OFFICIAL STATEMENT DATED OCTOBER 6, 2016

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 opinion of Andrews Kurth Kenyon 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 opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.

TEXAS TRANSPORTATION COMMISSION

$601,210,000
STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2016-A

$89,370,000
STATE HIGHWAY FUND FIRST TIER REVENUE REFUNDING PUT BONDS, SERIES 2016-B

Dated: Date of Initial Delivery

Due: As shown on pages i and ii

The Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2016-A (the "Series 2016-A Bonds") and the Texas Transportation Commission State Highway Fund First Tier Revenue Refunding Put Bonds, Series 2016-B (the "Series 2016-B Bonds" and, together with the Series 2016-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 State Constitution; Section 222.003, Texas Transportation Code (the "Act"); Chapters 1207 and 1371, Texas Government Code, as applicable; a Second Amended and Restated Master Resolution dated as of April 23, 2010 (the "Master Resolution"); an Eighth Supplemental Resolution (the "Eighth Supplemental Resolution") adopted by minute order of the Commission on January 28, 2016 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 Eighth 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 Series 2016-A Bonds are being issued to (i) finance State highway improvement projects that are eligible for funding with revenues dedicated under Article VIII, Section 7-a of the Texas Constitution and (ii) pay the costs of issuing the Series 2016-A Bonds. The Series 2016-B Bonds are being issued to (i) refund the Refunded Obligations (defined herein) and (ii) pay the costs of issuing the Series 2016-B 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 (defined herein) to be issued in the future. Pursuant to Article III, Section 49-n of the State 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 that mature or become due during any fiscal year and to pay 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 any 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 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 and interest on the Bonds will be payable by the paying agent/registrar (the "Paying Agent/Registrar"), initially U.S. Bank National Association, Houston, 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 this 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

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The Bonds are offered for delivery when, as, and if issued and accepted by the Underwriters named below, and subject to the approval of the Attorney General of the State and the approval of certain legal matters by Andrews Kurth Kenyon LLP, Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Commission by General Counsel to the Commission and by Bracewell LLP, Austin, Texas, Disclosure Counsel to the Commission. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Winstead PC, Austin, Texas, and Mahomes Bolden PC, Dallas, Texas. It is expected that the Bonds will be delivered on or about October 26, 2016 (the "Date of Initial Delivery") through the facilities of DTC.

Series 2016-A Bonds

Morgan Stanley | **RBC Capital Markets**
BofA Merrill Lynch | **Frost Bank** | **J.P. Morgan**
Piper Jaffray & Co. | **Ramirez & Co., Inc.** | **Siebert Cisneros Shank & Co., L.L.C.**

Series 2016-B Bonds

Jefferies

MATURITY SCHEDULES

$601,210,000

TEXAS TRANSPORTATION COMMISSION
STATE HIGHWAY FUND FIRST TIER REVENUE BONDS, SERIES 2016-A

CUSIP Prefix 88283L[1]

Maturity (October 1)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix[1]
2017	$65,310,000	4.000%	0.850%	KA3
2018	68,325,000	5.000%	0.950%	KB1
2019	71,830,000	5.000%	1.050%	KC9
2020	75,515,000	5.000%	1.160%	KD7
2021	28,635,000	3.000%	1.250%	KE5
2021	50,000,000	5.000%	1.250%	KQ8
2022	9,610,000	5.000%	1.340%	KF2
2023	10,135,000	5.000%	1.460%	KG0
2024	36,805,000	5.000%	1.590%	KH8
2025	66,105,000	5.000%	1.730%	KJ4
2026	52,540,000	5.000%	1.850%	KK1
2027	10,920,000	5.000%	1.960%[2]	KL9
2028	11,300,000	5.000%	2.060%[2]	KM7
2029	11,665,000	5.000%	2.140%[2]	KN5
2030	32,515,000	5.000%	2.200%[2]	KP0

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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) Yield calculated to the first optional call date of October 1, 2026.

Interest. The Series 2016-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 comprised of 30 days each. The Series 2016-A Bonds will mature in the respective principal amounts and on the respective dates shown above. The Series 2016-A Bonds will bear interest from the Date of Initial Delivery and such interest will be payable semiannually on each April 1 and October 1, commencing April 1, 2017. See "THE SERIES 2016-A BONDS."

Redemption. Certain of the Series 2016-A Bonds are subject to redemption prior to their stated maturity as described herein. See "THE SERIES 2016-A BONDS – Optional Redemption."

TEXAS TRANSPORTATION COMMISSION
STATE HIGHWAY FUND FIRST TIER REVENUE REFUNDING PUT BONDS, SERIES 2016-B

Principal Amount	Initial Multiannual Rate Period Commencement	Initial Interest Rate	Initial Yield	Last Day of Initial Multiannual Rate Period	Initial Mandatory Tender Date	Maturity Date	CUSIP No.[2]
$89,370,000	October 26, 2016	4.00%	1.40%[1]	September 30, 2021	October 1, 2021	April 1, 2026	88283LJZ0

(1) Yield calculated to the Initial Mandatory Tender Date specified above.
(2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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 2016-B Bonds are multi-modal bonds, initially issued in a Multiannual Mode for a Multiannual Rate Period (the "Initial Multiannual Rate Period") that commences on the Date of Initial Delivery of the Series 2016-B Bonds and expires on the Last Day of Initial Multiannual Rate Period specified above. The Series 2016-B Bonds will constitute Variable Rate Bonds under the Eighth Supplemental Resolution. Principal of the Series 2016-B Bonds will come due on the Maturity Date specified above or upon the earlier redemption or remarketing of such Series 2016-B Bonds. The Series 2016-B bonds will bear interest and are subject to conversion to another interest rate mode and mandatory tender as described below and herein. See "THE SERIES 2016-B BONDS."

THIS OFFICIAL STATEMENT DESCRIBES THE SERIES 2016-B BONDS IN THE INITIAL MULTIANNUAL RATE PERIOD ONLY.

Interest. During the Initial Multiannual Rate Period, the Series 2016-B Bonds will bear interest at the Initial Interest Rate specified above, calculated on the basis of a 360-day year composed of twelve months comprised of 30 days each. The Series 2016-B Bonds will bear interest from the Date of Initial Delivery and such interest will be payable semiannually on each April 1 and October 1, commencing April 1, 2017. See "THE SERIES 2016-B BONDS – Interest During Initial Multiannual Rate Period" and "– Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds."

Redemption. The Series 2016-B Bonds are not subject to optional redemption prior to the end of the Initial Multiannual Rate Period; however, the Commission may, at its option and in lieu of remarketing the Series 2016-B Bonds, redeem any Series 2016-B Bond on the date specified above as the Initial Mandatory Tender Date (the "Initial Mandatory Tender Date") without notice to any Owner, at a price equal to the principal amount thereof plus any accrued and unpaid interest. The Series 2016-B Bonds are subject to mandatory sinking fund redemption prior to their stated maturity as described herein. See "THE SERIES 2016-B BONDS – Redemption."

Optional Tender. The Series 2016-B Bonds are not subject to optional tender during the Initial Multiannual Rate Period.

Mandatory Tender. The Series 2016-B Bonds are subject to mandatory tender for purchase (without right of retention) on the Initial Mandatory Tender Date. On the Initial Mandatory Tender Date, each Owner of the Series 2016-B Bonds will be required to tender the Series 2016-B Bonds for purchase at a purchase price (the "Purchase Price") equal to 100% of the principal amount of the tendered Series 2016-B Bonds. The Initial Mandatory Tender Date is an interest payment date for the Series 2016-B Bonds, and, pursuant to the terms of the Resolution, accrued and unpaid interest on the Series 2016-B Bonds due on the Initial Mandatory Tender Date will be paid separately and not as part of the Purchase Price. See "THE SERIES 2016-B BONDS – Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds."

No Liquidity Support. During the Initial Multiannual Rate Period, the Series 2016-B Bonds are not subject to the benefit of a liquidity facility, nor is there any requirement to obtain such a liquidity facility. On the Initial Mandatory Tender Date, the Commission is obligated to pay the Purchase Price of all tendered Series 2016-B Bonds from remarketing proceeds, Pledged Revenues, or any combination thereof. The Purchase Price of the Series 2016-B Bonds payable on the Initial Mandatory Tender Date shall constitute a Cost (as defined herein) of the Series 2016-B Bonds. See "THE SERIES 2016-B BONDS – Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds" and "GENERAL INFORMATION REGARDING THE BONDS – Flow of Funds."

