094	939,090,000	32,319,598	6,208,633,036	186,693,119	291,662,021	478,355,140	6.17%	7.70%
2023	7,744,650,247	422,728,549	104,564,158	939,090,000		6,278,267,539	193,539,846	119,903,780	313,443,626	4.05%	4.99%
2024	7,748,316,529	422,506,763	77,416,436	939,090,000		6,309,303,329	207,672,742	137,345,518	345,018,259	4.45%	5.47%
2025	7,862,872,346	422,152,534	51,970,347	939,090,000		6,449,659,464	214,782,767	154,975,462	369,758,229	4.70%	5.73%
2026	7,979,123,321	420,829,146	28,416,343	939,090,000		6,590,787,832	220,673,312	158,428,530	379,101,842	4.75%	5.75%
2027	8,097,101,412	419,464,313	23,375,203	939,090,000		6,715,171,896	227,782,984	161,021,513	388,804,497	4.80%	5.79%
2028	8,214,537,243	415,771,772	45,448,727	939,090,000		6,814,226,744	244,718,287	164,099,141	408,817,428	4.98%	6.00%
2029	8,331,804,456	410,092,083	5,000,000	939,090,000		6,977,622,373	240,170,038	167,449,611	407,619,649	4.89%	5.84%
2030	8,450,475,291	403,974,379	5,000,000	939,090,000		7,102,410,912	240,345,726	172,694,761	413,040,486	4.89%	5.82%
2031	8,570,808,389	190,843,966	5,000,000	939,090,000		7,435,874,423	234,796,473	180,897,332	415,693,805	4.85%	5.59%
2032	8,699,370,515	190,841,134	5,000,000	939,090,000		7,564,439,381	236,869,609	189,133,523	426,003,132	4.90%	5.63%
2033	8,829,861,072	190,846,000	5,000,000	939,090,000		7,694,925,072	227,353,760	197,710,417	425,064,177	4.81%	5.52%
2034	8,962,308,989	190,843,000	5,000,000	939,090,000		7,827,375,989	138,448,454	206,724,747	345,173,201	3.85%	4.41%
2035	9,096,743,623	188,532,750	5,000,000	939,090,000		7,964,120,873	153,289,552	216,317,514	369,607,066	4.06%	4.64%
2036	9,233,194,778		5,000,000	939,090,000		8,289,104,778	163,426,760	226,294,076	389,720,836	4.22%	4.70%
2037	9,371,692,699		5,000,000	939,090,000		8,427,602,699	163,426,760	235,574,322	399,001,081	4.26%	4.73%
2038	9,512,268,090		5,000,000	939,090,000		8,568,178,090	163,426,760	244,413,504	407,840,263	4.29%	4.76%
2039	9,654,952,111		5,000,000	939,090,000		8,710,862,111	163,426,760	252,344,857	415,771,616	4.31%	4.77%
2040	9,799,776,393		5,000,000	939,090,000		8,855,686,393	163,426,760	259,411,667	422,838,427	4.31%	4.77%
2041	9,946,773,039		5,000,000	939,090,000		9,002,683,039	129,018,014	264,746,105	393,764,119	3.96%	4.37%
2042	10,095,974,634		5,000,000	939,090,000		9,151,884,634	146,911,358	269,527,834	416,439,192	4.12%	4.55%
2043	10,247,414,254		5,000,000	939,090,000		9,303,324,254	169,628,386	241,943,368	411,571,755	4.02%	4.42%
2044	10,401,125,468		5,000,000	939,090,000		9,457,035,468	178,498,077	205,663,872	384,161,949	3.69%	4.06%
2045	10,557,142,350		5,000,000	939,090,000		9,613,052,350	181,444,618	284,926,519	466,371,137	4.42%	4.85%
2046	10,715,499,485		5,000,000	939,090,000		9,771,409,485	201,445,337	286,114,758	487,560,095	4.55%	4.99%
2047	10,876,231,977		5,000,000	939,090,000		9,932,141,977	239,528,255	286,380,836	525,909,091	4.84%	5.30%
2048	11,039,375,457		5,000,000	939,090,000		10,095,285,457		286,094,327	286,094,327	2.59%	2.83%
2049	11,204,966,089		5,000,000	939,090,000		10,260,876,089		285,434,044	285,434,044	2.55%	2.78%
2050	11,373,040,580		5,000,000	939,090,000		10,428,950,580		283,997,919	283,997,919	2.50%	2.72%
2051	11,543,636,189		5,000,000	939,090,000		10,599,546,189		477,596,850	477,596,850	4.14%	4.51%
2052	11,716,790,732		5,000,000	939,090,000		10,772,700,732		583,573,342	583,573,342	4.98%	5.42%
2053	11,892,542,593		5,000,000	939,090,000		10,948,452,593		576,031,910	576,031,910	4.84%	5.26%
2054	12,070,930,731		5,000,000	939,090,000		11,126,840,731		0	0	0.00%	0.00%
Total / Avg	**$380,305,848,147**	**$7,907,657,588**	**$4,039,653,057**	**$39,032,639,287**	**$5,058,119,923**	**$324,267,778,292**	**$5,989,228,815**	**$9,600,000,000**	**$15,589,228,815**	**4.10%**	**4.81%**

(1) Source: Texas Department of Transportation, as of August 31, 2013; Revenues reflect the impact of HB 2202, and appropriations to other agencies in FY 2014 and FY 2015 reflect related budgetary adjustments in HB 1. See "THE STATE HIGHWAY FUND – Sources of Revenue in the Fund – Other State Revenue Sources" and "INVESTMENT CONSIDERATIONS – Forward Looking Statements."

(2) Includes federal subsidy associated with the Department's Build America Bonds (BAB), net of federal fiscal year 2013 and 2014 sequestration reductions.

(3) Assumes issuance of remaining approximately $700 million of unissued authorization (after the issuance of the Bonds); and assumes future debt service on bonds wrap around existing obligations. Assumes $300 million of Series 2014-B SIFMA-indexed FRNs bearing an assumed interest rate of 2.50%; gross debt service shown.

(4) Other Existing Obligations comprised of a commitment fee on $500mm of the $750 mm short-term lending facilities, Toll Equity Grants and Loans, Pass-Through Obligations, payments for the delivery of CDA projects, assumed operations and maintenance support for CTTS and similar obligations.

(5) Money Available for the Department Operations and Future Lending.

(6) Comprised of the TELA Maximum Available Annual Amount (the "TELA MAAA") for the North Texas Tollway Authority's Special Projects System: President George Bush Tollway Western Extension (SH 161) and the Chisholm Trail Parkway (SH 121).

(7) Revised GPTC TELA MAAA Schedule assuming refunding of the GPTC Series 2013 C&D Bonds.

(8) Comprised of the combined TELA MAAA in a given year.

Pass-Through Financing Agreements

Section 222.104 of the Texas Transportation Code, as amended ("Section 222.104"), provides for the payment of a "Pass-Through Toll," a per vehicle fee or per vehicle mile fee determined by the number of vehicles using a highway, for specific purposes. First, pursuant to Section 222.104 and subject to Commission rules, the Department may enter into an agreement with a public or private entity that provides for the payment of Pass-Through Tolls ("Pass-Through Financing") to reimburse a public or private entity for expenditures made by the public or private entity for the design, development, financing, construction, maintenance or operation of a toll or non-toll facility on the State Highway System. Second, the Department may enter into an agreement with a private entity that provides for the payment of Pass-Through Tolls by the private entity to the Department as reimbursement for the Department expenditures for the design, development, financing, construction, maintenance or operation of a toll or non-toll facility on the State Highway System. 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.

As of August 31, 2013, the Department had executed 41 Pass-Through Financings with terms ranging from four to 20 years and total pass-through reimbursements of approximately $1.6 billion with aggregate annual reimbursements of no greater than $193 million.

The Department's pecuniary obligations under Pass-Through Financings do not provide for the payment of, or obligate the Department to pay, amounts sufficient to pay debt service on bonds or other public securities secured by such payments and, such payments are subordinate to (i) Senior Obligations, which will have a prior lien on Fund revenues, and (ii) obligations issued or incurred pursuant to Section 201.115, Texas Transportation Code, including any Revolving Notes, or HTRANs. The amount of payments owed by the Department under Pass-Through Financings will be determined by the terms and conditions of the relevant agreement, without regard to the actual debt service payable in respect of any bonds issued by the governmental entity receiving the payments. The Department's obligation to pay amounts owed under the terms of Pass-Through Financings are currently payable from the Fund and are subject to appropriation by the Legislature of sufficient funds to discharge the obligations of the Department.

Sequestration Effects on the State Highway Fund

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions in federal spending (the "Sequester Cuts") took effect as of March 1, 2013 for federal fiscal year ending September 30, 2013 ("FFY 2013"). The Department experienced a reduction of $2.7 million in apportionment and obligation authority from the National Highway Performance Program, which is administered by the FHWA for highway projects that are located on the National Highway System. The Department currently anticipates a reduction of $4.1 million for the federal fiscal year ending September 30, 2014.

The Sequester Cuts also affected the subsidy payments to be made by the federal government to issuers of "direct-pay" tax credit bonds, such as Build America Bonds ("BAB"). The Commission issued $1,500,000,000 of its State Highway Fund First Tier Revenue Bonds, Taxable Series 2010 (Build America Bonds - Direct Payment) (the "Series 2010 Bonds") as taxable BAB and elected to receive a subsidy payment from the United States Treasury equal to 35% of the amount of each interest payment on the Series 2010 Bonds. As a result of the Sequester Cuts, the subsidy payment received in fiscal year 2013 for the Series 2010 Bonds was reduced by $1.2 million. The Department currently anticipates the subsidy payments to be received in fiscal year 2014 and fiscal year 2015 for the Series 2010 Bonds will be reduced by $2.1 million and $1 million respectively.

On February 15 2014, the Bipartisan Budget Act of 2013 was amended to, among other things, extend the planned Sequester Cuts to 2024, however, at this time, the Commission and Department make no representations as to whether the Sequester Cuts will remain in effect and cause a reduction in receipt of federal funds or BAB subsidy payments for any future year.

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 ("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. Notwithstanding any law to the contrary, cash may be reinvested in the items described by clauses (i) through (xiv) 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 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 Texas Senate. Commissioners serve overlapping six year terms. One member is designated by the Governor as the Chair and serves as the chief presiding 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 a 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.

The Texas Legislature (the "Legislature") 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 current members of the Commission are listed below.

Ted Houghton, Chairman

Mr. Houghton was appointed to the Commission by Governor Perry in December of 2003, and appointed as Chairman of the Commission in October of 2011. 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 board of directors of the El Paso Electric Company and 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 bachelor's degree in finance from The University of Texas at El Paso.

Jeff Austin III, Commissioner

Mr. Austin was appointed to the Commission by Governor Perry in October of 2011, and is Vice Chairman of Austin Bank. He is a board member of First State Bank in Athens, Texas, and of Capital Bank in Houston, Texas, and a past president of First State Bank, Frankston, Texas. He is a board member and past chair of the Texas Bankers Association, a board member of the Bob Bullock Texas History Museum, a member of the American Bankers Association Government Relations Committee and the Bank CEO Network, an executive committee member and past director of the Texas Lyceum, and a Board member and a Past President and Scoutmaster of the East Texas Area Council of Boy Scouts. He was the presiding officer of the North East Texas Regional Mobility Authority, and board chair of the Tyler Area Chamber of Commerce. He is also a past board member of the Tyler Economic Development Corporation, the Better Business Bureau of East Texas, The University of Texas at Tyler Business School Advisory Board, the UT Tyler Health Center Development Board, and the Trinity Mother Frances Hospital Foundation. Mr. Austin received a bachelor's degree and a master's degree in Business Administration from The University of Texas at Tyler, and is a graduate of the Southern Methodist University Southwestern Graduate and Intermediate Schools of Banking, and the Harvard Business School Advanced Management Program.

Jeff Moseley, Commissioner

Mr. Moseley was appointed to the Commission by Governor Perry in June of 2012. Prior to his appointment, Mr. Moseley was chief executive officer of the Greater Houston Partnership. During seven years in this role, he worked on numerous regional transportation policy efforts and partnered with transportation stakeholders such as the Gulf Coast Regional Mobility Partners and the I-69 Corridor Coalition. He previously served as director of the Governor's Office of Economic Development and Tourism. Between 1991 and 1999, Mr. Moseley served as Denton County Judge. During that time, he was a member of the metropolitan planning organization for the North Central Texas Council of Governments, supported the passage of two mobility bond campaigns, organized the I-35 Corridor Coalition, and was involved in the creation of the North Texas Tollway Authority. Mr. Moseley is currently self-employed and serves as a consultant to Opportunity Houston. Mr. Moseley received the Outstanding Alumnus Award from Southern Nazarene University in Oklahoma.

Fred Underwood, Commissioner

Mr. Underwood was appointed to the Commission by Governor Perry in January of 2007. Mr. Underwood is president of the Trinity Company, a cotton bale storage facility. He is both past vice president and past director of the National Cotton Council. 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.

Victor Vandergriff, Commissioner

Mr. Vandergriff was appointed to the Commission by Governor Perry in March of 2013. Mr. Vandergriff is an attorney and private businessman specializing in business development and legislative issues. From 2009 to 2013, Mr. Vandergriff served as the chairman of the Texas Department of Motor Vehicles Board. He was also a board member for the North Texas Tollway Authority from 2007 to 2013 and served as chairman from 2010 to 2011. He formerly served as Vice President of V.T., Inc. and Automotive Investment Group, the largest private retail automotive group in the United States. He was involved as an owner, dealer and executive manager in the automobile industry for more than 25 years. Mr. Vandergriff and his family have owned and operated automobile dealerships for more than 80 years in the Dallas-Fort

Worth region. Mr. Vandergriff attended The University of Southern California, where he received a degree from the School of Public Administration in Public Affairs. He received his law degree from Southern Methodist University in Dallas.

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. In 2009, the Legislature created the Department of Motor Vehicles as a separate State agency, and moved vehicle title and registration; motor carrier registration and enforcement; licensing of motor vehicle dealers, manufacturers, distributors, and other similar entities; and auto theft reduction efforts from the Department to the Department of Motor Vehicles.

The mission of the Department is to provide safe and efficient movement of people and goods, enhance economic viability and improve the quality of life for the people that travel in the state of Texas by maintaining existing roadways and collaborating with private and local entities to plan, design, build and maintain expanded transportation infrastructure. The Department's vision is to be a trusted, performance-driven organization committed to collaborating with internal and external partners to deliver a modern, interconnected and multimodal transportation system that enhances the quality of life for Texas citizens and increases the competitive position for Texas industry.

The Texas Sunset Act (Chapter 325, Texas Government Code)(the "Sunset Act") provides that virtually all agencies of the State, including the Department, are subject to periodic review by the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The Department will be subject to its next Sunset review in 2015. Pursuant to the Sunset Act, the Legislature specifically recognizes the State's continuing obligation to pay bonded indebtedness and all other obligations incurred by the Department. Accordingly, in the event that a sunset review results in the Department being abolished, the Governor would be required by law to designate an appropriate state agency to carry out covenants and perform the obligations of the Department. The designated agency would provide for payment of bonds and other public securities in accordance with the terms of such bonds and other public securities and would provide for payment and performance of all other obligations in accordance with their terms.

The Department is headquartered in Austin, Texas, with 34 divisions/offices, four regional offices, and 25 district 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.

James M. Bass, Interim Executive Director and Chief Financial Officer

Effective January 17, 2014, James M. Bass became Interim Executive Director and continues to serve as Chief Financial Officer ("CFO"). The prior Executive Director, Phil Wilson, announced in December 2013 that he would be leaving the Department for another position. On January 7, 2014, the Commission appointed a committee to select a permanent Executive Director, but currently no timeline has been established for such selection. As CFO, 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"), which now includes programming and scheduling of all transportation projects and letting management activities associated with project delivery. In addition, the CFO has oversight of toll operations, innovative finance and debt management (including the State Infrastructure Bank and investment functions), and grant management. Under his direction, the Finance Division develops and implements systems and policies related to accounting, forecasting, budgeting, payment for goods and services, and the processing of receipts and revenues. 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 from The University of Texas at Austin. 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 Texas Legislative Budget Board, State Auditor's Office, and the Comptroller of

Public Accounts. He also worked on the Department's Cash Forecasting System for the Fund. Mr. Bass was named Finance Division Director in 1999 and his title was changed to Chief Financial Officer in 2005.

John Barton, Deputy Executive Director and Chief Engineer

As Deputy Executive Director, Mr. Barton is responsible for assisting in all phases of directing, managing, and implementing the Department's policies, programs, and operating strategies. He oversees the management of all transportation systems for which the agency is responsible to ensure that systems are adequate, safe, and constructed and maintained for the traveling public in the most cost-effective manner. Mr. Barton also serves as the Department's Chief Engineer. In this capacity he is responsible for management and control of the Bridge, Construction, Design, Maintenance, Traffic Operations and Right of Way Divisions as well as the Local Government Project Office, and he provides executive oversight of all District Operations. He also assists 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. Mr. Barton grew up in Archer City, a small rural town in north central Texas, before attending college at Texas A&M University where he graduated with honors in 1986 with a Bachelor of Science degree in Civil Engineering. He then began working full-time for the Department and now has more than 26 years of service with the Department. Mr. Barton began working for the Department as a summer employee in the Archer City Maintenance Section of the Wichita Falls District while in high school, and then began full-time employment with the Department after graduating from Texas A&M. Like most Department employees, he has worn many hats during his time with the Department, ranging from Construction Project Inspector and Manager to Area Engineer, to District Engineer, Assistant Executive Director for Engineering Operations, and now Deputy Executive Director.

Brian Ragland, Finance Director

As the Department's Finance Director, Mr. Ragland is responsible for the management and control of budget, revenue, disbursements, and accounting, and debt management for the Department as well as programming and scheduling and letting management of all transportation projects. Mr. Ragland is also currently an elected trustee of the Employees Retirement System, with a term expiring August 31, 2017. Mr. Ragland began his career with the Department as the Director of the Department's Claims Management Section of the Finance Division in 2003. He left the Department in 2005 to pursue an opportunity as Senior Vice President and Chief Financial Officer of Walden Affordable Group, LLC, an affordable housing management firm. He began his career with The University of Texas System Administration as an accountant/auditor in their Oil and Gas department and then became the Financial Manager of their Employee Group Insurance section where he served until 1996. He then became Chief Financial Officer for the State Preservation Board where he oversaw all financial, human resources, enterprise, and information resource functions of that agency until 2003, when he joined the Department. Mr. Ragland received a bachelor's degree in Accounting from The University of Texas at Austin in 1990 and a Masters of Business Administration degree from Southwest Texas State University in 1999. He is a licensed Certified Public Accountant.

Benjamin Asher, Innovative Financing/Debt Management Officer

Mr. Asher assumed the position as the Department's Innovative Financing/Debt Management Officer in June 2012. In this role he oversees the day-to-day activities of the Innovative Financing/Debt Management Office which include managing the Department's various debt programs, including the Department's TIFIA loan activity as well as the State Infrastructure Bank, toll equity, pass-through financings, and the financial aspects of the Department's public-private partnerships. Prior to joining the Department, Mr. Asher worked for the Public Resources Advisory Group, an independent financial advisory firm, most recently as a Senior Managing Director in New York. Previously, Mr. Asher worked as an associate for the First Boston Corporation in the public finance and corporate restructuring departments. Mr. Asher received his Bachelor of Arts in History from Columbia College and an M.B.A. in Finance from Columbia University Graduate School of Business.

Jeff Graham, General Counsel

Mr. Graham assumed the position of General Counsel on July 16, 2012. Under his direction, the Office of General Counsel renders legal advice to the Commission and the Department. He also drafts Department rules, reviews legislation, and serves as counsel at Commission meetings. Previously, Mr. Graham served as Division Chief for the Financial and Taxation Litigation Division, under Texas Attorney General Greg Abbott. Prior to that, he served as the Division Chief for the Financial Litigation Division of the Office of Attorney General. In 2011, the Taxation Division and the Texas Workforce Commission Section were added to the Financial Litigation Division, resulting in the combined Financial and Taxation Litigation Division. In 2012, the Charitable Trust Section was also added to his portfolio. Jeff

began his career at the Office of the Attorney General in 1997, and has lived in Austin since 1986. He is a graduate of Washington University School of Law in St. Louis, Missouri and The University of Texas at Austin.

State Audits

The State Auditor's Office ("SAO") is the independent auditor for Texas state government. The SAO operates with oversight from the Legislative Audit Committee, a six-member permanent standing committee of the State Legislature, jointly chaired by the Lieutenant Governor and the Speaker of the House of Representatives.

The SAO is authorized, by Chapter 321, Texas Government Code, to perform audits, reviews, and investigations of any entity receiving State funds, including State agencies and higher education institutions. Audits are performed in accordance with generally accepted government auditing standards, which include standards issued by the American Institute of Certified Public Accountants.

In connection with the State's Comprehensive Annual Financial Report, the SAO issued an audit report in January 2013 which included a discussion of the Department's statewide financial and federal compliance for fiscal year ended August 31, 2012. The SAO regularly audits State agencies that receive federal funds to ensure compliance with applicable federal requirements for the receipt of such funds. The SAO indicated the Department should strengthen certain aspects of its financial and information technology operations. The Department concurred with the recommendations of the SAO and has implemented corrective actions. State audit reports, including reports covering various aspects of the Department's performance, are available at http://www.sao.state.tx.us.

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, 2013, ERS had 133,669 active members, 17,014 inactive vested members, 79,001 inactive non-vested members and 91,367 annuitants. The Department currently employs approximately 11,600 employees and, for fiscal year 2014, approximately $37 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, 2013, the Plan's actuarial accrued liability was $30,987,987,000. As of such date, the Plan had actuarial value of assets of $24,667,639,000, leaving an unfunded actuarial accrued liability of $6,320,348,000 (the Plan's "unfunded actuarial liability"). Accordingly, ERS's funded ratio as of August 31, 2013 was 79.6%, meaning that the ERS could pay today 79.6% 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. As of August 31, 2013, the market value of assets was $1,799,097,000 billion less than the actuarial value.

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 2014 - 2015 biennium, the Legislature set the State's contribution rate to ERS at 7.5% of payroll for fiscal years 2014 and 2015. The member contribution rate to ERS in fiscal year 2014 is 6.6% for employees, and increases to 6.9%, 7.2%, and 7.5% in fiscal years 2015, 2016, and 2017 respectively. The member contribution rate to ERS is 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, 2013, the period required to amortize the unfunded actuarial liability of the Plan was estimated at 31 years.

In 2013, the 83rd Session of the Texas Legislature passed S.B. 1459 which was signed into law on June 14, 2013 and contains a number of changes intended to improve the Plan's financial position to ensure the future soundness of the Plan. S.B. 1459 increased the member contribution rate for all state employees, increased the years of service required to receive full coverage of the premium charged for the Texas Employees Group Benefits Program ("GBP" and further described below) for certain members, and requires all state agencies whose employees are members of ERS to make monthly contributions to the Plan equal to 0.5% of their payroll. For State employees or retirees who were hired after

August 31, 2013, S.B. 1459 modified the retirement annuity calculation to lessen Plan costs and increased the minimum retirement age necessary to receive the maximum annuity.

Other Post-Employment Benefits. The Department provides other post-employment benefits through the GBP administered by the ERS (the "OPEB Plan"), which is operated by the State and which covers State employees, elected officials, law enforcement and custodial officers, and judges. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees. An eligible retiree who has retired from full-time employment does not contribute toward the cost of coverage for himself/herself, but he/she pays a portion of the cost if he/she covers an eligible spouse or dependent child. An eligible retiree who has retired from part-time employment contributes toward the cost of coverage for himself/herself, as well as paying a portion of the cost if he/she covers an eligible spouse or dependent child. The GBP also provides life insurance benefits to eligible retirees via a minimum premium funding arrangement.

As of August 31, 2013, the ERS OPEB Plan had 226,181 active members, 11,255 deferred vested members and 100,054 retirees and nominees. The Department employs approximately 11,600 employees and, for fiscal year 2013, approximately $37 million had been budgeted from the Fund to GBP for insurance benefits for certain Department employees. The Department makes monthly payments to GBP for virtually all of its employees. GBP does not account for each State Agency separately.

On an actuarial basis as of August 31, 2013, the ERS OPEB Plan's unfunded actuarial accrued liability is $23,030,469,000. OPEBs are paid for as on a pay-as-you go basis and are subject to appropriation by the State legislature.

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 special and 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. None of the State, the Commission, the Department, or 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 "GENERAL INFORMATION REGARDING 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 materially adversely 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 MAP-21 on June 30, 2012. MAP-21 replaces the previous five-year authorizing legislation which expired on September 30, 2009, and a series of extensions that were passed and expired on

June 30, 2012. MAP-21 also reauthorizes the collection of federal gasoline excise taxes and other taxes generating revenues to the HTF through the federal fiscal year ending September 30, 2016.

MAP-21 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. The annual apportionments to Department under SAFETEA-LU and MAP-21 were $3.15 billion, $3.13 billion, $3.12 billion, $2.91 billion and $3.05 billion in federal fiscal years 2009 through 2013, respectively. However, in federal fiscal years 2009 through 2011, there were federal rescissions of certain amounts appropriated under SAFETEA-LU in the approximate aggregate amounts of $11.9 billion, $2.2 billion and $2.5 billion, respectively. Texas' share of such rescissions was $1,014,643,500, $190,367,982 and $200,895,021 for federal fiscal years 2009 through 2011, respectively. In February 2010, Congress passed HR2847, which restored $8.7 billion of the authorization rescinded in 2009, including $742,240,415 of Texas's share of such rescinded authorization; while contract authority was restored, no obligation authority was given. See "APPENDIX C - INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS – Rescissions."

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 "GENERAL INFORMATION REGARDING THE BONDS – Issuance of Subordinate Obligations." Also, see "THE STATE HIGHWAY FUND – Sources of Revenue in the Fund – *Other State Revenue Sources."*

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 2014 and 2015, $499 million and $388 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 2019. Annual payments from the

fund to the Texas Emissions Reduction Plan ranged from $68.8 million in fiscal year 2009 to $89.4 million in fiscal year 2013. For fiscal years 2014 through 2019, the Department estimates the annual payment from the Fund to the Texas Emissions Reduction Plan to be $91.0 million increasing to $125.4 million. In addition, the Legislature has appropriated monies from the Fund for various smaller programs, including the TxDMV. For fiscal years 2014 and 2015, $72 million and $45 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 issue and enter into additional Senior Obligations and Subordinate Obligations in the future. See "GENERAL INFORMATION REGARDING THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations" and "- Issuance of Subordinate Obligations" and "THE STATE HIGHWAY FUND - General," and "- Uses of the Fund."

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 nor 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 and the Fund'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 Comptroller prepares a quarterly appendix (the "Bond Appendix") which sets forth certain information regarding the State including its government, finances, economic profile, and other matters for use by State entities when issuing debt. The most recent Bond Appendix is dated February 2014 and may be obtained (i) using the Municipal Securities Rulemaking Board's (the "MSRB") internet website, www.emma.msrb.org, by using the quick search function and entering the term "State of Texas Comptroller" and (ii) from the Comptroller's website at: http://www.window.state.tx.us/treasops/bondapp.html and will be updated from time to time by the Comptroller. The next quarterly update of the Bond Appendix is expected in May 2014.

THE BOND APPENDIX IS FOR THE SOLE PURPOSE OF PROVIDING ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE STATE AND IS NOT INCORPORATED BY REFERENCE HEREIN. 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

The Bonds and the Previously Issued First Tier Senior Obligations are rated "AAA" and "Aaa" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and Moody's Investors Service, Inc., respectively An explanation of the significance of the ratings may be obtained from each respective rating agency. The ratings reflect only the respective 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 either or both of such rating companies if, in the judgment of either or both 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

Delivery of the Bonds is subject to the opinion of Andrews Kurth LLP, Austin, Texas, Bond Counsel, that interest on the Bonds will be (1) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (2) not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

Interest on 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.

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 contained in the Resolution 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. If the Commission should fail to comply with the covenants in the Resolution or if its 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.

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 Internal Revenue Service (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.

Proposed Tax Legislation and "Fiscal Cliff"

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS

Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price 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 wholesales or underwriters) at such initial offering price, each of the Bonds of such maturity (the "Premium Bond") will be considered for federal income tax purposes to have "bond premium" equal to 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 price 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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business & Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for State banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to the investment quality by a national rating agency before the Bonds are eligible investments for sinking funds or other public funds of such political subdivisions.

No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Commission has made no investigation of other laws, rules, regulations, or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Bonds for such purposes. The Commission has not made any 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 of which the Commission or the Department has notice and, to the knowledge of the Commission and the Department after due and reasonable inquiry, there is no such litigation, proceeding, inquiry, or investigation otherwise pending or threatened against or affecting the State or any of its agencies or instrumentalities that (i) affects the existence of the Department or the Commission or the right of the present members of the Commission 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, and (iii) would have a material adverse effect upon (A) the power of the Commission to issue the Bonds, or (B) the Fund.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Commission

General. In the Sixth Supplemental Resolution, the Commission has made the following agreement 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. Under the agreement, the Commission will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB. The information will be available to investors by the MSRB through its EMMA system, free of charge at www.emma.msrb.org.

Annual Reports. The Commission will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes Tables 1 through 12 and the unaudited financial statements of the Department, which are contained in APPENDIX B hereto. The Commission will update and provide this information within six months after the end of each Fiscal Year ending in and after 2014.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the Commission commissions an audit and it is completed by the required time. However, the Commission does not intend (and its continuing disclosure undertaking should not be construed as a commitment by the Commission) to commission any audit of the Department's financial statements. If the audited financial information is not available by the required time, the Commission will provide unaudited financial information by the date required. 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 the MSRB, when and if such audit report on such statements becomes available. Any such financial statements 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 six months thereof unless the Commission changes its Fiscal Year. If the Commission changes its Fiscal Year, it will notify the MSRB of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Commission otherwise would be required to provide financial information and operating data pursuant to its continuing disclosure agreement.

Certain Event Notices. The Commission will also notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (vii) modifications to rights of holders of the Bonds, if material; (viii) Bond calls, if material, and tender offers; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership, or similar events of the Commission or the Department; (xiii) the consummation of a merger, consolidation, or acquisition involving the Commission or the Department or the sale of all or substantially all of the assets of the Commission or the Department, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional paying agent/registrar or trustee or the change of name of a paying agent/registrar or trustee, if material. 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 "- Continuing Disclosure Undertaking of the Commission - *Annual Reports*."

As used in clause (xii) above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the Commission or the Department in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commission or the Department, or if jurisdiction has been assumed by leaving the Commission and officials or officers of the Department in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commission or the Department.

All documents provided to the MSRB pursuant to this "- Continuing Disclosure Undertaking of the Commission" caption shall be accompanied by identifying information as prescribed by the Rule.

Availability of Information

The Commission has agreed to provide the foregoing financial and operating information only as described above. The Commission will be required to file the foregoing continuing disclosure information using the MSRB's EMMA system. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The Commission has agreed to update information and to provide notices of certain specified 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 Rule 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. The Commission may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

During the last five years, the Commission has complied in all material respects with its continuing disclosure agreements entered into pursuant to the Rule; however, the updated annual financial information and operating data with respect to the Fund and Central Texas Turnpike System financings for the fiscal year ending August 31, 2008 were dated February 27, 2009 but were not shown as filed until March 9, 2009, nine days later.

UNDERWRITING

Piper Jaffray & Co., 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 Series 2014-A Bonds at a price of $1,346,899,071.26 (which represents the par amount of the Series 2014-A Bonds plus a premium of $193,586,336.05 and less an underwriting discount of $4,482,264.79). The bond purchase agreement pertaining to the Series 2014-A Bonds provides that the Underwriters will purchase all of the Series 2014-A Bonds if any are purchased. The Series 2014-A Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2014-A Bonds into investment trusts) at prices lower than the public offering prices of the Series 2014-A Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

Piper Jaffray & Co., 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 Series 2014-B Bonds at a price of $299,485,295.57 (which represents the par amount of the Series 2014-B Bonds less an underwriting discount of $514,704.43). The bond purchase agreement pertaining to the Series 2014-B Bonds provides that the Underwriters will purchase all of the Series 2014-B Bonds if any are purchased. The Series 2014-B Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2014-B Bonds into investment trusts) at prices lower than the public offering prices of the Series 2014-B Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Piper Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Bonds. Under the Piper Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

Loop Capital Markets has entered into a distribution agreement with Deutsche Bank Securities Inc. ("DBS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, DBS will purchase Bonds from Loop Capital Markets at the original issue prices less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

FINANCIAL ADVISOR

Estrada Hinojosa & Company, Inc. has contracted to serve 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 (15 U.S.C. 77a, et seq.), 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. Furthermore, the Bonds have not been qualified under the securities acts of any other jurisdiction (domestic or foreign).

The Commission assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction (domestic or foreign) 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 or similar provisions.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The mathematical accuracy of certain computations included in the schedules provided by the Commission and the Financial Advisor relating to the computation of forecasted receipts of principal and interest on the Escrow Securities held in the Escrow Fund for the Refunded Obligations and the forecasted payments of principal, premium, if any, and interest to pay the Refunded Obligations were verified by The Arbitrage Group, Inc., certified public accountants. Such computations were based solely on assumptions and information supplied by the Commission and the Financial Advisor. The Arbitrage Group, Inc. has restricted its procedures to verifying the mathematical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Obligations. See "TAX EXEMPTION."

LEGAL MATTERS

Legal matters incident to the authorization, issuance, and sale of the Bonds by the Commission are subject to the unqualified approving opinion of the Attorney General of the State and the approval of certain legal matters by Andrews Kurth LLP, Austin, Texas, 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 opinions will be rendered in substantially the forms attached to this Official Statement as APPENDIX D.

The Commission will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the Commission and, based upon examination of such transcript of proceedings, the approving legal opinions to like effect of Andrews Kurth LLP, as Bond Counsel. 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 hereto or undertaken independently to verify any of the information contained herein, except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement under the captions and subcaptions "PLAN OF FINANCE – Refunded Obligations," "THE SERIES 2014-A BONDS," "THE SERIES 2014-B BONDS," "GENERAL INFORMATION REGARDING THE BONDS" (except for the information contained under the subcaption "Bondowners' Remedies"), "DESCRIPTION OF THE TRANSACTION DOCUMENTS," "THE STATE HIGHWAY FUND - Investment Authority and Investment Practices for the Fund," "TAX EXEMPTION," "TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND 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, the Resolution, and the Funds Management Agreement contained under such captions and subcaptions 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 McCall, Parkhurst & Horton L.L.P., Austin, Texas, Disclosure Counsel, represent only the Commission. The legal opinions of Bond Counsel in the forms set forth in APPENDIX D will accompany the Bonds of the series to which such opinion relates 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 Co-Counsel, Bracewell & Giuliani LLP, Austin, Texas and Mahomes Bolden & Warren, PC, Dallas, Texas, whose legal fees are contingent on the sale and delivery of the Bonds.

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.

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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.

The Commission has approved this Official Statement and authorized its further use in the reoffering of the Bonds by the Underwriters.

TEXAS TRANSPORTATION COMMISSION

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

Schedule I – Refunded Obligations

State Highway Fund First Tier Revenue Bonds, Series 2006

Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
04/01/2017	5.000%	$29,385,000.00	04/01/2016	100.000%
04/01/2018	5.000%	30,855,000.00	04/01/2016	100.000
04/01/2019	5.000%	32,395,000.00	04/01/2016	100.000
04/01/2020	5.000%	34,015,000.00	04/01/2016	100.000
04/01/2021	5.000%	35,715,000.00	04/01/2016	100.000
04/01/2022	5.000%	37,500,000.00	04/01/2016	100.000
04/01/2023	5.000%	39,380,000.00	04/01/2016	100.000
04/01/2024	5.000%	41,345,000.00	04/01/2016	100.000
04/01/2025	5.000%	43,415,000.00	04/01/2016	100.000
04/01/2026	5.000%	45,585,000.00	04/01/2016	100.000
		$369,590,000.00		

State Highway Fund First Tier Revenue Bonds Series, 2006A

Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
04/01/2017	5.000%	$48,255,000.00	04/01/2016	100.000%
04/01/2018	5.000%	50,665,000.00	04/01/2016	100.000
04/01/2019	5.000%	53,200,000.00	04/01/2016	100.000
04/01/2020	5.000%	55,850,000.00	04/01/2016	100.000
04/01/2021	5.000%	58,655,000.00	04/01/2016	100.000
04/01/2022	5.000%	61,585,000.00	04/01/2016	100.000
04/01/2023	5.000%	64,660,000.00	04/01/2016	100.000
04/01/2024	4.750%	67,890,000.00	04/01/2016	100.000
04/01/2025	5.000%	15,370,000.00	04/01/2016	100.000
04/01/2025	4.375%	19,335,000.00	04/01/2016	100.000
		$495,465,000.00		
		$865,055,000.00		

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Appendix A

Definitions and Excerpted Provisions of the Resolution

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DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION

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

"*Alternate Credit Facility*" means any substitute or replacement irrevocable letter of credit, surety bond, insurance policy or similar instrument securing the payment of the principal of, premium, if any, and interest on, and the Purchase Price of, a series or installment of Variable Rate Bonds, delivered in accordance with the provisions of this Supplemental Resolution in substitution and replacement for the existing Credit Facility for such series or installment.

"*Alternate Liquidity Agreement*" means any substitute or replacement liquidity agreement securing the payment of the Purchase Price of a series or installment of Variable Rate Bonds, delivered in accordance with the provisions of this Bond Resolution in substitution and replacement for the existing Liquidity Agreement for such series or installment.