Effects of a Failed Remarketing on Initial Mandatory Tender Date. In the event that any Series 2016-B Bonds tendered on the Initial Mandatory Tender Date are not remarketed to new purchasers on such date, the Commission is obligated to pay the Purchase Price of any such Series 2016-B Bonds on the Initial Mandatory Tender Date from Pledged Revenues**. If the Commission fails to pay the Purchase Price of all tendered Series 2016-B Bonds on the Initial Mandatory Tender Date, whether due to a deficiency in remarketing proceeds, a deficiency in Pledged Revenues, or for any other reason, then (i) none of the Series 2016-B Bonds or any portion thereof shall be purchased on such date, (ii) all Series 2016-Bonds will remain Outstanding and will continue to bear interest at the Initial Interest Rate specified above, and (iii) the Owners of the Series 2016-B Bonds may pursue remedies afforded by State law as described herein to compel the Commission and the Department to remedy such nonpayment of the Purchase Price of the Series 2016-B Bonds due on the Initial Mandatory Tender Date.** See "THE SERIES 2016-B BONDS – Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds – *Effects of a Failed Remarketing on Initial Mandatory Tender Date*" and "GENERAL INFORMATION REGARDING THE BONDS – Bondowners' Remedies."

TEXAS TRANSPORTATION COMMISSION

Name	Title	Term Expires
Tryon D. Lewis	Chairman	February 1, 2021
Jeff Austin, III	Commissioner	February 1, 2019
J. Bruce Bugg, Jr.	Commissioner	February 1, 2021
Laura Ryan	Commissioner	February 1, 2017
Victor Vandergriff	Commissioner	February 1, 2019

TEXAS DEPARTMENT OF TRANSPORTATION-SELECTED PERSONNEL

Name	Position	Total Years of Service with the Department
James M. Bass	Executive Director	31 years
Marc D. Williams, P.E.	Deputy Executive Director	4 years
Brian D. Ragland, CPA	Chief Financial Officer	10 years
Benjamin H. Asher	Director, Project Finance, Debt and Strategic Contracts Division	4 years
Stephen Stewart	Director, Financial Management Division	4 years
Jeff Graham	General Counsel	4 years

CONSULTANTS AND ADVISORS

Bond Counsel ..... Andrews Kurth Kenyon LLP
Disclosure Counsel ..... Bracewell LLP
Financial Advisor ..... Estrada Hinojosa & Company, Inc.
Paying Agent/Registrar ..... U.S. Bank National Association

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

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823 Congress Avenue, Suite 1550
Austin, Texas 78701
(512) 605-2444

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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 set forth on the cover page hereof (collectively, 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.

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. Additionally, this Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and matters of opinion or that they will be realized.

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 Department, 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.

Certain terms and provisions of the Resolution and other documentation relating to the Bonds are contained in this Official Statement. In making an investment decision, investors must rely on their own examination of the Resolution and the terms of the offering, including the merits and risks involved.

THE CONTENTS OF THIS OFFICIAL STATEMENT ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN ATTORNEYS AND BUSINESS AND TAX ADVISORS.

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

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE BONDS OR 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. 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."

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12 of the SEC.

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OFFICIAL STATEMENT

RELATING TO

TEXAS TRANSPORTATION COMMISSION

$601,210,000
STATE HIGHWAY FUND FIRST TIER
REVENUE BONDS,
SERIES 2016-A

$89,370,000
STATE HIGHWAY FUND FIRST TIER
REVENUE REFUNDING PUT BONDS,
SERIES 2016-B

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 Bonds, Series 2016-A" (the "Series 2016-A Bonds") and the "Texas Transportation Commission State Highway Fund First Tier Revenue Refunding Put Bonds, Series 2016-B" (the "Series 2016-B Bonds" and, together with the Series 2016-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 State Constitution; Section 222.003, Texas Transportation Code (the "Act"); Chapter 1207, Texas Government Code (only with respect to the Series 2016-B Bonds); Chapter 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 Eighth Supplemental Resolution to the Master Resolution adopted by minute order of the Commission on January 28, 2016 (the "Eighth 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 Eighth 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 State Constitution, Article III, Section 49-n, as added by Acts 2003, 78th Texas Legislature, House Joint Resolution Number 28, Section 1 ("Section 49-n"), which permits the Texas Legislature (the "State Legislature") to authorize the Commission to issue bonds and other public securities to fund State highway improvement projects payable from 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 State 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 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. See "INVESTMENT CONSIDERATIONS – Potential Legislative Changes to Pledged Revenues." An amendment to the Act in 2007 increased 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 $1 billion annual maximum). Section 49-n, however, does not restrict the authority of the State 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 State 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 ("Section 7-b") of the State 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 Senior Obligations. Certain non-dedicated revenues are also deposited to the credit of the Fund, though the State 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 Senior 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 nine series of Senior Obligations as First Tier Senior Obligations. The Bonds are being issued pursuant to the Eighth Supplemental Resolution, which authorizes the issuance of new money bonds in one or more series. Prior to the issuance of the Bonds, First Tier Senior Obligations in the aggregate principal amount of $3,972,595,000 are outstanding and, after issuance of the Bonds, First Tier Senior Obligations in the aggregate principal amount of $4,563,175,000 will be outstanding. Following the issuance of the Bonds, no authorized amount will remain under the Act for new money purposes, unless the Act is amended by the State Legislature to modify or remove such limitation. The Eighth Supplemental Resolution also authorizes the issuance of refunding bonds in one or more series for the purpose of refunding Previously Issued First Tier Senior Obligations in the event that certain savings criteria are satisfied or to refund currently outstanding variable rate Senior Obligations. Each series of the Bonds constitute the first and second series of obligations delivered under authority of the Eighth 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 to provide liquidity for the Refunded Obligations (as defined herein). 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 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

The proceeds of the Series 2016-A Bonds will be used to (i) finance State highway improvement projects that are eligible for funding with revenues dedicated under Section 7-a, and (ii) pay the costs of issuing the Series 2016-A Bonds. The proceeds of the Series 2016-B Bonds will be used to (i) refund the Previously Issued First Tier Senior Obligations set forth on Schedule I hereto (the "Refunded Obligations"), and (ii) pay the costs of issuing the Series 2016-B 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 with a portion of the proceeds of the Series 2016-B Bonds and their redemption date and redemption price.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on the date of redemption therefor, from funds to be deposited with Wells Fargo Bank, N.A., in its capacity as the paying agent/registrar for the Refunded Obligations (the "Refunded Obligations Paying Agent").

The Resolution provides that from the proceeds of the sale of the Series 2016-B Bonds, together with other lawfully available funds contributed by the Commission, if any, there shall be deposited with the Refunded Obligations Paying Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations. The amounts so deposited with the Refunded Obligations Paying Agent will be in the form of cash and will be in an amount sufficient to provide for the payment of the principal of and interest on the Refunded Obligations due on the redemption date therefor, as evidenced by a certificate of sufficiency executed by Estrada Hinojosa & Company, Inc., as Financial Advisor to the Commission.

Simultaneously with the issuance of the Series 2016-B 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 the stated maturity thereof and that funds will be made available to redeem the Refunded Obligations on their redemption date from money held by the Refunded Obligations Paying Agent.

By the deposit of cash with the Refunded Obligations Paying Agent, 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 cash held for such purpose by the Refunded Obligations Paying 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.

Bond Review Board Approval

With certain exceptions, bonds issued by State agencies and institutions, including bonds issued by the Commission, must be approved by the Texas Bond Review Board ("BRB") prior to their issuance. The BRB is composed of the Governor of the State (the "Governor"), the Lieutenant Governor, the Speaker of the House of Representatives, and the Comptroller (as defined herein). The Governor is the Chairman of the BRB. Each member of the BRB may, and frequently does, act through a designee.

By letter dated September 22, 2016, the BRB approved the issuance of the Bonds as additional First Tier Senior Obligations with a maximum par amount of $800,145,000 and a maximum total proceeds amount of $804,152,726, including premiums. The Bonds are being issued pursuant to such approval. Prior to the issuance of

any additional obligations authorized by the Eighth Supplemental Resolution or any other additional First Tier Senior Obligations, in excess of the amount previously approved by the BRB, the Commission must apply to the BRB for approval of the issuance of such obligations.

SOURCES AND USES OF FUNDS

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

		Series 2016-A Bonds		Series 2016-B Bonds
Sources:				
Principal Amount	$	601,210,000.00	$	89,370,000.00
Original Issue Premium		101,223,563.30		11,031,832.80
Commission Contribution for Refunded Obligations		–		983,606.56
Total	$	702,433,563.30	$	101,385,439.36
Uses:				
Deposit to Proceeds Fund	$	700,098,200.00	$	–
Deposit for Refunded Obligations		–		100,983,606.56
Underwriters' Discount		1,874,614.60		246,845.00
Costs of Issuance[1]		460,748.70		154,987.80
Total	$	702,433,563.30	$	101,385,439.36

(1) Includes fees associated with bond counsel, disclosure counsel, rating agencies and other costs associated with issuing the Bonds.