"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 Obligation 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 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 Agreements. 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.

"*Applicable Spread*" means with respect to Index Floating Rate Bonds, (i) during an Initial Index Floating Rate Period, the Initial Index Floating Rate Spread, and (ii) in the case of a Conversion to an Index Floating Rate Mode, the spread determined by the Remarketing Agent pursuant to Section 2.01(h)(1) of Exhibit D to be added to or subtracted from the Index.

"*Authorized Denominations*" has the meaning given such term in the Award Certificate for each series or installment of Bonds or, in connection with a conversion, in a certificate of the Department Representative.

"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.

"*Award Certificate*" means a certificate of a Department Representative executed and delivered pursuant to Section 302(b) hereof in connection with the issuance of a series or installment of Bonds or in connection with the execution and delivery of a Credit Agreement.

"*Bonds*" means a series or installment of bonds issued pursuant to and governed by this Supplemental Resolution, as described in Article III hereof in accordance with an 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 Tender Agent or the Securities Depository is located, and with respect to Bonds outstanding in any Mode except the Index Floating Rate Mode, the Multiannual Mode or the Fixed Rate Mode, a day on which the payment office of the Liquidity Provider or the Credit Provider for draws under the Liquidity Agreement or the Credit Facility, as applicable, or the primary office of the Remarketing Agent is located, are required or authorized by law to remain closed, or the New York Stock Exchange is closed.

"*Capital Appreciation Bonds*" means the Bonds on which no interest is paid prior to maturity, maturing variously in each of the years and in the aggregate principal amount as set forth in an Award Certificate.

"*Calculation Agent*" means the person appointed by the Department Representative to perform the duties of Calculation Agent in connection with the Index Floating Rate Bonds.

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

"*Chapter 222*" means Chapter 222, Texas Transportation 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.

"*Conversion*" or "*conversion*" means a change from one Mode to another with respect to a Bond, and (i) with respect to a Bond in the Multiannual Mode, a change from one Interest Rate Period to another, or (ii) with respect to a Bond in the Index Floating Rate Mode, a change from one Index Floating Rate Period to another.

"*Conversion Date*" means the day a Conversion becomes effective.

"*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.

"*Credit Facility*" means the irrevocable letter of credit, surety bond, insurance policy or similar instrument securing the payment of the principal of, premium, if any, and interest on, and the Purchase Price of, a series or installment of Variable Rate Bonds, designated in the Award Certificate for such series or installment, until such time as an Alternate Credit Facility has been issued in substitution and replacement for such Credit Facility and thereafter "Credit Facility" shall mean such Alternate Credit Facility. A Credit Facility is not a "Liquidity Agreement" within the meaning hereof.

"*Credit Provider*" means the bank or other financial institution designated by the Department Representative acting in its capacity as issuer of the initial Credit Facility with respect to a series or installment of Variable Rate Bonds, and its successors and assigns, and if an Alternate Credit Facility is issued, the issuer of such Alternate Credit Facility, and its successors and assigns.

"*Credit Provider Bonds*" means Variable Rate Bonds purchased with moneys drawn on a Credit Facility and held for the benefit of a Credit Provider pursuant to Section 3.03 of Exhibit D to this Supplemental Resolution.

"*Current Interest Bonds*" means the Bonds paying current interest and maturing in each of the years and in the aggregate principal amounts set forth in an Award Certificate.

"*Daily Mode*" means the Mode in which the interest rate on any Bonds is set at the Daily Rate pursuant to Section 2.01(b) of Exhibit D to this Supplemental Resolution.

"*Daily Rate*" means the rate of interest that is set on any Bonds by the Remarketing Agent while they are in the Daily Mode.

"*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 (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Commission adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) 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 proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

"*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, the Innovative Financing/Debt Management Officer, the Deputy Director of the Innovative Financing/Debt Management Office, the Director of the Finance Division, or such other officer or employee of the Department so designated by the Commission to perform the duties of 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.

"*Favorable Opinion of Bond Counsel*" means, with respect to any action the occurrence of which requires such an opinion, an unqualified opinion of Bond Counsel to the effect that such action is permitted under the laws of the State of Texas, including the Acts, the Master Resolution and this Supplemental Resolution and, in the case of Tax-Exempt Bonds, that such action will not impair the exclusion of interest on such Bonds from gross income for purposes of federal income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

"*Federal Securities*" means direct, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including STRIPS of United States Treasury securities held in the Federal Reserve's book-entry system which are direct obligations of the United States of America).

"*First Tier Senior Obligation*" means the Series 2006 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.

"*Fixed Rate Bonds*" means the Bonds of a series or installment bearing interest at fixed, nonvariable interest rate(s), as established in accordance with Section 2.02 of this Supplemental Resolution and the Award Certificate and does not include Variable Rate Bonds in the Fixed Rate Mode.

"*Fixed Rate Mode*" means the Mode in which the interest rate on any Bonds is fixed from the Conversion Date to the Maturity Date.

"*Flexible Mode*" means the Mode in which the interest rate on any Bonds is set at the Flexible Rate.

"*Flexible Rate*" means a rate of interest on any Bonds in the Flexible Mode set by the Remarketing Agent pursuant to Section 2.01(a) of Exhibit D to this Supplemental Resolution for periods from 1 to 270 days.

"*Highest Lawful Rate*" means the maximum net effective interest rate permitted by law to be paid on obligations issued or incurred by the Commission in the exercise of its borrowing powers (prescribed by Chapter 1204, Texas Government Code, as amended, or any successor provisions).

"*Index*" means with respect to Index Floating Rate Bonds (i) on any date, the SIFMA Index, or (ii) such other interest rate index designated in the Award Certificate for a series or installment of Bonds or, in connection with a conversion, in a certificate of the Department Representative.

"*Index Determination Date*" means with respect to (i) the SIFMA Index, Wednesday of each week or, if Wednesday is not a U.S. Government Securities Business Day, the next preceding U.S. Government Securities Business Day or (ii) any other Index, the day of the week on which such Index is announced or otherwise made available to the Calculation Agent.

"*Index Floating Rate*" means the rate of interest that is set on any Bonds while they are in the Index Floating Rate Mode pursuant to Section 2.01(h) of Exhibit D, determined from time to time by adding the Applicable Spread to the Index on each Reset Date, as calculated by the Calculation Agent.

"*Index Floating Rate Bonds*" means any Bonds bearing interest at an Index Floating Rate.

"*Index Floating Rate Held Bond*" means an Index Floating Rate Bond held by or for the account of its Registered Owner or Beneficial Owner after a Mandatory Tender Date in a situation in which the Purchase Price of such Bond has not been paid to the Registered Owner or Beneficial Owner thereof on the Mandatory Tender Date.

"*Index Floating Rate Mode*" means a Mode in which a Bond bears interest at an Index Floating Rate.

"*Index Floating Rate Period*" means each period during which an Index Floating Rate is in effect for a Bond.

"*Initial Index Floating Rate*" means the Index for the applicable calculation period plus the Initial Index Floating Rate Spread, which shall be in effect for the Initial Index Floating Rate Period.*

"*Initial Index Floating Rate Period*" means for any series or installment of Bonds initially issued in the Index Floating Rate Mode, the Index Floating Rate Period set forth in each Award Certificate with respect to the applicable Index Floating Rate Bonds. The Initial Index Floating Rate Period may extend to the maturity of the series or installment of Bonds.

"*Initial Index Floating Rate Spread*" means with respect to Bonds initially issued in the Index Floating Rate Mode, the spread (expressed in basis points) to be added or subtracted from the Index as set forth in the Award Certificate delivered in connection with such Bonds.

"Installment Factor" means, with respect to each scheduled annual payment of principal or interest on First Tier Senior Obligations, the number twelve (12), and, with respect to each scheduled semi-annual payment of principal or interest on First Tier Senior Obligations, the number six (6).

"*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.

"*Interest Payment Date*" means, except as may be otherwise provided in the Award Certificate, the following dates upon which interest is payable on the Variable Rate Bonds and Index Floating Rate Bonds (i) when used with respect to any particular Bond accruing interest at a Flexible Rate, the day after the last day of each Interest Rate Period applicable thereto (provided that Interest Payment Dates shall not be more frequent than once every five Business Days); (ii) when used with respect to Bonds accruing interest at Daily, Weekly, Monthly or Index Floating Rates, the first Business Day of each calendar month following a month in which interest at such rate has accrued; (iii) when used with respect to Bonds accruing interest at a Quarterly Rate, the first day of the immediately succeeding January, April, July, or October after Conversion to the Quarterly Rate, and thereafter April

* The Award Certificate provides that the Initial Index Floating Rate will not exceed the Maximum Rate during the Initial Index Floating Rate Period.

1, July 1, October 1, and January 1; (iv) when used with respect to Bonds accruing interest at a Semiannual, Multiannual, or Fixed Rate, the first day of the immediately succeeding July or January after the Conversion to a Semiannual, Multiannual, or Fixed Rate and thereafter January 1 and July 1; and (v) the Maturity Date; provided, however, that if the Bonds are initially issued in a Semiannual Mode, a Multiannual Mode, or a Fixed Rate Mode, the initial Interest Payment Date, if any, may be set forth in the Award Certificate.

"*Interest Rate Period*," "*Rate Period*," or "*Period*" means, when used with respect to any particular rate of interest for a Bond, the period during which such rate of interest determined for such Bond will remain in effect as described in this Supplemental Resolution, provided that, with respect to Bonds in the Flexible Mode, the Remarketing Agent, in accordance with Section 2.01(a) of Exhibit D, shall (i) not offer Interest Rate Periods longer than the lesser of the period used to calculate the "Available Interest Commitment" under the Liquidity Agreement or 270 days or which end on a day which does not immediately precede a Business Day, (ii) not offer Interest Rate Periods applicable to Bonds to be converted extending beyond the day preceding any scheduled Conversion of the Bonds to another Mode or the Maturity Date, and (iii) follow any written directions of the Commission not inconsistent with the preceding clauses (i) and (ii) as to the Interest Rate Periods to be made available.

"*Liquidity Agreement*" means each standby bond purchase agreement, irrevocable letter of credit, surety bond, insurance policy or similar instrument securing the payment of the Purchase Price of a series or installment of Variable Rate Bonds as originally executed with the original issuance of a series or installment of Variable Rate Bonds and any extensions thereof, as from time to time amended and supplemented, and any Alternate Liquidity Agreement, as originally executed and as such agreement may from time to time be amended and supplemented. A Liquidity Agreement is not a "Credit Facility" within the meaning of this Supplemental Resolution.

"*Liquidity Provider*" means the bank or other financial institution designated by the Department Representative acting in its capacity as issuer of the initial Liquidity Agreement with respect to a series or installment of Variable Rate Bonds, and its successors and assigns, and if an Alternate Liquidity Agreement is issued, the issuer of such Alternate Liquidity Agreement, and its successors and assigns.

"*Liquidity Provider Bonds*" means Variable Rate Bonds purchased with moneys drawn on a Liquidity Agreement and held for the benefit of a Liquidity Provider pursuant to Section 3.02 of Exhibit D to this Supplemental Resolution.

"*Liquidity Provider Rate*" means the rate of interest to be borne by any series or installment of Variable Rate Bonds while such bonds are Liquidity Provider Bonds as provided in the Liquidity Agreement for such series or installment, but in no case shall such rate of interest exceed the maximum rate permitted by law, including Chapter 1204, Texas Government Code, as amended.

"*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.

"*Mandatory Tender Date*" means the date any Bonds are subject to mandatory tender for purchase.

"*Maturity*" means, when used with respect to any Obligation, 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.

"*Maturity Date*" means the final maturity date(s) of each series or installment of the Bonds which shall be established pursuant to Section 302(b) hereof.

"*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.

"*Maximum Rate*" means for Variable Rate Bonds and Index Floating Rate Bonds, the maximum interest rate set forth in the Award Certificate, but in no event shall the Maximum Rate exceed the Highest Lawful Rate.*

"*Mode*" means the period for and the manner in which the interest rates on the Bonds, or any portion of the Bonds, are set and includes the Daily Mode, the Flexible Mode, the Weekly Mode, the Monthly Mode, the Quarterly Mode, the Semiannual Mode, the Multiannual Mode, the Index Floating Rate Mode and the Fixed Rate Mode.

"*Monthly Mode*" means the Mode in which the interest rate on any Bonds is set at the Monthly Rate.

"*Monthly Rate*" means the rate of interest that is set on any Bonds while they are in the Monthly Mode pursuant to Section 2.01(d) of Exhibit D to this Supplemental Resolution.

"Monthly Installment Amount" means, with respect to each scheduled payment of principal or interest on any First Tier Senior Obligation, an amount that is equal to the quotient of (a) the total amount due for payment on any Principal Payment Date or Interest Payment Date divided by (b) the Installment Factor.

"*Multiannual Mode*" means the Mode in which the interest rate on any Bonds is fixed for periods of one year or whole multiples thereof designated by the Department Representative.

"*Multiannual Rate*" means the rate of interest that is set on any Bonds while they are in the Multiannual Mode pursuant to Section 2.01(g) of Exhibit D to this Supplemental Resolution.

"*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.

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* The Award Certificate establishes a Maximum Rate of 12% for the Series 2014-B Bonds in the Initial Index Floating Rate Period.

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 registered owners of the Bonds as shown on the Security Register and to the extent set forth in a Credit Agreement relating to the Bonds, the party contracting with the Commission under a Credit Agreement.

"*Paying Agent/Registrar*" means the agent selected and appointed for purposes of paying the principal of, premium, if any, and interest on Bonds and keeping and maintaining books and records relating to the registration, transfer, exchange, and payment of the Bonds and interest thereon, and any successor to such agent.

"*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; provided, however, that for any First Tier Senior Obligation in respect of which Monthly Installment Amounts are deposited into the First Tier Senior Obligation Debt Service Fund, the Payment Date for such First Tier Senior Obligation shall be the business day next preceding the date that such payment is due. Notwithstanding the foregoing, as long as any Series 2006 Bonds, Series 2006-A Bonds, Series 2006-B Bonds, Series 2007 or Series 2008 Bonds remain outstanding, (i) the Payment Date for each Principal Payment Date and Interest Payment Date in respect of First Tier Senior Obligations shall be a date that is no later than the third (3rd) Business Day next preceding such Principal Payment Date or Interest Payment Date, as the case may be and (ii) the final deposit of a Monthly Installment Amount into the First Tier Senior Obligation Debt Service Fund next preceding each Principal Payment Date or Interest Payment Date for First Tier Senior Obligations shall occur on or before such Payment Date.

"*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.

"*Principal Payment Date*" means any date upon which the principal amount of Bonds is due hereunder at Maturity or on any Redemption Date.

"*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.

"*Purchase Date*" means, while the Bonds are in a Daily, Flexible, Weekly, Monthly, Quarterly, Semiannual, Multiannual or Index Floating Rate Mode, the date upon which Bonds are required to be purchased pursuant to a mandatory or optional tender, in accordance with the provisions of Section 2.01 of Exhibit D to this Supplemental Resolution and in the Form of Bond.

"*Purchase Price*" means the purchase price of the Bonds pursuant to mandatory or optional tender as set forth in Section 2.01 of Exhibit D to this Supplemental Resolution and the Form of Bond.

"*Quarterly Mode*" means the Mode in which the interest rate on any Bonds is set at the Quarterly Rate.

"*Quarterly Rate*" means the rate of interest that is set on any Bonds while they are in the Quarterly Mode pursuant to Section 2.01(e) of Exhibit D to this Supplemental Resolution.

"*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.

"*Record Date*" means, with respect to each interest payment date of a Current Interest Bond, the date as determined in the respective Award Certificate and with respect to the Variable Rate Bonds (i) with respect to each Bond in the Flexible, Daily, Weekly, Monthly or Index Floating Rate Mode, the close of business on the day next preceding an Interest Payment Date (whether or not a Business Day); and (ii) with respect to Bonds in the Quarterly, Semiannual, Multiannual, or Fixed Rate Mode, the 15th day of the calendar month immediately preceding any Interest Payment Date, regardless of whether such day is a Business Day or, in the case of an Interest Payment Date which shall not be at least 15 days after the first day of a Quarterly, Semiannual, Multiannual, or Fixed Rate Period, the first day of such Quarterly, Semiannual, Multiannual, or Fixed Rate Period.

"*Redemption Date*" means the date fixed for redemption of Variable Rate Bonds subject to redemption in any notice of redemption given in accordance with the terms hereof.

"*Reimbursement Agreement*" means any letter of credit agreement, reimbursement agreement, or similar agreement between the Commission and a Credit Provider relating to the Credit Facility for a series or installment of Bonds, as such agreement may be amended, supplemented or replaced from time to time.

"*Remarketing Agent*" means the Remarketing Agent or Remarketing Agents designated by the Department Representative and any successor remarketing agent. "Principal Office" of the Remarketing Agent shall mean the office thereof designated in writing by the Remarketing Agent to the Tender Agent.

"*Remarketing Agreement*" means any remarketing agreement executed by the Commission and the Remarketing Agent.

"*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.

"*Reset Date*" means (i) the day immediately succeeding the Index Determination Date or, if such day is not a Business Day, the immediately preceding Business Day, or (ii) such other date as specified in the Award Certificate for a series or installment of Bonds or, in connection with a conversion, in a certificate of the Department Representative.

"*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.

"*Semiannual Mode*" means the Mode in which the interest rate on any Bonds is set at the Semiannual Rate.

"*Semiannual Rate*" means the rate of interest that is set on any Bonds while they are in the Semiannual Mode pursuant to Section 2.01(f) of Exhibit D to this Supplemental Resolution.

"*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 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.

"Series 2008 Bonds" means the Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2008, authorized by the Fourth Supplemental Resolution.

"Series 2010 Bonds" means the Texas Transportation Commission Highway Fund first Tier Revenue Bonds, Taxable Series 2010 (Build America Bonds – Direct Payment).

"*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.

"*SIFMA*" means The Securities Industry and Financial Markets Association, or any successor thereto.

"*SIFMA Index*" or "*SIFMA Municipal Swap Index*" means for any day, the level of the most recently effective index rate which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and issued on each Index Determination Date. If such index is no longer published, the SIFMA Index for any day will mean the level of the most recently effective *S&P Municipal Bond 7-Day High Grade Rate Index* maintained by Standard & Poor's Securities Evaluations Inc. for a 7-day maturity as published on the day which is one U.S. Government Securities Business Day immediately preceding the effective date of such index. The effective date for each such index is every Thursday (or any other day specified by the Securities Industry and Financial Markets Association, in the case of the first such index).

"*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.

"*Stepped Rate*" means the rate or rates at which an Index Floating Rate Held Bond bears interest during the period from and including the Mandatory Tender Date on which such Bond has not been remarketed until the earlier of its date of maturity and the date it is so remarketed, which rate shall be established in each Award Certificate for such Bond or, in connection with a conversion, in a certificate of the Department Representative, but in no event shall the Stepped Rate exceed the Highest Lawful Rate.

"*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.

"*Tender Agent*" means the Tender Agent for the Variable Rate Bonds or Index Floating Rate Bonds appointed by the Department Representative. "Principal Office" of the Tender Agent shall mean the office thereof designated in writing by the Tender Agent to the Commission and Remarketing Agent.

"*Tender Agent Agreement*" means an agreement between the Commission and the Tender Agent with respect to Variable Rate Bonds or Index Floating Rate Bonds.

"*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.

"*U.S. Government Securities Business Day*" means any day, except for a Saturday, a Sunday, or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

"*United States*" means United States of America.

"*Variable Rate Bonds*" means Bonds in the Daily Mode, the Flexible Mode, the Weekly Mode, the Monthly Mode, the Quarterly Mode, the Semiannual Mode, the Multiannual Mode or such other mode or provisions as set forth in each Award Certificate.

"*Weekly Mode*" means the Mode in which the interest rate on any Bonds is set at the Weekly Rate.

"*Weekly Rate*" means the rate of interest that is set on any Bonds while they are in the Weekly Mode pursuant to Section 2.01(c) of Exhibit D.

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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; provided, however, that transfers in respect of scheduled annual or semi-annual payments of principal and interest on First Tier Senior Obligations for deposit into the First Tier Senior Obligation Debt Service Fund shall be made in equal Monthly Installment Amounts and such transfers shall commence in the month that will permit the final Monthly Installment Amount in respect of any Principal Payment Date or Interest Payment Date to occur in the month in which such payment is due; 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 irrepealable 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 Sixth Supplemental Resolution[1]

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Section 201. Issuance of First Tier Senior Obligations.

(b) Bonds Are First Tier Senior Obligations. The Bonds 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

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(1) The Sixth Supplemental Resolution authorizes the issuance of new money bonds in one or more series in an aggregate principal amount not to exceed $1,400,667,126.36. The Sixth Supplemental Resolution also authorizes the issuance of refunding bonds in one or more series in an aggregate principal amount not to exceed $1.7 billion for the purpose of refunding previously issued First Tier Senior Obligations in the event that certain savings criteria are satisfied and to refund outstanding variable rate First Tier Senior Obligations if such refunding is determined to be in the best interest of the Commission. The references in the following excerpts to the "Bonds" include the Series 2014-A Bonds and the Series 2014-B Bonds described in the body of this Official Statement, which constitute the first and second series of obligations delivered under the Sixth Supplemental Resolution, respectively.

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 302. Date, Denominations, Numbers, Maturities and Terms of Bonds.

(e) Rights of Bond Insurer(s). As long as a Bond Insurer is not in default on the related bond insurance policy for any series or installment of 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 or the Master Resolution.

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Section 305. Redemption. Bonds may be subject to redemption prior to their scheduled maturity at such times and with such provisions as provided in an Award Certificate and, with respect to Variable Rate Bonds and Index Floating Rate Bonds, as provided in Exhibit D. To the extent of any conflict between any provision of the Award Certificate and the provisions of Exhibit D (including provisions for redemption), the provisions of the Award Certificate shall prevail with respect to Variable Rate Bonds and Index Floating Rate Bonds.**********

Section 308. Purchase in Lieu of Redemption. Notwithstanding anything in this Supplemental Resolution to the contrary, if and to the extent that the Bonds are subject to optional redemption, all or a portion of the Bonds to be redeemed as specified in the notice of redemption, may be purchased by the Paying Agent/Registrar at the direction of a Department Representative on the date which would be the redemption date if such Bonds were redeemed rather than purchased in lieu thereof at a purchase price equal to the redemption price which would have been applicable to such Bonds on the redemption date for the account of and at the direction of a Department Representative who shall give the Paying Agent/Registrar notice at least forty-five (45) days prior to the scheduled redemption date for the Bonds accompanied by a Favorable Opinion of Bond Counsel. In the event the Paying Agent/Registrar is so directed to purchase Bonds in lieu of optional redemption, no notice to the Owners of the Bonds to be so purchased (other than the notice of redemption otherwise required hereunder) shall be required, and the Paying Agent/Registrar shall be authorized to apply to such purchase the funds which would have been used to pay the redemption price for such Bonds if such Bonds had been redeemed rather than purchased. Each Bond so purchased shall not be canceled or discharged and shall be registered in the name of the Commission and such purchase is not intended to extinguish or merge such debt. The Bonds to be purchased under this Section 308 which are not delivered to the Paying Agent/Registrar on the purchase date shall be deemed to have been so purchased and not optionally redeemed on the purchase date and shall cease to accrue interest as to the former Owner on the purchase date.

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Section 401. Disposition of Proceeds. The net proceeds of each series or installment of Bonds shall be applied, at the direction of a Department Representative, for the following purposes:

(a) to the payment of any underwriting discount and any Credit Agreement fees, either by retention and/or wire transfer directly to such parties;

(b) in the case of New Money Bonds, for deposit to the credit of the Bond Proceeds Fund established in Section 402, the balance of the proceeds of such Bonds (after deducting any costs or expenses of issuance deducted, withheld or paid from such proceeds at the direction of a Department Representative, as provided in subsection (a)), 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 402;

(c) in the case of Refunding Bonds, for deposit into such fund(s) or account(s) as shall be directed in the Award Certificate for such Refunding Bonds.

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Section 403. Payments. On or before each Payment Date for the Bonds while any such Bonds are outstanding and unpaid, commencing on the Payment Date next preceding the first Interest Payment Date for the Bonds, as provided in the Award Certificate, the Commission shall make available from the Pledged Revenues to the Paying Agent/Registrar, money sufficient to pay such interest on and such principal of the Bonds, including Purchased Bonds, as will accrue or mature, or be subject to mandatory redemption prior to maturity, on each Principal Payment Date and Interest Payment Date. The Paying Agent/Registrar shall cancel all paid Bonds and shall furnish the Commission with an appropriate certificate of cancellation.

Section 404. Rebate Fund. A Rebate Fund shall be established by the Commission within the State Highway Fund pursuant to the requirements of section 148(f) of the Code and the tax covenants of the Commission contained in Section 501 of this Supplemental Resolution for the benefit of the United States of America and the Commission, as their interests may appear pursuant to this Supplemental Resolution. Such amounts shall be deposited therein and withdrawn therefrom as are necessary to comply with the provisions of Section 501.

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Section 601. Amendments or Modifications Without Consent of Owners of Bonds. Subject to the provisions of the Master Resolution, this Supplemental Resolution and the rights and obligations of the Commission and of the Owners of the Outstanding Bonds, including Purchased Bonds, may be modified or amended at any time without notice to or the consent of any Owner of Bonds or any other Senior Obligation, 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;

(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;

(e) To make any changes or amendments requested by the State Attorney General's Office or the State Bond Review Board as a condition to the approval of the Bonds, which changes or amendments do not, in the judgment of the Commission, materially adversely affect the interests of the Owners of the Outstanding Bonds;

(f) To make any changes or amendments requested by any bond rating agency then rating or requested to rate the Bonds, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Commission, materially adversely affect the interests of the Owners of the Outstanding Bonds; or

(g) To make any changes or amendments that take effect after a mandatory tender of Variable Rate Bonds or Index Floating Rate Bonds if there is delivered to the Commission a Favorable Opinion of Bond Counsel.

Section 602. Amendments or Modifications With Consent of Owners of Bonds.

(a) Amendments. Subject to the other provisions of this Supplemental Resolution and 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, other than amendments described in Section 601 hereof, to this Supplemental Resolution 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 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) 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.

(e) 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 Paying Agent/Registrar.

Section 603. Consent of Owners. Any consent required by Section 602 shall be deemed given:

(a) By all Owners of Outstanding Bonds if a Credit Agreement (which guarantees the timely payment of principal and interest on such Bonds) is in effect, the provider of such Credit Agreement is not in default thereunder, and the provider of such Credit Agreement has given its written consent to the amendments;

(b) By all Owners of Outstanding Bonds if the Bonds are remarketed following a mandatory tender of all Bonds and the substance of such amendment has been disclosed to the market in connection with such remarketing;

(c) By any Owner in any number of concurrent writings of similar tenor, signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Bonds, if made in the following manner, shall be sufficient for any of the purposes of this Second Supplement, and shall be conclusive in favor of the Commission with regard to any action taken, suffered or omitted to be taken by the Commission under such instrument, namely:

(i) the fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution; and

(ii) the fact of the ownership by any person of any Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Bond was registered in the name of such party in the Security Register.

In lieu of the foregoing the Commission may accept such other proofs of the foregoing as it shall deem appropriate.

Consents obtained pursuant to Section 603(c) shall be valid only if given following (i) the publication of notice pursuant to Section 602(b) or (ii) the mailing of notice by or on behalf of the Commission requesting such consent and setting forth the substance of the amendment of this Second Supplement in respect of which such consent is sought and stating that copies thereof are available at the offices of the Department for inspection. Such notice shall be mailed by certified mail to each Owner of the Bonds affected at the address shown on the Security Register.

Section 604. Effect of Amendments. Upon the adoption by the Commission of any resolution to amend this Supplemental Resolution pursuant to the provisions of this Article, this Supplemental Resolution shall be deemed to be amended in accordance with the amendatory order or 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.

****

Section 702. Defeasance of Bonds.

(a) Deemed Paid. The principal of and/or the interest and redemption premium, if any, on any Bonds (and the Maturity Amount of Capital Appreciation 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 or commercial bank 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 or commercial bank for the payment of its services until all Defeased Obligations shall have become due and payable or (3) any combination of (1) and (2). At such time as Bonds shall be deemed to be a Defeased Obligation hereunder, as aforesaid, such Bonds and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of 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) Investments. 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 or commercial bank 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 or commercial bank 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) Continuing Duty of Paying Agent/Registrar. 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 Obligations shall have become due and payable, the Paying Agent/Registrar for such Defeased Obligations shall perform the services of Paying Agent/Registrar for such Defeased Obligations the same as if they had not been defeased, and the Commission shall make proper arrangements to provide and pay for such services as required by this Supplemental Resolution.

(d) Amendment of this Section. 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 or commercial bank 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) Retention of Rights. Notwithstanding the provisions of subsection (a) of this Section, to the extent that, upon the defeasance of any Defeased Obligations to be paid at its maturity, the Commission retains the right under State law to later call such Defeased Obligations for redemption in accordance with the provisions of this Supplemental Resolution and the Award Certificate relating to the Defeased Obligations, the Commission may call such Defeased Obligations 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 Obligations as though they were being defeased at the time of the exercise of the option to redeem the Defeased Obligations and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligations.

(f) Interest Rate. Notwithstanding anything elsewhere in this Supplemental Resolution, any Variable Rate Bonds or Index Floating Rate Bonds shall be deemed to be paid and discharged only if the amount held under 702(a)(1) or (2) above shall be sufficient to provide for the payment of such Variable Rate Bonds or Index Floating Rate Bonds assuming the highest possible interest rate on such Bonds (as established in accordance with this Supplemental Resolution) to the tender date, redemption date or maturity date thereof.

****

Section 710. Credit Agreements. Pursuant to authority conferred by Chapter 1371, the Commission may enter into one or more Credit Agreements in connection with the Bonds (whether prior to or concurrently with the issuance of Bonds, or thereafter). In connection with the issuance of Variable Rate Bonds, the Department Representative, acting for and on behalf of the Commission, is authorized to execute and deliver one or more Liquidity Agreements pursuant to Exhibit D.

The Costs of Credit Agreements shall be paid out of Pledged Revenues, and the Commission's obligation to pay such Costs may constitute First Tier Senior Obligations under the Master Resolution, except to the extent that the Credit Agreement provides that an obligation of the Commission thereunder shall be payable from and secured by a lien on Pledged Revenues subordinate to the lien securing the payment of the First Tier Senior Obligations. The obligations of the Commission under any such Credit Agreement that are subordinate to the lien securing the payment of First Tier Senior Obligations may, pursuant to the terms thereof, constitute, in whole or in part (i) Senior Obligations (other than First Tier Senior Obligations) or (ii) Subordinate Obligations, as provided by the Master Resolution.

Section 711. Remarketing Agent. The Commission hereby authorizes a Department Representative to appoint and employ the services of one or more Remarketing Agents for each series or installment of Variable Rate Bonds and Index Floating Rate Bonds pursuant to Exhibit D to this Supplemental Resolution. A Department Representative is authorized to execute a Remarketing Agreement with each Remarketing Agent in substantially the form of the Commission's remarketing agreements relating to previously-issued bonds with such changes as are acceptable to the Department Representative. The terms and provisions of each Remarketing Agreement shall be determined by the Department Representative in accordance with this Supplemental Resolution, and a Department Representative is further authorized to approve any changes in the form of such agreement to reflect such terms and provisions and to approve the form of and execute on behalf of the Commission any other agreement(s) or instruments that may be necessary to carry out the purposes of, or required by, this Supplemental Resolution.

Section 712. Tender Agent. The Commission hereby authorizes a Department Representative to appoint and employ the services of a Tender Agent for any series or installment of Variable Rate Bonds or Index Floating Rate Bonds. A Department Representative is authorized to execute a Tender Agent Agreement with each Tender Agent in substantially the form of the Commission's tender agent agreements relating to previously-issued bonds with such changes as are acceptable to the Department Representative. The terms and provisions of each Tender Agent Agreement shall be determined by the Department Representative, and a Department Representative is further authorized to approve any changes in the form of such agreement to reflect such terms and provisions and to approve the form of and execute on behalf of the Commission any other agreement(s) or instruments that may be necessary to carry out the purposes of, or required by, this Supplemental Resolution.

****

Section 716. Remedies. All rights available to the Owners under the Constitution and laws of the State, by suit for mandamus or otherwise, to compel the performance of their official duties by the Commission, the Department and their officers and employees, and by other officers of the State to the end that the principal of and interest on the Bonds may be paid promptly, are hereby recognized and reserved to and for the Owners.

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Appendix B

Unaudited Department Financial Statements for Fiscal Year ended August 31, 2013

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TEXAS DEPARTMENT OF TRANSPORTATION

Annual Financial Report
(Unaudited)

For the Fiscal Year Ended August 31, 2013

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Texas Department of Transportation
Annual Financial Report
(Unaudited)

For the Fiscal Year Ended August 31, 2013

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Texas Department of Transportation

Annual Financial Report

For the Fiscal Year Ended August 31, 2013

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Introductory Section

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Texas Department of Transportation
125 EAST 11TH STREET | AUSTIN, TEXAS 78701-2483 | (512) 463-8580 | WWW.TXDOT.GOV

November 20, 2013

cc: The Citizens of Texas
The Honorable Rick Perry, Governor
The Honorable Susan Combs, Texas Comptroller
Ms. Ursula Parks, Director, Legislative Budget Board
Mr. John Keel, CPA, State Auditor

I am pleased to submit the unaudited financial statements of the Texas Department of Transportation (TxDOT) for the year ended Aug. 31, 2013. This report was prepared by the accounting staff in the Finance Division of TxDOT.

TxDOT's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Management is responsible for the accuracy of the data in this report as well as for the completeness and fairness of presentation. Consequently, management assumes full responsibility for the completeness and fairness of all the information presented in the financial statements. To the best of my knowledge and belief, the financial statements are accurate in all material respects, are reported in a manner that fairly presents the financial position and results of TxDOT's operations and provides disclosures that enable the reader to understand TxDOT's financial condition.

Profile of the Government

TxDOT is an agency of the state of Texas. The functions of TxDOT have evolved over time due to statutory changes, with the most recent being the creation of the Texas Department of Motor Vehicles in 2009. Headquartered in Austin, TxDOT is organized by administration, districts, divisions, and offices.

TxDOT also maintains a comprehensive public interest website that outlines the agency's policies, plans, projects status, and major initiatives at www.txdot.gov.

TxDOT is managed by an executive director and is governed by the five-member Texas Transportation Commission. All members of the Commission are appointed by the governor. The Commission is authorized to issue general obligation and revenue bonds per statutory and constitutional provisions. Detail regarding the outstanding long-term liabilities of TxDOT is disclosed in Notes 4 and 5.

The financial reporting entity includes three blended component units, the Texas Private Activity Bond Surface Transportation Corporation, Grand Parkway Association and Grand Parkway Transportation Corporation. Because of the closeness of their relationships with TxDOT these legally separate entities are blended as though they are part of the primary government of TxDOT.

TxDOT has the statutory responsibility to coordinate planning, development, and operation of the state's highway system and other transit services. The mission of TxDOT is to work with others to provide safe and

OUR GOALS
MAINTAIN A SAFE SYSTEM • ADDRESS CONGESTION • CONNECT TEXAS COMMUNITIES • BEST IN CLASS STATE AGENCY
An Equal Opportunity Employer

reliable transportation solutions for Texas. TxDOT's goals are to maintain a safe system, address congestion, connect Texas communities and become a best-in-class state agency. TxDOT values trust, integrity, responsibility and service. This report reflects the operation of TxDOT and its blended component units.

The Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview and analysis of the financial activities of TxDOT. We encourage readers to consider the information in this letter of transmittal in conjunction with the MD&A.

Budgetary Controls

Budgetary control is exercised through appropriated budgets. These budgets are entered in the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Legislature and certification by the Texas Comptroller of Public Accounts that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. State budgets are established on a biennial cycle.

State Economy

The services provided by TxDOT directly impact the state's economy. Investments in highway maintenance and construction serve as an immediate boost to the economy through the employment of workers and the production of construction materials. Over the long-term, the Texas economy benefits in many more ways from TxDOT's transportation network enhancements, including the positive impacts on business costs and productivity, labor market access, attractiveness to new business, residents and tourists and property values.

Long-Term Financial Planning

Texas' population is expected to grow from 25 million people now to 40 million people by 2035. Population growth brings more congestion to urban areas, increases the stress on roads and bridges and places greater demand on rural highways to support freight movement and travel connections between farms, ranches, homes jobs and markets. Highway infrastructure continues to age and income from traditional transportation funding sources (taxes and fees) is no longer sufficient to keep pace with current and projected highway construction and maintenance cost increases.

Motor fuel taxes, TxDOT's primary state funding source, shows a slight increase into fiscal year 2013 over 2012. The motor fuel user fee on gasoline and diesel is 20 cents per gallon and 15 cents per gallon for liquefied gas. The motor fuels tax rates were last raised in 1991.

TxDOT receives federal funds through the Moving Ahead for Progress in the 21st Century Act (MAP-21) which will fund surface transportation projects for federal fiscal years 2013 and 2014.

On Feb. 17, 2009 the U.S. Congress passed the American Recovery and Reinvestment Act (ARRA) to stimulate the U.S. economy and create jobs. TxDOT received an allocation of $2.25 billion in ARRA highway funds and $50 million in ARRA transit funds. Additional funding for Texas was provided directly to the state's metropolitan planning organizations and Texas urban transit providers. All of these projects are expected to be completed by Sept. 30, 2015. Any funds unspent as of Sept. 30, 2015 would be lost. The Commission and staff worked in conjunction with local partners to quickly identify projects eligible for this funding.