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TABLE 1 - DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE

Fiscal Year	Outstanding First Tier Senior Obligations [1]	Series 2016-A Principal	Series 2016-A Interest	Series 2016-A Total	Series 2016-B Principal	Series 2016-B Interest [2]	Series 2016-B Total	BAB Subsidy Payments [3]	Total Debt Service (before BAB Subsidy)	Total Debt Service (net of BAB Subsidy)	Fiscal Year 2015 Pledged Revenues [4]	Aggregate Debt Service Coverage (before BAB Subsidy)	Aggregate Debt Service Coverage (net of BAB Subsidy)
2016	$314,570,674	$ -	$ -	$ -	$ -	$ -	$ -	$ (25,120,283)	$ 314,570,674	$ 289,450,390	$7,426,916,000	23.61	25.66
2017	334,717,372	-	12,414,940	12,414,940	-	1,539,150	1,539,150	(25,177,629)	348,671,463	323,493,834	7,426,916,000	21.30	22.96
2018	331,750,480	65,310,000	27,528,500	92,838,500	-	3,574,800	3,574,800	(25,164,114)	428,163,780	402,999,666	7,426,916,000	17.35	18.43
2019	331,747,405	68,325,000	24,514,175	92,839,175	-	3,574,800	3,574,800	(25,164,114)	428,161,380	402,997,266	7,426,916,000	17.35	18.43
2020	331,751,481	71,830,000	21,010,300	92,840,300	-	3,574,800	3,574,800	(25,164,114)	428,166,581	403,002,467	7,426,916,000	17.35	18.43
2021	331,743,679	75,515,000	17,326,675	92,841,675	-	3,574,800	3,574,800	(25,164,114)	428,160,154	402,996,040	7,426,916,000	17.35	18.43
2022	331,744,705	78,635,000	13,759,275	92,394,275	-	3,351,375	3,351,375	(25,164,114)	427,490,355	402,326,241	7,426,916,000	17.37	18.46
2023	402,246,080	9,610,000	11,839,500	21,449,500	-	3,127,950	3,127,950	(25,164,114)	426,823,530	401,659,416	7,426,916,000	17.40	18.49
2024	401,058,992	10,135,000	11,345,875	21,480,875	-	3,127,950	3,127,950	(24,009,142)	425,667,817	401,658,675	7,426,916,000	17.45	18.49
2025	354,706,891	36,805,000	10,172,375	46,977,375	20,500,000	3,127,950	23,627,950	(23,660,978)	425,312,216	401,651,239	7,426,916,000	17.46	18.49
2026	280,160,193	66,105,000	7,599,625	73,704,625	68,870,000	2,410,450	71,280,450	(23,181,937)	425,145,268	401,963,331	7,426,916,000	17.47	18.48
2027	367,643,063	52,540,000	4,633,500	57,173,500	-	-	-	(21,820,908)	424,816,563	402,995,655	7,426,916,000	17.48	18.43
2028	407,163,208	10,920,000	3,047,000	13,967,000	-	-	-	(18,127,531)	421,130,208	403,002,677	7,426,916,000	17.64	18.43
2029	401,651,647	11,300,000	2,491,500	13,791,500	-	-	-	(12,448,598)	415,443,147	402,994,549	7,426,916,000	17.88	18.43
2030	395,744,379	11,665,000	1,917,375	13,582,375	-	-	-	(6,329,095)	409,326,754	402,997,659	7,426,916,000	18.14	18.43
2031	184,290,203	32,515,000	812,875	33,327,875	-	-	-	-	217,618,078	217,618,078	7,426,916,000	34.13	34.13
2032	182,811,437	-	-	-	-	-	-	-	182,811,437	182,811,437	7,426,916,000	40.63	40.63
2033	181,868,250	-	-	-	-	-	-	-	181,868,250	181,868,250	7,426,916,000	40.84	40.84
2034	181,865,250	-	-	-	-	-	-	-	181,865,250	181,865,250	7,426,916,000	40.84	40.84
Total	$6,049,235,389	$601,210,000	$170,413,490	$771,623,490	$89,370,000	$30,984,025	$120,354,025	$(330,860,785)	$6,941,212,905	$6,610,352,119			

(1) For purposes of illustration, the interest on the variable rate Series 2006-B Bonds and Series 2014-B Bonds, being a portion of the Outstanding First Tier Senior Obligations, is assumed at 3.5%, including remarketing and liquidity fees, as applicable. For fiscal years 2017 and later, excludes debt service on the Series 2006-B Bonds, which will be refunded in whole with a portion of the proceeds of the Series 2016-B Bonds. See "PLAN OF FINANCE" and "GENERAL INFORMATION REGARDING THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations."

(2) For purposes of illustration, interest on the Series 2016-B Bonds is assumed at 3.5% per annum following the Initial Multiannual Rate Period.

(3) The Build America Bonds ("BAB") Subsidy Payments shown above relate to the Series 2010 Bonds and reflect a reduction due to Sequester Cuts. The BAB Subsidy Payment for October 1, 2015 was reduced by 7.3%, and the BAB Subsidy Payments for April 1, 2016 and October 1, 2016 were reduced by 6.8%. A 6.9% reduction in BAB Subsidy Payments has been announced by the federal government for the federal fiscal year ending September 30, 2017 and, in Table 1 above, is assumed to apply to the BAB Subsidy Payments beginning with the April 1, 2017 payment and continuing through the federal fiscal year ending September 30, 2024 (October 1, 2024 payment). See "THE STATE HIGHWAY FUND – Sequestration Effects on the State Highway Fund." herein.

(4) Pledged Revenues presented on a modified accrual basis. BAB subsidy payments are not included in Pledged Revenues. See "GENERAL INFORMATION REGARDING THE BONDS – Source of Payment for Bonds," "THE STATE HIGHWAY FUND – General" and "INVESTMENT CONSIDERATIONS – Forward-Looking Statements."

Totals may not add due to rounding.

THE SERIES 2016-A BONDS

General Description

The Series 2016-A Bonds will be issued in book-entry form pursuant to the book-entry-only system described below. Beneficial owners of Series 2016-A Bonds will not receive physical delivery of bond certificates. The Series 2016-A Bonds will be issued in fully registered form and purchases of Series 2016-A Bonds are required to be in the denomination of $5,000 or any integral multiple thereof. The Series 2016-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 2016-A Bonds will be made to the owners thereof. DTC will act as securities depository for the Series 2016-A Bonds. Principal of, premium, if any, and interest on the Series 2016-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 Series 2016-A Bonds (see "APPENDIX E – DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM"). The Series 2016-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 2016-A Bonds will mature in the respective principal amounts and on the respective dates shown on page i of this Official Statement. The Series 2016-A Bonds will bear interest from the Date of Initial Delivery, and such interest will be payable semiannually on each April 1 and October 1 (each a "Series 2016-A Bonds Interest Payment Date"), commencing April 1, 2017.

The record date ("Record Date") for determining the person to whom interest is payable on any Series 2016-A Bonds Interest Payment Date means the close of business on the fifteenth day of the calendar month immediately preceding such Series 2016-A Bonds Interest Payment Date.

In the event of a non-payment of interest on the Series 2016-A Bonds on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Commission. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which must be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Owner 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.

Optional Redemption

The Series 2016-A Bonds maturing on and after October 1, 2027 will be subject to redemption on October 1, 2026 or any date 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 2016-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 2016-A Bond at the designated office of the Paying Agent/Registrar, a new Series 2016-A Bond or Series 2016-A Bonds of like maturity, series, and interest rate in any Authorized Denominations provided by the Eighth Supplemental Resolution for the then unredeemed balance of the principal amount. If a Series 2016-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 2016-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.

Notice of Redemption

Unless waived by any Owner of the Series 2016-A Bonds to be redeemed, the Paying Agent/Registrar shall give notice of redemption or of defeasance of Series 2016-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 2016-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 2016-A Bond who has not sent such Series 2016-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 2016-A Bonds to be redeemed or defeased including the complete name of the Series 2016-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 Series 2016-A Bonds may be redeemed or paid, including a contact person and telephone number.

All redemption payments made by the Paying Agent/Registrar to the Owners of the Series 2016-A Bonds shall include a CUSIP number relating to each amount paid to such Owner.

The failure of any Owner of the Series 2016-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 2016-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 2016-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 2016-A Bond to notify the beneficial owner of the Series 2016-A Bond so affected, shall not affect the validity of the redemption of such Series 2016-A Bonds. See "GENERAL INFORMATION REGARDING THE BONDS –Redemption Through DTC."

THE SERIES 2016-B BONDS

General Description

The Series 2016-B Bonds mature on the date and in the amount shown on page ii hereof. The Series 2016-B Bonds are multi-modal bonds, initially issued in a Multiannual Mode for a Multiannual Rate Period that commences on the Date of Initial Delivery of the Series 2016-B Bonds and expires on the Last Day of Initial Multiannual Rate Period shown on page ii hereof (the "Initial Multiannual Rate Period"). See "– Interest During Initial Multiannual Rate Period." The Series 2016-B Bonds will constitute Variable Rate Bonds under the Eighth Supplemental Resolution. The Series 2016-B Bonds will initially be delivered in denominations of $5,000 or any integral multiple thereof. The Series 2016-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 2016-B Bonds will be made to the owners thereof. DTC will act as securities depository for the Series 2016-B Bonds. Principal of and interest on the Series 2016-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 Series 2016-B Bonds. See "APPENDIX E - DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM."