Constitutionally authorized bond issuances provide additional funding for transportation projects across the state. See the Management's Discussion and Analysis and Notes 4 and 5 of the report for more detail on TxDOT's bond programs and related debt service requirements.

Major Initiatives

TxDOT operates on a two year letting schedule with longer range planning provided by the Statewide Transportation Improvement Program (4 years), the Unified Transportation Program (10 years) as well as the

Metropolitan Transportation and Rural Transportation Plans (20 years) and the Statewide Long-Range Transportation Plan (24 years).

Innovative Financing Efforts
TxDOT serves as a national leader in efforts to utilize innovative financing to deliver much needed transportation improvements faster than would be possible using only traditional financing options. TxDOT utilizes public/private partnerships, federal loan programs, concession agreements and other techniques to maximize our ability to provide important new routes, enhancements to existing routes or other services to the traveling public. TxDOT also works closely with and provides financial assistance via grants and loans to Regional Mobility Authorities and major tolling authorities. TxDOT works together with these and other local government partners to prioritize projects and deliver transportation solutions to the public.

Enterprise Resource Planning
TxDOT has made the decision to move to an Enterprise Resource Planning (ERP) solution which integrates business processes and practices with modern technology to accomplish specific business objectives. TxDOT's ERP solution will integrate Human Resources, Finance, and Supply Chain systems. This will streamline and replace many outdated legacy systems. ERP implementation will improve current business processes, produce more accurate and timely data, and empower TxDOT to make more informed business decisions and better manage costs.

The projected implementation for Human Resources/Payroll is scheduled for May 2014, while Finance and Supply Chain are scheduled for August 2014.

Legislative Updates
Collectively, Senate Joint Resolution 1 and House Bill 1 of the third special session of the 83rd Texas Legislature may result in up to $1.2 billion per year being transferred to TxDOT to be used only for constructing, maintaining, and acquiring rights-of-way for public roadways other than toll roads. A public vote is planned for November 2014 on the proposed constitutional amendment. This action and proposed amendment could advance key mobility and maintenance projects into the future.

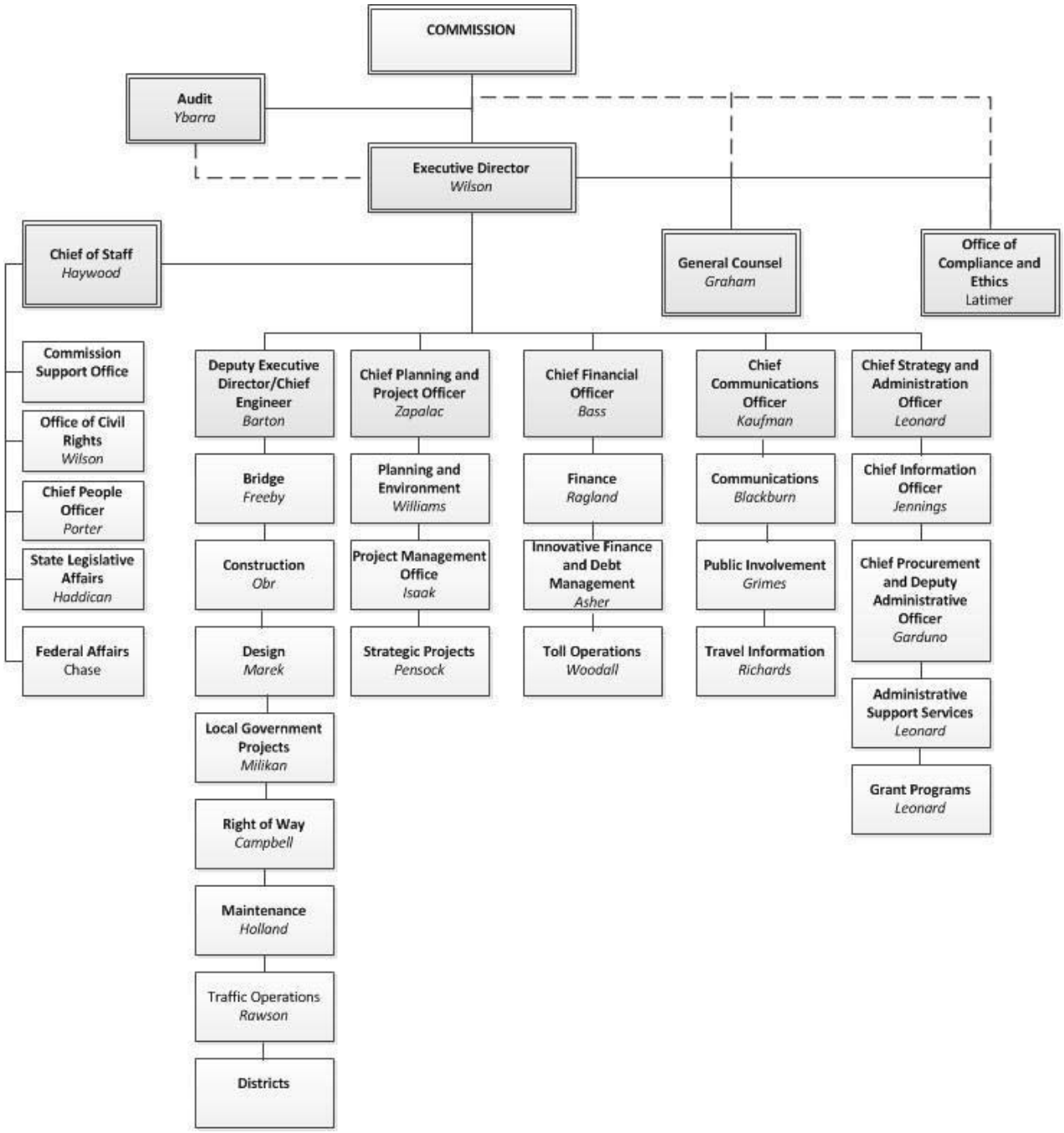
Acknowledgements
The preparation of the report requires the efforts of individuals throughout TxDOT, including the dedicated efforts of the management and staff of the TxDOT Financial Reports Section and Finance Division, and the management and staff of the State Auditor's Office. I sincerely appreciate the efforts of all these individuals who continue to strive for improvements that will make TxDOT a national leader in quality financial reporting.

Sincerely,

Phil Wilson
Executive Director

Texas Department of Transportation

Organization Chart as of August 31, 2013



Commission and Key Personnel

As of August 31, 2013

TEXAS TRANSPORTATION COMMISSION

TED HOUGHTON.....Chair

El Paso

JEFF AUSTIN III.....Commissioner

Tyler

JEFF MOSELEY.....Commissioner

Houston

FRED UNDERWOOD.....Commissioner

Lubbock

VICTOR VANDERGRIFF.....Commissioner

Fort Worth

TEXAS DEPARTMENT OF TRANSPORTATION

PHIL WILSON ..... Executive Director

JOHN A. BARTON, P.E.....Deputy Executive Director and Chief Engineer

SCOTT HAYWOOD .....Chief of Staff

BOB KAUFMAN ..... Chief Communications Officer

JAMES M. BASS..... Chief Financial Officer

TIM JENNINGS ..... Chief Information Officer

DEE PORTER..... Chief People Officer

RUSSELL ZAPALAC ..... Chief Planning and Project Officer

SCOTT LEONARD ..... Chief Strategy and Administration Officer

LAUREN GARDUNO.....Chief Procurement and Deputy Administrative Officer

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FINANCIAL SECTION

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Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Texas Department of Transportation (TxDOT) annual financial statements presents our discussion and analysis of TxDOT's financial performance during the fiscal year ended Aug. 31, 2013. Use this section in conjunction with the TxDOT's basic financial statements.

GASB Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis - for State and Local Governments*, establishes reporting requirements for state and local governments to report in full compliance with accounting principles generally accepted in the United States of America (GAAP). TxDOT implemented the GASB 34 reporting requirements beginning with the fiscal 2012 annual financial report.

Overview of Financial Statements

The GASB 34 reporting focus is on TxDOT as a whole, and on the major individual funds. This focus presents a more comprehensive view of TxDOT's financial activities and makes it easier to compare the performance of TxDOT to that of other state departments of transportation.

The financial section of this annual financial report consists of four parts: (1) management's discussion and analysis (this section), (2) the basic financial statements and related notes, (3) required supplementary information and (4) other supplementary information presenting combining statements. The report also includes TxDOT's schedule of expenditures of federal awards, schedule of state pass-through grants from/to state agencies and bond schedules.

TxDOT's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applied to governmental units. The basic financial statements include entity-wide financial statements, fund financial statements and notes to financial statements that provide more detailed information to supplement the basic financial statements.

Reporting on TxDOT as a Whole

The entity-wide financial statements are designed to present an overall picture of the financial position of TxDOT. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates TxDOT's current financial resources with capital assets and long-term obligations. This statement includes all of TxDOT's assets and liabilities. Net position is the difference between TxDOT's assets, liabilities and deferred inflows of resources and represents one measure of TxDOT's financial health.

The statement of activities focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services, and includes all current year revenues and expenses.

The statement of net position and the statement of activities divide TxDOT's activities into two types.

- *Governmental Activities:* TxDOT's basic services are reported here including the activity of all the governmental funds.

- *Business-Type Activities:* The financial activity associated with the Central Texas Turnpike System (CTTS) and Grand Parkway Transportation Corporation (GPTC) is reported here.

Reporting on TxDOT's Most Significant Funds

Fund financial statements present financial information with a focus on the most significant funds. Use these statements to find more detailed information about TxDOT's most significant activities. A fund is a separate accounting entity with a self-balancing set of accounts. TxDOT uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of TxDOT's activities is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of TxDOT's general governmental operations and the basic services it provides. This information should be helpful to determine whether there are more or less resources available for TxDOT's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the entity-wide statement of net position and entity-wide statement of activities, and the governmental funds. The state highway fund and Texas mobility fund are reported as major funds.

Proprietary Funds

When TxDOT charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the entity-wide financial statements but are reported here to provide information at the fund level. The CTTS and GPTC funds are TxDOT's only proprietary funds.

Reporting on TxDOT's Fiduciary Responsibilities

All fiduciary activities are reported in separate statements of fiduciary net position and schedule of changes in agency fund assets and liabilities. The activities are reported separately from other financial activities because TxDOT cannot use these assets to finance operations and is holding these funds in a purely custodial capacity.

Financial Analysis of TxDOT as a Whole

Net Position

Net Position - The assets of TxDOT exceeded its liabilities and deferred inflows of resources as of Aug. 31, 2013, by $65.1 billion (presented as net position). The largest component (97.7 percent) of TxDOT's net position reflects its investment in capital assets less any related debt outstanding or deferred inflows of resources (excluding debt proceeds that have yet to be expended for infrastructure construction) that was needed to acquire or construct the assets. TxDOT uses these capital assets to provide services to the citizens and businesses in the state; consequently, these assets are not available for future spending. Although reported net of related debt, capital assets themselves cannot be used to liquidate liabilities.

Capital Assets - Capital assets, net of depreciation and amortization, were approximately $81.3 billion as of Aug. 31, 2013. Additions to capital assets totaled $4.1 billion for the fiscal year ended Aug. 31, 2013. Construction in progress on state infrastructure accounted for the majority of these additions. See the capital assets section of this management's discussion and analysis for more information on the accounting treatment of capital assets.

Long-term Liabilities – TxDOT's total long-term obligations increased by $3.9 billion during the current fiscal year to $18.9 billion. This change is attributable to the issuance of revenue bonds in our component unit Grand Parkway Transportation Corporation. For more information on long-term liabilities see Notes 4 and 5 of this report.

Statement of Net Position
August 31, 2013 and 2012 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
ASSETS						
Assets Other Than Capital Assets	$ 6,826,544	$ 6,907,743	$3,378,632	$ 491,703	$10,205,176	$ 7,399,446
Capital Assets	78,515,913	74,732,279	2,824,891	2,614,813	81,340,804	77,347,092
Total Assets	85,342,457	81,640,022	6,203,523	3,106,516	91,545,980	84,746,538
LIABILITIES						
Current Liabilities	2,689,973	5,930,042	39,026	12,008	2,728,999	5,942,050
Non-current Liabilities	12,854,387	11,949,103	5,615,181	2,667,339	18,469,568	14,616,442
Total Liabilities	15,544,360	17,879,145	5,654,207	2,679,347	21,198,567	20,558,492
DEFERRED INFLOWS OF RESOURCES						
Service Concession Arrangements	5,254,633				5,254,633	
Total Deferred Inflow of Resources	5,254,633	0	0	0	5,254,633	0
NET POSITION						
Net Investment in Capital Assets	62,876,219	62,447,552	690,124	512,058	63,566,343	62,959,610
Restricted	774,053	975,625	34,988	7,247	809,041	982,872
Unrestricted	893,192	337,700	(175,796)	(92,136)	717,396	245,564
Total Net Position	$64,543,464	$63,760,877	$ 549,316	$ 427,169	$ 65,092,780	$ 64,188,046

Changes in Net Position

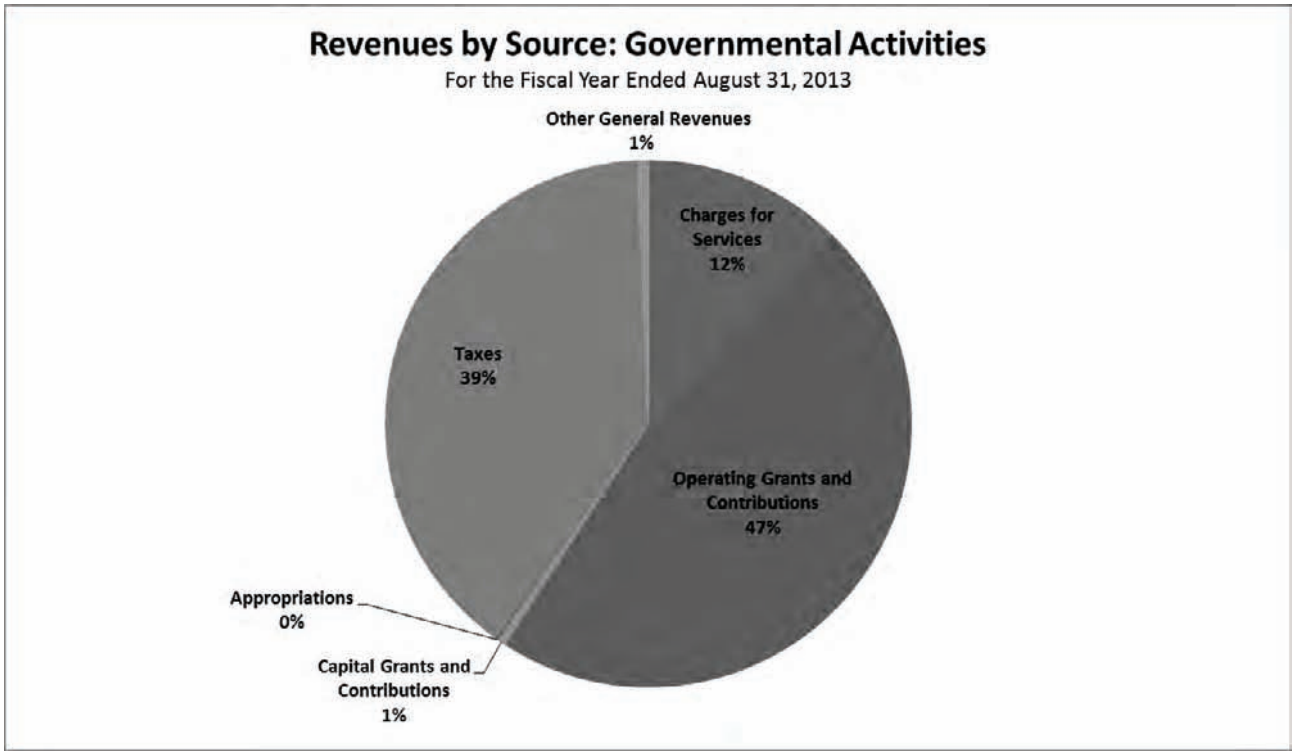
TxDOT earned program revenues of $3.7 billion and general revenues of $2.5 billion, for total revenues of $6.2 billion. The expenses of TxDOT were $6 billion. As a result of revenues exceeding expenses, the total net position is $65.1 billion. Revenues and expenses of TxDOT's governmental and business-type activities are detailed on the following page.

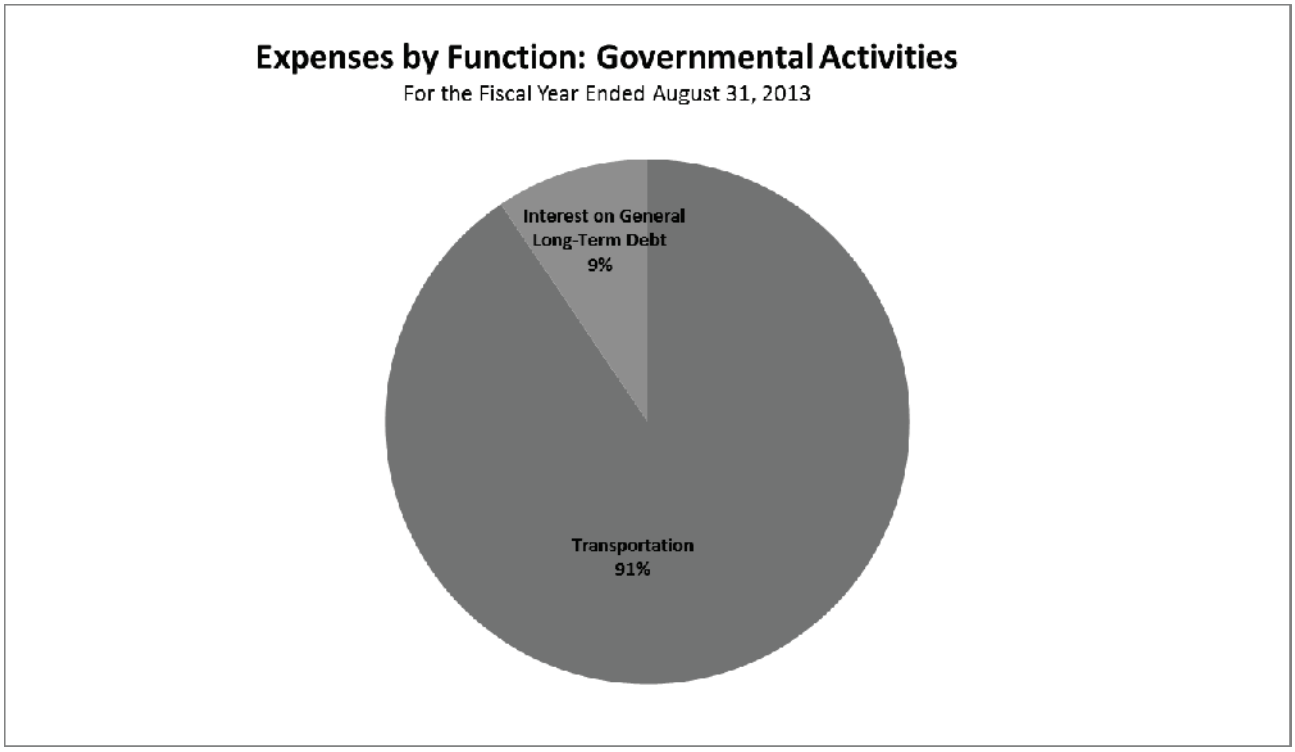
Changes in Net Position

For the Fiscal Years Ended August 31, 2013 and 2012 (Amounts in Thousands)

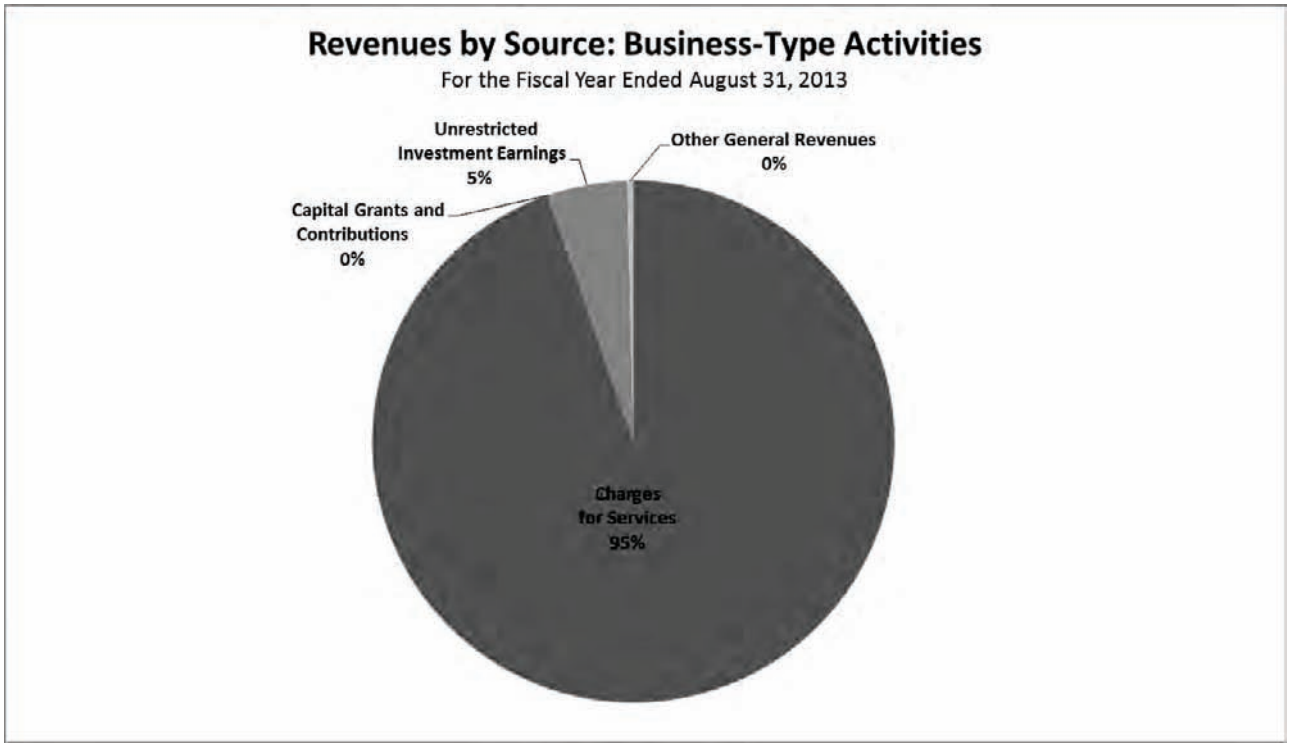
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program Revenues:						
Charges for Services	$ 741,905	$ 706,887	$ 119,152	$ 85,819	$ 861,057	$ 792,706
Operating Grants and Contributions	2,870,390	2,897,896	1		2,870,391	2,897,896
Capital Grants and Contributions	30,157	34,705	40	14	30,197	34,719
Total Program Revenues	3,642,452	3,639,488	119,193	85,833	3,761,645	3,725,321
General Revenues:						
Appropriations	12,354	52,901			12,354	52,901
Taxes	2,406,818	2,378,221			2,406,818	2,378,221
Unrestricted Investment Earnings	28,626	47,823	6,172	6,855	34,798	54,678
Settlement of Claims	11,616	22,715	482	377	12,098	23,092
Gain on Sale of Capital Assets	810	5,303			810	5,303
Other General Revenues	2,124	2,447			2,124	2,447
Total General Revenues	2,462,348	2,509,410	6,654	7,232	2,469,002	2,516,642
EXPENSES						
Transportation	5,277,846	4,382,396	228,788	215,843	5,506,634	4,598,239
Indirect Interest on Long-Term Debt	550,587	524,963			550,587	524,963
Total Expenses	5,828,433	4,907,359	228,788	215,843	6,057,221	5,123,202
Excess (Deficiency) Before Special Items and Transfers	276,367	1,241,539	(102,941)	(122,778)	173,426	1,118,761
Transfers - Internal Activities	(225,057)	(55,242)	225,057	55,242	0	0
Transfers in from Other State Agencies	615,988	592,303			615,988	592,303
Change in Net Position	667,298	1,778,600	122,116	(67,536)	789,414	1,711,064
Net Position, Beginning Balance	63,760,877	61,982,277	427,169	495,095	64,188,046	62,477,372
Restatements	115,289		31	(390)	115,320	(390)
Net Position, Beginning Balance as Restated	63,876,166	61,982,277	427,200	494,705	64,303,366	62,476,982
Net Position, Ending Balance	$64,543,464	$63,760,877	$ 549,316	$ 427,169	$ 65,092,780	$ 64,188,046

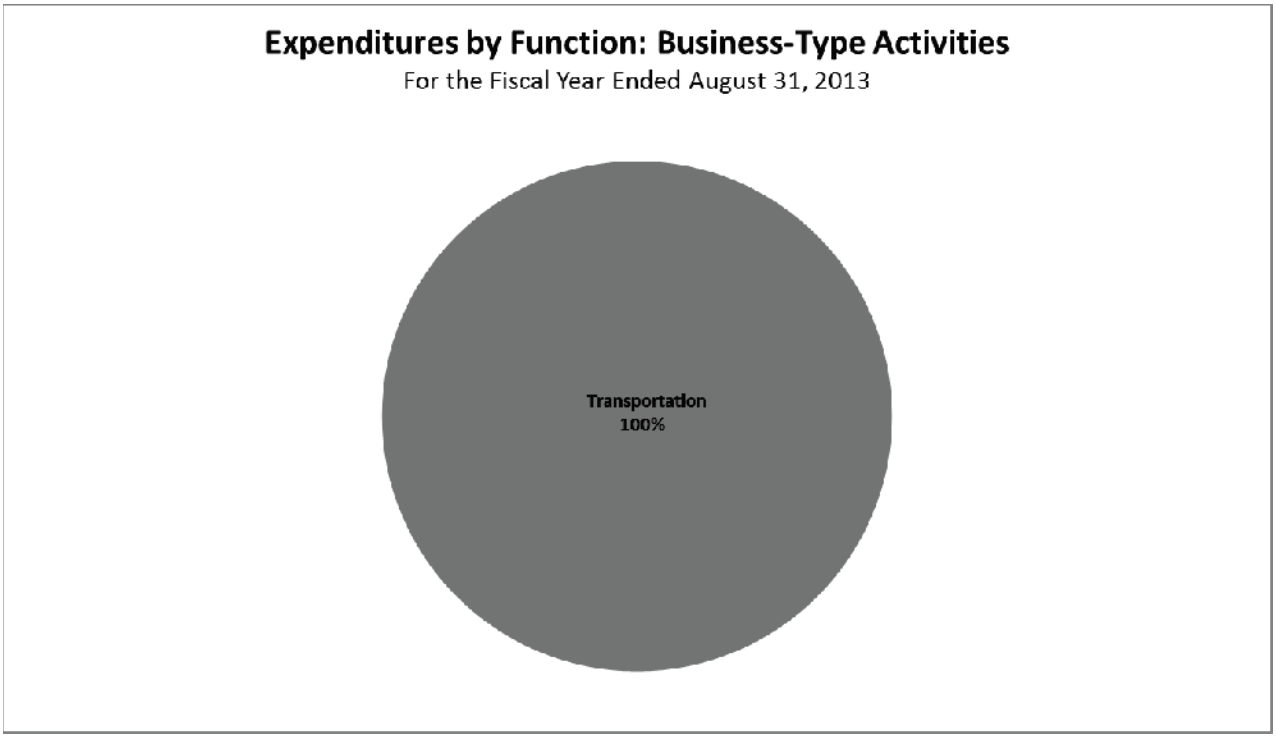
Over time, increases and decreases in the net position measures whether TxDOT's financial position is improving or deteriorating. Overall, the net position of governmental activities increased by $904.7 million or 1.4 percent from fiscal 2012, primarily due to TxDOT's continued efforts to maintain, improve and expand the state's infrastructure network.





Note: Totals may not add due to rounding.





Note: Totals may not add due to rounding.

Financial Analysis of TxDOT's Funds

TxDOTs governmental funds reported a combined ending fund balance, as of Aug. 31, 2013, of $1.5 billion. Expenditures exceeded revenues by $2.6 billion. Not all expenditure activity is supported by revenues. Some project expenditures are funded by bond proceeds and up-front concession payments. The revenue recognition on up-front concession payments is generally much slower than the timing of project expenditures.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2013, TxDOT had $81.3 billion in net capital assets, including roads, bridges, buildings, land, equipment and intangible capital assets.

Capital Assets - Net of Depreciation and Amortization

August 31, 2013 and 2012 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land and Land Improvements	$ 9,828,692	$9,108,873	$668,531	$ 631,109	$10,497,223	$9,739,982
Infrastructure - Nondepreciable	53,714,534	50,661,186	1,764,586	1,629,379	55,479,120	52,290,565
Infrastructure – Depreciable	8,788,455	8,567,495	366,622	331,751	9,155,077	8,899,246
Construction in Progress	5,482,471	5,684,374			5,482,471	5,684,374
Buildings and Building Improvements	269,020	274,244	5,686	6,047	274,706	280,291
Furniture and Equipment	54,794	51,583			54,794	51,583
Vehicles, Boats and Aircraft	285,076	290,360			285,076	290,360
Other Capital Assets	5,828	5,793			5,828	5,793
Land Use Rights - Permanent	65,763	67,495	19,466	16,526	85,229	84,021
Land Use Rights – Term	12,164	14,671			12,164	14,671
Computer Software	9,116	6,205			9,116	6,205
Total Capital Assets	$78,515,913	$74,732,279	$2,824,891	$2,614,812	$81,340,804	$77,347,091

TxDOT adopted the modified approach for reporting the state's highway system. As required by the modified approach, TxDOT conducts condition assessments on the highway system through the Texas Maintenance Assessment Program (TxMAP). TxMAP is conducted on a yearly basis and results in overall condition levels for the Interstate and Non-Interstate highway systems and the Central Texas Turnpike System (CTTS). In conjunction with TxMAP, the Texas Transportation Commission adopted condition levels of 80 percent for the Interstate system, 75 percent for the Non-Interstate system and 80 percent for the CTTS. The condition assessment results for Fiscal 2013 reflect condition levels of 80.3 percent for the Interstate system and 77.4 percent for the Non-Interstate system. For the CTTS, the condition assessment result for Fiscal 2013 reflects a condition level of 85.1 percent.

The modified approach also requires that TxDOT estimate the expenditures required to maintain the highway system at or above the adopted condition levels. For Fiscal 2013, TxDOT computed estimates of $277.8 million for the Interstate system, $2.6 billion for the Non-Interstate system and $14.0 million for the CTTS. Actual expenditures were $304.0 million for the Interstate system, $2.1 billion for the Non-Interstate system and $13.1 million for the CTTS.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated $27.6 billion. These commitments extend beyond the end of the fiscal year and represent future costs to TxDOT. Note 2 provides detail about TxDOT's capital assets activity and Note 15 details TxDOT's significant commitments related to future capital expenditures.

Debt Administration

The Commission, on behalf of TxDOT, has issued both general obligation bonds and revenue bonds. Each series of revenue bonds are backed by pledged revenues and restricted assets specified in the bond resolutions. Note 4 discloses details on TxDOT's long-term liabilities and Note 5 provides detail information on TxDOT's bonded indebtedness.

Outstanding Bonded Debt

As of August 31, 2013 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
General Obligation Bonds Payable	$ 8,120,785	7,113,145	$	
Revenue Bonds Payable	3,927,927	4,054,445	4,545,103	1,616,750
Total Bonds Payable	$ 12,048,712	11,167,590	$ 4,545,103	1,616,750

Bond Credit Ratings

Long-Term Credit Ratings as of August 31, 2013

Governmental Activities	Fitch	Moody's	Standard & Poor's
General Obligation Bonds	AAA	Aaa	AA+
Revenue Bonds	n/a	Aaa	AAA
Business-Type Activities			
Revenue Bonds-CTTS	BBB+	Baa1	A-
Revenue Bonds-GPTC 2013-A	BBB+	n/a	BBB
Revenue Bonds-GPTC 2013-B:E	AA-	n/a	AA

Short term ratings are usually reliant upon the supporting liquidity facility and its strength. The following variable rate demand bonds carried short term credit ratings as of Aug. 31, 2013.

Short-Term Credit Ratings as of August 31, 2013

Governmental Activities	Fitch	Moody's	Standard & Poor's
General Obligation Bonds			
TMF Series 2005-B Variable Rate Interest Bonds	F1+	VMIG 1	A-1+
TMF Series 2006-B Variable Rate Interest Bonds	F1+	VMIG 1	n/a
Revenue Bonds			
SHF Series 2006B Variable Rate Interest Bonds	n/a	VMIG 3	A-3

An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations 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 companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the bonds.

Contacting TxDOT's Financial Management

This financial report is designed to provide a general overview of the TxDOT's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the TxDOT Finance Division at the following address:

Texas Department of Transportation
Finance Division - Accounting
125 East 11th Street
Austin, Texas 78701-2483

Basic Financial Statements

Texas Department of Transportation
STATEMENT OF NET POSITION
August 31, 2013 (Amounts in Thousands)

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 5,277,895	$ 177,935	$ 5,455,830
Restricted:			
Cash and Cash Equivalents		1,026,532	1,026,532
Legislative Appropriations	19,269		19,269
Short-Term Investments (Note 3)		356,419	356,419
Restricted:			
Short-Term Investments (Note 3)		766,640	766,640
Due from Other Agencies (Note 11)	200,806		200,806
Receivable:			
Taxes	213,949		213,949
Federal	337,213		337,213
Interest and Dividends	7,041	721	7,762
Accounts Receivable	33,204	4,769	37,973
Other Intergovernmental	61,364	200	61,564
Prepaid Items		102	102
Loans and Contracts	18,644		18,644
Consumable Inventory	142,180	613	142,793
Total Current Assets	6,311,565	2,333,931	8,645,496
Noncurrent Assets:			
Internal Balances (Note 11)	80,628	(80,628)	0
Loans and Contracts	375,544		375,544
Restricted:			
Investments (Note 3)		502,418	502,418
Deferred Charges	32,103	12,356	44,459
Receivable:			
Federal	26,704		26,704
Other Intergovernmental		250	250
Intangible Assets (Note 21)		610,305	610,305
Capital Assets:			
Non-Depreciable Capital Assets (Note 2)	69,091,460	2,452,583	71,544,043
Depreciable Capital Assets, Net (Note 2)	9,424,453	372,308	9,796,761
Total Noncurrent Assets	79,030,892	3,869,592	82,900,484
Total Assets	85,342,457	6,203,523	91,545,980

Concluded on the following page

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

Texas Department of Transportation
STATEMENT OF NET POSITION (concluded)
August 31, 2013 (Amounts in Thousands)

	Primary Government		
	Governmental Activities	Business Type Activities	Total
LIABILITIES			
Current Liabilities:			
Payables			
Accounts	1,350,421	13,370	1,363,791
Payroll	61,989		61,989
Interest	232,228	12,116	244,344
Contract Retainage	33,640		33,640
Due to Other Agencies (Note 11)	56,555		56,555
Unearned Revenue	493,528	1,009	494,537
Employees' Compensable Leave (Note 4)	60,186		60,186
Notes and Loans Payable (Note 4)	142,298		142,298
General Obligation Bonds Payable (Note 4, 5)	121,493		121,493
Revenue Bonds Payable (Note 4, 5)	132,358	12,531	144,889
Pollution Remediation Obligation (Note 4)	5,277		5,277
Total Current Liabilities	2,689,973	39,026	2,728,999
Noncurrent Liabilities:			
Employees' Compensable Leave (Note 4)	13,021		13,021
Notes and Loans Payable (Note 4)	1,044,202	1,082,609	2,126,811
General Obligation Bonds Payable (Note 4, 5)	7,999,292		7,999,292
Revenue Bonds Payable (Note 4, 5)	3,795,570	4,532,572	8,328,142
Pollution Remediation Obligation (Note 4)	2,302		2,302
Total Noncurrent Liabilities	12,854,387	5,615,181	18,469,568
Total Liabilities	15,544,360	5,654,207	21,198,567
DEFERRED INFLOWS OF RESOURCES			
Service Concession Arrangements (Note 21)	5,254,633		5,254,633
Total Deferred Inflow of Resources	5,254,633	0	5,254,633
NET POSITION			
Net Investment in Capital Assets	62,876,219	690,124	63,566,343
Restricted for:			
Capital Projects	288,831		288,831
Debt Service	485,222	34,988	520,210
Unrestricted	893,192	(175,796)	717,396
Total Net Position	64,543,464	549,316	65,092,780
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 85,342,457	$ 6,203,523	$ 91,545,980

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

Texas Department of Transportation
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

		PROGRAM REVENUES		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental Activities:				
Transportation	$ 5,277,846	$ 741,905	$ 2,870,390	$ 30,157
Interest on General Long-Term Debt	550,587			
Total Governmental Activities	5,828,433	741,905	2,870,390	30,157
Business-Type Activities:				
Transportation	228,788	119,152	1	40
Total Business-Type Activities	228,788	119,152	1	40
Total Primary Government	$ 6,057,221	$ 861,057	$ 2,870,391	$ 30,197

GENERAL REVENUES:
- Original Appropriation
- Additional Appropriation
- Lapsed Appropriation
- Motor Fuel Tax
- Lubricant Sales Tax
- Unrestricted Investment Earnings
- Settlement of Claims
- Gain on Sale of Capital Assets
- Other Revenues

Transfers - Internal Activities (Note 11)
Transfers In (Out) to other State Agencies (Note 11)
Total General Revenues and Transfers
Changes in Net Position

Net Position, September 1, 2012
Restatements (Note 14)
Net Position, September 1, 2012, As Restated

Net Position, August 31, 2013

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

Governmental Activities	Business-Type Activities	Total
$ (1,635,394)	$	$ (1,635,394)
(550,587)		(550,587)
(2,185,981)	0	(2,185,981)
	(109,595)	(109,595)
	(109,595)	(109,595)
$ (2,185,981)	$ (109,595)	$ (2,295,576)
12,163		12,163
262		262
(71)		(71)
2,364,292		2,364,292
42,526		42,526
28,626	6,172	34,798
11,616	482	12,098
810		810
2,124		2,124
(225,057)	225,057	0
615,988		615,988
2,853,279	231,711	3,084,990
667,298	122,116	789,414
63,760,877	427,169	64,188,046
115,289	31	115,320
63,876,166	427,200	64,303,366
$ 64,543,464	$ 549,316	$ 65,092,780

Texas Department of Transportation
Balance Sheet – Governmental Funds
August 31, 2013 (Amounts in Thousands)

	State Highway Fund*	Texas Mobility Fund*	Nonmajor Funds*	Total
ASSETS				
Cash and Cash Equivalents				
Cash on Hand	$ 290,642	$	$	$ 290,642
Cash in Bank	229		359	588
Cash in State Treasury	2,875,468	1,198,318	912,879	4,986,665
Legislative Appropriations			19,269	19,269
Receivables:				
Taxes	213,949			213,949
Federal	339,998	8,866	15,053	363,917
Other Intergovernmental	61,363			61,363
Interest and Dividends	7,041			7,041
Accounts Receivable	33,204			33,204
Due from Other Funds (Note 11)	94,836	909	216	95,961
Due from Other Agencies (Note 11)	200,587		219	200,806
Consumable Inventories	142,180			142,180
Loans and Contracts	393,988		200	394,188
Total Assets	4,653,485	1,208,093	948,195	6,809,773
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables:				
Accounts Payable	1,220,985	10,346	119,090	1,350,421
Contracts Payable	33,640			33,640
Payroll Payable	61,872		117	61,989
Due to Other Funds (Note 11)	13,627	1,290	416	15,333
Due to Other Agencies (Note 11)	56,555			56,555
Deferred Revenues	3,279,609		486,446	3,766,055
Total Liabilities	4,666,288	11,636	606,069	5,283,993
Fund Balances (Deficits):				
Nonspendable (Note 13)	142,180		154	142,334
Restricted (Note 13)	533,472	1,196,457	319,174	2,049,103
Assigned (Note 13)			2,082	2,082
Unassigned (Note 13)	(688,455)		20,716	(667,739)
Total Fund Balances	(12,803)	1,196,457	342,126	1,525,780
Total Liabilities and Fund Balances	$ 4,653,485	$ 1,208,093	$ 948,195	$ 6,809,773

* See Combining Statements in the Other Supplementary Information section of this report for more details.