The Series 2016-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") as described below under "– Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds – Mandatory Tender." At that time, the Commission expects to either redeem or remarket the Series 2016-B Bonds in one or more successive Multiannual Rate Periods of the same or different durations or in one or more of the several interest rate modes authorized by the Eighth Supplemental Resolution, including a Daily Mode, Flexible Mode, Weekly Mode, Monthly Mode, Quarterly Mode, Semiannual Mode, Index Floating Rate Mode or Fixed Rate Mode (as such terms are defined in the Eighth Supplemental Resolution).

During the Initial Multiannual Rate Period, the Series 2016-B Bonds will not be benefitted by a liquidity facility. On the Initial Mandatory Tender Date, the Commission is obligated to pay the Purchase Price of all tendered Series 2016-B Bonds from remarketing proceeds, Pledged Revenues, or any combination thereof. See "– Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds."

THIS OFFICIAL STATEMENT DESCRIBES THE SERIES 2016-B BONDS IN THE INITIAL MULTIANNUAL RATE PERIOD ONLY AND DOES NOT PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2016-B BONDS AFTER CONVERSION TO ANY NEW MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT

MULTIANNUAL RATE PERIOD). PURCHASERS OF THE SERIES 2016-B BONDS SHOULD NOT RELY ON THIS OFFICIAL STATEMENT FOR INFORMATION CONCERNING ANY OTHER MODE OR INTEREST RATE PERIOD FOR THE SERIES 2016-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 2016-B BONDS.

Redemption

Optional Redemption. The Series 2016-B Bonds are not subject to redemption at the option of the Commission during the Initial Multiannual Rate Period; however, the Commission may, at its option and in lieu of remarketing the Series 2016-B Bonds, redeem any Series 2016-B Bond on the Initial Mandatory Tender Date without notice to any Owner, at a price equal to the principal amount thereof plus any accrued and unpaid interest.

Mandatory Sinking Fund Redemption. The Series 2016-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	Amount ($)
2025	20,500,000
2026†	68,870,000

†Stated maturity

The principal amount of a Series 2016-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 2016-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 2016-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 2016-B Bonds to be redeemed, the Paying Agent/Registrar shall give notice of redemption or of defeasance of Series 2016-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. In addition, in the event of a redemption caused by an advance refunding of the Series 2016-B 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 2016-B Bond who has not sent such Series 2016-B 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 2016-B Bonds to be redeemed or defeased including the complete name of the Series 2016-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 Series 2016-B 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 2016-B Bonds shall include a CUSIP number relating to each amount paid to such Owner.

The failure of any Owner of the Series 2016-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 2016-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 2016-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 2016-B Bond to notify the beneficial owner of the Series 2016-B Bond so affected, shall not affect the validity of the redemption of such Series 2016-B Bonds. See "GENERAL INFORMATION REGARDING THE BONDS –Redemption Through DTC."

Record Date for Interest Payment

The record date ("Series 2016-B Bonds Record Date") for determining the person to whom the interest on the Series 2016-B Bonds is payable on any Series 2016-B Bonds Interest Payment Date (hereinafter defined) means the 15th day of the calendar month immediately preceding a Series 2016-B Bonds Interest Payment Date (whether or not a Business Day) or, in the case of a Series 2016-B Bonds 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. 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 2016-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 2016-B Bonds Special Record Date and of the scheduled payment date of the past due interest ("Series 2016-B Bonds Special Payment Date", which must be fifteen (15) days after the Series 2016-B Bonds Special Record Date) will be sent at least five (5) business days prior to the Series 2016-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 Multiannual Rate Period

The Series 2016-B Bonds will bear interest during the Initial Multiannual Rate Period at the Initial Interest Rate specified on page ii hereof, calculated on the basis of a 360-day year composed of twelve months comprised of 30 days each.

Interest on the Series 2016-B Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2017, during the Initial Multiannual Rate Period (each, a "Series 2016-B Bonds Interest Payment Date" and, collectively with the Series 2016-A Bonds Interest Payment Date, an "Interest Payment Date"). Interest will be payable to the registered owner of the Series 2016-B Bonds of record on the Series 2016-B Bonds Record Date. See "– Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds."

If the day specified for any payment of principal or interest on the Series 2016-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.

Conversion of Interest Modes; Mandatory Tender; Purchase of Tendered Series 2016-B Bonds

Conversion of Interest Modes. The Series 2016-B Bonds are subject to conversion to a new Mode or Interest Rate Period on the Initial Mandatory Tender Date. The Series 2016-B Bonds will be subject to mandatory tender for purchase on the Initial Mandatory Tender Date as described below under "– Mandatory Tender." At that time, the Commission expects to either redeem or remarket the Series 2016-B Bonds in one or more successive Multiannual Rate Periods of the same or different durations or in one or more of the several interest rate modes authorized by the Eighth Supplemental Resolution, including a Daily Mode, Flexible Mode, Weekly Mode, Monthly Mode, Quarterly Mode, Semiannual Mode, Index Floating Rate Mode or Fixed Rate Mode (as such terms are defined in the Eighth Supplemental Resolution).

Optional Tender. The Series 2016-B Bonds are <u>not</u> subject to optional tender during the Initial Multiannual Rate Period.

Mandatory Tender. All Series 2016-B Bonds are subject to mandatory tender for purchase, without right of retention, on the Initial Mandatory Tender Date. On the Initial Mandatory Tender Date, each owner of Series 2016-B Bonds will be required to tender, and in any event will be deemed to have tendered, the Series 2016-B Bonds to the Tender Agent for purchase at a purchase price ("Purchase Price") equal to 100% of the principal amount thereof, payable from the sources of funds described in "*–Payment of Purchase Price of Tendered Series 2016-B Bonds*" below. The Initial Mandatory Tender Date is a Series 2016-B Bonds Interest Payment Date, and, pursuant to the terms of the Resolution, accrued and unpaid interest

on the Series 2016-B Bonds due on the Initial Mandatory Tender Date will be paid separately and not as part of the Purchase Price. See "*–Payment of Purchase Price of Tendered Series 2016-B Bonds*" below.

The Tender Agent is required to give notice of mandatory tender to each registered owner of the Series 2016-B Bonds not less than 10 days prior to the Initial Mandatory Tender Date. While the Series 2016-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 described herein is discontinued and registered bonds are issued, all notices and Series 2016-B Bonds are required to be delivered to the Tender Agent.

Payment of Purchase Price of Tendered Series 2016-B Bonds. The Commission has not provided and does not intend to provide any liquidity facility for the payment of the Purchase Price of the Series 2016-B Bonds payable upon the mandatory tender thereof on the Initial Mandatory Tender Date, nor does the Resolution require the Commission to obtain such a liquidity facility. On the Initial Mandatory Tender Date, the Commission is obligated to pay the Purchase Price of all tendered Series 2016-B Bonds from remarketing proceeds, Pledged Revenues, or any combination thereof. The Purchase Price of the Series 2016-B Bonds payable on the Initial Mandatory Tender Date shall constitute a Cost of the Series 2016-B Bonds. The Tender Agent will be required to effect purchases of tendered Series 2016-B Bonds on the Initial Mandatory Tender Date solely from and to the extent of (1) proceeds of the remarketing of the Series 2016-B Bonds pursuant to the Remarking Agreement, or, to the extent such proceeds are insufficient (2) payments made by the Commission from Pledged Revenues. See "*–Effects of a Failed Remarketing on Initial Mandatory Tender Date*" and "GENERAL INFORMATION REGARDING THE BONDS – Flow of Funds."

ANY SERIES 2016-B BOND WHICH IS REQUIRED TO BE TENDERED AND FOR WHICH PAYMENT OF THE PURCHASE PRICE IS DULY PROVIDED FOR ON THE RELEVANT PURCHASE DATE WILL BE DEEMED TO HAVE BEEN TENDERED ON SUCH PURCHASE DATE, AND THE HOLDER OF THE SERIES 2016-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 2016-B BOND OR OTHERWISE BE SECURED BY OR ENTITLED TO ANY BENEFIT UNDER THE RESOLUTION.

Effects of a Failed Remarketing on Initial Mandatory Tender Date. In the event that any Series 2016-B Bonds tendered on the Initial Mandatory Tender Date are not remarketed to new purchasers on such date, the Commission is obligated to pay the Purchase Price of any such Series 2016-B Bonds on the Initial Mandatory Tender Date from Pledged Revenues. **If the Commission fails to pay the Purchase Price of all tendered Series 2016-B Bonds on the Initial Mandatory Tender Date, whether due to a deficiency in remarketing proceeds, a deficiency in Pledged Revenues, or for any other reason, then (i) none of the Series 2016-B Bonds or any portion thereof shall be purchased on such date, (ii) all Series 2016-Bonds will remain Outstanding and will continue to bear interest at the Initial Interest Rate specified on page ii hereof, and (iii) the Owners of the Series 2016-B Bonds may pursue remedies afforded by State law as described herein to compel the Commission and the Department to remedy such nonpayment of the Purchase Price of the Series 2016-B Bonds due on the Initial Mandatory Tender Date.** See "GENERAL INFORMATION REGARDING THE BONDS – Bondowners' Remedies."