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

August 31, 2013 (Amounts in Thousands)

Total Fund Balance - Governmental Funds		$ 1,525,780
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets less accumulated depreciation and amortization are included in the statement of net position (Note 2).		
Capital Assets - Non-Depreciable or Non-Amortizable	$ 69,091,460	
Capital Assets - Depreciable or Amortizable, Net	9,424,453	
		78,515,913
Some of TxDOT's resources are not currently available and are not reported in the funds		
Deferred charges for unamortized bond issuance cost	32,103	
		32,103
Some of TxDOT's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds.	27,113	
		27,113
Long-term liabilities applicable to TxDOT's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position (Note 4 and Note 5). *		
Employees' Compensable Leave	(73,207)	
Notes and Loans Payable	(1,186,500)	
General Obligation Bonds Payable	(8,120,785)	
Revenue Bonds Payable	(3,927,927)	
Pollution Remediation Obligations	(7,580)	
		(13,315,999)
* current portion = $461,612 and non-current portion = $12,854,387		
Deferred inflows of resources recognized related to service concession arrangements that are not reported in the funds.		(2,009,218)
Interest payable applicable to TxDOT's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net postion.		(232,228)
Net Position of Governmental Activities		$ 64,543,464

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended, August 31, 2013 (Amounts in Thousands)

	State Highway Fund*	Texas Mobility Fund*	Nonmajor Funds*	Total
REVENUES:				
Legislative Appropriations:				
Original Appropriations	$	$	$ 12,163	$ 12,163
Additional Appropriations			262	262
Taxes	2,419,421			2,419,421
Federal Revenues	2,815,224	21,445	36,962	2,873,631
Federal Grant Pass-Through Revenues (Note 11)	1,412			1,412
Licenses, Fees and Permits	85,417	383,422		468,839
Interest and Investment Income	21,825	27,984	2,736	52,545
Land Income	15,637			15,637
Settlement of Claims	11,616			11,616
Sales of Goods and Services	53,108		162,997	216,105
Other Revenues	713		1,411	2,124
Total Revenues	5,424,373	432,851	216,531	6,073,755
EXPENDITURES:				
Transportation (Note 18)	4,456,471	93,606	15,915	4,565,992
Capital Outlay	2,128,007	55,356	1,041,420	3,224,783
Principal on State Bonds		53,190	141,175	194,365
Principal on Pass-Through Tolls	105,113			105,113
Interest on State Bonds		287,771	249,278	537,049
Other Financing Fees	1,977	469	3,311	5,757
Total Expenditures	6,691,568	490,392	1,451,099	8,633,059
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,267,195)	(57,541)	(1,234,568)	(2,559,304)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Note 11)	1,565,247		300,034	1,865,281
Operating Transfers Out (Note 11)	(1,082,000)		(162,897)	(1,244,897)
Bond & Note Issued			1,103,524	1,103,524
Sale of Capital Assets	4,318		2,202	6,520
Appropriations Lapsed			(71)	(71)
Total Other Financing Sources (Uses)	487,565	0	1,242,792	1,730,357
Net Change in Fund Balances	(779,630)	(57,541)	8,224	(828,947)
Fund Balances, September 1, 2012	730,524	1,108,827	333,901	2,173,252
Restatements	36,303	145,171	1	181,475
Fund Balances, August 31, 2013	$ (12,803)	$ 1,196,457	$ 342,126	$ 1,525,780

* See Combining Statements in the Other Supplementary Information section of this report for more details.

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

Net Change in Fund Balances		$ (828,947)
Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	$ 3,224,783	
Depreciation and Amortization Expense (Note 2)	(680,061)	
		2,544,722
The effect of various miscellaneous transactions involving capital assets (i.e. sales, donations and transfers) is to decrease net position.	(205,005)	
		(205,005)
Revenues and changes in the fair value of investment derivatives that do not provide current financial resources are not reported in the governmental funds, but are reported in the statement of activities.		
Concession Revenues	41,323	
Decrease in Fair Value of Investment Derivatives	(25,121)	
Federal Revenue	(3,452)	
Motor Fuel Tax Revenue	(12,603)	
		147
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position.		
Bonds & Notes Issued	(1,103,524)	
Repayment of Bond and Note Principal	299,478	
		(804,046)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(39,573)
Change in Net Position of Governmental Activities		$ 667,298

Statement of Net Position – Proprietary Funds

August 31, 2013 (Amounts in Thousands)

	Business-Type Activities - Enterprise Funds*		
	Central Texas Turnpike System	Grand Parkway Transportation Corporation	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Money Market and Similar Funds (Note 3)	$ 20,771	$ 4,942	$ 25,713
Restricted Cash and Cash Equivalents:			
Cash and Cash Equivalents in State Treasury	51		51
Cash in Bank	524	(22)	502
Money Market and Similar Funds (Note 3)	30,456	996,047	1,026,503
US Treasury Bills (Note 3)		151,698	151,698
Short-Term Investments (Note 3)	261,392	95,027	356,419
Restricted:			
Short-Term Investments (Note 3)		766,640	766,640
Interest and Dividends Receivable	283	438	721
Accounts Receivable	4,769		4,769
Other Intergovernmental Receivable	200		200
Due from Other Funds (Note 11)	13,411		13,411
Prepaid Items	86	16	102
Consumable Inventory	613		613
Total Current Assets	332,556	2,014,786	2,347,342
Noncurrent Assets:			
Restricted Investments	114,999	387,419	502,418
Intangible Assets (Note 21)		610,305	610,305
Deferred Charges	12,355		12,355
Other Intergovernmental Receivable	250		250
Capital Assets:			
Non-Depreciable Capital Assets (Note 2)	2,452,583		2,452,583
Depreciable Capital Assets, Net (Note 2)	372,308		372,308
Total Noncurrent Assets	2,952,495	997,724	3,950,219
Total Assets	3,285,051	3,012,510	6,297,561
LIABILITIES			
Current Liabilities:			
Vouchers Payable		13,370	13,370
Due to Other Funds (Note 11)	19	94,020	94,039
Revenue Bonds Payable (Notes 4, 5)	10,855	1,676	12,531
Interest Payable	3,307	8,809	12,116
Unearned Revenues	1,009		1,009
Total Current Liabilities	15,190	117,875	133,065
Noncurrent Liabilities:			
Revenue Bonds Payable (Notes 4, 5)	1,622,060	2,910,511	4,532,571
Notes and Loans Payable (Note 4)	1,082,609		1,082,609
Total Noncurrent Liabilities	2,704,669	2,910,511	5,615,180
Total Liabilities	2,719,859	3,028,386	5,748,245
NET POSITION			
Net Investment in Capital Assets	690,124		690,124
Restricted for Debt Service	34,969		34,969
Unrestricted	(159,901)	(15,876)	(175,777)
Total Net Position	$ 565,192	$ (15,876)	$ 549,316

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

* Central Texas Turnpike System (Appropriated Fund 0865) and Grand Parkway Transportation Corporation (Appropriated Fund 9999) are the only enterprise funds. Combining statements are not presented.

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Business-Type Activities - Enterprise Funds*		
	Central Texas Turnpike System	Grand Parkway Transportation Corporation	Totals
OPERATING REVENUES			
Toll Revenue	$ 105,848	$	$ 105,848
Fee Revenue	13,290		13,290
Total Operating Revenues	119,138	0	119,138
OPERATING EXPENSES			
Professional Fees and Services	6,671	1	6,672
Salaries	1,188		1,188
Materials and Supplies	4,805		4,805
Communication and Utilities	1,074		1,074
Repairs and Maintenance	16,247	7	16,254
Printing and Reproduction	4		4
Contracted Services	12,975		12,975
Advertising	889		889
Depreciation Expense	19,792		19,792
Other Operating Expenses	3,526		3,526
Total Operating Expenses	67,171	8	67,179
Operating Income (Loss)	51,967	(8)	51,959
NONOPERATING REVENUES (EXPENSES)			
Lease Revenue	13		13
Interest and Investment Income	6,335	19	6,354
Net Decrease in Fair Value of Investments		(182)	(182)
Interest and Amortization	(71,332)		(71,332)
Accretion on Capital Appreciation Bonds and TIFIA Note	(69,392)		(69,392)
Bond Issuance Expenses	(5,099)	(15,704)	(20,803)
Other Financing Fees	(61)	(1)	(62)
Other Nonoperating Revenues	464		464
Total Nonoperating Revenues (Expenses)	(139,072)	(15,868)	(154,940)
Loss before Capital Contributions and Transfers	(87,105)	(15,876)	(102,981)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Capital Contributions	229,451		229,451
Operating Transfers Out (Note 11)	(4,354)		(4,354)
Total Capital Contributions and Transfers	225,097	0	225,097
Change in Net Position	137,992	(15,876)	122,116
Net Position, September 1, 2012	427,169		427,169
Restatements (Note 14)	31		31
Net Position, September 1, 2012, as Restated	427,200	0	427,200
Net Position, August 31, 2013	$ 565,192	$ (15,876)	$ 549,316

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

* Central Texas Turnpike System (Appropriated Fund 0865) and Grand Parkway Transportation Corporation (Appropriated Fund 9999) are the only enterprise funds. Combining statements are not presented.

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Business-Type Activities - Enterprise Funds*		
	Central Texas Turnpike System	Grand Parkway Transportation Corporation	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	$ 114,933	$	$ 114,933
Payments to Suppliers for Goods and Services	(46,658)	(17)	(46,675)
Payments to Employees	(1,188)		(1,188)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	67,087	(17)	67,070
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from Transfers from Other Funds	47,954		47,954
Proceeds from issuing Revenue Bonds		2,913,431	2,913,431
Payments to Issuance Costs		(14,545)	(14,545)
Payments to Developer for Construction		(32,436)	(32,436)
Reimbursement to HCTRA for Segment E ROW and Engineering		(65,482)	(65,482)
Reimbursement to TxDOT for Construction and ROW Acquisition		(398,707)	(398,707)
Payments for Transfers to Other Funds	(62,946)		(62,946)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(14,992)	2,402,261	2,387,269
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from Lease Revenue	13		13
Proceeds from Capital Contributions	846		846
Payments for Additions to Land and Roadways	(436)		(436)
Payments from Debt Issuance, Net of Issuance Costs	856,648		856,648
Payments for Other Financing Costs	(61)		(61)
Payments for Debt Refunding	(857,150)		(857,150)
Payments for Principal on Debt	(7,710)		(7,710)
Payments on Debt Interest	(71,779)		(71,779)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(79,629)	0	(79,629)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sales of Investments	50,043		50,043
Proceeds from Interest and Investment Income, Net of Fees	6,335	22	6,357
Proceeds from Judgments & Settlements	483		483
Amortization of Cash Equivalents		3	3
Payments to Accrued Interest on Purchase of Investment		(358)	(358)
Payments to Acquire Investments	(4,855)	(1,249,245)	(1,254,100)
NET CASH PROVIDED BY (USED) BY INVESTING ACTIVITIES	52,006	(1,249,578)	(1,197,572)
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,472	1,152,666	1,177,138
CASH AND CASH EQUIVALENTS - September 1, 2012	27,330		27,330
CASH AND CASH EQUIVALENTS – August 31, 2013	$ 51,802	$ 1,152,666	$ 1,204,468

Concluded on the following page

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Business-Type Activities - Enterprise Funds*		
	Central Texas Turnpike System	Grand Parkway Transportation Corporation	Totals
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income	$ 51,967	$ (8)	$ 51,959
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	19,792		19,792
Changes in Assets and Liabilities:			
(Increase)Decrease in Accounts Receivable	(4,205)		(4,205)
(Increase)Decrease in Prepaid Expenses	(467)	(16)	(483)
Increase in Payables for Maintenance		7	7
Total Adjustments	15,120	(9)	15,111
Net Cash Provided by Operating Activities	$ 67,087	$ (17)	$ 67,070
NONCASH TRANSACTIONS			
Transfer in of major capital asset from other Fund	$ 229,410	$	$ 229,410
	$ 229,410	$ 0	$ 229,410
Reconciliation of Cash and Cash Equivalents			
Cash in Bank	$ 524	$ (22)	$ 502
Money Market and Similar Funds	51,227	1,000,990	1,052,217
Cash Equivalents in US Treasury		151,698	151,698
Restricted Cash and Cash Equivalents in State Treasury	51		51
Cash and Cash Equivalents	$ 51,802	$ 1,152,666	$ 1,204,468

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

* Central Texas Turnpike System (Appropriated Fund 0865) and Grand Parkway Transportation Corporation (Appropriated Fund 9999) are the only enterprise funds. Combining statements are not presented.

Statement of Fiduciary Net Position
August 31, 2013 (Amounts in Thousands)

	AGENCY FUNDS
ASSETS	
Cash on Hand	$ 18
Cash in Bank	20,064
Cash in State Treasury	556
Total Assets	20,638
LIABILITIES	
Funds Held for Others	20,638
Total Liabilities	$ 20,638

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

Texas Department of Transportation
Notes to Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements reflect the financial position of the Texas Department of Transportation (TxDOT). TxDOT is an agency of the state of Texas and is charged with developing and maintaining a statewide multimodal transportation network and other transportation related duties. The Texas Transportation Commission (the Commission), the governing body of TxDOT, has the authority to commit TxDOT to various legal agreements.

The financial activities of TxDOT, which consist of both governmental and proprietary activities, are reported under the transportation function in the state of Texas' Comprehensive Annual Financial Report (CAFR).

Three Texas Transportation Corporations, authorized by Transportation Code Chapter 431 to perform certain functions normally undertaken by TxDOT, are reported as blended component units because TxDOT exercises sufficient authority over the assets, operations and management of such entities to warrant their inclusion. Even though Texas Transportation Corporations are a part of the TxDOT reporting entity, the state is not liable for debts of these corporations, nor entitled to the assets of these corporations. See Note 19 for more information.

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

Basis of Presentation

The accompanying financial statements were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for TxDOT is based on all GASB pronouncements. The data in this report is combined and consolidated by the Texas Comptroller's office with similar data from other state agencies and universities to prepare the state of Texas CAFR.

Financial Reporting Structure

The basic financial statements include government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, focuses on TxDOT as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about TxDOT as a whole and the change in aggregate financial position resulting from the activities of the fiscal period on all non-fiduciary activities. These statements include separate columns for the governmental and business-type activities of TxDOT (including its blended component units). In the statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on an accrual basis, economic measurement focus, which incorporates noncurrent investments, capital assets and long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current liabilities are obligations to be paid within the next fiscal year.

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources and how TxDOT's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, governmental activities column, a reconciliation is presented. The reconciliation explains the adjustments required to restate the fund based financial statements for the government-wide financial statements' governmental funds column.

TxDOT uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. TxDOT is granted appropriations based on appropriated funds. For operational and statutory reasons TxDOT has created several lower level funds that are presented as part of the indicated appropriated fund.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service and capital projects funds. The general fund is used to account for the departmental operations funded by legislative appropriations. Special revenue funds account for specific revenue sources that are restricted or committed for specific purposes other than debt service or capital projects. Debt service funds are used to account for financial resources that are restricted, committed or assigned to expenditure for principal and interest. Capital projects funds are used to account for financial resources that are restricted, committed or assigned to expenditure for capital outlays.

TxDOT reports the following major governmental funds.

State Highway Fund (Appropriated Fund 0006)
The state highway fund is TxDOT's main operating fund. TxDOT reports the following accounts/sub-funds, which are consolidated into the state highway fund for GAAP reporting purposes.

- State Highway Fund Accounts – These funds contain the activity related to public road construction, maintenance and monitoring of the state's highway system. The significant ongoing revenue sources are federal revenues and motor fuels taxes, which are constitutionally restricted and dedicated to the highway fund.
- State Infrastructure Bank– This fund operates as a revolving loan program that makes loans to public and private entities to encourage the development of transportation projects and facilities.
- Federal American Recovery and Reinvestment Fund – This fund was created to record, track and report the receipt and disbursement of American Recovery and Reinvestment Act (ARRA) funding.

Texas Mobility Fund (Appropriated Fund 0365)
This fund operates as a revolving fund to provide a method of financing construction, reconstruction, acquisition and expansion of state highways and other transportation projects. The principal ongoing revenue source of the fund is fees committed by the Legislature under the authority of the Texas Constitution, Article III, Section 49-k. Other inflows to the fund include bond proceeds. The mobility fund is composed of a debt service fund and a capital projects fund.

Additionally, TxDOT reports the following non-major governmental funds.

General Revenue Fund:

TxDOT reports the following accounts, which are consolidated into the general revenue fund for GAAP reporting purposes.

- General Fund Account (Appropriated Fund 0001) – This account is used to account for all financial resources of the state except those required to be accounted for in another fund.
- Traffic Safety-Crash Records Information Systems Account (Appropriated Fund 0036) – This account is used to account for expenditures pertaining to the crash records information system.
- Texas Highway Beautification Fund Account (Appropriated Fund 0071) – This account was established to implement the Texas highway beautification program. Revenues are obtained from outdoor advertising license and permit fees.
- Colonias Project Fund Account (Appropriated Fund 7604) – This account provides financial assistance to counties for roadway projects serving border colonias. Funding is provided from the sale of bonds or commercial paper, which are issued and reported by the Texas Public Finance Authority.
- Suspense Fund (Appropriated Fund 0900) – This fund is used to temporarily hold and account for receipts until the correct disposition of items is determined.

Special Revenue Fund:

- Texas Transportation Corporations (Appropriated Fund 9999) – This fund presents the activity of the Grand Parkway Association, which is a blended component unit of TxDOT.

Debt Service Fund:

- Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) – This fund receives transfers in from the state highway fund for debt service on state highway fund revenue bonds.

Capital Projects Funds:

- Proposition 12/Highway Improvement Project Fund (Appropriated Fund 0307) – This fund receives the proceeds of general obligation bonds issued for highway improvement projects under the provisions of the Texas Constitution, Article III, Section 49-p. The fund reports the construction activity supported by such funding.

- County/Political Subdivision/Local Government Road/Airport Trust Account (Appropriated Fund 0927) – This fund holds contributions by counties/political subdivisions for expenditure by the Commission in development/construction of public roads and airports within such counties or political subdivisions.

Proprietary Fund Type

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. TxDOT reports the following major proprietary funds.

Central Texas Turnpike System Fund (Appropriated Fund 0865)

This fund reports the activity and debt associated with the Central Texas Turnpike System toll roads.

Grand Parkway Transportation Corporation (Appropriated Fund 9999)

This fund reports the activity and debt associated with the development of Segments D (Harris County), E, F-1, F-2 and G of the Grand Parkway (State Highway 99) toll road construction as reported by Grand Parkway Transportation Corporation.

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or as an agent for other outside individuals or entities. Agency funds report assets that TxDOT holds on behalf of others in a purely custodial capacity.

Agency Funds have no equity, assets equal liabilities and do not include revenues or expenditures. The agency funds used by TxDOT during fiscal 2013 included the general revenue fund, child support deductions suspense account, employees' savings bond account, toll revenue custodial account and the direct deposit correction accounts.

Component Units

All component units of TxDOT are reported as nonmajor component units. The Grand Parkway Association, Texas Private Activity Bond Surface Transportation Corporation, and Grand Parkway Transportation Corporation are presented in TxDOT's financial statements as blended component units. See Note 19 for more details.

Basis of Accounting

Government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Non-exchange transactions, in which TxDOT gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants. Revenue for grants and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become both measureable and available. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are generally recognized when the related fund liability is incurred. However, principal and interest on bonds is recorded only when due and compensated absences and claims and judgments are recorded when they are expected to be liquidated with expendable available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Proprietary funds are accounted for on the accrual basis of accounting. Under the accrual basis, 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 cost of sales and services, administrative expenses and depreciation on capital assets.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenses.

Shared Fund Presentation

The financial statement presentation for the state highway fund and general fund represent only the portion of shared funds that can be directly attributed to the operations of TxDOT. Financial statements for total fund operations of shared state funds are presented in the state of Texas CAFR.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present TxDOT's portion of shared funds.

Legislative Appropriations

This "asset" account represents TxDOT's remaining legislative appropriation authority at fiscal year-end.

Original/Additional Appropriations

Amount reported as revenue that is the total appropriation authority given to TxDOT for the current fiscal year.

Appropriations Lapsed

Unencumbered appropriations balances that have been lapsed during the fiscal year.

Budgetary Information

TxDOT's budget is prepared on a performance-based concept and is represented by biennial appropriations authorized by the Legislature and approved by the governor. The governmental funds with legally adopted budgets are the general fund, the state highway fund and nonmajor special revenue funds.

Change in Accounting Policies

The Texas Mobility fund was established as a single appropriated fund, for Fiscal 2013 is reported as governmental Debt Service fund and Capital Projects Fund types. See Note 20 for more information.

Assets, Liabilities, Deferred Inflows, and Fund Balances/Net Position

Cash and Cash Equivalents

Cash held in the state treasury, cash deposited in local banks, cash on hand and short-term highly liquid investments.

Investments

Amounts invested associated with the Central Texas Turnpike System and Grand Parkway Transportation Corporation. See Note 3 for more details.

Inventories and Prepaid Items

Inventory items are reported at a weighted average cost. The inventory consists of supplies and roadway materials on hand for future use. The consumption method of accounting is used to account for inventories and prepaid items. The costs of these items are expensed when the items are consumed. TxDOT reported prepaid postage of $817.7 thousand as of Aug. 31, 2013.

Receivables

The major receivables for TxDOT are federal and other intergovernmental. Receivables represent amounts due to TxDOT at Aug. 31, 2013, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectable accounts.

Notes and Loans Receivable

TxDOT makes loans to various local governments and regional mobility authorities. The state infrastructure bank (SIB) operates as a revolving loan fund, where the account balance grows through the monthly interest earned and repaid principal and interest payments. SIB financial assistance can be provided to any public or private entity authorized to construct, maintain or finance an eligible transportation project.

Notes and Loans Receivable
August 31, 2013 (Amounts in Thousands)

Fund	Loans Receivable	Due Within One Year
General Fund	$ 200	$ 46
Highway Fund – Toll Equity Loans	90,784	
Highway Fund – NTTA	138,263	2,193
Highway Fund – State Infrastructure Bank	164,940	16,405
Governmental Funds Total	$ 394,187	$ 18,644

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds from revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements.

Deferred Inflows

Deferred inflows of resources are an acquisition of net assets by TxDOT that is applicable to a future reporting period. Deferred inflows have a negative effect on net position, similar to liabilities. TxDOT reports deferred inflows of resources as the offset account to assets received under a service concession arrangement in financial statements prepared using the economic resources measurement focus. See Note 21 for additional information.

Intangible Assets

Our blended component unit, GPTC is operating under a service concession agreement (SCA) with TxDOT. As a governmental operator, GPTC records an intangible asset for its cost of design and construction of Segments D (Harris County), E, F-1, F-2 and G of the Grand Parkway toll road. Additionally, GPTC is capitalizing interest and

accretion paid during the construction period to the intangible asset. Amortization of the intangible asset will begin upon the completion of construction and the opening to traffic of the System. Intangible assets associated with SCAs are not considered capital assets. See Note 21 for more information about GPTC's SCA with TxDOT.

Capital Assets

Capital assets, which include land, infrastructure, furniture, equipment and intangible assets are capitalized and reported in the financial statements using the accrual basis of accounting. Capital assets are recorded as expenditures at the time of purchase in the governmental funds.

Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. Land, permanent land-use rights, non-depreciable infrastructure and construction in progress do not have a capitalization threshold and are not depreciated. The capitalization thresholds and useful lives of TxDOT's depreciable capital assets are as follows.

Capitalization Thresholds by Class of Asset

Classification	Capitalization Threshold	Estimated Useful Life
Buildings and Building Improvements	$ 100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-69 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Internally Generated Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Term/Temporary	100,000	10-60 years

All capital assets acquired or constructed by TxDOT are capitalized at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation. A facility constructed or improved under a qualifying service concession arrangement is reported as a capital asset at fair value when it is placed in operation. Costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are not capitalized.

TxDOT reports the state's highway infrastructure assets using the modified approach. This approach reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. TxDOT developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the system are included in the required supplementary information section of this report.

All other capital assets, including bridges, with determinable useful lives are depreciated on the straight line basis over their estimated lives. See Note 2 for details of TxDOT's capital asset activity for fiscal 2013.

Deferred Revenues

TxDOT has received up-front payments related to the development and future toll-road operations of State Highway 121, State Highway 130 Sections 5-6 and the Katy Managed Lanes project on Interstate 10. These agreements exchange an up-front payment for the right to operate these toll roads for a period determined in the agreement. Under each of these agreements the toll road reverts back to the state at the end of the term or upon certain reimbursement conditions. TxDOT is recognizing revenue on a straight-line basis over the term of the agreement beginning when the roadway is placed into operation. See Note 21 for more information.

Long-Term Liabilities

Long-term liabilities include employees' compensable leave, general obligation bonds payable, revenue bonds payable, notes payable and pollution remediation obligations. Bonds payable are reported net of the applicable bond premium or discount. For debt issued prior to Sept. 1, 2012, deferred issuance costs are reported as deferred charges and amortized over the term of the debt. For debt issued during fiscal 2013, issuance costs were expensed as incurred.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current period. The face amount of the debt is reported as an other financing source while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal or separation from state employment, provided the employee has had continuous employment with the state for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in the governmental fund financial statements. See Notes 4 and 5 for more information.

Fund Balance/Net Position

In the government-wide and proprietary statements, the net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position is displayed in three components. The potential categories of net position include:

- *Net Investment in Capital Assets*– capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, notes or other borrowings that are attributed to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included.

- *Restricted* – restricted assets reduced by liabilities and deferred inflows or resources related to those assets. When both restricted and unrestricted resources are available for use, generally it is TxDOT's policy to use restricted resources first, then unrestricted resources when they are needed.

- *Unrestricted* – amounts not required to be reported in the other components of net position, deferred outflows of resources, liabilities, and deferred inflows of resources, and deficit amounts that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund balances for governmental funds are displayed in five components. The potential categories of fund balance include:

- *Nonspendable fund balance* – amounts not available to be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The primary component of nonspendable fund balance is the balance in consumable inventories.

- *Restricted fund balance* – resources that have constraints placed on their use through external parties or by law through constitutional provisions.

- *Committed fund balance* – can be used only for specific purposes pursuant to constraints imposed by a formal action of the Legislature, the state's highest level of decision making authority.

- *Assigned fund balance* – amounts constrained by the Commission's intent to be used for specific purposes, but are neither restricted nor committed.

- *Unassigned fund balance* – residual classification for the general fund. The classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

Positive unassigned fund balance can only exist within the general fund. Deficit fund balances in a fund are reported as unassigned fund balance.

As described previously, TxDOT has received substantial up-front concession payments. The deferral of revenue recognition on these payments has a significant impact on the state highway fund's fund balance composition. TxDOT is statutorily committed to utilizing such payments received for the benefit of the region impacted by the concession project. Deficit unassigned fund balances are reported because annual expenditures utilizing the up-front money received under these arrangements exceed the amount of revenue recognized. Governmental activities net position is also significantly affected by the effect of deferring the recognition of revenue from up-front payments received and capital assets recognized related to service concession arrangements. Portions of the deferred inflow of resources balance at Aug. 31, 2013 are impacting the governmental activities balances of net investment in capital assets and unrestricted net position as follows.

Deferred Inflow of Resources Impact to Net Position
August 31, 2013 (Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

NET POSITION	Total	Deferred Inflow of Resources
Net Investment in Capital Assets	$ 62,876,220	$ (2,929,451)
Restricted Net Position	774,053	
Unrestricted Net Position	893,191	(2,325,182)
Total	$ 64,543,464	$ (5,254,633)

The balance of the deferred inflow of resources at Aug. 31, 2013 will be recognized as revenue and increase the respective categories of net position over the remaining years of the agreements. See Note 21 for more information on service concession arrangements.

Revenue Sources

TxDOT's principal revenue sources are federal and tax revenue. As the state's transportation agency, TxDOT receives reimbursements from the Federal Highway Administration (FHWA) for certain costs incurred for engineering, construction, right-of-way acquisition, research activities and general 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. TxDOT receives these reimbursements based on the state's apportionment from the Federal Highway Trust Fund on a federal fiscal year basis.

TxDOT receives federal funding from other federal agencies for specific transportation related projects. See Schedule 1-A for more information on federal receipts and expenditures.

TxDOT reports its constitutionally dedicated share of taxes on motor fuels sold in Texas as tax revenues. Generally this constitutionally dedicated share is 75 percent of net collections, after reductions for collection expenses and refunds. In general, 20 cents per gallon is collected on gasoline and diesel sold for highway use. Liquefied gas sold for highway use is generally taxed at 15 cents per gallon and is required to be prepaid. TxDOT also receives and reports the state sales tax from the sale of lubricants, which is deposited to the state highway fund.

Major sources of pledged revenue for the Texas mobility fund include driver license fees, motor vehicle inspection fees, certificate of title fees and driver record information fees.

Interfund Activity and Transactions

Interfund activity refers to financial interaction between funds (including blended component units) and is related to internal events. Interfund transactions refer to interactions with other state agencies.

Interfund receivables and payables are eliminated from the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. See Note 11 for more details.

NOTE 2 – CAPITAL ASSETS

The tables below and on the following page present the composition of TxDOT's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2013. The adjustment column includes assets not previously reported, accounting errors and other changes. The reclassifications column presents completed construction projects and transfers of capital assets between agencies and between the governmental and business-type activities of TxDOT. The additions column includes current year purchases, depreciation and amortization. The deletions column represents assets removed during the current fiscal year via sale or disposition.

Capital Asset Activity
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Balance 9/1/12	Adjustments	Reclass-ifications	Additions	Deletions	Balance 8/31/13
BUSINESS TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 631,109	$ (16)	$ 36,962	$ 476	$	$ 668,531
Infrastructure	1,629,379		135,207			1,764,586
Land Use Rights - Permanent	16,526		2,940			19,466
Total Non-Depreciable & Non-Amortizable Assets	2,277,014	(16)	175,109	476	0	2,452,583
Depreciable Assets						
Buildings and Building Improvements	8,360					8,360
Infrastructure	422,810		63,141			485,951
Total Depreciable Assets	431,170	0	63,141	0	0	494,311
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,313)			(361)		(2,674)
Infrastructure	(91,059)		(8,839)	(19,431)		(119,329)
Total Accumulated Depreciation	(93,372)	0	(8,839)	(19,792)	0	(122,003)
Depreciable Assets, Net	337,798	0	54,302	(19,792)	0	372,308
Business-Type Activities Capital Assets, Net	$ 2,614,812	$ (16)	$ 229,411	$ (19,316)	$ 0	$ 2,824,891

Concluded on Following Page

Capital Asset Activity (concluded)
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Balance 9/1/12	Adjustments	Reclass-ifications	Additions	Deletions	Balance 8/31/13
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 9,108,873	$ (671)	$ (36,962)	$ 758,419	$ (967)	$ 9,828,692
Infrastructure	50,661,186	1,886	2,004,122	1,047,340		53,714,534
Construction in Progress	5,684,374	(169,856)	(2,696,242)	2,664,195		5,482,471
Land Use Rights - Permanent	67,495		(2,941)	1,210	(1)	65,763
Total Non-Depreciable & Non-Amortizable Assets	65,521,928	(168,641)	(732,023)	4,471,164	(968)	69,091,460
Depreciable Assets						
Buildings and Building Improvements	461,604	18,084	4,665			484,353
Infrastructure	20,312,800	82,193	482,829	256,511	(12,891)	21,121,442
Furniture and Equipment	169,609	211		12,449	(4,234)	178,035
Vehicles and Aircraft	698,900	294	819	24,953	(15,412)	709,554
Other Capital Assets	10,804	(41)	782			11,545
Total Depreciable Assets	21,653,717	100,741	489,095	293,913	(32,537)	22,504,929
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(187,360)	(11,388)		(16,585)		(215,333)
Infrastructure	(11,745,305)	11,472	8,839	(618,990)	10,997	(12,332,987)
Furniture and Equipment	(118,025)	12		(9,181)	3,953	(123,241)
Vehicles and Aircraft	(408,541)	(95)	56	(28,769)	12,871	(424,478)
Other Capital Assets	(5,011)	(141)		(565)		(5,717)
Total Accumulated Depreciation	(12,464,242)	(140)	8,895	(674,090)	27,821	(13,101,756)
Depreciable Assets, Net	9,189,475	100,601	497,990	(380,177)	(4,716)	9,403,173
Intangible Capital Assets - Amortizable						
Land Use Rights - Term	23,487			870	(1,004)	23,353
Computer Software	24,192		4,581	951	(500)	29,224
Total Amortizable Assets	47,679	0	4,581	1,821	(1,504)	52,577
Less Accumulated Amortization for:						
Land Use Rights - Term	(8,816)			(3,377)	1,004	(11,189)
Computer Software	(17,987)			(2,594)	473	(20,108)
Total Accumulated Amortization	(26,803)	0	0	(5,971)	1,477	(31,297)
Amortizable Assets, Net	20,876	0	4,581	(4,150)	(27)	21,280
Governmental Activities Capital Assets, Net	$ 74,732,279	$ (68,040)	$ (229,452)	$ 4,086,837	$ (5,711)	$ 78,515,913

Depreciation and amortization expense was charged to the transportation function in the accompanying statement of activities.

NOTE 3 – DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS

TxDOT is authorized by statute to make investments following the "prudent person rule." TxDOT has complied, in all material respects, with statutory authorization, bond documents, constraints and commission policies during the period. Our blended component unit, Grand Parkway Transportation Corporation (GPTC) has an investment policy is in accordance with the laws of the state of Texas. GPTC may purchase investments as authorized by the Trust Agreement and as further authorized by the revised investment and strategy approved by its Board of Directors in July 2013.

Deposits

The following amounts consist of all cash and cash equivalents in local banks. These amounts are included on the combined statement of net position as part of the "cash and cash equivalents" accounts.

Cash In Bank
August 31, 2013 (Amounts in Thousands)

Governmental and Business-Type Activities	**Carrying Amount**	**Bank Balance**
Governmental Current Assets Cash in Bank – Depository Accounts	$ 588	$ 588
Business-Type Funds (CTTS) Current Assets Cash In Bank – Depository Accounts	525	525
Business-Type Funds (GPTC) Restricted Current Assets Cash in Bank –Depository Accounts	(22)	(22)
Total	$ 1,091	$1,091
Fiduciary Funds		
Fiduciary Fund Current Assets Cash in Bank – Depository Accounts	$ 363	$ 363
Fiduciary Fund Current Assets Cash in Bank – Sweep Account	19,701	19,701
Total	$20,064	$20,064

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. All of TxDOT's deposits are protected by insurance provided by the Federal Deposit Insurance Corporation (FDIC).

Regular depository accounts are insured by the FDIC up to $250 thousand per depositor, per insured bank. As of Aug. 31, 2012, the fiduciary funds sweep account was protected by temporary unlimited insurance coverage by the FDIC. The unlimited coverage provisions became effective Dec. 31, 2010, and terminated on Dec. 31, 2012. As of Aug. 31, 2013, the sweep account is subjected to the same $250 thousand coverage provided to a regular depository account.

Treasury Pool

TxDOT's governmental funds are established in the state Treasury, thus all monies are pooled with other state funds and invested under the direction of the Comptroller of Public Accounts Treasury Operations Division (Treasury). Governmental and business-type activities deposits in the state treasury totaled $5.3 billion at Aug. 31, 2013.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2013. The Comptroller has delegated investment authority to the Trust Company and utilizes the Trust Company to manage and invest funds in the Treasury Pool.

State statutes authorize the Treasury to invest state funds in fully collateralized time deposits; direct security repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; banker's acceptances; commercial paper; and contracts written by the Comptroller, which are commonly known as covered call options. Funds held in the treasury pool have not been categorized as to credit risk because TxDOT does not own individual securities. Details on the nature of these deposits and investments are available within the state of Texas Comprehensive Annual Financial Report.

Investments

As of Aug. 31, 2013, the fair value of TxDOT's and GPTC investments and maturities are as presented below:

Investment Fair Values
August 31, 2013 (Amounts in Thousands)

Governmental and Business Type Activities

	Maturities (in Years)		Fair Value
Investment Type	**Less than 1**	**1 Yr. or More**	**Total**
Money Market Mutual Funds	$ 377,193	$	$ 377,193
Government Securities	419,674	273,141	692,815
Government Sponsored Entities	593,691	114,277	707,968
Government Investment Pools	936,415		936,415
Repurchase Agreements		115,000	115,000
Total	$ 2,326,973	$ 502,418	$ 2,829,391

Custodial Credit Risk

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 and GPTC's investment policies state that all securities purchased by the Commission shall be designated as assets of the Commission shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee. Additionally, GPTC conducts securities on a delivery-versus-payment (DVP) basis.

As of Aug. 31, 2013, the Commission's repurchase agreement is collateralized with U.S. Government and agency securities. Collateral for the repurchase agreement is held by the Bank of New York Mellon Trust Company with the underlying securities being the property of the Citigroup Global Markets Inc., (the direct counterparty), held in trust for the Commission. Bank of New York Mellon Trust Company is rated Aa1, AA- and AA- by Moody's Investor Services, Standard and Poor's and Fitch Ratings respectively.

Credit Risk

Direct credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commission's and GPTC's investment policies prohibit the Commission and GPTC from entering into long-term investment agreements or other non-DVP investment transactions with a final maturity or termination date of longer than six months with any financial institution that initially has a long-term rating category of less than "A" and that does not have at least one long-term rating of at least "AA" by a nationally recognized statistical rating organizations (NRSRO). All investments made by the Commission and GPTC have been through the list of qualified financial institutions approved by the Commission and GPTC.

The Commission's policy does not limit the amount of investment in obligations of the United States or its agencies. The repurchase agreement is a guaranteed investment contract (GIC) with Citigroup Global Markets Inc. as the counterparty. Citigroup Global Markets Inc. has collateralized the GIC with U.S. Government and agency securities. As of Aug. 31, 2013, TxDOT's and GPTC's investments had the following ratings.

Investment Credit Ratings
August 31, 2013 (Amounts in Thousands)

Governmental and Business-Type Activities

Investment Type	Fair Value	Moody's	Standard & Poor's	Fitch
Money Market Mutual Funds				
JPMorgan US Government MMKT Cap 3164	$ 51,227	Aaa-mf	AAAm	AAAmmf
JPMorgan US Government MMKT	60,805	Aaa-mf	AAAm	AAAmmf
First American Government Obligations Fund	183,569	Aaa-mf	AAAm	NR
Morgan Stanley Institutional Liquidity Funds	51,448	Aaa-mf	AAAm	NR
Fidelity Intuitional Money Market Government	30,143	Aaa-mf	AAAm	NR
Government Sponsored Entities:				
Federal Home Loan Banks	325,844	Aaa	AA+	NR
Federal National Mortgage Association	78,932	Aaa	AA+	AAA
Federal Home Loan Mortgage Corporation	303,192	Aaa	AA+	AAA
U.S. Treasury Securities	692,816	Aaa	AA+	AAA
Government Investment Pools				
Lone Star	87,142	NR	AAAm	NR
TexPool	762,167	NR	AAAm	NR
TexPool Prime	87,106	NR	AAAm	NR
Repurchase Agreement	115,000	Baa2	A	A
Total	$ 2,829,391			

*NR= Not Rated

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Assets held in the particular funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. As of Aug. 31, 2013,

TexPool, First American Government Obligation Fund exceeded 5 percent of the total TxDOT portfolio. As of Aug. 31, 2013, the following investments exceeded 5 percent of the total GPTC portfolio: TexPool, First American Government Obligation Fund, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and US Treasuries.

The Commission and GPTC both address diversification in their investment policies. 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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission and GPTC have 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. In general, all securities held by the Commission and GPTC are anticipated to be held to maturity, thereby avoiding interest rate risk due to an early redemption. Investment maturities are noted in the investment fair value table.

NOTE 4 – SUMMARY OF LONG-TERM LIABILITIES

Long-Term Liabilities

Long-term liabilities for fiscal 2013 are presented in the table below:

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Beginning Balance 09/01/2012	Additions	Reductions	Other Changes	Ending Balance 08/31/2013	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities							
Primary Government							
Compensable Leave	$ 72,578	$114,131	$ 113,502	$	$ 73,207	$ 60,186	$ 13,021
General Obligation Bonds	7,113,145	918,205	74,210	163,645	8,120,785	121,493	7,999,292
Revenue Bonds	4,054,445		120,155	(6,362)	3,927,928	132,358	3,795,570
Pollution Remediation Obligations	6,726	9,361	8,508		7,579	5,277	2,302
Pass Through Tolls Payable	1,128,227	158,197	105,113	4,339	1,185,650	142,298	1,043,352
Contracts Payable	0	850			850		850
Governmental Activities Long-Term Liabilities	$12,375,121	$1,200,744	$421,488	$161,622	$13,315,999	$461,612	$12,854,387

Business-Type Activities

	Beginning Balance 09/01/2012	Additions	Reductions	Other Changes	Ending Balance 08/31/2013	Amounts Due Within One Year	Amounts Due Thereafter
Revenue Bonds Payable	$ 1,616,750	$3,775,497	$864,860	$17,716	$ 4,545,103	$ 12,531	$ 4,532,572
Notes and Loans Payable	1,057,877	24,732			1,082,609		1,082,609
Business-Type Activities Long-Term Liabilities	$ 2,674,627	$3,800,229	$864,860	$17,716	$ 5,627,712	$ 12,531	$ 5,615,181

Employees' Compensable Leave

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by TxDOT employees. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of state employment. The maximum number of hours that may be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of state service.

Overtime, under the Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. Unpaid overtime is included in the calculation of the current portion of long-term liabilities for each employee because it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave. Compensatory leave is reported as part of the current portion of long-term liabilities.

No liability is recorded for non-vesting accumulating rights to receive sick leave benefits.

Notes and Loans Payable

The balance of notes and loans payable represents secured loans made to the Commission by the United States Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). USDOT has agreed to lend the Commission up to $916.8 million to pay or reimburse a portion of the Central Texas Turnpike System's (CTTS) costs. As of Aug. 31, 2012, the Commission has drawn down $900 million under the secured loan agreement.

The loan will be paid from revenues of CTTS as they are sufficient to pay (a) all interest, which will become due and payable on each such date and (b) the principal, if any, of the secured loan which will become due and payable on each such date. For these reasons the debt service requirements are subject to change each year as actual revenues are received. Per the agreement, principal and interest can be deferred (negatively amortized) depending on the availability of revenues. The principal amount of the loan may increase over time as deferrals are made. As of Aug. 31, 2013, the secured loan agreement's debt service requirements are as follows.

TIFIA Loan – Debt Service Requirements (Amounts in Thousands)

	Business-Type Activities		
Year	**Principal**	**Interest***	**Total**
2014	$	$ 35,023	$ 35,023
2015		36,443	36,443
2016		43,188	43,188
2017		45,478	45,478
2018		47,969	47,969
2019-2023		281,642	281,642
2024-2028	48,730	336,601	385,331
2029-2033	179,131	311,349	490,480
2034-2038	363,117	244,304	607,421
2039-2042	648,702	96,739	745,441
Total	1,239,680	1,478,736	2,718,416
Unamortized Accretion	(157,071)		(157,071)
Total Requirements	$1,082,609	$1,478,736	$2,561,345

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

Pass-Through Tolls Payable

The balance recorded as pass-through tolls payable relates to the Commission's obligations under executed pass-through financing agreements. As of Aug. 31, 2013, there were 41 active pass-through financing agreements finalized and executed by the Commission. Under these agreements, an outside party (usually a local government) pays for all or a portion of a highway project. In return, TxDOT contractually agrees to make reimbursements after the improvement is open for traffic. Reimbursements are subject to minimum and maximum annual thresholds and are variable within those thresholds based on the volume of traffic on the project roadway. The agreements with multiple projects generally contain a provision allowing for reimbursements to begin as each project is open for traffic.

The obligation to make future reimbursement payments is recognized as pass-through tolls payable as the underlying highway project is constructed. Accruals of payables continue until the liability amount reaches the total TxDOT reimbursement obligation specified in the agreement. If the cost of the completed underlying highway project is less than the total TxDOT reimbursement obligation, TxDOT will accrue the additional obligation amount upon that project's completion and acceptance. The estimated debt service requirements related to pass-through toll contracts executed as of Aug. 31, 2013 are as follows. The timing of actual payments may differ substantially from this estimate, but the total amount paid is linked to contractually established levels. The estimates are updated monthly to account for these variations.

Pass-Through Tolls Payable - Debt Service Requirements
(Amounts in Thousands)

Year	Governmental Activities Principal*
2014	$142,298
2015	178,997
2016	193,097
2017	188,532
2018	182,555
2019-2023	658,332
2024-2026	72,549
Total**	1,616,360
Unrealized Payable	(430,710)
Total Requirements	$1,185,650

* There is not an interest component to the pass-through toll reimbursements.

** This projection assumes TxDOT's maximum potential obligation.

Contracts Payable

TxDOT is party to a financial assistance arrangement with Fort Bend County related to the expansion of Farm to Market Road 1093. The terms of this agreement are such that in return for Fort Bend County funding the costs of the project up-front, TxDOT will reimburse Fort Bend County $4 million per year for 10 years beginning upon substantial completion of the project. As of Aug. 31, 2013, the project is under construction. The obligation to make future reimbursements is recognized as contracts payable as the project is constructed. The estimated date of substantial completion is in fiscal 2017. The estimated debt service requirements related to this arrangement are as follows.

Contracts Payable – Debt Service Requirements
(Amounts in Thousands)

Year	Governmental Activities Principal*
	$
2014	
2015	
2016	
2017	4,000
2018	4,000
2019-2023	20,000
2024-2026	12,000
Total	40,000
Unrealized Payable	(39,150)
Total Requirements	$ 850

*There is not an interest component to this contract payable.

Pollution Remediation Obligations

TxDOT is responsible for the cleanup and remediation of several polluted sites. Regulatory requirements established by federal and state law obligate TxDOT to perform these pollution remediation activities. Historical cost averages were used to calculate the estimated pollution remediation obligation liabilities. The table on the following page details the various compliance requirements under which TxDOT is incurring pollution remediation costs and is recording a pollution remediation liability.

Pollution Remediation Obligations - Disaggregation of Total Liability As of August, 31, 2013 (Amounts in Thousands)	
Comply with asbestos regulations	$4,257
Remove contamination to allow construction of a detention pond	1,197
Manage contamination associated with Superfund sites	440
Comply with Federal Safe Drinking Water Act requirements	700
Comply with state Leaking Petroleum Storage Tank (LPST) cleanup requirements	902
Comply with state cleanup requirements for releases from non-LPST sources	83
Total	$7,579

Federal reimbursements are expected to offset a portion of these estimated costs. When realizable, the federal reimbursements are recognized as federal revenue. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

Claims and Judgments

TxDOT's involvement in claims and judgments is discussed in detail in Note 15. Management's opinion is that the probable outcome of claims and judgments against TxDOT will not materially affect the financial position of TxDOT; therefore, no liability amount has been accrued.

NOTE 5 – BONDED INDEBTEDNESS

As discussed more fully in the sections that follow, the Commission and TxDOT's blended component units are authorized through various statutory and constitutional provisions to issue general obligation and revenue bonds as well as private activity bonds.

As of Aug. 31, 2013, the Commission had 22 bond issues outstanding. The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of TxDOT, had two conduit debt bond issues outstanding as of Aug. 31, 2013. The Grand Parkway Transportation Corporation (GPTC), another blended component unit of TxDOT, had five revenue bond issuances outstanding as of Aug. 31, 2013. The debt service payments associated with debt issued by TxPABST and GPTC are not the responsibility of the state of Texas, however due to the relationship between TxDOT and these entities, their disclosures and as appropriate financial balances associated with the outstanding bonds are included in this report.

Miscellaneous Bond Information (Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Date Issued	Range of Interest Rates		Maturities First Year	Maturities Last Year	First Call Date
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds							
Texas Mobility Fund							
Series 2005-A Fixed Rate Bonds	$ 900,000	06/08/2005	3.9000%	5.0000%	2006	2035	04/01/2015
Series 2005-B Variable Rate Bonds	100,000	06/08/2005	variable		2006	2030	*
Series 2006 Fixed Rate Bonds	750,000	06/08/2006	3.6250%	5.0000%	2007	2036	04/01/2016
Series 2006-A Fixed Rate Bonds	1,040,275	10/31/2006	4.0000%	5.0000%	2007	2035	04/01/2017
Series 2006-B Variable Rate Bonds	150,000	12/13/2006	variable		2036	2036	*
Series 2007 Fixed Rate Bonds	1,006,330	06/21/2007	4.0000%	5.0000%	2008	2037	04/01/2017
Series 2008 Fixed Rate Bonds	1,100,000	02/28/2008	4.0000%	5.0000%	2009	2037	04/01/2018
Series 2009-A Taxable Fixed Rate Bonds	1,208,495	08/26/2009	5.3670%	5.5170%	2029	2039	*
Texas Highway Improvement							
Series 2010-A Taxable Fixed Rate Bonds	815,420	09/29/2010	3.2030%	4.6810%	2019	2040	*
Series 2010-B Fixed Rate Bonds	162,390	09/29/2010	2.0000%	5.0000%	2012	2018	n/a
Series 2012-A Fixed Rate Bonds	818,635	12/18/2012	5.0000%	5.0000%	2019	2042	04/01/2042
Series 2012-B Taxable Fixed Rate Bonds	99,570	12/18/2012	0.3000%	1.5000%	2014	2019	04/01/2019
Revenue Bonds							
State Highway Fund							
Series 2006 Fixed Rate Bonds	600,000	05/03/2006	4.0000%	5.0000%	2007	2026	04/01/2016
Series 2006-A Fixed Rate Bonds	852,550	11/21/2006	4.0000%	5.2500%	2008	2025	04/01/2016
Series 2006-B Variable Rate Bonds	100,000	11/08/2006	variable		2026	2026	*
Series 2007 Fixed Rate Bonds	1,241,845	10/25/2007	4.0000%	5.0000%	2009	2027	04/01/2017
Series 2008 Fixed Rate Bonds	162,995	08/19/2008	3.5000%	5.2500%	2010	2028	04/01/2018
Series 2010 Taxable Fixed Rate Bonds	1,500,000	08/05/2010	5.0280%	5.1780%	2026	2030	*
Governmental Activities Total	12,608,505						
BUSINESS-TYPE ACTIVITIES							
Revenue Bonds							
Central Texas Turnpike Authority							
First Tier Revenue Bonds Series 2002-A							
Non-Callable Capital Appreciation Bonds	521,343	08/29/2002	4.4700%	5.7500%	2012	2030	n/a
Callable Capital Appreciation Bonds	298,840	08/29/2002	6.0000%	6.1000%	2025	2038	08/15/2012
First Tier Revenue Refunding Bonds, Series 2012-A	585,330	11/27/2012	4.0000%	5.0000%	2038	2041	08/15/2022
First Tier Revenue Refunding Put Bonds, Series 2012-B	225,000	11/27/2012	1.2500%	1.2500%	2041	2042	02/15/2015

Concluded on the following page.

Miscellaneous Bond Information (Amounts in Thousands) (concluded)

Description of Issue	Bonds Issued to Date	Date Issued	Range of Interest Rates		Maturities First Year	Maturities Last Year	First Call Date
Grand Parkway Transportation Corporation							
First Tier Revenue Bonds							
Series 2013-A	$ 200,000	08/01/2013	5.1250%	5.5000%	2031	2053	10/01/2023
Subordinate Tier Toll Revenue Bonds							
Series 2013-B							
Convertible Capital Appreciation Bonds	277,432	08/01/2013	4.9500%	5.8500%	2029	2048	10/01/2028
Current Interest Bonds	1,137,935	08/01/2013	5.0000%	5.2500%	2048	2053	10/01/2023
Series 2013-E	361,810	08/01/2013	5.1840%	5.1840%	2036	2042	*
Subordinate Tier Revenue Tender Bonds							
Series 2013-C	836,440	08/01/2013	2.0000%	2.0000%	2014	2017	n/a
Series 2013-D	106,890	08/01/2013	1.0000%	1.0000%	2014	2017	n/a
Business-Type Activities Total	4,551,020						
Total	$17,159,525						

* Bonds are subject to redemption prior to their respective maturities at the option of the Commission.

Changes in Bonds Payable
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

Description	Bonds Outstanding 08/31/2012	Bonds Issued*	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 08/31/2013	Due Within One Year
Governmental Activities						
General Obligation Bonds	$ 7,113,145	$1,081,850	$ 74,210	$	$8,120,785	$ 121,493
Revenue Bonds	4,054,445	(6,362)	120,155		3,927,928	132,358
Total Governmental Activities	11,167,590	1,075,488	194,365	0.00	12,048,713	253,851
Business-Type Activities						
Revenue Bonds	1,616,750	3,793,213	7,710	857,150	4,545,103	12,531
Total	$12,784,340	$4,868,701	$202,075	$857,150	$16,593,816	$ 266,382

*Includes current year amortization of premiums, discounts and accretion.
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General Obligation Bonds – General Comments

The Texas Constitution authorizes the Commission to issue general obligation bonds backed by the full faith and credit of the state. As of Aug. 31, 2013, two general obligation bond programs are active. The purpose and the sources of debt service for each program are summarized below. All general obligation bond issuances must be approved by the Texas Bond Review Board prior to issuance.

Texas Mobility Fund

Texas Constitution, Article III, Section 49-k and Transportation Code, Chapter 201, Subchapter M authorize the Commission to issue general obligation bonds payable from a pledge of and lien on all or part of the money in the mobility fund. The mobility fund bonds are designed to be self-supporting, but the full faith and credit of the state is pledged in the event the revenue and money dedicated to the mobility fund is insufficient to pay debt service on the bonds. As of Aug. 31, 2013, major sources of pledged revenue for the Mobility Fund include driver license fees, motor vehicle inspection fees, certificate of title fees and driver record information fees.

Prior to a mobility fund debt issuance, the Texas Comptroller of Public Accounts must certify that there will be sufficient future resources on deposit in the mobility fund to ensure 110 percent coverage of debt service requirements during the period that the debt will be outstanding. As of Aug. 31, 2013, the approved debt capacity of the Mobility Fund is $7.2 billion. As of Aug. 31, 2013, the Commission is authorized but has not issued approximately $1.2 billion of the approved debt capacity of the mobility fund.

Bond proceeds are to be used for the purpose of paying or reimbursing the state highway fund for the costs of constructing, reconstructing, acquiring and expanding state highways and providing participation by the state in certain publicly owned toll roads and other public transportation projects.

Texas Highway Improvement/Proposition 12

Texas Constitution, Article III, Section 49-p and Transportation Code, Section 222.004, authorizes the Commission to issue general obligation bonds of the state of Texas for the costs of highway construction, reconstruction and major maintenance, including any necessary design and the acquisition of right-of-way. These bonds are not self-supporting and are considered a general obligation of the state of Texas. As of Aug. 31, 2013, the Commission is authorized but has not issued approximately $2.9 billion of remaining bond authority under the Texas highway improvement general obligation bond program.

Debt Service Requirements – Governmental Activities
General Obligation Bonds (Amounts in Thousands)

Year	Principal	Interest	Total
2014	$100,530	$369,034	$469,564
2015	109,205	365,223	474,428
2016	118,375	360,959	479,334
2017	128,260	356,107	484,367
2018	139,050	351,063	490,113
2019-2023	877,065	1,655,194	2,532,259
2024-2028	1,276,195	1,414,730	2,690,925
2029-2033	1,798,495	1,062,221	2,860,716
2034-2038	2,468,515	581,193	3,049,708
2039-2042	796,865	60,940	857,805
	7,812,555	6,576,664	14,389,219
Premium	308,387		308,387
Discount	(157)		(157)
Total	$8,120,785	$6,576,664	$14,697,449

Revenue Bonds – General Comments

The Texas Constitution and Transportation Code authorize the Commission to issue revenue bonds backed by pledged revenue sources and restricted funds. The active revenue bond programs of TxDOT and the Grand Parkway Transportation Corporation are summarized as follows.

State Highway Fund/Proposition 14

Texas Constitution, Article III, Section 49-n and Transportation Code, Section 222.003 authorizes the Commission to issue revenue bonds to finance highway improvement projects. The bonds are payable from pledged revenues deposited to the credit of the state highway fund, including dedicated taxes, dedicated federal revenues and amounts collected or received pursuant to other state highway fund revenue laws and any interest or earning from the investment of these funds. As of Aug. 31, 2013, the Commission is authorized but has not issued approximately $1.4 billion of remaining bond authority under the state highway revenue bond program.

Debt Service Requirements – Governmental Activities
Revenue Bonds (Amounts in Thousands)

	State Highway Fund		
Year	**Principal**	**Interest**	**Total**
2013	$125,995	$188,855	$314,850
2014	132,200	182,646	314,846
2015	138,510	176,332	314,842
2016	145,165	169,687	314,852
2017	152,340	162,510	314,850
2018-2022	954,345	690,390	1,644,735
2023-2027	1,508,330	401,718	1,910,048
2028-2031	686,895	53,651	740,546
	3,843,780	2,025,789	5,869,569
Premium	84,148		84,148
Total	$3,927,928	$2,025,789	$5,953,717

Central Texas Turnpike System

Transportation Code, Section 228.102 authorized the Commission to issue revenue bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System (CTTS) located in the greater Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate. The trust estate consists of all project revenues and investment earnings. Neither the state, the Commission, TxDOT or any other agency or political subdivision of the state is obligated to pay the debt service on the CTTS revenue bonds.

Grand Parkway Transportation Corporation

Transportation Code, Section 222.103 authorized the Commission to participate, by spending money from any available source in the acquisition, construction, maintenance, or operation of a toll facility of a public or private entity on terms and conditions established by the Commission. In March 2012, the Commission adopted a resolution creating the Grand Parkway Transportation Corporation (GPTC). GPTC is authorized to assist and act on behalf of the Commission in the development, financing, design, construction, reconstruction, expansion, operation and/or maintenance of the Grand Parkway toll project. The bond obligations are payable from tolls and other revenues of the GPTC held by the trustee. Neither the state, the Corporation nor any other agency or political subdivision of the state is obligated to pay the debt service on the GPTC bonds.

Debt Service Requirements – Business-Type Activities
Revenue Bonds (Amounts in Thousands)

Year	Principal	Interest	Total
2014	$ 10,155	$ 100,922	$ 111,077
2015	297,605	135,474	433,079
2016	265,805	135,655	401,460
2017	259,655	133,660	393,315
2018	221,830	131,904	353,734
2019-2023	237,705	635,978	873,683
2024-2028	425,580	760,887	1,186,467
2029-2033	623,900	772,061	1,395,961
2034-2038	925,590	741,870	1,667,460
2039-2043	1,010,350	560,621	1,570,971
2044-2048	353,360	390,329	743,689
2049-2053	1,275,905	220,085	1,495,990
	5,907,440	4,719,446	10,626,886
Accretion	(1,368,635)		(1,368,635)
Premium	60,652		60,652
Discount	(19,492)		(19,492)
Loss on Refunding	(34,862)		(34,862)
Total	$4,545,103	$4,719,446	$9,264,549

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure the payment of bond debt service. The table below provides information on pledged revenue and pledged future revenue of the self-supporting general obligation and revenue bonds.

Pledged Future Revenue
(Amounts in Thousands)

	Governmental Activities		Business-Type Activities	
	Texas Mobility Fund General Obligation Bonds	State Highway Fund Revenue Bonds	Central Texas Turnpike System	Grand Parkway Transportation Corporation
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$11,047,004	$5,869,569	$3,832,633	$6,794,253
Term of Commitment Year Ending Aug. 31	2039	2030	2042	2053
Percentage of Revenue Pledged	100%	100%	99%	100%
Current Year Pledged Revenue	$430,659	$6,761,664	$125,259	$127
Current Year Principal and Interest Paid	$340,961	$314,941	$45,357	$0

Build America Bonds

The American Recovery and Reinvestment Act of 2009 granted municipal debt issuers access to a broader investor base in the taxable market by providing a federal interest rate subsidy payment to offset debt service costs through the Build America Bonds (BABs) program. Direct Payment BABs provide a federal reimbursement to TxDOT equal to 35 percent of the interest paid on the bonds.

As a result of budget sequestration, the federal government reduced subsidy payments for BABs by 8.7 percent effective Mar. 1, 2013 through Sept. 30, 2013. The subsidy reduction rate will change to 7.2 percent effective Oct. 1, 2013. See the table below for details on the Commission's Direct Payment BABs outstanding at Aug. 31, 2013.

Direct Payment Build America Bonds
(Amounts in Thousands)

	Issue Date	Par Amount	Amount Outstanding at 08/31/13
Governmental Activities			
General Obligation Bonds			
Texas Mobility Fund Series 2009-A	08/26/2009	$1,208,495	$1,208,495
Texas Highway Improvement Bonds Series 2010-A	09/29/2010	815,420	815,420
Revenue Bonds			
State Highway Fund Series 2010	08/05/2010	1,500,000	1,500,000
Total		$3,523,915	$3,523,915

Variable Rate Bonds

The Commission and GPTC have six variable rate bond issues outstanding at Aug. 31, 2013. The interest rates in effect as of Aug. 31, 2013 for the Texas Mobility Fund Series 2005-B, Texas Mobility Fund Series 2006-B and State Highway Fund Series 2006-B used to calculate the interest debt service requirements were 0.07, 0.06 and 0.40 percent, respectively. These rates reset every seven days. The Central Texas Turnpike System Series 2012-B refunding put bonds debt service was calculated based upon the initial 1.25 percent interest rate, which expires Feb. 14, 2015. GPTC Series 2013-C and 2013-D tender bonds debt service was calculated based upon the initial 2.00 and 1.00 percent interest rates, respectively. These rates expire on Feb. 15, 2014 for both issues. The potential volatility for related debt service increases with these interest rate reset provisions.

Put/Tender Bonds

The Commission and GPTC have put and tender bonds. The put and tender bonds were issued in a multiannual mode which terminates on a mandatory tender date. At the termination of the initial multiannual period, the bonds are subject to mandatory tender and purchase. Upon such mandatory tender and purchase, the bonds are expected to be remarketed unless otherwise redeemed. The Commission and GPTC have not provided any credit or liquidity facility for the payment of the purchase price of the bonds payable upon the mandatory tender date. The principal portion of the purchase price for the bonds is expected to be obtained from the remarketing proceeds. The obligation of the Commission and GPTC to purchase the bonds on the mandatory tender date is subject to the successful remarketing of such bonds. The Commission and GPTC have no obligation to purchase bonds except from remarketing proceeds. If the bonds are not remarketed or otherwise redeemed, the interest rate on the bonds will be increased to the stepped coupon rate.

Put/Tender Bonds
(Amounts in Thousands)

Description of Issue	Mandatory Tender Date	Initial Multiannual Rate	Initial Period Interest	Stepped Coupon Rate	Stepped Rate Period Interest
Business-Type Activities					
Central Texas Turnpike System					
First Tier Revenue Refunding Put Bonds Series 2012-B	02/15/2015	1.25% per annum	$2,813	10.00% per annum	$22,500
Grand Parkway Transportation Corporation					
Subordinate Tier Revenue Tender Bonds					
Series 2013-C*	02/15/2014	2.00% per annum	$16,729	8.00% per annum	$66,915
Series 2013-D*	02/15/2014	1.00% per annum	$1,069	10.00% per annum	$10,689
*Assumes a full year of interest					

Demand Bonds

The Texas Mobility Fund Series 2005-B, Series 2006-B and the State Highway Fund Series 2006-B variable rate bonds are demand bonds. A bond holder may tender any of these bonds for repurchase prior to maturity at a price equal to principal plus accrued interest. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the standby bond purchase agreements. The following tables provide details for outstanding demand bonds and related standby bond purchase agreements as of Aug. 31, 2013.

Demand Bonds
(Amounts in Thousands)

Governmental Activities	Bonds Held by Liquidity Providers	Principal Balance Outstanding
General Obligation Bonds		
Series 2005-B	None	$ 75,840
Series 2006-B	None	150,000
Revenue Bonds		
Series 2006-B	None	100,000
Total		$325,840

Demand Bonds – Standby Bond Purchase Agreement Provisions

Governmental Activities	Counterparties	Annual Liquidity Fee	Agreement Termination Date
General Obligation Bonds			
Series 2005-B	Royal Bank of Canada	0.30%	03/01/2015
Series 2006-B	State Street Bank and Trust Company & California Public Employees' Retirement System	0.10%	12/13/2013
Revenue Bonds			
Series 2006-B	Banco Bilbao Vizcaya Argentaria, S.A.	0.0875%	11/07/2016

Liquidity facilities provide liquidity in the event demand bonds are tendered for purchase and such bonds are not remarketed by the remarketing agent. The standby bond purchase agreements contain takeout provisions, which provide an alternative debt instrument to replace any repurchased bonds that are not remarketed within the prescribed time constraints. The table on the following page provides the estimated impact of such an event.

Demand Bonds – Takeout Provisions
(Amounts in Thousands)

Governmental Activities	Estimated Debt Service	Rate	Basis	Replacement Debt Terms
General Obligation Bonds				
Series 2005-B	$87,203	10.00%	2% + the greater of: Bank Prime rate + 1.5%, Daily Fed Fds Rate +2% or 8%	Semi-annual payments over three years starting on the first day of the third month of that period
Series 2006-B	160,009	4.25%	1% + greater of: 0.5% + Daily Fed Fds Rate or Bank Prime rate	Semi-annual payments over three years starting the first day of the second month of that period
Revenue Bonds				
Series 2006-B	109,181	5.25%	2% + greater of : 0.5% + Daily Fed Fds Rate or Bank Prime rate	Semi-annual payments over three years starting the first day of the sixth month of that period
Total	$356,393			

Refunding

On Aug. 30, 2012, the Commission approved the CTTS Sixth Supplemental Indenture which authorized issuance of revenue refunding bonds to refund certain outstanding Series 2002 bonds and all of the Series 2009 bonds. The Commission issued First Tier Revenue Refunding Bonds, Series 2012-A, with a par value of $585.33 million, and First Tier Revenue Refunding Put Bonds, Series 2012-B, with a par value of $225 million, for a total par amount of $810.33 million. The Series 2012-A bonds were issued at a premium of $51.4 million and the underwriter's discount amounted to $3.8 million, resulting in a net proceeds amount of $858 million. The issuance closed on Nov. 27, 2012.

Refunding Issues
Amounts in Thousands

Description	Type of Refunding	Redemption Date	Par Value Refunded	Par Value of Refunding Issue (Series 2012-A)	Par Value of Refunding Issue (Series 2012-B)	Cash Flow (Increase)/ Decrease	Economic Gain/(Loss)*
First Tier Bonds Series 2002-A CIBs	Current Refunding	12/31/2012	$707,875	$585,330	$ 72,965	$203,457	$105,214
First Tier Refunding Put Bonds Series 2009	Current Refunding	02/15/2013	149,275		152,035	9,677	9,773
Total			$857,150	$585,330	$225,000	$213,134	$114,987

*Net present value change of approximately $115 million partially offset by contribution of funds on hand towards redemption in the amount of $5 million; economic gain net of this payment is approximately $110 million.

Interest Rate Swaps

In January 2013, the Commission decided to terminate the swap agreements. See Notes 3 and 6 for detailed information.

Conduit Debt

Transportation Code, Section 431.070, provides the authority for transportation corporations to issue bonds. The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit, has issued private activity revenue bonds to finance costs and construction of the Interstate Highway 635 managed lanes project located in Dallas County and the North Tarrant Express Facility in Tarrant County.

Conduit Debt Obligations - Miscellaneous Information
(Amounts in Thousands)

	NTE Mobility Partners LLC	LBJ Infrastructure Group LLC
Bonds Issued	$400,000	$615,000
Date Issued	12/10/2009	6/15/2010
Range of Interest Rates	6.875% - 7.500%	7.000% - 7.500%
Maturities (First Year - Last Year)	2031 - 2039	2032 - 2040
First Call Date	12/31/2019	06/30/2020

The proceeds from TxPABST bonds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC. These bonds are special limited obligations of TxPABST, payable solely from and secured by loan and interest repayments from the borrowers. The bonds do not constitute a debt or pledge of the faith and credit of TxPABST, TxDOT or the state of Texas.

As of Aug. 31, 2013, TxPABST private activity revenue bonds outstanding aggregated $1 billion. TxPABST is authorized but has not issued $85 million of remaining bond authority. The debt service schedule for the outstanding TxPABST conduit debt is disclosed below.

Conduit Debt Obligations – Debt Service
(Amounts in Thousands)

	TxPABST Bonds – Conduit Debt		
Year	**Principal**	**Interest**	**Total**
2014		$71,631	$71,631
2015		71,631	71,631
2016		71,632	71,632
2017		71,631	71,631
2018		71,632	71,632
2019-2023		358,158	358,158
2024-2028		358,158	358,158
2029-2033	$234,660	341,004	575,664
2034-2038	518,405	205,089	723,494
2039-2042	261,935	29,959	291,894
	1,015,000	1,650,525	2,665,525
Premium	6,740		6,740
Discount	(16,998)		(16,998)
Total	$1,004,742	$1,650,525	$2,655,267

NOTE 6 – DERIVATIVE INSTRUMENTS

In October 2006, the Commission entered into constant maturity basis swap transactions (CMS basis swaps) with the expectation of reducing the interest to be paid by the Commission over the term of the Texas Mobility Fund 2006-A fixed-rate bonds. Under the original terms the Commission paid the tax-exempt SIFMA index (a weekly rate) and received 69.42 percent of the 10-year LIBOR swap rate, with both rates reset weekly. The basis swaps were scheduled to terminate on Sept. 1, 2027, which was before the final maturity of the related bonds.

In January 2013, the Commission decided to reduce exposure to credit and interest rate risk and terminated all three swap agreements. Prior to termination of the swaps, $1.4 million of investment income was recognized in fiscal 2013. Termination payments from the swap counterparties totaled $22.5 million. These payments served to reduce the net interest expense paid on the related bonds. The Commission has no outstanding derivatives as of Aug. 31, 2013.

NOTE 7 – LEASES

Capital Leases

TxDOT is financing the acquisition of certain capital assets via the Master Lease Purchase Program (MLPP) which is administered by the Texas Public Finance Authority (TPFA). The liabilities associated with these leases are reported in the financial statements of TPFA. The capital assets associated with these leases are reported in TxDOT's financial statements. TPFA holds the title to the property until the lease is fully paid, at which point title will transfer to TxDOT.

Operating Leases

To minimize long-term costs, and to ensure future availability of essential services, TxDOT, in routine transactions, enters into leases which extend beyond a single fiscal year. Operating lease payments are recorded as expenditures or expenses during the life of the lease. Included in the expenditures reported in the state highway fund is $10,365,089.74 of rent paid or due under operating lease obligations.

Noncancelable Operating Lease Obligations
August 31, 2013
(Amounts in Thousands)

Fiscal Year	Minimum Future Lease Payments
2014	$8,521
2015	7,443
2016	6,425
2017	3,086
2018	2,939
2019-2023	12,994
2024-2028	3,078
TOTAL	$44,486

NOTE 8 - EMPLOYEES' RETIREMENT PLAN

TxDOT employees, as state employees, are enrolled in the Employees Retirement System of Texas defined benefit pension plan (ERS Plan). The financial statements of the ERS Plan are included in the audited annual financial report of the Employees Retirement System of Texas (ERS). Audited financial statements and detailed actuarial information for the ERS Plan may be obtained by calling (512) 476-6431 or writing:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas, 78711-3207

Plan Description

The ERS Plan is a cost-sharing, multiple-employer, defined benefit pension plan. The ERS Plan provides service retirement benefits, disability retirement benefits and death benefits to plan members and beneficiaries.