Remarketing Agent. Jefferies LLC will serve as the initial remarketing agent (the "Remarketing Agent"), for the Series 2016-B Bonds, pursuant to a Remarketing Agreement, between the Commission and the Remarketing Agent.

Tender Agent. U.S. Bank National Association, Houston, Texas, will serve as the initial tender agent (the "Tender Agent"), for the Series 2016-B Bonds.

GENERAL INFORMATION REGARDING THE BONDS

Payment of the Bonds

Principal of and interest on the Bonds will be payable in any currency of the United States that, on the respective dates of payment thereof, is legal tender for the payment of public and private debts. The principal of all Bonds will be payable at the designated office of the Paying Agent/Registrar, and payment of the interest on each Bond will be made on each Interest Payment Date to the Owner thereof whose name appears in the security register at the close of business on the 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, 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 Laws, and (v) any interest or earnings from the investment of Dedicated Registration Fees, Dedicated Taxes and Dedicated Federal Revenues. "Dedicated Registration Fees" means revenues derived from the motor vehicle registration fees dedicated by Section 7-a for the purpose of acquiring rights-of-way; constructing, maintaining, and policing public roadways; and for the administration of such laws as may be prescribed by the State 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."

State Highway Fund Revenues pledged to secure payment of Senior Obligations 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 or 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" and "– Sources of Revenue in the Fund."

In November 2014, State voters approved a constitutional amendment ("Proposition 1") transferring a portion of certain oil and natural gas production tax revenues to the State Highway Fund. In recognition of the more restrictive limitations on the permitted uses of amounts transferred to the Fund pursuant to Proposition 1 (relative to the permitted purposes for which Senior Obligations may be and have been issued), the Department created a special account in the Fund to segregate such amounts from State Highway Fund Revenues. Such amounts are not pledged to secure, or available to make debt service payments on, Senior Obligations, including the Bonds. See "THE STATE HIGHWAY FUND – General."

In November 2015, State voters approved a constitutional amendment ("Proposition 7"), which amended the State Constitution by adding Article VIII, Section 7-c thereto ("Section 7-c"). Section 7-c directs the Comptroller of Public Accounts of the State (the "Comptroller") to deposit to the credit of the Fund, for each State fiscal year specified therein, net revenues in the amounts specified therein derived from (i) the imposition of State sales and use tax on the sale, storage, use or other consumption in the State of taxable items under Chapter 151 of the Texas Tax Code (or its successor), and (ii) the tax authorized by Chapter 152 of the Texas Tax Code (or its successor) and imposed on the sale, use, or rental of a motor vehicle. In recognition of the more restrictive limitations on the permitted uses of amounts transferred to the Fund pursuant to Proposition 7 (relative to the permitted purposes for which Senior Obligations may be and have been issued), the Department expects to create a special account in the Fund to segregate such amounts from State Highway Fund Revenues. Such amounts are not pledged to secure, or available to make debt service payments on, Senior Obligations, including the Bonds. See the "THE STATE HIGHWAY FUND – General."

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." In the Resolution, 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.

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.

The Master Resolution defines "Cost" to mean 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. All Annual Debt Service Requirements and the Purchase Price of the Series 2016-B Bonds payable on the Initial Mandatory Tender Date 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 Eighth 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 Eighth 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 Eighth 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.

Retention of Rights to Redemption

To the extent that the Commission has defeased any Outstanding Bonds pursuant to the provisions of the Eighth 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 Eighth 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 Eighth 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.

Notices 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 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 action premised on any such notice. See "APPENDIX E – DESCRIPTION OF BOOK-ENTRY-ONLY SYSTEM."

Outstanding and Additional Senior Obligations and Tiers of Senior Obligations

The Commission has previously issued nine series of Senior Obligations as First Tier Senior Obligations, which are outstanding in the aggregate principal amount of $3,972,595,000 (the "Previously Issued First Tier Senior Obligations") as of the date of this Official Statement. 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, to provide liquidity for the Commission's State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate Bonds) (the "Series 2006-B Bonds"). 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." The outstanding Series 2006-B Bonds are being refunded in whole with a portion of the proceeds of the Series 2016-B Bonds. See "PLAN OF FINANCE."

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 subordinate to 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 State Legislature may amend the Act to modify or eliminate such requirement at any time; however, the terms of the Resolution (including the definition of Maximum Allowable Debt Service) may only be modified 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.

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, subject to any extensions or renewals. As described in "PLAN OF FINANCE," a portion of the proceeds of the Series 2016-B Bonds will be used to refund the outstanding Series 2006-B Bonds in whole.

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 BAB Subsidy Payments have been appropriated to the Department for the State Highway Fund for the 2016-2017 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. If the Commission fails 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."

THE BAB SUBSIDY PAYMENTS ARE NOT FULL FAITH AND CREDIT OBLIGATIONS OF THE UNITED STATES OF AMERICA AND DO NOT CONSTITUTE PLEDGED REVENUES UNDER THE RESOLUTION.

Issuance of Subordinate Obligations

The State Constitution (Article III, Section 49-m) and Section 201.115 of 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 to 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 (each, a "Note Purchase Agreement" and, collectively, the "Note Purchase Agreements"), with Wells Fargo Bank, National Association, and Citibank, N.A. ("Wells Fargo" and "Citibank" and, 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. The Note Purchase Agreements are comprised of one agreement with Wells Fargo and two agreements with Citibank (each authorizing direct loans in an aggregate principal amount not to exceed $250,000,000). The Note Purchase Agreements are scheduled to expire on August 11, 2017 (Wells Fargo) and November 30, 2016 (Citibank), 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 of this Official Statement, the Department has 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 (a non-voting member) 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, and does not expect to issue, any 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.

Bondowners' Remedies

In the event of a default in the payment of any Cost (which includes all Annual Debt Service Requirements and the Purchase Price of the Series 2016-B Bonds payable on the Initial Mandatory Tender Date) 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 and the Department are immune from suits for money damages and are prohibited from waiving their sovereign immunity from suit, including with respect to the Bonds. Consequently, the owners of the Bonds are prevented from bringing such a suit against the Commission or the Department for damages for breach of the Commission's obligations under the Resolution. While owners of Bonds may bring a mandamus action against the Commission and other Department officials to compel them to perform their official duties, such an action may be barred if there is a legitimate dispute regarding Commission or Department

obligations, and courts have equitable discretion issuing mandamus orders. The remedy of mandamus is controlled by equitable principles and so rests with the discretion of the court, but may not be arbitrarily refused; provided, however, Texas case law suggests that a mandamus action to enforce a non-legislatively mandated contract may be unavailable. 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 Eighth Supplemental Resolution adopted by minute order of the Commission on January 28, 2016; and Award Certificates of the Department Representative executed pursuant to the Eighth Supplemental Resolution. Following the issuance of the Bonds, no authorized amount will remain under the Act for new money purposes, unless the Act is amended by the State Legislature to modify or remove such limitation. Prior to the issuance of the Bonds, First Tier Senior Obligations in the aggregate principal amount of $3,972,595,000 will be outstanding. The Eighth Supplemental Resolution also authorizes the issuance of refunding bonds in one or more series for the purpose of refunding Previously Issued First Tier Senior Obligations in order to achieve debt service savings, provide long-term fixed rate or other variable rate financing for such outstanding First Tier Senior Obligations, or any combination thereof. Each series of the Bonds constitutes the first and second series of obligations delivered under authority of the Eighth Supplemental Resolution. Excerpts of certain selected provisions from the Master Resolution and the Eighth 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 Eighth Supplemental Resolution are available for examination at the offices of the Department.

The Funds Management Agreement

The Commission and 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 and the Rebate Fund, if any (collectively, the "Administered Funds").

Administration of State Highway Fund; Payment Provisions. The Comptroller 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 and the proceeds of such Permitted Investments deposited pursuant to the Funds Management Agreement. See "APPENDIX F – 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 U.S. Treasury regulation 1.148-5(d)(6) (or any successor regulation) and that the Comptroller will maintain records that adequately support such determination.

Investment Profits or Losses. Any profits or losses from investment of any Administered Funds held by the Comptroller will be credited or 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 Section 7-a, (i) 75% of the net revenues generated from the State motor fuels tax (net of enforcement, administrative and refund charges), (ii) the State tax on motor lubricants and (iii) the net revenues generated from the State motor vehicle registration fees (net of collection charges and the portion of such fees that is reserved for counties within the State) are dedicated for acquiring rights-of-way; constructing, maintaining, and policing public roadways; and for the administration of laws pertaining to the supervision of traffic and safety on such roads. Also, pursuant to Section 7-b, 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 State Legislature to the Department and certain other agencies of the State.