The ERS Plan, established in the Texas Government Code, Chapters 811-815, covers elected class members and employee class members. The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class. All TxDOT employees are considered members of the employee class. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the employee class plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employee class retirement benefits for employees hired on or before Aug. 31, 2009, vest after five years of service credit and employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80. The average monthly compensation is the average of the highest 36 months of compensation.

- Employee class retirement benefits for employees hired on or after Sept. 1, 2009, may retire at age 65 with 10 years of service credit or at any age when the sum of age and service credit (including months) equals or exceeds 80. The average monthly compensation is the average of the highest 48 months of compensation. The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 60, with a maximum possible reduction of 25 percent.

A Partial Lump Sum Payment Option is available to members of the employee class. A one-time partial lump sum of up to three years of the standard annuity at retirement can be taken and the annuity is reduced for life.

Funding Policy

Contribution requirements are not actuarially determined, but are set by legislation. Plan members are required to contribute 6.5 percent of their annual covered salary and TxDOT contributes an amount equal to 6.95 percent of TxDOT's covered payroll. TxDOT and TxDOT employees contributed $73.1 million to the ERS Plan for the year ended Aug. 31, 2013, which equaled the required contribution. State statutes prohibit benefit improvements if as a result of the action the time required to amortize the ERS plan unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years.

There are no separate actuarial valuations of pension liabilities by individual state agency. Pension obligation amounts are recorded and disclosed in the audited state of Texas Comprehensive Annual Financial Report.

NOTE 9 - DEFERRED COMPENSATION

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457. The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. TxDOT makes no contributions to either plan, the assets do not belong to TxDOT and TxDOT has no liability related to the plans.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Eligible TxDOT retirees are provided postemployment health care and life insurance benefits through the State Retiree Health Plan (SRHP). The financial statements of the SRHP are included in the audited annual financial report of the Employees Retirement System of Texas (ERS). Audited financial statements and detailed actuarial information for the SRHP may be obtained by calling (512) 476-6431 or writing:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas, 78711-3207

Plan Description

The SRHP is a cost-sharing multiple-employer defined benefit plan. The SRHP provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by the Texas Insurance Code, Section 1551.102.

Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the SRHP. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. State contributions to the SRHP are directly appropriated to ERS. The maximum monthly state contribution toward the health and basic life premiums of eligible retirees is disclosed in the following table.

Employer Contribution Rates –
Retiree Health and Basic Life Premium
For the Fiscal Year Ended August 31, 2013

Level of Coverage	ERS SRHP
Retiree Only	$ 470.38
Retiree/Spouse	739.58
Retiree/Children	650.62
Retiree/Family	919.82

NOTE 11 – INTERFUND ACTIVITY AND TRANSACTIONS

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions between TxDOT and another agency of the state of Texas.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Interfund transfers represent the flow of assets (cash or goods) without equivalent flow of assets in return or a requirement for repayment. In governmental funds, transfers are reported as other financing uses or sources. Transfers are reported in proprietary funds after nonoperating revenues and expenses in the statement of revenues, expenses and changes in fund net position.

As a general rule, the effect of interfund activity within TxDOT funds is eliminated from the government-wide financial statements, with exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as an external activity.

Interfund Activity

TxDOT's operations are primarily managed through the state highway fund. As such, several routine transfers are reported between the state highway fund and TxDOT's other major and nonmajor funds. The following tables detail the principal purposes of TxDOT's significant routine interfund transfers as well as provide a summary of interfund transfers by individual major fund, nonmajor funds in the aggregate and fiduciary funds.

Interfund Transfers In/Out by Purpose
August 31, 2013
(Amounts in Thousands)

Purpose	Interfund Transfer In (Fund)	Interfund Transfer Out (Fund)	Fiscal 2013 Amount
Reimburse the state highway fund for costs incurred on projects funded by local government contributions.	Major Fund: State Highway Fund	Nonmajor Fund: County/Political Subdivision/Local Government Road/Airport Trust Account	$ 162,567
Provide funds to pay debt service principal and interest payments on outstanding Proposition 14/State Highway Fund Revenue Bonds	Nonmajor Fund: Proposition 14 Debt Service Fund	Major Fund: State Highway Fund	$ 287,905

Interfund Transfers In/Out
August 31, 2013
(Amounts in Thousands)

	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
Major Funds:		
State Highway Fund	$ 167,251	$ 287,905
Nonmajor Funds	287,905	162,897
	455,156	450,802
Proprietary Funds		
Central Texas Turnpike System		4,354
	0	4,354
Total	$ 455,156	$ 455,156

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

Amounts not transferred at fiscal year-end are accrued as due to/due from other funds. Due to/due from amounts between governmental or business-type activities and fiduciary funds are reported as due to/due from amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions on the government-wide financial statements.

Due From/To
August 31, 2013
(Amounts in Thousands)

	Due From Other Funds	Due To Other Funds
Governmental Funds		
Major Funds:		
State Highway Fund	$ 94,836	$ 13,627
Mobility Fund	909	1,290
Nonmajor Funds	216	416
	95,961	15,333
Proprietary Funds		
Central Texas Turnpike System	13,411	19
Grand Parkway Transportation Corp.		94,020
	13,411	94,039
Total	$ 109,372	$ 109,372

Activity occurring within the same fund is eliminated. Certain reclassifications and eliminations are made between the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as “transfers-internal activities.” In fiscal 2013, the SH 45 SE toll road was incorporated into the Central Texas Turnpike System. As a result, a transfer of $229.4 million in capital assets was made out of TxDOT’s governmental activities and into TxDOT’s business-type activities. This balance is the primary component of the amounts shown as interfund transfers in/out on the statement of activities.

Interfund Transfers In/Out Per the Government-Wide Financial Statements
August 31, 2013
(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$ (225,057)
Business-Type Activities	$ 225,057

Internal Balances per the Government-wide Financial Statements
August 31, 2013
(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
CURRENT LIABILITIES			
Internal Balances - Payables	$ 80,628	$ (80,628)	$ 0

Interfund Transactions

The state highway fund is considered a shared fund and is appropriated for use by multiple state of Texas agencies. TxDOT is considered the controlling agency for the state highway fund and reports the total cash in state treasury balance for the fund at fiscal year-end. TxDOT reports interagency transfers in and out with the other agencies that collect and deposit to or expend out of the state highway fund.

The following tables detail the balances of transfers to/from and due to/from other state agencies and TxDOT. Approximately $1.4 billion of the interagency transfers-in balance for the state highway fund is related to the net amount of cash collected by Texas Department of Motor Vehicles for certificate of title fees and motor vehicle registration fees. The transfer-in entry resulted in an increase to the TxDOT highway fund cash in state treasury balance. The majority of the interagency transfer-out balance for the highway fund relates to the total cash expended out of the state highway fund by the Texas Department of Public Safety, which is charged with patrolling the state highway system and monitoring compliance with statutes related to vehicle weight, motor carrier safety and the registration and transportation of persons, hazardous material and other property. Amounts not transferred at fiscal year-end are accrued as due to/from other agencies.

Transfers In/Out to Other State Agencies
August 31, 2013
(Amounts in Thousands)

	Transfers In Other Agencies	Transfers Out Other Agencies
Governmental Funds		
Major Funds:		
State Highway Fund	$ 1,397,996	$ 794,095
Nonmajor Funds	12,129	
Total	$ 1,410,125	$ 794,095

Due From/To Other State Agencies
August 31, 2013
(Amounts in Thousands)

	Due From Other Agencies	Due To Other Agencies
Governmental Funds		
Major Funds:		
State Highway Fund	$ 200,587	$ 56,555
Nonmajor Funds	219	
Total	$ 200,806	$ 56,555

TxDOT also has interagency activity with federal funds and state grants. See Schedules 1A and 1B of this report for more details.

Pass-Throughs To/From Other State Agencies
August 31, 2013
(Amounts in Thousands)

	State Highway Fund
Federal Pass-throughs:	
Revenue	$ 1,412
Expenditures	(24,157)
Total	$ (22,745)
State Pass-throughs:	
Expenditures	$ (2,508)
Total	$ (2,508)

NOTE 12 – CONTINUANCE SUBJECT TO REVIEW

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2017, unless continued in existence by the 85th Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2018 to wind down its operations. In the event that TxDOT is abolished pursuant to the Texas Sunset Act or other law, Texas Government Code, Section 325.017(f), acknowledges that such action will not alter the obligation of the state to pay bonded indebtedness and all other obligations of the abolished agency.

NOTE 13 – CLASSIFICATION OF FUND BALANCES AND NET POSITION

The table on the following page presents a summary of the Aug. 31, 2013, governmental fund balances by major and nonmajor governmental funds. With the exception of nonspendable fund balances, fund balance is presented based on specific purpose for which the funds are restricted, committed, assigned or unassigned.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Balances reported as restricted in the fund financial statements are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

Disaggregation of Nonspendable, Restricted, Committed, Assigned and Unassigned Fund Balances
August 31, 2013
(Amounts in Thousands)

MAJOR FUNDS	State Highway Fund	Texas Mobility Fund	Total Major Funds
Nonspendable:			
Inventory	$ 142,180	$	$ 142,180
Restricted For:			
Capital Projects	533,472	634,104	1,167,576
Debt Service		562,353	562,353
Unassigned	(688,455)		(688,455)
Total	$ (12,803)	$ 1,196,457	$ 1,183,654

NONMAJOR FUNDS	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Funds
Nonspendable:					
Long-Term Receivables	$ 154	$	$	$	$ 154
Restricted For:					
Capital Projects				164,077	164,077
Debt Service			155,097		155,097
Assigned To:					
Transportation	1,685				1,685
Grand Parkway Assoc.		397			397
Unassigned	20,716				20,716
Total	$ 22,555	$ 397	$ 155,097	$164,077	$ 342,126

ALL GOVERNMENTAL FUNDS	
Nonspendable	$ 142,334
Restricted	2,049,103
Assigned	2,082
Unassigned	(667,739)
Total Fund Balances	$ 1,525,780

NOTE 14 – ADJUSTMENTS TO FUND BALANCES AND NET POSITION

During fiscal 2013, certain accounting changes and adjustments were made that required the restatement of fund balances or net position. The impact of these adjustments is summarized below and discussed on the following pages.

Restatements to Fund Balances/Net Position
(Amounts in Thousands)

GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES	September 1, 2012, As Previously Reported	Restatements		September 1, 2012 As Restated
Major Funds:				
State Highway Fund	$ 730,524	$ 36,303	(A)	$ 766,827
Texas Mobility Fund	1,108,827	145,171	(B)	1,253,998
Total Major Funds	1,839,351	181,474		2,020,825
Nonmajor Funds:				
General Fund Accounts	76,080			76,080
Special Revenue Funds	170	1	(D)	171
Debt Service Funds	156,728			156,728
Capital Projects Fund	100,923			100,923
Total Nonmajor Funds	333,901	1		333,902
Governmental Activities Adjustments				
Capital Assets	74,732,279	(68,040)	(C)	74,664,239
Long-Term Liabilities	(13,212,941)	1,854		(13,211,087)
Other Adjustments	68,287			68,287
Total Governmental Activities Adjustments	61,587,625	(66,186)		61,521,439
Total Governmental Activities	63,760,877	115,289		63,876,166
BUSINESS-TYPE ACTIVITIES				
Central Texas Turnpike System	427,169	31		427,200
Total Business-Type Activities	427,169	31		427,200
Total Primary Government	$ 64,188,046	$ 115,320		$ 64,303,366

Restatements are grouped into the following four categories:

A) The majority of the restatements to the state highway fund include the restatement of a $34.6 million accounts payable amount to reimburse Harris County for costs incurred related to Segment E of the Grand Parkway. Such costs were in fact paid by the Grand Parkway Transportation Corporation in fiscal 2013. Additionally, a $2.1 million restatement was recorded to remove prepaid items related to the fiscal 2012 prepayment of lease obligation amounts for the buildings comprising TxDOT's Austin headquarters. Research concluded in fiscal 2013 requires this transaction to be reported as an adjustment of capital assets from the Texas Facility Commission.

B) On Aug. 1, 2013, the Grand Parkway Transportation Corporation (GPTC), a blended component unit of TxDOT, issued bonds to fund the design, construction, operation and maintenance of segments D (Harris County), E, F-1, F-2 and G of the Grand Parkway (State Highway 99) in the Houston area. As directed by the project agreement between GPTC and TxDOT, GPTC reimbursed the Texas Mobility Fund for its prior costs incurred on these projects. The Texas Mobility Fund did not accrue a due from GPTC in prior periods because the reimbursement was contingent upon the successful issuance of the GPTC bonds and the timing and amount of such issuance was not estimable at prior reporting dates. The impact of the reimbursement related to prior fiscal year costs resulted in a restatement of beginning fund balance.

C) These restatements are for adjustments to capital assets and accumulated depreciation or amortization. The restatements include an amount of $149 million to remove assets previously capitalized that are now under a service concession arrangement and have been reimbursed by the Grand Parkway Transportation Corporation. In addition, the restatements include an addition of $82.2 million primarily related to errors in reporting bridges (depreciable infrastructure) upon their completion. Accumulated depreciation related to depreciable infrastructure was reduced as a result of the implementation of GASB 60 for bridges maintained and operated under qualifying service concession arrangements.

D) This restatement was necessary to correct accounting errors in the prior period related to the Grand Parkway Association.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Contingencies

Unpaid Claims and Lawsuits

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

TxDOT is exposed to claims by contractors. TxDOT will most likely settle these claims at substantially less than the amount originally sought. However, if a settlement between TxDOT's claims committee and the contractor cannot be reached, these claims will result in future litigation. As of Aug. 31, 2013 outstanding contractor claims pending at the TxDOT claims committee totaled $9.3 million.

Settlements are paid by the Texas Comptroller of Public Accounts from the claims and refunds appropriation. The Attorney General's office indicates that the lawsuits listed below were pending as of Aug. 31, 2013. TxDOT management's opinion is that the probable outcome of these cases will not materially affect the financial position of TxDOT.

Type of Suit	Amounts in Controversy
Eminent Domain	Over 850 cases ranging from $0 to $7.5 million. Total claims with amounts indicated came to approximately $219.2 million.
Contract	Amounts claimed range from $34 thousand to $3.2 million. Total claims with amounts indicated came to approximately $6.2 million.
Inverse Condemnation	Monetary amounts have not been specified for any of the 23 cases.

Declaratory Judgment	Monetary amounts have not been specified in three of the five cases. Amounts claimed range from $150 thousand to $10 million. Total claimed with amounts indicated is $10.1 million.
Employment Law and Related Lawsuits	Monetary amounts have not been specified in the any of the 11 cases. Liability against TxDOT is limited to $300 thousand. However, there is no limit on attorney fees and front pay.
Tort Claims	Statutory limits of liability on these cases are $250 thousand per person or $500 thousand per accident. Amounts claimed range from $750.00 to $500,000. Total claims, including estimates of liability limits where no amounts were specified, came to approximately $18.8 million.

Arbitrage

Rebatable arbitrages defined by Internal Revenue Code (IRC), Section 148, is earnings on tax exempt bond proceeds in excess of the yield on the bond. The rebatable arbitrage must be repaid to the federal government. Pursuant to the applicable bond Indenture of Trust, a Rebate Fund will be established under the Indenture to which deposits will be made upon the determination by a verification agent that a rebate payment may be due. The amount of rebate due to the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. IRC Section 148 also provides for certain rebate exceptions, including an exception if certain spend-out requirements of the bond proceeds are met. TxDOT estimates that rebatable arbitrage liability, if any, will be immaterial to the agency's overall financial condition.

Federal Reimbursements and Grants

TxDOT receives federal financial assistance for specific purposes that are subject to review or audit by the federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowance, if any, will be immaterial.

On Dec. 16, 2011, TxDOT and the Federal Highway Administration (FHWA) approved and executed a Memorandum of Understanding (MOU) for FHWA participation in TxDOT's pass through funding program. This MOU will apply to all pass through finance (PTF) projects approved by TxDOT after Feb. 26, 2009 with some stipulations as detailed within the agreement. This agreement was done in order to facilitate maximum Federal reimbursement on TxDOT PTF projects. The MOU is not applicable to any PTF project agreements executed prior to Feb. 26, 2009. Federal reimbursement for these projects will be set up on an individual basis in separate agreements between TxDOT and FHWA and with compliance reviews being performed on each project.

Significant Commitments

Construction Related Contracts

As of Aug. 31, 2013, TxDOT had outstanding contractual commitments related to the award of construction contracts, terms of outstanding design-build contracts and terms requiring contribution of public funds to provide for a portion of construction costs related to service concession arrangements (SCAs). Of the amounts committed under these contracts, TxDOT expects to receive future reimbursements from the Federal Highway Administration (FHWA). In addition, the Grand Parkway Transportation Corporation (GPTC), our blended component unit, has outstanding construction commitments. Disclosure of these construction related commitments and potential FHWA reimbursement is displayed below.

Construction Related Contract Commitments
August 31, 2013
(Amounts in Thousands)

	Total Remaining Commitment	FHWA Reimbursements
Construction Contracts	$ 6,584,925	$ 3,298,668
Design-Build Projects	1,536,325	617,304
SCA Projects	935,277	674,150
GPTC Project	941,548	
Totals	$ 9,998,075	$ 4,590,122

Pass-Through Toll Agreements

Transportation Code, Section 222.104 authorizes TxDOT to enter into an agreement with a public or private entity that provides for the payment of 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. As of Aug. 31, 2013 there were 41 active pass-through financing agreements.

TxDOT recognizes liabilities associated with pass-through toll projects as notes payable as the projects are being constructed. Notes payable amounts are determined by contractually negotiated agreements with pass-through toll partners. See Note 4 for details on the payables recognized related to pass-through toll repayment obligations.

The maximum total repayment obligation for pass-through toll projects executed as of Aug. 31, 2013, was approximately $1.6 billion. Approximately $200 million of this amount was repaid as of Aug. 31, 2013. The actual repayment obligation for each agreement is not determinable until total construction costs are known.

Toll Equity Grants and Loan Agreements

Transportation Code, Section 222.103 authorizes TxDOT to participate, by spending money from any available source, in the cost of acquisition, construction, maintenance or operation of a toll facility of a public or private entity. The Commission adopted administrative rules (toll equity rules) to prescribe conditions for the Commission's financing of such toll facilities. Under these guidelines the Commission has committed funds in the form of toll equity grants and toll equity loans. As of Aug. 31, 2013, the Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling $323.6 million and $15.63 billion, respectively. Payments of these amounts are made subject to executed financial assistance agreements between TxDOT and the applicable public or private entity.

Of the outstanding toll equity loan commitment, $6.02 billion is related to a toll equity loan agreement (TELA) with the North Texas Tollway Authority (NTTA) and $9.6 billion is related to a TELA with the GPTC. The NTTA funds are to be used to enhance project feasibility and expedite delivery of the State Highway 161 (also known as the President George Bush Western Extension) and Chisholm Trail Parkway projects in the Dallas/Fort Worth area. These roads comprise NTTA's Special Projects System and are separate from the NTTA system as a whole. Under the TELA, TxDOT has agreed to lend a negotiated amount each year should revenues of the projects be insufficient to cover operations and maintenance, including debt service. The GPTC funds are to be used to pay for certain costs relating to the development, construction, operation, maintenance and financing of Segments D (Harris County), E, F1, F2 and G and the predevelopment of possible extensions or expansions of the Grand Parkway. The maximum amount of money that can be paid by TxDOT to GPTC under the TELA is equal to the aggregate amount of costs that are authorized under Article 8, Section 7-a of the Texas Constitution and Section 222.103 of the Texas Transportation Code, i.e. the "Eligible Costs".

As of Aug. 31, 2013, no drawdowns of funding have been requested by NTTA or GPTC under these agreements.

NOTE 16 – SUBSEQUENT EVENTS

Bond and TIFIA Loan Activity

The Commission has no plans for issuance of additional bonds as of the date of this report, through February 2014. The following TxDOT blended component units plan to issue or have issued the following bonds as of the date of this report, through February 2014:

Entity	Series	Estimated/Actual Par Amount (Amounts in Thousands)	Estimated/ Actual Date of Issuance	Purpose
Texas Private Activity Bond Surface Transportation Corporation	2013	$274,030	09/12/2013	Issuance of conduit debt related to financing of the NTE 3A project.
Grand Parkway Transportation Corporation	Subordinate Tier Revenue 2013C & D	$943,330	02/14/2014	To provide for refunding or remarketing of the 2013C and D bonds.

On Sept. 27, 2013 Standard & Poor's upgraded the financial strength of the State of Texas to "AAA" from "AA+" As a result on Sept. 30, 2013 Standard & Poor's also issued an upgrade to "AAA" from "AA+" for the Commission's outstanding Texas Mobility Fund Bonds and the Highway Improvement General Obligation Bonds. On Sept. 30, 2013 Standard & Poor's also upgraded the financial strength of our blended component unit Grand Parkway Transportation Corporation (GPTC) from "AA" to "AA+" related to Subordinate Tier Obligations of GPTC Series 2013B-2013E.

Our blended component unit, GPTC has submitted an application with the Transportation Infrastructure Finance and Innovation Act (TIFIA) for a loan in the amount of $840,645,000.00 to fund and reimburse for eligible costs of the Grand Parkway system. The loan agreement is currently being negotiated. It is expected the TIFIA loan will close by the end of calendar year 2013.

Legislative Changes

Results from the 83rd Legislative Session included changes to the retirement contribution by employers of 6.5 percent plus 1 percent from fiscal 2013 unexpended balances for fiscal 2014; 7.5 percent for fiscal 2015. Additionally, new employees starting employment after Aug. 31, 2013 must meet the minimum retirement age of 62 and meet the rule of 80 for retirement eligibility. If these members retire before age 62, there is a 5 percent per year permanent retirement reduction factor in the retiree's pension benefit.

A new fund, the Transportation Infrastructure Fund, was established as part of changes made by SB 1747, which directs TxDOT to administer a grant program from the fund to provide funding to counties for transportation infrastructure projects located in areas of the state affected by increased oil and gas production. The provisions of the bill took effect Sept. 1, 2013.

Transfer of Loop 49 Toll Facility

On Sept. 23, 2013 the Governor of Texas approved the transfer of Segments 1, 2, 3A and 5 of the Loop 49 toll facility comprising the roadway facilities and the underlying right of way, and the right of way underlying Segment 3B of Loop 49, from SH 100 to I-20 in Smith County to the North East Texas Regional Mobility Authority (Net RMA). The transferred segments of the Loop 49 project will be utilized by the Net RMA for the operation and maintenance of a turnpike project under Transportation Code, Chapter 370.

NOTE 17 – RISK MANAGEMENT

TxDOT is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. TxDOT and its employees are covered by various immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against TxDOT or its employees. Remaining exposures are managed by self-insurance arrangements.

Property and Liability

TxDOT administers a self-insured workers compensation program. Due to the nature of worker compensation claims, amounts are not reasonably estimable. Claims are paid as they become due.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All TxDOT employees are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS).

Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

Commitments

TxDOT incurs commitments related to outstanding construction contracts and comprehensive development agreements. Further detail of these commitments is provided in Note 15.

NOTE 18 – MATRIX OF EXPENDITURES REPORTED BY FUNCTION

For the year ended Aug. 31, 2013, the table on the following page represents governmental fund expenditures for both natural and functional classifications. As stated on the reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities, certain governmental fund expenditures are converted to increases and decreases in assets, liabilities or deferred inflows of resources in the statement of net position. Thus those expenditures are not reported by function on the statement of activities.

Matrix of Expenditures Reported by Function - Governmental Funds
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	State Highway Fund	Texas Mobility Fund	Nonmajor Funds	Transportation Total
Salaries & Wages	$ 607,666	$	$ 1,068	$ 608,734
Payroll Related Costs	237,488		268	237,756
Professional Fees & Services	431,175	280	3,027	434,482
Federal Pass-Through expenditures	24,157			24,157
State Grant Pass-Through Expenditures	2,508			2,508
Travel	4,923		34	4,957
Materials and Supplies	392,472		238	392,710
Communications and Utilities	45,514		4	45,518
Repairs and Maintenance	1,888,871		265	1,889,136
Rentals and Leases	10,022		(64)	9,958
Printing and Reporoduction	1,754		3	1,757
Claims and Judgements	6,155			6,155
Intergovernmental Payments	542,733	93,418	8,351	644,502
Public Assistance Payments	10,236		500	10,736
Other Expenditures	250,797	(92)	2,221	252,926
Total Expenditures	$ 4,456,471	$ 93,606	$ 15,915	$ 4,565,992

NOTE 19 - THE FINANCIAL REPORTING ENTITY

As required by Generally Accepted Accounting Principles, the financial statements present TxDOT, a state agency, and its component units. The component units discussed in this note are included in TxDOT's reporting entity because of the significance of their operational and financial relationships with TxDOT.

Blended Component Units

The Commission is authorized to create Transportation Corporations in Transportation Code, Chapter 431. The Commission approves the creation of transportation corporations, approves the articles of incorporation, appoints directors and approves by-laws. At any time, the Commission may terminate and dissolve a transportation corporation. In the event of dissolution or liquidation of a corporation, all assets shall be turned over to TxDOT. As of Aug. 31, 2013, three such transportation corporations were authorized by the Commission. In all instances TxDOT contains the voting majority, is able to impose its will upon the transportation corporations, and the services of all three transportation corporations benefit TxDOT. Furthermore, the following three transportation corporations are classified as blended component units.

The Grand Parkway Association (GPA) facilitates the efficient development of Houston's third outer highway loop to serve the regional mobility needs of the metropolitan Houston area. GPA operates on funds received from various sources including TxDOT, METRO, Harris County, Fort Bend County, Chambers County, Galveston County and Brazoria County. GPA is required to make semi-annual reports to TxDOT detailing the status and

financial information of the various project segments. The financial activity is reported as a Special Revenue fund within appropriated fund 9999 in the accompanying financial statements of TxDOT. GPA has a fiscal year end as of Aug. 31, 2013, consistent with TxDOT. Complete financial statements for the GPA may be obtained by writing:

Grand Parkway Association
4544 Post Oak Place, Suite 222
Houston, Texas 77027

The Texas Private Activity Bond Surface Transportation Corporation. (TxPABST) acts on behalf of TxDOT in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (CDA) entered into by TxDOT. Bonds issued by TxPABST are not legal obligations of the state of Texas and are payable solely from payments received or on behalf of a CDA developer. See Note 5 for additional details about the TxPABST private activity bond issuances as of Aug. 31, 2013. TxPABST does not publish financial statements. Further information can be obtained by writing:

Texas Private Activity Bond Surface Transportation Corporation
125 East 11th St.
Austin, Texas 78701

The Grand Parkway Transportation Corporation (GPTC) acts on behalf of TxDOT in the development, construction, financing, operation, maintenance and expansion of the Grand Parkway as the authority delegated by the Commission to develop, construct, finance, operate and maintain certain segments of the Grand Parkway as a system. GPTC undertakes these responsibilities under the supervision of a three member board of directors composed of TxDOT employees appointed by the Commission. GPTC is the governmental party to major contracts relating to the development, construction and maintenance of the Grand Parkway Segments D through G and has issued bonds supported by toll revenues of the system and, in certain cases, by the TELA with TxDOT. Bonds issued by GPTC are not legal obligations of the state of Texas and are payable solely from the revenues of the Grand Parkway system. See Note 5 for additional details about the GPTC bond issuances as of Aug. 31, 2013. GPA has a fiscal year end as of Aug. 31, 2013, consistent with TxDOT. The financial activity of GPTC is reported as a Proprietary fund within appropriated fund 9999 in the accompanying financial statements of TxDOT. Further information can be obtained by writing:

Grand Parkway Transportation Corporation
125 East 11th St.
Austin, Texas 78701

NOTE 20– STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Fund Type Changes

The presentation of The Texas Mobility Fund (0365) was revisited in 2013 and changed to more clearly report the dual purpose of activities taking place within the Mobility Fund. The Mobility Fund bonds issued are used for transportation projects, while the revenues dedicated to the fund are restricted for payment of debt service on the outstanding debt. To aid in the distinction of these different activities, the Mobility Fund activity are now split into two fund types. While the Mobility Fund is established as a single appropriated fund, it is reported in the following governmental fund types:

- Debt Service fund – Debt service funds are used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest. Dedicated revenues received and debt service related expenditures paid are recorded in these funds.

- Capital Projects fund – Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays. Bond proceeds associated with Mobility Fund bond issuances as well as the related expenditure of the bond proceeds for eligible transportation projects are recorded in these funds.

Deficit Fund Balances/Net Position

The $12.8 million deficit fund balance in the state highway fund is caused primarily by the balance of deferred revenues recorded as offset to up-front concession payments received. The recognition of revenue related to these up-front payments occurs over their term, while the use of the funds received are spent as eligible projects are identified.

The $15.9 million deficit net position related to the Grand Parkway Transportation Corporation (GPTC) fund is due to the payment of bond issuance costs. None of the segments of the Grand Parkway to be operated by GPTC were opened to traffic at Aug. 31, 2013, thus the GPTC did not collect enough revenues to offset the reduction of net position caused by payment of the bond issuance costs.

Upcoming GASB Pronouncements

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, GASB Statement No. 61, The Financial Reporting Entity Omnibus-An Amendment of GASB Statements 14 and 34,* GASB Statement No. 62,*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, have been implemented by TxDOT in this fiscal 2013 report. The implementation of GASB Statement No. 60 consisted of additional disclosures for reporting the status of construction projects where a Service Concession Arrangement (SCA) exists, the general nature of and objectives of each SCA, nature and amount of assets, liabilities, and deferred inflows of resources related to service concession arrangements, see Note 21. Additionally, GASB 61 implementation included reporting of additional requirements for inclusion of component units in the financial reporting entity. Implementation of GASB 62 was a codification of pre-November 30, 1989 FASB and AICPA Pronouncements did not have an impact on the presentation of the financial statement. Implementation of GASB No. 63 required modifications of the financial statement structure by incorporating deferred inflows and outflows into the report and reclassifying the Statement of Net Assets to the Statement of Net Position.

The GASB has issued several statements that will become effective and be implemented by TxDOT in fiscal 2014. TxDOT is still in the process of determining the effects of implementing these new GASB Statements.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,*
- GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62,*
- GASB Statement No. 67, *Financial Reporting for Pensions Plans-An Amendment of GASB Statement No. 25,*
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 2, and*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.*

NOTE 21 – SERVICE CONCESSION ARRANGEMENTS

As of Aug. 31, 2013, TxDOT has entered into seven agreements that are service concession arrangements (SCA) under the definition established by the Governmental Accounting Standards Board (GASB). An SCA is an arrangement between TxDOT and an Operator in which all of the following criteria are met:

a. TxDOT conveys to the Operator the right and related obligation to provide public services through the use and operation of an infrastructure asset in exchange for significant consideration, such as up-front payments, a new infrastructure asset, or improvements to an existing infrastructure asset.

b. The Operator collects and is compensated by fees from third parties, in all of the active TxDOT SCAs these fees are in the form of tolls.

c. TxDOT determines or has the ability to modify or approve what services the Operator is required to provide, to whom the Operator is required to provide the services and the rates that can be charged for the services.

d. TxDOT is entitled to significant residual interest in the service utility of the infrastructure asset at the end of the arrangement.

SCA projects have/will improve mobility by expanding existing road capacity and introducing managed toll lanes, traditional toll lanes and other strategies aimed at reducing traffic congestion. Structuring as an SCA enables TxDOT to deliver these projects faster than would be possible using traditional funding sources. Additionally these projects shift the majority of the financial risk to the Operator. TxDOT may enter into SCAs with both public and private Operators. At the end of these arrangements, operations and maintenance of the projects will transfer to TxDOT. The state of Texas retains ownership rights and title to all assets associated with an SCA.

The structure of each SCA is different due to the unique financial aspects of each arrangement. In all cases, TxDOT receives a benefit due to our retention of ownership of the project at end of the concession term. The table below summarizes the status, term and duration of each currently active SCA.

Service Concession Arrangements

As of August 31, 2013

Arrangement Name	Construction Status	Term of Concession	Concession Begin	Concession End	
IH 10 "Katy Managed Lanes"	Complete	46 years	2010	2055	*
SH 130 Segments 5 and 6	Complete	50 years	2012	2062	
SH 121 Concession	Complete	50 years	2009	2059	
North Tarrant Exp Seg 1 and 2-West	Under Construction	52 years	2009	2061	
North Tarrant Exp Seg 3A and 3B	Preliminary Activity	52 years	2009	2061	
LBJ/IH-635 Managed Lanes	Under Construction	52 years	2009	2061	
Grand Parkway Seg D, E, F1, F2, G	Under Construction	40 years	2013	2053	*

* Estimated. Concession period extends until Harris County/GPTC is fully reimbursed for costs of construction and debt service.

Governmental accounting standards permit TxDOT to defer recognition of capital assets acquired by an Operator under an SCA until the project is placed into operations by opening for traffic. In the year in which an SCA project opens for traffic TxDOT records the capital assets acquired under the SCA at their fair value with a corresponding entry to deferred inflow of resources. The deferred inflow of resources balance will then be reduced and revenue will be recognized in a systematic manner over the term of the arrangement, beginning when the infrastructure asset is placed into operations. Up-front concession payments received are recorded as assets (cash in state treasury) with an offset to deferred inflow of resources. Revenue is recognized and the deferred inflow of resources is reduced in a systematic and rational manner over the term of the arrangement.

Service Concession Arrangements - Amounts Recognized in Financial Statements – Governmental Activities
August 31, 2013
(Amounts in Thousands)

Arrangement Name	Cash in State Treasury*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	$	$ 250,000	$ 228,261
SH 130 Segments 5 and 6	126,701	1,434,228	1,498,580
SH 121 Concession	1,756,073	1,338,296	3,489,021
North Tarrant Exp Seg 1 and 2-West		472,177	38,771
North Tarrant Exp Seg 3A and 3B		72,941	
LBJ/IH-635 Managed Lanes		75,070	
Grand Parkway Seg D, E, F1, F2, G		36,327	
Total	$ 1,882,774	$3,679,039	$5,254,633

* The balance of cash in state treasury is the amount of unspent up-front concession payments.
** The deferred inflows of resources balance, that relates to up-front payments received and recorded in the governmental fund financials, is recorded as deferred revenues.

In some cases, TxDOT is obligated to make contributions of public funds to the SCA project during the construction period for portions of the project's design, construction or right-of-way costs. Outlays of TxDOT funds related to SCA projects are recorded as additions to construction in progress as they are incurred. In addition, TxDOT has committed funds in the form of a toll equity loan to the Grand Parkway Transportation Corporation (GPTC) and North Texas Tollway Authority (NTTA). Refer to Note 15 for further detail on TxDOT commitments related to SCAs.

Grand Parkway Transportation Corporation

In fiscal 2013 the GPTC entered into an agreement with TxDOT which fits the criteria for a service concession arrangement. Pursuant to this agreement, GPTC is responsible for the design, build, financing and operation of Segments D (Harris County), E, F-1, F-2 and G of the Grand Parkway for a period until such time as the bonds or other debt secured is fully repaid. GPTC will be entitled to all toll revenues during the operations period. At the end of the arrangement, operation of the roadway will be transferred to TxDOT. GPTC entered into this agreement to deliver this important project in partnership with TxDOT more quickly than would be possible under a traditional structure. GPTC has recognized an intangible asset in the amount of $610,305,445.36 for its costs of design, construction and right-of-way acquisition through Aug. 31, 2013. This amount is reported in the business-type activities.

Required Supplementary Information
Other Than MD&A (unaudited)

MODIFIED APPROACH TO REPORTING INFRASTRUCTURE ASSETS

TxDOT adopted the modified approach for reporting the state's highway system. Under the modified approach, depreciation is not reported and all preservation and maintenance costs are expensed.

The modified approach requires that TxDOT:

- 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, TxDOT has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

TxDOT performs yearly condition assessments through the Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the Interstate system, 5 percent of the Non-Interstate system (national, state, and farm-to-market roadways) and 20 percent of the Central Texas Turnpike System toll roads. For each section of highway observed, 21 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 percent, 2 = 40 percent, 3 = 60 percent, 4 = 80 percent, 5 = 100 percent).

Assessed Conditions

TxDOT has adopted a minimum condition level of 80 percent for the Interstate System, 75 percent for the Non-Interstate system, and 80 percent for the Central Texas Turnpike System based on TxMAP assessments.

Fiscal	**Interstate Condition** (Minimum 80%)	**Non-Interstate Condition** (Minimum 75%)	**Central Texas Turnpike System** (Minimum 80%)
2013	80.3%	77.4%	85.1%
2012	82.0%	77.7%	86.2%
2011	83.0%	78.5%	89.9%
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%

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. The estimates for the Interstate and Non-Interstate highways reflect the estimated expenditures necessary to achieve the Commission's goal to increase pavement conditions to 90 percent within the next 20 years. In addition, TxDOT has been working to increase the return on maintenance dollars through the implementation of cost saving measures.

Interstate Highways	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
Estimate	$277,770,138	$191,441,584	$604,837,150	$568,455,968	$534,263,128
Actual	$303,958,758	$346,326,141	$361,824,722	$333,253,166	$326,304,671

Non-Interstate Highways	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
Estimate	$2,628,535,253	$2,224,821,895	$3,282,946,244	$3,005,712,533	$2,687,869,178
Actual	$2,067,090,830	$1,594,432,159	$1,517,603,665	$1,423,734,251	$1,519,109,684

Central Texas Turnpike System	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
Estimate	$13,987,845	$10,050,181	$11,577,672	$11,371,334	$9,178,651
Actual	$13,109,474	$10,627,758	$11,438,932	$6,972,452	$7,261,987

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, hurricane, freeze thaw, etc) should be considered as they may have a major impact on needed funds and the condition of Texas roads.