Except as described herein, and 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 $336 million as of August 31, 2015, 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, 2015 (i) under the State Highway 130 CDA for segments 5 and 6 totaling approximately $131 million, (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 $1.190 billion and (iii) the State Highway 161 toll project totaling $80 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 Commission's current policy is designed to accelerate the development and construction of public highways by using available funds to deliver such projects as quickly as possible. A recognized result of this policy is that the balance of the Fund, at each fiscal year-end, may be a nominal or negative amount, as the Commission utilizes available funds for development and construction of projects. The Commission and the Department believe the Fund, on a cash flow basis, has the resources necessary, including authority to issue certain obligations for cash flow management purposes, to meet all of the Fund's obligations. See "THE STATE HIGHWAY FUND – Other Fund Obligations and Commitments."

In November 2014, State voters approved Proposition 1 as an amendment to the State Constitution transferring a portion of certain oil and natural gas production tax revenues to the State Highway Fund. As a result of Proposition 1, approximately $1.74 billion of oil and natural gas production tax revenues were transferred to the Fund in Fiscal Year 2015. See "– Sources of Revenue in the Fund – Table 8 Other State Revenue Sources Credited to the State Highway Fund" below. Amounts deposited in the Fund pursuant to Proposition 1 may only be used for constructing, maintaining and acquiring rights-of-way for public roadways other than toll roads. In recognition of the more restrictive limitations on the permitted uses of amounts transferred to the Fund pursuant to Proposition 1 (relative to the permitted purposes for which Senior Obligations may be and have been issued), the Department created a special account in the Fund to segregate such amounts from State Highway Fund Revenues, and such amounts are not pledged to secure, or available to make debt service payments on, Senior Obligations, including the Bonds.

In November 2015, State voters approved Proposition 7 as an amendment to the State Constitution, which added Section 7-c to Article VIII thereof. Section 7-c directs the Comptroller to deposit to the credit of the Fund, for each State fiscal year specified therein, net revenues in the amounts specified therein derived from (i) the imposition of State sales and use tax on the sale, storage, use or other consumption in the State of taxable items under Chapter 151 of the Texas Tax Code (or its successor), and (ii) the tax authorized by Chapter 152 of the Texas Tax Code (or its successor) and imposed on the sale, use, or rental of a motor vehicle. See "– Sources of Revenue in the Fund – Table 8 Other State Revenue Sources Credited to the State Highway Fund" below. Amounts deposited in the Fund pursuant to Proposition 7 may only be used for constructing, maintaining or acquiring rights-of-way for public roadways other than toll roads or for repaying principal and interest on general obligation bonds issued pursuant to Article III, Section 49-p of the State Constitution. In recognition of the more restrictive limitations on the permitted uses of amounts transferred to the Fund pursuant to Proposition 7 (relative to the permitted purposes for which Senior Obligations may be and have been issued), the Department expects to create a special account in the Fund to segregate such amounts from State Highway Fund Revenues, and such amounts are not pledged to secure, or available to make debt service payments on, Senior Obligations, including the Bonds.

Previously, certain money in the Fund was appropriated to the Department of Public Safety ("DPS") to police the State highway system and to administer State laws relating to traffic and safety on public roads. House Bill 20 ("HB 20"), which was approved during the 84th regular legislative session and became effective June 3, 2015, ended such diversions to the DPS from the Fund. See "THE STATE OF HIGHWAY FUND – Sources of Revenue in the Fund – *Capital Projects and Proposed Debt Financings.*"

Table 2
Statement of Revenues, Expenditures and Changes in Fund Balances – State Highway Fund [1]

For Fiscal Years Ended August 31
(In Thousands)

	2011	2012	2013	2014	2015
REVENUES:					
Taxes[2]	$ 2,313,017	$ 2,366,486	$ 2,419,421	$ 2,488,136	$ 2,582,837
Federal Revenues[3]	2,173,413	2,525,989	2,653,415	3,329,875	3,145,008
Federal Pass Through Revenues	8,495	5,811	1,412	66	-
Licenses, Fees and Permits	157,367	120,952	85,417	26,239	25,648
Interest & Investment Income	46,176	21,288	16,275	22,739	19,067
Land Income	6,679	9,650	15,637	13,649	15,590
Settlement of Claims	27	22,715	11,616	16,920	21,995
Sales of Goods and Services	213,066	7,871	53,108	34,501	28,548
Other Revenues	4,071	866	713	20,831	8,381
TOTAL REVENUES[4]	$ 4,922,311	$ 5,081,628	$ 5,257,014	$ 5,952,956	$ 5,847,074
EXPENDITURES:					
Salaries and Wages	$ 574,757	$ 579,906	$ 601,523	$ 638,831	$ 637,722
Payroll Related Costs	219,548	221,711	237,336	262,398	277,049
Professional Fees and Services	321,570	294,370	431,175	503,224	692,008
Federal Pass Through Expenditures	11,881	16,334	24,157	14,407	24,017
State Grant Pass Through Expenditures	534	864	2,508		-
Travel	4,067	4,641	4,923	7,453	7,888
Materials and Supplies	349,210	419,097	392,222	384,419	277,082
Communications and Utilities	47,933	45,984	45,514	45,236	46,031
Repairs and Maintenance[5]	812,847	1,493,112	1,888,871	523,523	686,169
Rentals and Leases	10,823	9,040	10,022	26,357	26,508
Printing and Reproduction	1,994	1,973	1,754	3,620	3,643
Claims and Judgments	8,142	5,861	6,155	11,668	4,618
Intergovernmental Payments	378,540	474,900	542,648	389,846	384,868
Public Assistance Payments	15,818	34,938	10,388	21,780	31,994
Other Expenditures	465,746	22,370	250,715	134,095	169,975
Total Transportation Expenditures	3,223,410	3,625,101	4,449,911	2,966,857	3,269,975
Principal on Pass-Through Tolls	34,339	57,846	105,113	104,889	111,696
Interest on State Highway Fund Bonds	332			150	-
Other Financing Fees	5,555	5,132	1,977	7,156	3,205
Capital Outlay[5]	2,506,287	2,385,290	1,972,758	4,243,349	4,496,619
TOTAL EXPENDITURES	$ 5,769,923	$ 6,073,369	$ 6,529,759	$ 7,322,401	$ 7,881,092
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	$ (847,612)	$ (991,741)	$ (1,272,745)	$ (1,369,445)	$ (2,034,018)
OTHER FINANCING SOURCES (USES):					
Transfers In[2]	$ 1,265,717	$ 1,721,623	$ 1,565,247	$ 1,814,231	$ 3,355,983
Transfers Out[2]	(1,079,345)	(1,063,308)	(1,082,000)	(838,441)	(944,641)
Bonds & Notes Issued	-	-	-	644,533	-
Bonds Issued for Refunding	-	-	-	813,262	781,080
Premiums on Bonds Issues	-	-	-	193,586	133,433
Payments to Escrow for Refunding	-	-	-	(954,414)	(910,971)
Insurance Recoveries	10,609	-	-	-	-
Sale of Capital Assets	3,363	11,064	4,318	7,732	70,255
TOTAL OTHER FINANCING SOURCES (USES)	$ 200,344	$ 669,379	$ 487,565	$ 1,689,489	$ 2,485,138
NET CHANGE IN FUND BALANCES	$ (647,268)	$ (322,362)	$ (785,180)	$ 320,044	$ 451,120
FINANCIAL STATEMENT FUND BALANCES					
BEGINNING FUND BALANCES[6]	864,932	216,080	277,340	(471,546)	3,093,910
Restatements[6]	(1,584)	383,622	36,303	3,245,412	-
BEGINNING FUND BALANCES, Restated[6]	863,348	599,702	313,643	2,773,866	3,093,910
ENDING FUND BALANCES[7]	$ 216,080	$ 277,340	$ (471,537)[8]	$ 3,093,910	$ 3,545,030

[1] Audited financial statements for the Department were prepared for Fiscal Years 2012, 2014 and 2015 due to legislative requirements; all other years presented were unaudited. All Department financials are presented on a modified accrual basis of accounting except where otherwise noted. See "THE COMMISSION AND THE DEPARTMENT – State Audits." Totals may not add due to rounding.

[2] The Fund is considered a shared fund and is appropriated for use by multiple State agencies. The Department is considered the controlling agency for the Fund and reports the total cash balance in the Fund at Fiscal Year-end. The Department reports interagency transfers with other agencies that collect and deposit to or expend out of the Fund. Transfers In primarily reflects Proposition 1 funding transferred from the Comptroller and vehicle registration fees transferred from the Department of Motor Vehicles. For a description of Proposition 1, see "THE STATE HIGHWAY FUND – General." Transfers Out mainly reflects transfers to DPS for its cash expenditures out of the Fund.

[3] Federal Revenues increased significantly in 2014 because of construction that began on major projects resulting in a corresponding increase in federal reimbursements for capital expenditures related to the projects. Federal Revenues decreased in 2015 by approximately 6% as a result of a small reduction in expenditures eligible for federal reimbursement.

[4] Total Revenues, as reported in the "Statement of Revenue, Expenditures and Changes in Fund Balance" is different from Pledged Revenues as defined by the Master Resolution. For further information on Pledged Revenues, see "APPENDIX A – DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION."

[5] In 2014, the Department adopted the depreciation approach for highways, for which the modified approach was previously used. Certain highway expenditures that were reported as Repairs and Maintenance expense in prior years are treated as capital outlays beginning in 2014, which is the primary reason for the 2014 decrease to Repairs and Maintenance expense and corresponding increase to Capital Outlay.

[6] Due to the implementation of GASB 65, the 2014 beginning Fund balance was restated by approximately $3.2 billion to reflect the adjustments of deferred revenue for unamortized balances of upfront service concession arrangement payments received prior to 2014.

[7] The lower ending fund balances of the Fund from 2011 to 2013 were largely due to the issuance in 2010 of State Highway Fund bonds and gradual expenditure of those bond proceeds subsequent to the bond issuance. The substantial increase in 2014 mainly reflects the impact of Restatements (see footnote 6) and the issuance in 2014 of State Highway Fund bonds. The net increase in 2015 is mainly the result of an increase in Transfers In for $1.7 billion in Proposition 1 Funds offset by a $702 million decrease in bond proceeds and a $559 million increase in expenditures, including significant increases in professional fees and repairs and maintenance.

[8] For discussion of a potential nominal or negative Fund balance at each Fiscal Year-end, see discussion of the Fund's fund balance in "THE STATE HIGHWAY FUND – General."

Sources of Revenue in the Fund

The following Table 3 displays 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
(In Millions)

Fiscal Year	State Motor Fuels Tax	State Motor Vehicle Registration Fees[1]	Other State Revenue Sources[2]	Reimbursements from Federal Funds	Total Revenues
	(Table 4)	*(Table 6)*	*(Table 8)*	*(Table 9)*	
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
2014	2,444.9	1,359.1	271.7	3,365.4	7,444.1
2015	2,538.3	1,386.2	340.9	3,161.5	7,426.9

(1) Fiscal Years 2011 – 2012 reflect minor reclassifications between Motor Vehicle Registration Fees and other State revenue sources.

(2) 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 paid through the Fund and reimbursed from the Texas Mobility Fund. See "THE STATE HIGHWAY FUND – General."

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 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 Section 7-a, 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 4 sets out the amount of the State motor fuels tax credited to the Fund for the last five Fiscal Years, which has increased at an average annual rate of 2.8% 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 Table 4 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 59.1%.

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
2011	$2,272.0	38%
2012	2,318.2	35
2013	2,376.9	35
2014	2,444.9	33
2015	2,538.3	34

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 5.0% over the past five Fiscal Years, with gasoline consumption increasing at an average annual rate of approximately 3.8% and diesel consumption increasing at an average annual rate of approximately 8.8% during such period. The following Table 5 shows 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
2011	11,822.6	3,726.1
2012	11,994.7	4,270.9
2013	12,506.7	4,558.4
2014	13,075.5	4,946.9
2015	13,720.6	5,209.9

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 5.2% 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 and the approximate percentage of total Fund revenues for such years that constituted motor vehicle registration fees. Not shown in Table 6, 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 32.4%.

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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 Fund Revenues
2011	$1,137.5	19%
2012	1,316.5	20
2013	1,355.0	20
2014	1,359.1	18
2015	1,386.2[2]	19

(1) Fiscal Years 2011 – 2012 reflect minor reclassifications between Motor Vehicle Registration Fees and other State revenue sources.

(2) State motor vehicle registration fees increased from Fiscal Year 2014 to Fiscal Year 2015 despite a decrease in the number of reported registered vehicles in Texas for the same time period. The decrease shown in Table 7 below is the result of a change in software system utilized by the TxDMV and the manner in which registered vehicles were counted.

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 assessor-collector of the county in which the owner of a vehicle resides. The registration fees vary dependent on the type and age of vehicle. The collecting county annually retains 100% of such registration 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. 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. In 2013, the 83rd State Legislature passed House Bill 2202 ("HB 2202"), which authorized the TxDMV to collect a processing and handling fee to cover the expenses of collecting registration fees. The TxDMV adopted rules establishing the new processing and handling fee effective January 1, 2017. Pursuant to HB 2202, such fee will replace $1.90 of each registration fee that is currently retained by county tax assessor-collectors pursuant to Chapter 520 of the Texas Transportation Code. As a result, $1.90 of each registration fee will instead be deposited to the credit of the Fund, beginning in January 2017 when the new processing and handling fee becomes effective.

The following Table 7 shows the number of vehicles registered in the State for the last five Fiscal Years, which has increased at an average annual rate of 2.1% over the last five Fiscal Years.

Table 7 - Vehicles Registered in Texas
(In Millions)

Fiscal Year	Number of Vehicles
2011	21.9
2012	22.6
2013	23.2
2014	23.9
2015	23.8

In 2013, the 83rd State Legislature passed House Bill 2305 (amending Chapter 548 of the Texas Transportation Code), which replaced the former dual certification system of separate motor vehicle inspection and registration decals with a single, combined certification system, known as the "single sticker rule." Beginning March 1, 2015, vehicles are no longer issued a separate inspection decal, and a single registration decal for each motor vehicle will signify that the vehicle has passed the required inspection and is registered in the State. Drivers who cannot pass an inspection cannot obtain a registration decal under the single sticker rule.

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 8 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 revenues for such years generated from such sources. Not shown in Table 8, 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 8.6%.

Table 8 - Other State Revenue Sources Credited to the State Highway Fund
(In Millions)

Fiscal Year	Other State Revenue Sources[1]	Percentage of Total Fund Revenues
2011	$429.0	7%
2012	357.0	6
2013	326.9	5
2014[2]	271.7	4
2015[2]	340.9	4

[1] Excludes Proposition 1 funding, 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 paid through the Fund and reimbursed from the Texas Mobility Fund. See "THE STATE HIGHWAY FUND – General."

[2] HB 2202 provided for the diversion of certain fees which historically had been deposited into the Fund. In concert with House Bill 6, also approved by the 83rd State Legislature, HB 2202 required such fees to be deposited into the General Revenue Fund or in some cases caused the collecting entity to retain certain fee revenues. The estimated aggregate amount of such fees was an average of $104 million annually from Fiscal Year 2014 through 2018. To partially offset the diversion of revenues from the Fund to the General Revenue Fund, appropriations made to the TxDMV out of the Fund were reduced by $95,385,000 in Fiscal Year 2014 and by $96,330,000 in Fiscal Year 2015 and such amounts were appropriated to the TxDMV 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 passed by the State Legislature and was approved by the State's voters as Proposition 1 at the November 4, 2014 general election. Proposition 1 amended Article III, Section 49-g of the State Constitution ("Section 49-g"), to direct the Comptroller to transfer and allocate to the economic stabilization fund ("ESF") and the Fund certain excess revenues derived from oil and gas production taxes. Amounts deposited in the Fund pursuant to Section 49-g may only be used for constructing, maintaining and acquiring rights-of-way for public roadways other than toll roads. In recognition of the more restrictive limitations on the permitted uses of amounts transferred to the Fund pursuant to Proposition 1 (relative to the permitted purposes for which Senior Obligations may be and have been issued), the Department created a special account in the Fund to segregate such amounts from State Highway Fund Revenues, and such amounts are not pledged to secure, or available to make debt service payments on, Senior Obligations, including the Bonds; however, deposits to the Fund as a result of Proposition 1 increase the Fund balances available for constructing, maintaining and acquiring rights-of-way for public roadways other than toll roads.

House Bill 1 ("HB 1"), which was also approved during 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 ESF each biennium. HB 1 further provides that the Comptroller, before making any transfers to the ESF or the Fund each year, shall determine whether the sum of the balance of the ESF plus any projected transfers to the ESF 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 (which balance is adjusted biannually), then the Comptroller shall reduce the allocation to the Fund from Section 49-g, and increase the allocation to the ESF, in an equal amount, until the sufficient balance adopted by the State Legislature for the ESF is achieved. Additionally, Section 49-g provides that during each State fiscal biennium the amount of funds in the ESF may not exceed an amount equal to 10% of the total amount, excluding investment income, interest income, and amounts borrowed from special funds of the State, deposited in the State's general revenue fund during the preceding biennium (the "ESF constitutional limit"). Absent any appropriations by the State Legislature, the ESF balance is expected to be $10.4 billion at the end of the 2016-17 biennium, which is below the ESF constitutional limit of an estimated $16.2 billion based on the Comptroller's biennial revenue estimate for the 2016-2017 biennium.