Other Condition Assessments

A separate annual inspection report is performed on the Central Texas Turnpike System in accordance with Section 707 of the Indenture of Trust. Those inspections are performed by the general engineering consultant (GEC) of the Central Texas Turnpike System. The fiscal 2013 inspection noted that the Central Texas Turnpike System roadways were in an overall excellent condition, achieving an overall score of 96 percent. While the GEC inspection uses the same general criteria as TxMAP, both parties have different areas of focus when performing their evaluations resulting in slight differences. In addition, there are other differences in evaluation timing and methodology which may contribute to the difference in scores; it is performed at a different time of the year, covers all 65 miles of the system instead of using a random sample of 20 percent, and uses a more detailed breakdown of each criteria.

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Other Supplementary Information

State Highway Fund Accounts

Combining Financial Statements

TxDOT reports the following accounts/sub-funds, which are consolidated into the state highway fund for the financial statements.

- **State Highway Fund Accounts** – These funds contain the activity related to public road construction, maintenance and monitoring of the state's highway system. The significant ongoing revenue sources are federal revenues and motor fuels taxes, which are constitutionally restricted and dedicated to the highway fund.
  Appropriated Fund: 0006
  USAS D23 Funds: 0006, 0016-0019, 0121-0122, 0130, 0513-0515, 0161-0162, 0820, 8006 and 9000

- **State Infrastructure Bank Accounts –** This fund operates as a revolving loan program that makes loans to public and private entities to encourage the development of transportation projects and facilities.
  Appropriated Fund: 0006
  USAS D23 Fund: 0099

- **Federal American Recovery and Reinvestment Fund** – This fund was created to record, track and report the receipt and disbursement of American Recovery and Reinvestment Act (ARRA) funding.
  Appropriated Fund: 0369
  USAS D23 Fund: 0369

Texas Department of Transportation
Combining Balance Sheet – State Highway Fund
August 31, 2013 (Amounts in Thousands)

	State Highway Fund - Major Special Revenue Fund			
	State Highway Fund Accounts	State Infrastructure Bank	Federal American Recovery & Reinvestment Fund	TOTAL
ASSETS:				
Cash and Cash Equivalents:				
Cash on Hand	$ 19	$ 290,623	$	$ 290,642
Cash in Bank	229			229
Cash in State Treasury	2,875,468			2,875,468
Receivables:				
Taxes	213,949			213,949
Federal	339,998			339,998
Other Intergovernmental	61,363			61,363
Interest and Dividends	3,871	3,170		7,041
Accounts Receivable	33,204			33,204
Due from Other Funds	94,836			94,836
Due from Other Agencies	200,587			200,587
Consumable Inventories	142,180			142,180
Loans and Contracts	229,047	164,941		393,988
Total Assets	4,194,751	458,734	0	4,653,485
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Payables:				
Accounts Payable	1,220,985			1,220,985
Contracts Payable	33,640			33,640
Payroll Payable	61,872			61,872
Due to Other Funds	13,627			13,627
Due to Other Agencies	56,555			56,555
Deferred Revenues	3,279,609			3,279,609
Total Liabilities	4,666,288	0	0	4,666,288
Fund Balances (Deficits):				
Nonspendable				
Inventory	142,180			142,180
Restricted	74,738	458,734		533,472
Unassigned	(688,455)			(688,455)
Total Fund Balances	(471,537)	458,734	0	(12,803)
Total Liabilities and Fund Balances	$ 4,194,751	$ 458,734	$ 0	$ 4,653,485

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

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – State Highway Fund
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	State Highway Fund - Major Special Revenue Fund			
	State Highway Fund Accounts	State Infrastructure Bank	Federal American Recovery & Reinvestment Fund	TOTAL
REVENUES:				
Taxes	$ 2,419,421	$	$	$ 2,419,421
Federal Revenues	2,653,415		161,809	2,815,224
Federal Pass-Through Revenues	1,412			1,412
Licenses, Fees and Permits	85,417			85,417
Interest & Investment Income	16,275	5,550		21,825
Land Income	15,637			15,637
Settlement of Claims	11,616			11,616
Sales of Goods and Services	53,108			53,108
Other Revenues	713			713
Total Revenues	5,257,014	5,550	161,809	5,424,373
EXPENDITURES:				
Transportation	4,449,911		6,560	4,456,471
Capital Outlay	1,972,758		155,249	2,128,007
Principal on Pass-Through Tolls	105,113			105,113
Other Financing Fees	1,977			1,977
Total Expenditures	6,529,759	0	161,809	6,691,568
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,272,745)	5,550	0	(1,267,195)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	1,565,247			1,565,247
Operating Transfers Out	(1,082,000)			(1,082,000)
Sale of Capital Assets	4,318			4,318
Total Other Financing Sources (Uses)	487,565	0	0	487,565
Net Change in Fund Balances	(785,180)	5,550	0	(779,630)
Fund Balances, September 1, 2012	277,340	453,184		730,524
Restatements	36,303			36,303
Fund Balances, August 31, 2013	$ (471,537)	$ 458,734	$ 0	$ (12,803)

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

Texas Mobility Fund Accounts

Combining Financial Statements

TxDOT reports the following accounts/sub-funds, which are consolidated into the Texas mobility fund for the financial statements.

- **Debt Service Fund Accounts** – These funds report the activity related the payment of debt service on outstanding mobility fund bonds.
  Appropriated Fund: 0365
  USAS D23 Funds: 0365, 0367, 0373

- **Capital Projects Fund Accounts –** These funds report the activity related to the expenditure of the mobility fund bond proceeds on eligible transportation projects.
  Appropriated Fund: 0365
  USAS D23 Fund: 0375, 0377

Texas Department of Transportation
Combining Balance Sheet – Texas Mobility Fund
August 31, 2013 (Amounts in Thousands)

	Texas Mobility Fund - Major Debt Service & Capital Projects Fund		
	Debt Service Fund	Capital Projects Fund	TOTAL
ASSETS:			
Cash and Cash Equivalents:			
Cash in State Treasury	$ 552,997	$ 645,321	$ 1,198,318
Receivables:			
Federal	8,866		8,866
Due from Other Funds	890	19	909
Total Assets	562,753	645,340	1,208,093
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Payables:			
Accounts Payable		10,346	10,346
Due to Other Funds	400	890	1,290
Total Liabilities	400	11,236	11,636
Fund Balances (Deficits):			
Restricted	562,353	634,104	1,196,457
Total Fund Balances	562,353	634,104	1,196,457
Total Liabilities and Fund Balances	$ 562,753	$ 645,340	$ 1,208,093

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

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Texas Mobility Fund
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Texas Mobility Fund - Major Debt Service & Capital Projects Fund		
	Debt Service Fund	Capital Projects Fund	TOTAL
REVENUES:			
Taxes	$	$	$
Federal Revenues	21,445		21,445
Licenses, Fees and Permits	383,422		383,422
Interest & Investment Income	25,792	2,192	27,984
Total Revenues	430,659	2,192	432,851
EXPENDITURES:			
Transportation		93,606	93,606
Capital Outlay		55,356	55,356
Principal on State Bonds	53,190		53,190
Interest on State Bonds	287,771		287,771
Other Financing Fees		469	469
Total Expenditures	340,961	149,431	490,392
Excess (Deficiency) of Revenues Over (Under) Expenditures	89,698	(147,239)	(57,541)
OTHER FINANCING SOURCES (USES):			
Operating Transfers In			
Operating Transfers Out			
Insurance Recoveries			
Sale of Capital Assets			
Total Other Financing Sources (Uses)	0	0	0
Net Change in Fund Balances	89,698	(147,239)	(57,541)
Fund Balances, September 1, 2012	1,108,827		1,108,827
Restatements	(636,172)	781,343	145,171
Fund Balances, August 31, 2013	$ 562,353	$ 634,104	$ 1,196,457

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

Texas Department of Transportation
Combining Balance Sheet – Nonmajor Governmental Funds
August 31, 2013 (Amounts in Thousands)

	General Fund	Special Revenue Fund*	Debt Service Fund**	Capital Projects Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents:					
Cash in Bank	$	$ 359	$	$	$ 359
Cash in State Treasury	416		144,815	767,648	912,879
Legislative Appropriations	19,269				19,269
Federal Receivables	4,771		10,282		15,053
Due from Other Funds		216			216
Due from Other Agencies	219				219
Loans and Contracts	200				200
Total Assets	24,875	575	155,097	767,648	948,195
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts Payable	1,787	178		117,125	119,090
Payroll Payable	117				117
Due to Other Funds	416				416
Deferred Revenues				486,446	486,446
Total Liabilities	2,320	178	0	603,571	606,069
Fund Balances:					
Nonspendable	154				154
Restricted			155,097	164,077	319,174
Assigned	1,685	397			2,082
Unassigned	20,716				20,716
Total Fund Balances	22,555	397	155,097	164,077	342,126
Total Liabilities and Fund Balances	$ 24,875	$ 575	$ 155,097	$ 767,648	$ 948,195

* Texas Transportation Corporations (Appropriated Fund 9999) - no combining statements presented.

** Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) - no combining statements presented.

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

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	General Fund	Special Revenue Fund*	Debt Service Fund**	Capital Projects Funds	Total Nonmajor Funds
REVENUES:					
Legislative Appropriations:					
Original Appropriations	$ 12,163	$	$	$	$ 12,163
Additional Appropriations	262				262
Federal Revenues	12,088		24,874		36,962
Interest and Investment Income			531	2,205	2,736
Sales of Goods and Services	430			162,567	162,997
Other Revenues		1,411			1,411
Total Revenues	24,943	1,411	25,405	164,772	216,531
EXPENDITURES:					
Transportation	12,840	1,185		1,890	15,915
Capital Outlay	4,501			1,036,919	1,041,420
Principal on State Bonds	21,020		120,155		141,175
Interest on State Bonds	54,492		194,786		249,278
Other Financing Fees	(455)			3,766	3,311
Total Expenditures	92,398	1,185	314,941	1,042,575	1,451,099
Excess (Deficiency) of Revenues Over (Under) Expenditures	(67,455)	226	(289,536)	(877,803)	(1,234,568)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	12,129		287,905		300,034
Operating Transfers Out	(330)			(162,567)	(162,897)
Bond & Note Issued				1,103,524	1,103,524
Sale of Capital Assets	2,202				2,202
Appropriations Lapsed	(71)				(71)
Total Other Financing Sources (Uses	13,930	0	287,905	940,957	1,242,792
Net Change in Fund Balances	(53,525)	226	(1,631)	63,154	8,224
Fund Balances, September 1, 2012	76,080	170	156,728	100,923	333,901
Restatements		1			1
Fund Balances, August 31, 2013	$ 22,555	$ 397	$ 155,097	$ 164,077	$ 342,126

* Texas Transportation Corporations (Appropriated Fund 9999) - no combining statements presented.
** Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) - no combining statements presented.

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

Texas Department of Transportation
Combining Balance Sheet – General Fund Accounts
August 31, 2013 (Amounts in Thousands)

	General Fund	Traffic Safety-Crash Records Information	Texas Highway Beautification	Colonias Projects Fund	Suspense Fund	TOTAL
ASSETS:						
Cash and Cash Equivalents:						
Cash in State Treasury	$	$	$	$	$ 416	$ 416
Legislative Appropriations	19,269					19,269
Federal Receivables	4,771					4,771
Due from Other Agencies		114		105		219
Loans and Contracts	200					200
Total Assets	24,240	114	0	105	416	24,875
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Payables:						
Accounts Payable	1,568	114		105		1,787
Payroll Payable	117					117
Due to Other Funds					416	416
Total Liabilities	1,685	114	0	105	416	2,320
FUND BALANCES:						
Nonspendable	154					154
Assigned	1,685					1,685
Unassigned	20,716					20,716
Total Fund Balances	22,555	0	0	0	0	22,555
Total Liabilities and Fund Balance	$ 24,240	$ 114	$ 0	$ 105	$ 416	$ 24,875

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

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund Accounts
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	General Fund	Traffic Safety-Crash Records Information Systems	Texas Highway Beautification	Colonias Projects Fund	Suspense Fund	TOTAL
REVENUES:						
Legislative Appropriations:						
Original Appropriations	$ 12,163	$	$	$	$	$ 12,163
Additional Appropriations	262					262
Federal Revenue	12,088					12,088
Sale of Goods & Services	430					430
Total Revenues	24,943	0	0	0	0	24,943
EXPENDITURES:						
Transportation	3,280	743		8,817		12,840
Capital Outlay	4,501					4,501
Principal on State Bonds	21,020					21,020
Interest on State Bonds	54,492					54,492
Other Financing Fees	(455)					(455)
Total Expenditures	82,838	743	0	8,817	0	92,398
Excess (Deficiency) of Revenues Over (Under) Expenditures	(57,895)	(743)	0	(8,817)	0	(67,455)
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	2,569	743		8,817		12,129
Operating Transfers Out			(330)			(330)
Sale of Capital Assets	2,202					2,202
Appropriations Lapsed	(71)					(71)
Total Other Financing Sources (Uses)	4,700	743	(330)	8,817	0	13,930
Net Change in Fund Balances	(53,195)	0	(330)	0	0	(53,525)
Fund Balances, September 1, 2012	75,750		330			76,080
Restatements						
Fund Balances, August 31, 2013	$ 22,555	$ 0	$ 0	$ 0	$ 0	$ 22,555

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

Texas Department of Transportation
Combining Balance Sheet – Nonmajor Capital Projects Funds
August 31, 2013 (Amounts in Thousands)

	Proposition 12 Highway Improvement Project Fund	Local Government, Political Subdivision Road/Airport Account	TOTAL
ASSETS			
Cash and Cash Equivalents:			
Cash in State Treasury	$ 281,202	$ 486,446	$ 767,648
Total Assets	281,202	486,446	767,648
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Payables:			
Accounts Payable	117,125		117,125
Deferred Revenues		486,446	486,446
Total Liabilities	117,125	486,446	603,571
FUND BALANCES:			
Restricted	164,077		164,077
Total Fund Balances	164,077	0	164,077
Total Liabilities and Fund Balances	$ 281,202	$ 486,446	$ 767,648

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

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Proposition 12 Highway Improvement Project Fund	Local Government, Political Subdivision Road/Airport Account	TOTAL
REVENUES:			
Interest & Investment Income	$ 2,205	$	$ 2,205
Sales of Goods & Services		162,567	162,567
Total Revenues	2,205	162,567	164,772
EXPENDITURES:			
Transportation	1,890		1,890
Capital Outlay	1,036,919		1,036,919
Other Financing Fees	3,766		3,766
Total Expenditures	1,042,575	0	1,042,575
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,040,370)	162,567	(877,803)
OTHER FINANCING SOURCES (USES):			
Operating Transfer In (Out)		(162,567)	(162,567)
Bond & Note Issued	1,103,524		1,103,524
Total Other Financing Sources (Uses)	1,103,524	(162,567)	940,957
Net Change in Fund Balances	63,154	0	63,154
Fund Balances, September 1, 2012	100,923		100,923
Fund Balances, August 31, 2013	$ 164,077	$ 0	$ 164,077

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

Texas Department of Transportation
Combining Statement of Changes in Assets and Liabilities – Agency Funds
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Balances September 1, 2012	Additions	Deductions	Balances August 31, 2013
	$	$	$	$
UNAPPROPRIATED RECEIPTS				
General Revenue Fund (0001), U/F (1001) *				
Assets:				
Cash on Hand	0	1,890	1,890	0
Total Assets	0	1,890	1,890	0
Liabilities:				
Funds Held for Others	0	1,890	1,890	0
Total Liabilities	0	1,890	1,890	0
OTHER AGENCY FUNDS				
Child Support-Employee Deduction Account (0807), U/F (8070)*				
Assets:				
Cash in State Treasury	255	3,748	3,712	291
Total Assets	255	3,748	3,712	291
Liabilities:				
Funds Held for Others	255	3,748	3,712	291
Total Liabilities	255	3,748	3,712	291
Direct Deposit Correction Account (0980), U/F (0980 and 9014)*				
Assets:				
Cash in State Treasury	345	54,507	54,587	265
Total Assets	345	54,507	54,587	265
Liabilities:				
Funds Held for Others	345	54,507	54,587	265
Total Liabilities	345	54,507	54,587	265

Concluded on the following page.

* 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 Department of Transportation
Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Balances September 1, 2012	Additions	Deductions	Balances August 31, 2013
	$	$	$	$
OTHER AGENCY FUNDS				
Toll Revenue Custodial Account				
Account (9999), U/F (0997)*				
Assets:				
Cash on Hand	33	18	33	18
Cash in Bank	19,704	669,669	669,309	20,064
Total Assets	19,737	669,687	669,342	20,082
Liabilities:				
Funds Held for Others	19,737	669,687	669,342	20,082
Total Liabilities	19,737	669,687	669,342	20,082
TOTALS - ALL AGENCY FUNDS				
Assets:				
Cash on Hand	33	1,908	1,923	18
Cash in Bank	19,704	669,669	669,309	20,064
Cash in State Treasury	600	58,255	58,299	556
Total Assets	20,337	729,832	729,531	20,638
Liabilities:				
Funds Held for Others	20,337	729,832	729,531	20,638
Total Liabilities	$ 20,337	$ 729,832	$ 729,531	$ 20,638

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Other Information

Schedules*

1A – Schedule of Expenditures of Federal Awards (unaudited)

1B – Schedule of State Grant Pass-Throughs (unaudited)

2A – Miscellaneous Bond Information

2B – Changes in Bonded Indebtedness

2C – Debt Service Requirements

2D– Analysis of Funds Available for Debt Service

2F – Early Extinguishment and Refunding

* All schedules are presented unrounded (in dollars and cents).

Texas Department of Transportation
Schedule 1A – Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through From Agency Number	Pass-Through From State Entities	Pass-Through From Other Entities	Direct Program Amount
			$	$	$
Federal Aviation Administration (FAA):					
Direct Program:					
Airport Improvement Program	20.106				63,328,638.83
Pass-Through Funds to Other Entities:					
Airport Improvement Program	20.106				150,534.98
Total FAA:			0.00	0.00	63,479,173.81
Federal Motor Carrier Safety Administration:					
Direct Program:					
Commercial Vehicle Information Systems and Networks	20.237				161,344.57
Total Federal Motor Carrier Safety Administration:			0.00	0.00	161,344.57
Federal Railroad Administration:					
Direct Program:					
High-Speed Rail Corridors and Intercity Passenger Rail Service-Capital Assistance Grants - ARRA	20.319				1,118,516.08
Rail Line Relocation and Improvement	20.320				4,175,072.52
Total Federal Railroad Administration:			0.00	0.00	5,293,588.60
Federal Transit Administration (FTA):					
Direct Program:					
Formula Grants For Other Than Urbanized Areas	20.509				1,455,171.92
Public Transportation Research	20.514				12,451.42
State Planning and Research	20.515				739,934.87
Pass-Through Funds:					
Formula Grants For Other Than Urbanized Areas	20.509				80,338.34
Pass-Through Funds to Other Entities:					
Federal Transit Metropolitan Planning Grants	20.505				7,686,926.96
Formula Grants For Other Than Urbanized Areas - ARRA	20.509				84,843.68
Formula Grants For Other Than Urbanized Areas	20.509				34,924,126.00
State Planning and Research	20.515				1,021,814.83
Total FTA:			0.00	0.00	46,005,608.02
National Highway Traffic Safety Admin. (NHTSA):					
Pass-Through Funds to Other Entities:					
NHTSA Discretionary Safety Grants	20.614				208,278.33
Total NHTSA:			0.00	0.00	208,278.33
General Services Administration (GSA):					
Pass-Through Funds:					
Donation of Federal Surplus Personal Property (NON-MONETARY)					
Pass-Through from Texas Facilities Commission	39.003	303	17,313.96		
Total GSA:			17,313.96	0.00	0.00
Environmental Protection Agency (EPA):					
Pass-Through Funds:					
Performance Partnership Grants					
Pass-Through from Texas Comm. On Environmental Qualit	66.605	582	100,000.00		
Total EPA:			100,000.00	0.00	0.00

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Total Pass-Through From and Direct Program	Pass-Through To Agency Number	Pass-Through To State Entities	Pass-Through To Other Entities	Expenditures	Total Pass-Through To and Expenditures Amount
	$	$	$	$	
63,328,638.83				63,328,638.83	63,328,638.83
150,534.98			150,534.98		150,534.98
63,479,173.81		0.00	150,534.98	63,328,638.83	63,479,173.81
161,344.57				161,344.57	161,344.57
161,344.57		0.00	0.00	161,344.57	161,344.57
1,118,516.08				1,118,516.08	1,118,516.08
4,175,072.52				4,175,072.52	4,175,072.52
5,293,588.60		0.00	0.00	5,293,588.60	5,293,588.60
1,455,171.92				1,455,171.92	1,455,171.92
12,451.42				12,451.42	12,451.42
739,934.87				739,934.87	739,934.87
80,338.34	711	80,338.34			80,338.34
7,686,926.96			7,686,926.96		7,686,926.96
84,843.68			84,843.68		84,843.68
34,924,126.00			34,924,126.00		34,924,126.00
1,021,814.83			1,021,814.83		1,021,814.83
46,005,608.02		80,338.34	43,717,711.47	2,207,558.21	46,005,608.02
208,278.33			208,278.33		208,278.33
208,278.33		0.00	208,278.33	0.00	208,278.33
17,313.96				17,313.96	17,313.96
17,313.96		0.00	0.00	17,313.96	17,313.96
100,000.00				100,000.00	100,000.00
100,000.00		0.00	0.00	100,000.00	100,000.00

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Texas Department of Transportation
Schedule 1A – Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended August 31, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through From Agency Number	Pass-Through From State Entities	Pass-Through From Other Entities	Direct Program Amount
			$	$	$
Other Clusters					
Public Assistance Cluster:					
Department of Homeland Security (DHS):					
Pass-Through Funds:					
Disaster Grants - Public Assistance					
Pass-Through from Texas Department of Public Safety	97.036	405	924,232.59		
Fire Management Assistance Grants					
Pass-Through from Texas Department of Public Safety	97.046	405	387,767.74		
Total DHS:			1,312,000.33	0.00	0.00
Federal Transit Cluster:					
Federal Transit Administration (FTA):					
Pass-Through Funds to Other Entities:					
Federal Transit - Capital Investment Grants	20.500				3,875,301.03
Total FTA:			0.00	0.00	3,875,301.03
Transit Services Programs Cluster:					
Federal Transit Administration (FTA):					
Direct Program:					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				459,544.90
Job Access - Reverse Commute	20.516				184,302.26
New Freedom Program	20.521				70,285.08
Pass-Throughs to Other Entities:					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				7,199,536.71
Job Access - Reverse Commute	20.516				9,030,810.52
New Freedom Program	20.521				3,443,968.85
Total FTA:			0.00	0.00	20,388,448.32
Highway Planning and Construction Cluster:					
Federal Highway Administration (FHWA):					
Direct Program:					
Highway Planning and Construction - ARRA	20.205				119,625,910.30
Highway Planning and Construction	20.205				2,216,184,020.04
Pass-Through Funds:					
Highway Planning and Construction					
Texas A & M University	20.205				13,055,515.21
University of Texas at Arlington	20.205				298,825.93
Prairie View A & M University	20.205				80,149.82
Texas Southern University	20.205				34,746.95
University of Texas - Austin	20.205				81,727.31
University of Texas - El Paso	20.205				14,303.92
Texas Historical Commission	20.205				1,720,433.30
Pass-Through to Other Entities - ARRA	20.205				40,979,472.26
Pass-Through to Other Entities	20.205				246,394,767.03
Total FHWA:			0.00	0.00	2,638,469,872.07

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Total Pass-Through From and Direct Program	Pass-Through To Agency Number	Pass-Through To State Entities	Pass-Through To Other Entities	Expenditures	Total Pass-Through To and Expenditures Amount
$		$	$	$	$
924,232.59				924,232.59	924,232.59
387,767.74				387,767.74	387,767.74
1,312,000.33		0.00	0.00	1,312,000.33	1,312,000.33
3,875,301.03			3,875,301.03		3,875,301.03
3,875,301.03		0.00	3,875,301.03	0.00	3,875,301.03
459,544.90				459,544.90	459,544.90
184,302.26				184,302.26	184,302.26
70,285.08				70,285.08	70,285.08
7,199,536.71			7,199,536.71		7,199,536.71
9,030,810.52			9,030,810.52		9,030,810.52
3,443,968.85			3,443,968.85		3,443,968.85
20,388,448.32		0.00	19,674,316.08	714,132.24	20,388,448.32
119,625,910.30				119,625,910.30	119,625,910.30
2,216,184,020.04				2,216,184,020.04	2,216,184,020.04
13,055,515.21	711	13,055,515.21			13,055,515.21
298,825.93	714	298,825.93			298,825.93
80,149.82	715	80,149.82			80,149.82
34,746.95	717	34,746.95			34,746.95
81,727.31	721	81,727.31			81,727.31
14,303.92	724	14,303.92			14,303.92
1,720,433.30	808	1,720,433.30			1,720,433.30
40,979,472.26			40,979,472.26		40,979,472.26
246,394,767.03			246,394,767.03		246,394,767.03
2,638,469,872.07		15,285,702.44	287,374,239.29	2,335,809,930.34	2,638,469,872.07

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Texas Department of Transportation
Schedule 1A – Schedule of Expenditures of Federal Awards (Concluded)
For the Fiscal Year Ended August 31, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through From Agency Number	Pass-Through From State Entities	Pass-Through From Other Entities	Direct Program Amount
			$	$	$
Highway Safety Cluster:					
National Highway Traffic Safety Admin. (NHTSA):					
Pass-Through Funds:					
State and Community Highway Safety Program					
Texas Department of Public Safety	20.600				846,710.80
Texas Department of State Health Services	20.600				930,061.98
Texas Cooperative Extension	20.600				387,735.58
University of Texas at Arlington	20.600				523,672.97
Texas A & M Engineering Extension Service	20.600				480,245.19
Texas Transportation Institute	20.600				1,768,922.94
Texas A & M University - Corpus Christi	20.600				52,307.52
Alcohol Impaired Driving Countermeasures Incentive Grants					
Texas Department of Public Safety	20.601				1,016,566.03
Texas Alcoholic Beverage Commission	20.601				267,268.18
Texas Cooperative Extension	20.601				287,303.88
Texas Transportation Institute	20.601				439,174.34
University of Texas - Permian Basin	20.601				4,000.00
Sam Houston State University	20.601				638,769.91
Texas State University	20.601				120,050.77
University of Houston - Downtown	20.601				198,530.00
Safety Belt Performance Grants					
Texas Transportation Institute	20.609				21,556.35
State Traffic Safety Information System Improvement Grants					
Texas Department of State Health Services	20.610				808,214.89
Pass-Through to Other Entities					
State and Community Highway Safety Program	20.600				14,910,330.57
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601				11,918,358.83
Occupant Protection Incentive Grants	20.602				459,179.57
Incentive Grant Program to Increase Motorcyclist Safety	20.612				409,787.87
Child Safety and Child Booster Seats Incentive Grants	20.613				853,401.66
Total NHTSA:			0.00	0.00	37,342,149.83
Total Other Clusters			1,312,000.33	0.00	2,700,075,771.25
TOTAL FEDERAL ASSISTANCE			$ 1,429,314.29	$ 0.00	$ 2,815,223,764.58

Total Pass-Through From and Direct Program	Pass-Through To Agency Number	Pass-Through To State Entities	Pass-Through To Other Entities	Expenditures	Total Pass-Through To and Expenditures Amount
	$	$	$	$	
846,710.80	405	846,710.80			846,710.80
930,061.98	537	930,061.98			930,061.98
387,735.58	555	387,735.58			387,735.58
523,672.97	714	523,672.97			523,672.97
480,245.19	716	480,245.19			480,245.19
1,768,922.94	727	1,768,922.94			1,768,922.94
52,307.52	760	52,307.52			52,307.52
1,016,566.03	405	1,016,566.03			1,016,566.03
267,268.18	458	267,268.18			267,268.18
287,303.88	555	287,303.88			287,303.88
439,174.34	727	439,174.34			439,174.34
4,000.00	742	4,000.00			4,000.00
638,769.91	753	638,769.91			638,769.91
120,050.77	754	120,050.77			120,050.77
198,530.00	784	198,530.00			198,530.00
21,556.35	727	21,556.35			21,556.35
808,214.89	537	808,214.89			808,214.89
14,910,330.57			14,910,330.57		14,910,330.57
11,918,358.83			11,918,358.83		11,918,358.83
459,179.57			459,179.57		459,179.57
409,787.87			409,787.87		409,787.87
853,401.66			853,401.66		853,401.66
37,342,149.83		8,791,091.33	28,551,058.50	0.00	37,342,149.83
2,701,387,771.58		24,076,793.77	339,474,914.90	2,337,836,062.91	2,701,387,771.58
2,816,653,078.87	$	24,157,132.11	$ 383,551,439.68	$ 2,408,944,507.08	$ 2,816,653,078.87

Notes to the Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended August 31, 2013

Note 1 - Nonmonetary Assistance

The "Donation of Federal Surplus Personal Property" is presented at 23.3% of the federal acquisition cost of $ 74,308.86. The surplus property is passed through from the Texas Facilities Commission. The federal grantor agency is the General Services Administration (GSA) and the federal CFDA number is 39.003. The estimated fair value for fiscal year 2013 is $ 17,313.96. The difference of the values of the surplus property recorded on the federal schedule and the financial statements is a reconciling item under Note 2.

Note 2 - Reconciliation

Per Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds:

Federal Revenues before Other Adjustments	$	2,873,631,144.61
Federal Pass Through Revenues		1,412,000.33
Subtotal	$	2,875,043,144.94
Reconciling Items:		
Federal Surplus Personal Property Donation (Non-Monetary)	$	17,313.96
Build America Bonds Federal Subsidy		(58,407,380.03)
Total Pass-Through and Expenditures per Federal Schedule	$	2,816,653,078.87

Note 3 - Federal Deferred Revenue

Federal Deferred Revenue 9/1/12	$	30,156,028.39
Increase (Decrease)		(3,451,763.95)
Federal Deferred Revenue 8/31/13	$	26,704,264.44

The federal deferred revenue ending balance of $ 26,704,264.44 pertains to federal expenditures which were incurred and are reimbursable from the Federal Highway Administration but the federal revenue is not collectable within 60 days after the end of the fiscal year. Federal CFDA number 20.205 applies to this $ 26,704,264.44

Texas Department of Transportation
Schedule 1B – Schedule of State Pass-Through Grants From/To State Agencies
For the Fiscal Year Ended August 31, 2013

Pass-Through To:

Research and Development Grants	
University of Texas at Arlington (Agency #714)	$ 2,508,116.90
Total Pass-Through To Other Agencies	$ 2,508,116.90

Texas Department of Transportation
Schedule 2A – Miscellaneous Bond Information
For the Fiscal Year Ended August 31, 2013

Governmental Activities

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Terms of Variable Interest Rates *	Scheduled Maturities First Year	Scheduled Maturities Last Year	First Call Date	Final Maturity Date
General Obligation Bonds:								
Texas Mobility Fund (Self-Supporting)								
Series 2005-A Fixed Rate Bonds	$900,000,000.00	3.9000%	5.0000%		2006	2035	4/1/2015	4/1/2035
Series 2005-B Variable Rate Bonds	100,000,000.00	VAR	VAR	Weekly	2006	2030	**	4/1/2030
Series 2006 Fixed Rate Bonds	750,000,000.00	3.6250%	5.0000%		2007	2036	4/1/2016	4/1/2036
Series 2006-A Fixed Rate Bonds	1,040,275,000.00	4.0000%	5.0000%		2007	2035	4/1/2017	4/1/2035
Series 2006-B Variable Rate Bonds	150,000,000.00	VAR	VAR	Weekly	2036	2036	**	4/1/2036
Series 2007 Fixed Rate Bonds	1,006,330,000.00	4.0000%	5.0000%		2008	2037	4/1/2017	4/1/2037
Series 2008 Fixed Rate Bonds	1,100,000,000.00	4.0000%	5.0000%		2009	2037	4/1/2018	4/1/2037
Series 2009-A Taxable Fixed Rate Bonds	1,208,495,000.00	5.3670%	5.5170%		2029	2039	**	4/1/2039
Total General Obligation Bonds (Self-Supporting)	6,255,100,000.00							
Texas Highway Improvement (Non-Self-Supporting)								
Series 2010-A Taxable Fixed Rate Bonds	815,420,000.00	3.2030%	4.6810%		2019	2040	**	4/1/2040
Series 2010-B Fixed Rate Bonds	162,390,000.00	2.0000%	5.0000%		2012	2018	n/a	4/1/2018
Series 2012-A Fixed Rate Bonds	818,635,000.00	5.0000%	5.0000%		2019	2042	4/1/2022	4/1/2042
Series 2012-B Fixed Rate Bonds	99,570,000.00	.3000%	1.5000%		2014	2019	n/a	4/1/2019
Total General Obligation (Non-Self-Supporting)	1,896,015,000.00							
Revenue Bonds:								
State Highway Fund (Self-Supporting)								
Series 2006 Fixed Rate Bonds	600,000,000.00	4.0000%	5.0000%		2007	2026	4/1/2016	4/1/2026
Series 2006-A Fixed Rate Bonds	852,550,000.00	4.0000%	5.2500%		2008	2025	4/1/2016	4/1/2025
Series 2006-B Variable Rate Bonds	100,000,000.00	VAR	VAR	Weekly	2026	2026	**	4/1/2026
Series 2007 Fixed Rate Bonds	1,241,845,000.00	4.0000%	5.0000%		2009	2027	4/1/2017	4/1/2027
Series 2008 Fixed Rate Bonds	162,995,000.00	3.5000%	5.2500%		2010	2028	4/1/2018	4/1/2028
Series 2010 Taxable Fixed Rate Bonds	1,500,000,000.00	5.0280%	5.1780%		2026	2030	**	4/1/2030
Total Revenue Bonds (Self-Supporting)	4,457,390,000.00							
Total Governmental Activities	$12,608,505,000.00							

* The variable rate bonds were variable based on weekly interest rate resets throughout fiscal 2013. These bonds may be converted to a daily mode, term rate mode, fixed rate mode, auction rate mode or a commercial paper mode at the option of the Commission or under certain conditions detailed in the applicable official statement.

** Bonds are subject to redemption prior to their respective maturities at the option of the Commission.

*** The Texas Private Activity Bond Surface Transportation Corporation Bonds are not obligations of the state and are not included in this schedule.

Concluded on the following page.

Texas Department of Transportation
Schedule 2A – Miscellaneous Bond Information (concluded)
For the Fiscal Year Ended August 31, 2013

Business-Type Activities

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Terms of Variable Interest Rates	Scheduled Maturities First Year	Scheduled Maturities Last Year	First Call Date	Final Maturity Date
Revenue Bonds (Self-Supporting):								
First Tier Revenue Bonds Series 2002-A								
Non-Callable Capital Appreciation Bonds ***	$521,342,734.94	4.4700%	5.7500%		2012	2030	n/a	8/15/2030
Callable Capital Appreciation Bonds ***	298,840,336.04	6.0000%	6.1000%		2025	2038	8/15/2012	8/15/2038
First Tier Revenue Refunding Bonds Series 2012-A	585,330,000.00	4.0000%	5.0000%		2038	2041	08/15/2022	08/15/2041
First Tier Revenue Refunding Put Bonds, Series 2012-B	225,000,000.00	1.2500%	1.2500%		2041	2042	02/15/2015	08/15/2042
Blended Component Unit-Grand Parkway Transportation Corporation****								
First Tier Toll Revenue Bonds, Series 2013-A	200,000,000.00	5.1250%	5.5000%		2031	2053	10/01/2023	04/01/2053
First Tier Toll Revenue Bonds, Series 2013-B								
Convertible Capital Appreciation Bonds***	277,432,160.43	4.9500%	5.8500%		2029	2048	10/01/2028	10/01/2048
Current Interest Bonds	1,137,935,000.00	5.0000%	5.2500%		2048	2053	10/01/2023	04/01/2053
Subordinate Tier Revenue Tender Bonds, Series 2013-C	836,440,000.00	2.0000%	2.0000%		2014	2017	n/a	10/01/2017
Subordinate Tier Revenue Tender Bonds, Series 2013-D	106,890,000.00	1.0000%	1.0000%		2014	2017	n/a	10/01/2017
Subordinate Tier Toll Revenue Bonds, Series 2013-E	361,810,000.00	5.1840%	5.1840%		2036	2042	**	10/01/2042
Total Business-Type Activities	$4,551,020,231.41							

** Bonds are subject to redemption prior to their respective maturities at the option of the Corporation.

*** Bonds issued to date include interest accreted to principal through Aug. 31, 2013.

****Grand Parkway Transportation Corporation bonds are not obligations of the state.

Texas Department of Transportation
Schedule 2B – Changes in Bonded Indebtedness
For the Fiscal Year Ended August 31, 2013

Governmental Activities

Description	Bonds Outstanding 9/01/2012	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2013
General Obligation Bonds:					
Texas Mobility Fund					
Series 2005-A	$783,495,000.00		$18,735,000.00		$764,760,000.00
Series 2005-B	79,130,000.00		3,290,000.00		75,840,000.00
Series 2006	664,130,000.00		15,485,000.00		648,645,000.00
Series 2006-A	1,032,890,000.00		4,185,000.00		1,028,705,000.00
Series 2006-B	150,000,000.00				150,000,000.00
Series 2007	1,004,185,000.00		250,000.00		1,003,935,000.00
Series 2008	1,088,585,000.00		11,245,000.00		1,077,340,000.00
Series 2009-A	1,208,495,000.00				1,208,495,000.00
Texas Highway Improvement					
Series 2010-A	815,420,000.00				815,420,000.00
Series 2010-B	142,230,000.00		21,020,000.00		121,210,000.00
Series 2012-A		818,635,000.00			818,635,000.00
Series 2012-B		99,570,000.00			99,570,000.00
Total	6,968,560,000.00	918,205,000.00	74,210,000.00	0	7,812,555,000.00
Revenue Bonds:					
State Highway Fund					
Series 2006	473,930,000.00		24,240,000.00		449,690,000.00
Series 2006-A	678,630,000.00		40,075,000.00		638,555,000.00
Series 2006-B	100,000,000.00				100,000,000.00
Series 2007	1,065,415,000.00		49,585,000.00		1,015,830,000.00
Series 2008	145,960,000.00		6,255,000.00		139,705,000.00
Series 2010	1,500,000,000.00				1,500,000,000.00
Total	3,963,935,000.00		120,155,000.00	0	3,843,780,000.00
TOTAL	$10,932,495,000.00	$918,205,000.00	$194,365,000.00	$0	$11,656,335,000.00

Continued on the following page.

Texas Department of Transportation
Schedule 2B – Changes in Bonded Indebtedness (continued)
For the Fiscal Year Ended August 31, 2013

Governmental Activities

	Unamortized Premium	Unamortized Discount	Unamortized Gain/(Loss) on Refunding	Net Bonds Outstanding 8/31/2013	Amounts Due Within One Year
General Obligation Bonds:					
Texas Mobility Fund					
Series 2005-A	$25,364,192.09	$157,260.75	$	$789,966,931.34	$21,613,029.75
Series 2005-B				75,840,000.00	3,400,000.00
Series 2006	13,940,644.09			662,585,644.09	17,282,109.03
Series 2006-A	24,290,060.26			1,052,995,060.26	6,744,974.11
Series 2006-B				150,000,000.00	
Series 2007	15,482,573.37			1,019,417,573.37	3,224,599.53
Series 2008	43,563,834.11			1,120,903,834.11	16,469,821.07
Series 2009-A				1,208,495,000.00	
Texas Highway Improvement					
Series 2010-A				815,420,000.00	
Series 2010-B	9,877,557.70			131,087,557.70	25,234,990.44
Series 2012-A	175,478,449.62			994,113,449.62	9,277,262.73
Series 2012-B	389,926.44			99,959,926.44	18,246,578.94
Total	308,387,237.68	157,260.75	0	8,120,784,976.93	121,493,365.60
Revenue Bonds:					
State Highway Fund					
Series 2006				449,690,000.00	25,435,000.00
Series 2006-A	32,521,734.51			671,076,734.51	44,780,144.55
Series 2006-B				100,000,000.00	
Series 2007	44,275,783.30			1,060,105,783.30	55,122,555.95
Series 2008	7,349,711.25			147,054,711.25	7,019,980.75
Series 2010				1,500,000,000.00	
Total	84,147,229.06	0	0	3,927,927,229.06	132,357,681.25
TOTAL	$392,534,466.74	$157,260.75	$ 0	$12,048,712,205.99	$253,851,046.85

Continued on the following page.

Texas Department of Transportation
Schedule 2B – Changes in Bonded Indebtedness (continued)
For the Fiscal Year Ended August 31, 2013

Business-Type Activities

Description	Bonds Outstanding 9/01/2012	Bonds Issued*	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2013
Revenue Bonds:					
First Tier Bonds Series 2002-A					
Non-Callable CABs	$489,544,170.34	$27,293,564.60	$7,710,000.00		$509,127,734.94
Callable CABs	281,474,152.07	17,366,183.97			298,840,336.04
CIBs	707,875,000.00			$707,875,000.00	0.00
First Tier Bonds Series 2012-A		585,330,000.00			585,330,000.00
First Tier Bonds Series 2012-B		225,000,000.00			225,000,000.00
First Tier Refunding Put Bonds Series 2009	149,275,000.00			149,275,000.00	0.00
Blended Component Unit-Grand Parkway Transportation Corp.:					
First Tier Toll Revenue Bonds, Series 2013-A		200,000,000.00			200,000,000.00
Subordinate Tier Toll Revenue Bonds, Series 2013-B					
Callable CAB		277,432,160.43			277,432,160.43
Current Interest Bonds		1,137,935,000.00			1,137,935,000.00
Subordinate Tier Toll Revenue Bonds, Series 2013-C		836,440,000.00			836,440,000.00
Subordinate Tier Toll Revenue Bonds, Series 2013-D		106,890,000.00			106,890,000.00
Subordinate Tier Toll Revenue Bonds, Series 2013-E		361,810,000.00			361,810,000.00
TOTAL	$1,628,168,322.41	$3,775,496,909.00	$7,710,000.00	$857,150,000.00	$4,538,805,231.41

*Grand Parkway Transportation debt issuances are not obligations of the State
**Due to annual principal accretion.

Concluded on the following page

Texas Department of Transportation
Schedule 2B – Changes in Bonded Indebtedness (concluded)
For the Fiscal Year Ended August 31, 2013

Business-Type Activities

	Unamortized Premium	Unamortized Discount	Gain/(Loss) on Refunding	Net Bonds Outstanding 8/31/2013	Amounts Due Within One Year
First Tier Bonds Series 2002-A					
Non-Callable CABs				$509,127,734.94	$10,155,000.00
Callable CABs				298,840,336.04	
CIBs				0.00	
First Tier Bonds Series 2012-A	49,479,792.18		(28,668,564.18)	606,141,228.00	913,641.19
First Tier Bonds Series 2012-B			(6,193,908.36)	218,806,091.64	(213,583.05)
First Tier Refunding Put Bonds Series 2009				0.00	
Blended Component Unit-Grand Parkway Transportation Corporation*:					
First Tier Toll Revenue Bonds, Series 2013-A		3,029,814.62		196,970,185.38	(89,510.39)
Subordinate Tier Toll Revenue Bonds, Series 2013-B					
Callable Capital Appreciation Bonds**				277,432,160.43	
Current Interest Bonds	6,556,415.95	16,462,427.50		1,128,028,988.45	(248,788.46)
Subordinate Tier Toll Revenue Bonds, Series 2013-C	4,531,981.35			840,971,981.35	1,983,886.24
Subordinate Tier Toll Revenue Bonds, Series 2013-D	84,145.44			106,974,145.44	30,226.87
Subordinate Tier Toll Revenue Bonds, Series 2013-E				361,810,000.00	
TOTAL	$60,652,334.92	$19,492,242.12	($34,862,472.54)	$4,545,102,851.67	$12,530,872.40

Texas Department of Transportation
Schedule 2C – Debt Service Requirements
For the Fiscal Year Ended August 31, 2013

Governmental Activities

Description of Issue	Year	Principal	Interest
TMF General Obligation Bonds			
Series 2005-A	2014	$ 19,670,000.00	$ 36,596,952.50
	2015	20,655,000.00	35,613,452.50
	2016	21,690,000.00	34,580,702.50
	2017	22,775,000.00	33,496,202.50
	2018	23,660,000.00	32,607,977.50
	2019-2023	134,180,000.00	147,160,767.50
	2024-2028	170,415,000.00	110,933,937.50
	2029-2033	235,710,000.00	63,333,750.00
	2034-2038	116,005,000.00	8,329,362.50
		$ 764,760,000.00	$ 502,653,105.00
Series 2005-B	2014	$ 3,400,000.00	$ 52,096.33
	2015	3,510,000.00	49,684.25
	2016	3,625,000.00	47,193.71
	2017	3,745,000.00	44,621.21
	2018	3,870,000.00	41,963.25
	2019-2023	21,350,000.00	166,760.42
	2024-2028	25,100,000.00	85,866.67
	2029-2033	11,240,000.00	8,586.66
		$ 75,840,000.00	$ 496,772.50
Series 2006	2014	$ 16,225,000.00	$ 32,115,562.50
	2015	16,940,000.00	31,405,037.50
	2016	17,770,000.00	30,572,037.50
	2017	18,630,000.00	29,714,162.50
	2018	19,560,000.00	28,782,662.50
	2019-2023	113,490,000.00	128,227,312.50
	2024-2028	144,545,000.00	97,175,325.00
	2029-2033	184,245,000.00	57,469,750.00
	2034-2038	117,240,000.00	10,871,250.00
		$ 648,645,000.00	$ 446,333,100.00
Series 2006-A	2014	$ 5,115,000.00	$ 49,339,500.00
	2015	6,045,000.00	49,134,900.00
	2016	6,955,000.00	48,893,100.00
	2017	8,895,000.00	48,614,900.00
	2018	12,490,000.00	48,170,150.00
	2019-2023	124,510,000.00	227,491,000.00
	2024-2028	252,315,000.00	184,776,900.00
	2029-2033	418,080,000.00	109,458,000.00
	2034-2038	194,300,000.00	12,622,500.00
		$ 1,028,705,000.00	$ 778,500,950.00

Texas Department of Transportation
Schedule 2C – Debt Service Requirements (continued)
For the Fiscal Year Ended August 31, 2013

Governmental Activities

Description of Issue	Year	Principal	Interest
TMF General Obligation Bonds			
Series 2006-B	2014	$	$ 90,000.00
	2015		90,000.00
	2016		90,000.00
	2017		90,000.00
	2018		90,000.00
	2019-2023		450,000.00
	2024-2028		450,000.00
	2029-2033		450,000.00
	2034-2038	150,000,000.00	220,566.00
		$ 150,000,000.00	$ 2,020,566.00
Series 2007	2014	$ 2,350,000.00	$ 48,729,262.50
	2015	5,130,000.00	48,635,262.50
	2016	8,125,000.00	48,430,062.50
	2017	10,890,000.00	48,105,062.50
	2018	12,420,000.00	47,560,562.50
	2019-2023	88,230,000.00	226,804,062.50
	2024-2028	141,375,000.00	200,109,700.00
	2029-2033	208,830,000.00	160,967,937.50
	2034-2038	526,585,000.00	84,183,000.00
		$ 1,003,935,000.00	$ 913,524,912.50
Series 2008	2014	$ 13,625,000.00	$ 52,229,825.00
	2015	15,645,000.00	51,548,575.00
	2016	17,765,000.00	50,766,325.00
	2017	19,465,000.00	49,878,075.00
	2018	21,935,000.00	48,904,825.00
	2019-2023	140,815,000.00	226,062,625.00
	2024-2028	207,730,000.00	184,517,625.00
	2029-2033	293,630,000.00	125,263,575.00
	2034-2038	346,730,000.00	44,939,275.00
		$ 1,077,340,000.00	$ 834,110,725.00

Texas Department of Transportation
Schedule 2C – Debt Service Requirements (continued)
For the Fiscal Year Ended August 31, 2013

Governmental Activities

Description of Issue	Year	Principal	Interest
TMF General Obligation Bonds			
Series 2009-A	2014	$	$ 66,582,669.16
	2015		66,582,669.16
	2016		66,582,669.16
	2017		66,582,669.16
	2018		66,582,669.16
	2019-2023	6,800,000.00	332,654,924.74
	2024-2028	39,970,000.00	327,779,005.24
	2029-2033	90,265,000.00	311,854,509.94
	2034-2038	584,530,000.00	279,577,836.92
	2039-2043	486,930,000.00	26,863,928.10
		$ 1,208,495,000.00	$ 1,611,643,550.74
Texas Highway Improvement General Obligation Bonds			
Series 2010-A	2014	$	$ 35,837,342.50
	2015		35,837,342.50
	2016		35,837,342.50
	2017		35,837,342.50
	2018		35,837,342.50
	2019-2023	144,810,000.00	169,647,372.50
	2024-2028	163,800,000.00	140,435,853.92
	2029-2033	189,380,000.00	101,126,042.42
	2034-2038	219,835,000.00	54,330,728.66
	2039-2043	97,595,000.00	6,886,921.26
		$ 815,420,000.00	$ 651,613,631.26
Series 2010-B	2014	$ 22,040,000.00	$ 5,681,150.00
	2015	23,120,000.00	4,600,150.00
	2016	24,220,000.00	3,502,150.00
	2017	25,360,000.00	2,359,400.00
	2018	26,470,000.00	1,249,000.00
	2019-2023		
		$ 121,210,000.00	$ 17,391,850.00
Series 2012-A			
	2014	$	40,931,750.00
	2015		$ 40,931,750.00
	2016		40,931,750.00
	2017		40,931,750.00
	2018		40,931,750.00
	2019-2023	94,945,000.00	196,429,750.00
	2024-2028	130,945,000.00	168,466,250.00
	2029-2033	167,115,000.00	132,289,000.00
	2034-2038	213,290,000.00	86,118,250.00
	2039-2043	212,340,000.00	27,189,500.00
		$ 818,635,000.00	$ 815,151,500.00

Texas Department of Transportation
Schedule 2C – Debt Service Requirements (continued)
For the Fiscal Year Ended August 31, 2013

Governmental Activities

Description of Issue	Year		Principal		Interest
Series 2012-B	2014	$	18,105,000.00	$	848,072.50
	2015		18,160,000.00		793,757.50
	2016		18,225,000.00		725,657.50
	2017		18,500,000.00		452,282.50
	2018		18,645,000.00		304,282.50
	2019-2023		7,935,000.00		99,187.50
		$	99,570,000.00	$	3,223,240.00
Total General Obligation Bonds		$	7,812,555,000.00	$	6,576,663,903.00
SHF Revenue Bonds					
Series 2006	2014	$	25,435,000.00	$	22,429,850.00
	2015		26,680,000.00		21,184,850.00
	2016		27,985,000.00		19,876,500.00
	2017		29,385,000.00		18,479,500.00
	2018		30,855,000.00		17,010,250.00
	2019-2023		179,005,000.00		60,309,750.00
	2024-2028		130,345,000.00		13,246,500.00
		$	449,690,000.00	$	172,537,200.00
Series 2006-A	2014	$	42,070,000.00	$	31,130,175.00
	2015		44,185,000.00		29,015,250.00
	2016		46,170,000.00		27,026,925.00
	2017		48,255,000.00		24,949,275.00
	2018		50,665,000.00		22,536,525.00
	2019-2023		293,950,000.00		72,054,125.00
	2024-2028		113,260,000.00		7,386,775.00
		$	638,555,000.00	$	214,099,050.00
Series 2006-B	2014	$		$	400,000.00
	2015				400,000.00
	2016				400,000.00
	2017				400,000.00
	2018				400,000.00
	2019-2023				2,000,000.00
	2043-2028		100,000,000.00		930,313.33
		$	100,000,000.00	$	4,930,313.33
Series 2007	2014	$	51,960,000.00	$	50,625,875.00
	2015		54,500,000.00		48,084,750.00
	2016		57,200,000.00		45,386,000.00
	2017		60,035,000.00		42,552,250.00
	2018		62,980,000.00		39,606,750.00
	2019-2023		365,395,000.00		147,530,500.00
	2024-2028		363,760,000.00		46,578,750.00
		$	1,015,830,000.00	$	420,364,875.00

Texas Department of Transportation
Schedule 2C – Debt Service Requirements (continued)
For the Fiscal Year Ended August 31, 2013

Governmental Activities

Description of Issue	Year	Principal	Interest
SHF Revenue Bonds			
Series 2008	2014	$ 6,530,000.00	$ 7,042,625.00
	2015	6,835,000.00	6,735,250.00
	2016	7,155,000.00	6,416,437.50
	2017	7,490,000.00	6,080,237.50
	2018	7,840,000.00	5,730,637.50
	2019-2023	45,500,000.00	22,364,937.50
	2023-2028	58,355,000.00	9,503,812.50
		$ 139,705,000.00	$ 63,873,937.50
Series 2010	2014	$	$ 77,226,067.50
	2015		77,226,067.50
	2016		77,226,067.50
	2017		77,226,067.50
	2018		77,226,067.50
	2019-2023	70,495,000.00	386,130,337.50
	2024-2028	742,610,000.00	324,072,508.80
	2029-2033	686,895,000.00	53,650,552.50
		$ 1,500,000,000.00	$ 1,149,983,736.30
TOTAL Revenue Bonds		$ 3,843,780,000.00	$ 2,025,789,112.13
TOTAL GOVERNMENTAL ACTIVITIES		$ 11,656,335,000.00	$ 8,602,453,015.13

Texas Department of Transportation
Schedule 2C – Debt Service Requirements (continued)
For the Fiscal Year Ended August 31, 2013

Business-Type Activities

Description of Issue	Year	Principal	Interest
CTTS Revenue Bonds	2014	$ 10,155,000.00	$
Series 2002-A	2015	12,605,000.00	
	2016	25,805,000.00	
	2017	29,655,000.00	
	2018	33,500,000.00	
	2019-2023	237,705,000.00	
	2024-2028	425,580,000.00	
	2029-2033	584,045,000.00	
	2034-2038	605,825,000.00	
		$ 1,964,875,000.00	$ 0.00
Series 2012-A	2014	$	$ 28,034,150.00
	2015		28,034,150.00
	2016		28,034,150.00
	2017		28,034,150.00
	2018		28,034,150.00
	2019-2023		140,170,750.00
	2024-2028		140,170,750.00
	2029-2033		140,170,750.00
	2034-2038	123,235,000.00	140,170,750.00
	2039-2041	462,095,000.00	45,003,500.00
		$ 585,330,000.00	$ 745,857,250.00
Series 2012-B			
	2014	$	$ 2,812,500.00
	2015		7,031,250.00
	2016		11,250,000.00
	2017		11,250,000.00
	2018		11,250,000.00
	2019-2023		56,250,000.00
	2024-2028		56,250,000.00
	2029-2033		56,250,000.00
	2034-2038		56,250,000.00
	2039-2042	225,000,000.00	42,977,000.00
		$ 225,000,000.00	$ 311,570,750.00

Texas Department of Transportation
Schedule 2C – Debt Service Requirements (continued)
For the Fiscal Year Ended August 31, 2013

Business-Type Activities

Description of Issue	Year	Principal	Interest
Grand Parkway Transportation Corporation*			
Series 2013-A	2014	$	$ 7,214,008.33
	2015		10,821,012.50
	2016		10,821,012.50
	2017		10,821,012.50
	2018		10,821,012.50
	2019-2023		54,105,062.50
	2024-2028		54,105,062.50
	2029-2033	1,070,000.00	54,060,731.25
	2034-2038	11,090,000.00	52,686,462.51
	2039-2043	27,505,000.00	47,866,528.14
	2044-2048	51,315,000.00	37,651,490.63
	2049-2053	109,020,000.00	19,070,837.50
		$ 200,000,000.00	$ 370,044,233.36
Series 2013-B	2014	$	$ 38,889,500.00
	2015		58,334,250.00
	2016		58,334,250.00
	2017		58,334,250.00
	2018		58,334,250.00
	2019-2023		291,671,250.00
	2024-2028		416,580,236.25
	2029-2033	38,785,000.00	427,798,196.25
	2034-2038	119,380,000.00	401,481,236.25
	2039-2043	0.00	387,728,837.50
	2044-2048	302,045,000.00	352,677,236.25
	2049-2053	1,166,885,000.00	201,014,362.50
		$ 1,627,095,000.00	$ 2,751,177,855.00
Series 2013-C	2014	$	$ 10,618,141.11
	2015	265,000,000.00	10,559,100.00
	2016	220,000,000.00	6,921,600.00
	2017	200,000,000.00	5,140,870.00
	2018	151,440,000.00	3,786,000.00
		$ 836,440,000.00	$ 37,025,711.11

Texas Department of Transportation
Schedule 2C – Debt Service Requirements (concluded)
For the Fiscal Year Ended August 31, 2013

Business-Type Activities

Description of Issue	Year	Principal	Interest
Series 2013-D			
	2014	$	$ 849,181.67
	2015	20,000,000.00	1,937,800.00
	2016	20,000.000,00	1,537,800.00
	2017	30,000,000.00	1,323,697.50
	2018	36,890,000.00	922,250.00
		$ 106,890,000.00	$ 6,570,729.17
Series 2013-E	2014	$	$ 12,504,153.60
	2015		18,756,230.40
	2016		18,756,230.40
	2017		18,756,230.40
	2018		18,756,230.40
	2019-2023		93,781,152.00
	2024-2028		93,781,152.00
	2029-2033		93,781,152.00
	2034-2038	66,060,000.00	91,281,168.00
	2039-2043	295,750,000.00	37,045,382.40
		$ 361,810,000.00	$ 497,199,081.60
TOTAL BUSINESS-TYPE ACTIVITIES		$ 5,907,440,000.00	$ 4,719,445,610.24

*Grand Parkway Transportation Corporation bonds is a blended component unit of TxDOT, these are not obligations of the state.

Texas Department of Transportation
Schedule 2D – Analysis of Funds Available for Debt Service
For the fiscal Year Ended August 31, 2013

Governmental Activities

	Application of Funds	
Description of Issue	**Principal**	**Interest**
Texas Mobility General Obligation Bonds	$53,190,000.00	$288,301,058.67
	$53,190,000.00	$288,301,058.67

	Pledged and Other Sources and Related Expenditures for FY 2013			
	Net Available for Debt Service		Debt Service	
Description of Issue	**Total Pledged and Other Sources**	**Operating Expenses/Expenditures and Capital Outlay**	**Principal**	**Interest**
State Highway Fund Revenue Bonds	$6,761,663,573.25	(A)	$120,155,000.00	$194,788,723.13
	$6,761,663,573.25		$120,155,000.00	$194,788,723.13

(A) State Highway Fund expenditures associated with pledged sources were $6,691,568.00.

Business-Type and Blended Component Unit Activities

	Pledged and Other Sources and Related Expenditures for FY 2013			
	Net Available for Debt Service		Debt Service	
Description of Issue	**Total Pledged and Other Sources**	**Operating Expenses/Expenditures and Capital Outlay**	**Principal**	**Interest**
Series 2002-A and Series 2012A&B Revenue Bonds	$125,259,299.08	(B)	$7,710,000.00	$37,646,781.14
Grand Parkway Transportation Corporation Series 2013A-E	$126,749.50	(C)		
	$125,386,048.58		$7,710,000.00	$37,646,781.14

(B) Expenditures associated with pledged sources were $47,379,801.03
(C) Expenditures associated with pledged sources were $8,195.00

Texas Department of Transportation
Schedule 2F – Early Extinguishment and Refunding
For the fiscal Year Ended August 31, 2013

Business-Type Activities

Description	Category	Amount Extinguished or Refunded	Refunding Issued Par Value	Cash Flow (Increase)/ Decrease	Economic Gain/(Loss)
First Tier Bonds Series 2002-A CIBs*	Current Refunding	707,875,000.00	658,295,000.00	203,456,795.00	105,214,438.59
First Tier Refunding Put Bonds Series 2009**	Current Refunding	149,275,000.00	152,035,000.00	9,677,070.32	9,772,946.97
	TOTAL	$857,150,000.00	$810,330,000.00	$213,133,865.32	$114,987,385.56

*CTTS 2002-A (CIB) was partially refunded by CTTS First Tier Revenue Refunding Bonds, Series 2012A and B. $49.4 million of the premium on issuance of 2012-A results makes up the difference between the amount refunded and the par amounts issued.

**CTTS 2009 was refunded by CTTS Series 2012-B, with a par value issuance of $225 million. Series 2012-B refunded both $73.440 million from 2002-A (CIB) and all of CTTS 2009 par value of $149.275 million.

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Appendix C

Information Concerning the Funding of Federal-Aid Highways

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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 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 "Moving Ahead for Progress in the 21st Century Act" ("MAP-21"), became law on July 6, 2012 and is authorized until September 30, 2014. This law replaces the previous multi-year authorization, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users ("SAFETEA-LU"), which expired in September 30, 2009, but was reauthorized through passage of temporary short-term extensions until June 30, 2012. 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 five major categories: the National Highway Performance Program, the Surface Transportation Program, the Highway Safety Improvement Program, the Congestion Mitigation and Air Quality Program ("CMAQ"), and Metropolitan Planning ("MPO"). 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 Improvement 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 and meet its 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 MAP-21 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. 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 gasoline tax and 21.44 cents per gallon out of the current 24.4 cents per gallon diesel tax, go to the Highway Account.

The following table shows annual HTF collections in the Highway Account for the federal fiscal years 2000 through 2012, which is the most current federal fiscal year information available.

Receipts into the Highway Account of the Federal Highway Trust Fund
(In Millions)

Federal Fiscal Year	Receipts[1]
2012	$ 35,219
2011	32,010
2010	30,192
2009	27,165
2008	31,344
2007	34,293
2006	33,308
2005	32,894
2004	29,785
2003	28,964
2002	27,982
2001	26,916
2000	30,347

[1] Excludes interest earned on balances.

Source: Table FE-210 and Table FE-10, Highway Statistics 2012, Office of Highway Policy Information (as updated through June 2013).

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. The most recent major legislation to extend the imposition of taxes was in 2012 by MAP-21, described below. MAP-21 extends the imposition of taxes through September 30, 2016. Federal law regulates not only the imposition of the taxes dedicated to the HTF, but also their deposit into and expenditure from the HTF. MAP-21 authorizes the transfer of the taxes to the HTF and expenditures from the HTF for programs through September 30, 2014. 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. Based on current spending and revenue trends, the U.S. Department of Transportation estimates, as of February 18, 2014, that the Highway Account of the HTF will encounter a shortfall before the end of federal fiscal year 2014. As shown on Table FE-1 - "Status of the Highway Trust Fund - Fiscal Year 2014" as prepared by the FHWA, the Highway Account began federal fiscal year 2014 with approximately $3.8 billion. A $9.7 billion transfer to the Highway Account was processed shortly after the start of the fiscal year ($10.4 billion authorized in MAP-21, reduced by sequestration). Expenditures from the Surface Transportation Program continue to exceed revenues. As a result, the highway account of the HTF is likely to fall below $1 billion sometime in August. According to written Congressional testimony on March 12, 2014, the U.S. Department of Transportation acting undersecretary for policy

stated that "[a]bsent action by Congress to replenish the [HTF], USDOT will be required to implement cash management measures necessary to preserve a positive cash balance in the trust fund and head off insolvency" as early as July, 2014.

MAP-21

MAP-21 was signed into law by the President on July 6, 2012 and authorizes a total of approximately $118 billion for highways, highway safety and public transportation programs through federal fiscal year 2014. The federal-aid highway obligation limitations are set at these levels: $39.7 billion in federal fiscal year 2013 and $40.3 billion in federal fiscal year 2014.

The National Highway Performance Program consolidates three programs from SAFETEA-LU: the Interstate Maintenance, National Highway System and Highway Bridge programs. After funding CMAQ and MPO according to their previous funding levels under SAFETEA-LU, the National Highway Performance program will be apportioned 63.7% of total highway funding, the Surface Transportation Program will receive 29.3% of the funding, and the Highway Safety Improvement Program will receive 7% of the funding. The Equity Bonus provision of SAFETEA-LU, which provided funding to states based on equity concerns such as a state's contributions to the HTF, has been removed in MAP-21.

Discretionary Highway Programs previously found in SAFETEA-LU are largely removed in MAP-21 and replaced by formula funding. 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 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, Formula Grants for Rural Areas, Capital Investment Program, Formula Grants for Enhanced Mobility of Seniors and Individuals with Disabilities, Metropolitan Planning, and State Planning and Research.

MAP-21 does not extend the practice (established in The Transportation Equity Act for the 21st Century ("TEA-21") and continued in SAFETEA-LU) 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. A limitation on obligations and the process for distribution is included for each of the years in MAP-21. 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 MAP-21 for federal fiscal years 2013 and 2014 are based on previous obligation limits, adjusted for inflation. MAP-21 contains provisions which attempt to maintain funding levels for highway programs by providing a commitment to apportion at least 95% of the estimated tax payments attributable to highway users in a state paid into the Highway Trust Fund.

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 and meet such obligations.

The following summarizes the major steps in funding the FAHP.

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. Under MAP-21, in fiscal year 2013, the totals apportioned to a state for the National Highway Performance Program, Surface Transportation Program, Highway Safety Improvement Program, CMAQ, and MPO is according to the total apportioned to that state for 2012. The 2012 amount was arrived at under SAFETEA-LU based on factors including items such as lane miles, vehicle miles traveled, taxes paid into the HTF and diesel fuel usage. Under MAP-21, in fiscal year 2014, the total apportioned to a state for those programs mentioned above is based on the proportion of the total funds a state received in 2012 of the total funds received by all states adjusted so that no state receives less than 95 percent of the estimated tax payments attributable to highway users in the State paid into the HTF (other than the Mass Transit Account) in the most recent fiscal year for which data is available.

(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 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's 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's 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's share was $55,716,165. In federal fiscal year 2007, there were 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's share was $288,459,698 and $72,374,710 respectively.

The Energy Independence Security Act of 2007 ("EISA"), signed into law on December 18, 2007, provided instructions as to how rescissions should be implemented in 2008 and 2009 and limited the programs subject to be rescinded to those apportioned under Chapter 1 of Title 23. Prior to EISA, states had discretion as to which program funds could be used to cover the amounts being rescinded from their state; EISA provided specific instructions as to what program funds were subject to rescission and how the amount to be rescinded for federal fiscal years 2008 and 2009 were to be spread among those programs. In federal fiscal year 2008, the Consolidated Appropriations Act of 2008, signed into law on December 26, 2008, rescinded approximately $3.15 billion from unobligated apportioned funds of which Texas's share was $257,989,173. There were two rescissions in federal fiscal year 2009. The first was the result of a combination of acts including EISA, the Pension Protection Act of 2006, signed into law on August 17, 2006, and the SAFETEA-LU Technical Corrections Act of 2008, signed into law on June 6, 2008, and rescinded $8,705,000,000 of unobligated balances nationwide on September 30, 2009; the impact on Texas was $728,707,560. This rescission was subsequently restored by the Hiring Incentives to Restore Employment Act ("HIRE Act") in 2010 as discussed below. The second federal fiscal year 2009 rescission was the result of Division I, Title I of the Omnibus Appropriations Act, 2009, which was signed into law March 11, 2009, and mandated a second rescission of $3.15 billion of unobligated federal-aid highway funds apportioned to states; the impact on Texas was $272,403,085. In federal fiscal year 2010, Public Law 111-226, signed into law on August 10, 2010, rescinded $2,200,000,000 from unobligated apportioned funds of which Texas's share was $190,367,982. In federal fiscal year 2011, the Full-Year Continuing Appropriations Act, 2011, signed into law on April 15, 2011, rescinded $2,500,000,000 from unobligated apportioned funds of which Texas's share was $200,895,021.

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[1], 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

[1] Like SAFETEA-LU, MAP-21 provides a separate authorization for the administration costs of FAHP, not as a takedown from the various apportionment programs.

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, a 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.

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.

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 for the construction or acquisition of 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 OA 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. Three 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.

- Extension of SAFETEA-LU. On September 30, 2009, the authorization under SAFETEA-LU for federal highway and transit programs expired, but President Obama signed a 31-day extension on October 1, 2009 and later, on October 30, 2009, signed the Department of the Interior, Environment, and Related Agencies Appropriations Act, that extended authorization to make expenditures from the HTF under SAFETEA-LU until December 18, 2009. SAFETEA-LU was then extended again through February 28, 2010, the Department of Defense Appropriations Act, which was signed into law on December 19, 2009. Most recently, the HIRE Act, which was signed into law on March 18, 2010, extended the requirements, authorities, conditions, eligibilities, limitations and other provisions under SAFETEA-LU until December 31, 2010. The HIRE Act also authorizes HTF appropriations for federal fiscal year 2010 and October 1 through December 31, 2010 (first quarter of federal fiscal year 2011), for the federal-aid highway, surface transportation research, and transportation planning programs under SAFETEA-LU, with a limit on obligational authority for the programs equal to the total authorized for such programs for federal fiscal year 2009. The HIRE Act also restored the federal fiscal year 2009 rescission of $8.7 billion of contract authority; however, the HIRE Act did not provide additional funding beyond what was previously enacted under SAFETEA-LU. Congress continued to extend SAFETEA-LU until June 30, 2012, when MAP-21 was passed.

Sequestration

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended in 2011 (the "Budget Control Act"), required certain automatic reductions in federal spending that impacted MAP-21 funding. Pursuant to the requirements of the Budget Control Act, the $639,000,000 National Highway Performance Program funds authorized for federal fiscal year 2013 pursuant to MAP-21 and exempt from the obligation limitation were reduced by a total of $32,589,000, effective March 1, 2013. Additionally, effective April 10, 2013, such funds authorized for federal fiscal year 2014 were reduced by a total of $46,008,000. As a result, Texas experienced a reduction in apportionment and obligation authority of $2,689,891 for federal fiscal year 2013 and $4,113,042 for fiscal year 2014.

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

Forms of Opinions of Bond Counsel

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[Form of Bond Counsel Opinion for Series 2014-A Bonds]

April 2, 2014

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 AND REFUNDING BONDS, SERIES 2014-A, dated April 2, 2014, in the aggregate principal amount of $1,157,795,000, maturing on April 1 in each of the years 2017 through 2025, inclusive, and in the years 2031, 2033 and 2034. 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 Second Amended and Restated 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, dated as of April 23, 2010, the Amended and Restated Sixth Supplemental Resolution to the Master Resolution, adopted pursuant to Minute Order Number 113829 approved by the Commission on January 30, 2014 (the "Sixth Supplemental Resolution"), and the Award Certificate of Department Representative dated as of March 7, 2014 (the "Award Certificate" and, together with the Master Resolution and the Sixth 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 and the obligations that are being refunded (the "Refunded Obligations") with the proceeds of the Bonds, as described in the Resolution. The transcript contains certified copies of certain proceedings of the Commission and U.S. Bank National Association (the "Escrow Agent"); the report (the "Report") of The Arbitrage Group, Inc. (the "Verification Agent"), which verifies the sufficiency of the deposits made with the Escrow Agent for the defeasance of the Refunded Obligations and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; 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;

(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; and

(4) The escrow agreement between the Commission and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Obligations, having been discharged and paid, are no longer outstanding and the lien on and pledge of Pledged Revenues as set forth in the resolutions authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Obligations may obtain payment of the principal of and interest on the Refunded Obligations only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and,

therefore, the Refunded Obligations are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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 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.

PROSPECTIVE PURCHASERS OF THE BONDS should also 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.

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.

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.

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[Form of Bond Counsel Opinion for Series 2014-B Bonds]

April 2, 2014

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 2014-B (SIFMA INDEX FLOATING RATE BONDS), dated April 2, 2014, in the aggregate principal amount of $300,000,000, maturing on April 1, 2032. 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 Second Amended and Restated 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 dated as of April 23, 2010 (the "Master Resolution"), the Amended and Restated Sixth Supplemental Resolution to the Master Resolution, adopted pursuant to Minute Order Number 113829 approved by the Commission on January 30, 2014 (the "Sixth Supplemental Resolution"), and the Award Certificate of Department Representative dated as of March 7, 2014 (the "Award Certificate" and, together with the Master Resolution and the Sixth 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 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.

PROSPECTIVE PURCHASERS OF THE BONDS should also 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.

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.

FURTHER, PURSUANT TO THE RESOLUTION, certain changes of interest rate modes are conditioned on delivery of an opinion to the effect that each such change will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. The delivery of such opinions will depend on facts and law that exist at such future date or dates, if any. Therefore, we express no opinion regarding the exclusion of interest on the Bonds from gross income for purposes of federal income taxation on and after the date or dates, if any, of any such changes. Further, we express no opinion on our ability to render the opinion required in connection with such changes.

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.

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Appendix E

Description of Book-Entry-Only System

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission believes to be reliable, but the Commission takes no responsibility for the accuracy or completeness thereof. The Commission cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will 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 DTC Participants are on file with DTC.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds 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 note 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. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate may be issued with respect to each $500 million of principal amount, and an additional certificate may be issued with respect to any remaining principal amount of such maturity.

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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the note documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent/Registrar 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).

All 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 Commission or the Paying Agent/Registrar, on payable date 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 Bonds 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, the Paying Agent/Registrar, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Paying Agent/Registrar, 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.

A Beneficial Owner shall give notice to elect to have its Series 2014-B Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Series 2014-B Bonds by causing the Direct Participant to transfer the Direct Participant's interest in such Series 2014-B Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of any Series 2014-B Bonds in connection with an optional or mandatory tender will be deemed satisfied when the ownership rights in such Series 2014-B Bonds are transferred by Direct Participants on DTC's records followed by a book-entry credit of such tendered Series 2014-B Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Commission or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, note certificates will be printed and delivered to DTC.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND THE DTC BOOK-ENTRY ONLY SYSTEM HAS BEEN PROVIDED BY DTC. THE COMMISSION AND THE UNDERWRITERS BELIEVE

SUCH INFORMATION TO BE RELIABLE, BUT TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY ANY SUCH PARTY AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

While the Bonds are in the book–entry-only system, reference in other sections of this Official Statement to Owners of such Bonds should be read to include any Beneficial Owner of the Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the book–entry-only system and (ii) notices that are to be given to registered Owners by the Paying Agent/Registrar, will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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TEXAS TRANSPORTATION COMMISSION • STATE HIGHWAY FUND FIRST TIER REVENUE AND REFUNDING BONDS, SERIES 2014-A
AND STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2014-B (SIFMA INDEX FLOATING RATE BONDS)

Texas Department of Transportation

Mixed Sources
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