During the 84th regular legislative session, Senate Joint Resolution 5 ("SJR 5") was passed by the State Legislature and was approved by the State's voters as Proposition 7 at the November 3, 2015 general election. Proposition

7 amended the State Constitution by adding Section 7-c to Article VIII thereof. Section 7-c directs the Comptroller in each State fiscal year to deposit to the credit of the Fund $2.5 billion of the net revenue derived from the imposition of State sales and use tax on the sale, storage, use or other consumption in the State of taxable items under Chapter 151 of the Texas Tax Code (or its successor), that exceeds the first $28 billion of that revenue coming into the treasury in that State fiscal year. The foregoing provision of Section 7-c is effective in each State fiscal year from September 1, 2017 through the State fiscal year ending August 31, 2032. Additionally, Section 7-c directs the Comptroller in each State fiscal year to deposit to the credit of the Fund an amount equal to 35% of the net revenue derived from the tax authorized by Chapter 152 of the Texas Tax Code (or its successor) and imposed on the sale, use, or rental of a motor vehicle that exceeds the first $5 billion of that revenue coming into the State treasury in that State fiscal year. The foregoing provision of Section 7-c is effective in each State fiscal year from September 1, 2019 through the State fiscal year ending August 31, 2029. Money deposited to the Fund pursuant to Section 7-c may only be appropriated to construct, maintain or acquire rights-of-way for public roadways other than toll roads or to repay principal and interest on general obligation bonds issued pursuant to Article III, Section 49-p of the State Constitution ("Section 49-p"). In recognition of the more restrictive limitations on the permitted uses of amounts transferred to the Fund pursuant to Section 7-c (relative to the permitted purposes for which Senior Obligations may be and have been issued), the Department expects to create a special account in the Fund to segregate such amounts from State Highway Fund Revenues, and such amounts are not pledged to secure, or available to make debt service payments on, Senior Obligations, including the Bonds; however, any deposits to the Fund as a result of Proposition 7 will increase the Fund balances available for constructing, maintaining and acquiring rights-of-way for public roadways other than toll roads, except to the extent that such deposits are used to repay principal and interest on general obligation bonds issued pursuant to Section 49-p.

Section 7-c authorizes the State Legislature, upon a two-thirds vote of each house, to direct the Comptroller to reduce transfers authorized by Section 7-c into the Fund only in the State fiscal year of such vote or in either of the following two State fiscal years, by an amount or percentage that does not result in a reduction of more than 50 percent of the amount that would have otherwise been deposited to the Fund in the affected State fiscal year. The State Legislature may, by a record vote of a majority of the members of each house, adopt a resolution that extends, in 10-year increments, the duty of the Comptroller to make deposits into the Fund pursuant to Section 7-c. SJR 5 includes a temporary provision that expires September 1, 2020, which prohibits the use of funds transferred into the credit of the Fund from the effective date such transfers are authorized under SJR 5 from being used for any purposes other than constructing, maintaining or acquiring rights-of-way for public roadways other than toll roads or to repaying principal and interest on general obligation bonds issued pursuant to Section 49-p.

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 current federal highway authorization legislation, the "Fixing America's Surface Transportation Act" (the "FAST Act"), became law on December 4, 2015 and reauthorizes the FAHP through September 30, 2020. Prior to the enactment of the FAST Act, the last multi-year authorization of the FAHP was the "Moving Ahead for Progress in the 21st Century Act" ("MAP-21"), which provided funding through September 30, 2014. MAP-21 replaced the "Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users" ("SAFETEA-LU"), which expired in 2009, but was reauthorized through passage of temporary short-term extensions until June 30, 2012. In periods between multi-year authorizations, Congress consistently has used short-term authorizations to fund the FAHP.

Prior federal highway authorization and appropriation legislation has included rescissions of unused contract authority, including reductions to funding under SAFETEA-LU and multiple appropriation bills in each of the years 2006 through 2011. MAP-21 did not include a rescission, however there was a rescission included in the FAST Act. The FAST Act put in place a $7.5 billion rescission of unused contract authority at the end of the authorized period of 2020. 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 the FAST Act and the funding of the Federal-Aid Highway Program, 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 percentage of the total Fund revenues represented by federal reimbursements, are shown in Table 9.

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

Fiscal Year	Reimbursements from Federal Funds	Percentage of Total Fund Revenues
2011	$2,182.1	36%
2012	2,560.6	39
2013	2,702.9	40
2014[2]	3,365.4	45
2015[3]	3,161.5	43

[1] See "APPENDIX C – INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS" for information regarding the potential impact of recent developments affecting programs funded by the federal government, including federal reimbursements. Excludes funds received for projects financed through the American Reinvestment and Recovery Act (ARRA) which began in Fiscal Year 2009.

[2] Reimbursements from federal funds increased significantly in 2014 because of construction that began on major projects, resulting in a corresponding increase in federal project capital expenditures.

[3] Reimbursements from federal funds decreased in Fiscal Year 2015 by approximately 6% as a result of a reduction in expenditures eligible for federal reimbursement.

The Equity Bonus Program in SAFETEA-LU was removed from MAP-21. In its place, MAP-21 made an adjustment to part of the apportionment formula (which was carried forward through the FAST Act), 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, almost every state is now receiving more funds than were deposited into the HTF. Texas is the only state still below the 100% threshold of funds received. Funds from the HTF support a variety of federal transportation programs that, for 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 apportionment. Each federal fiscal year ("FFY"), 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 the FAST Act. When there are no formulas in law, the non-formula allocation (discretionary) of funds may be made at any time during the FFY. 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, MAP-21 and extensions of MAP-21 were $3.13 billion, $3.12 billion, $2.91 billion, $3.05 billion, $3.33 billion and $3.3 billion in FFY 2010 through 2015, respectively. However, in FFYs 2010 and 2011, there were federal rescissions of certain amounts appropriated under SAFETEA-LU in the approximate aggregate amounts of $2.2 billion and $2.5 billion, respectively. Texas' share of such rescissions was $190,367,982 and $200,895,021 for FFY 2010 and 2011, respectively. MAP-21 did not include any rescissions, however the FAST Act does contain a $7.5 billion rescission at the end of the authorization in 2020. See "APPENDIX C – INFORMATION CONCERNING THE FUNDING OF FEDERAL-AID HIGHWAYS – Federal Aid Funding Procedures – *Apportionment, Allocations and Rescissions*."

The following Table 10 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 FFYs.

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

Federal Fiscal Year	Guaranteed Highway Programs	Discretionary/ Allocated Highway Programs[2]	Transit Programs[3]	Total
2011	$3,288.1	$3.2	$60.9	$3,352.2
2012	3,065.7	2.8	75.4	3,143.9
2013	3,049.7	10.2	62.8	3,122.7
2014	3,341.4	10.6	64.5	3,416.5
2015	3,342.5	1.5	64.4	3,408.4

[1] Based upon data from the United States Department of Transportation. Excludes federal funds apportioned and allocated for the State's Aviation Programs.
[2] Several discretionary programs were discontinued for MAP-21, which included the Consolidating Planning Grant Program. This federal grant program provided approximately $8.8 million and $9 million in FFYs 2013 and 2014 but was no longer available in FFY 2015.
[3] Transit Programs reflect funds that are administered by or flow through the Department and awarded to sub-recipients. Funds given directly to sub-recipients in the State are excluded.

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 FFY, 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 FFY 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 FFY, 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 11 provides a history of the obligation authority to the Department for Guaranteed Federal Highway Programs in the State for the last five FFYs.

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

FFY	Amount
2011	$3,084.5
2012	2,914.1
2013	2,947.2
2014	3,359.7[2]
2015	3,333.8

[1] Excludes obligation authority limitation for the State's Aviation and Transit Programs.
[2] The overall obligation authority limitation received for the Guaranteed Highway Program has historically been less than the apportionment. However, in FFY 2014, the obligation authority limitation exceeded the total FFY 2014 apportioned funds since the Department requested and received additional funds from a redistribution of obligation authority that other states were not able to use in the FFY 2014. This redistribution allowed the Department to spend more on projects in Fiscal Year 2014 than had been anticipated.

The amounts shown in Table 10 above represent federal funds that have been "apportioned" or "allocated" to the State pursuant to federal legislation. Amounts shown in Table 11 above 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 above.

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 or (ii) to mitigate adverse environmental effects that result directly from the construction or maintenance of a state highway by the Department. 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 State Legislature to the Department and certain other State agencies. See "THE STATE HIGHWAY FUND – General."

The following Table 12 sets out the appropriation of funds by the State 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
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
2016-17	17,208.3	100.00

[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 State's General Appropriations Act.

[2] The Department received an increase in 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 Fund, which delineates current and future obligations of the Department and forecasts the monthly revenue, expenditure, lowest daily balance, and ending balance for the Fund. From the forecast, the amount of expenditures (appropriations) that can be handled by the Fund can be determined. After accounting for existing obligations, the Commission then allocates the projected available resources among the competing needs identified by the various Department offices, 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 State 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. Though it is not codified and does not otherwise appear in Vernon's Texas Statutes, the budget is law 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 planning organizations ("MPOs") within the State. The statewide transportation plan ("Statewide Transportation Plan") is a long-range plan outlining the transportation goals of the Commission over a 25-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 full funding is yet to be authorized. At the same time, the 25 MPOs each approve a four-year Transportation Improvement Program ("TIPs"). The TIPs approved by MPOs are used to create the Statewide Transportation Improvement Program ("STIP") for projects to be constructed by the Commission over the next four 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."

During the 84th regular legislative session the State Legislature passed HB 20, which requires the Commission, by rule, to implement a performance-based planning and programming process dedicated to providing State executive and legislative branches with indicators that quantify and qualify progress toward attaining all Department goals and objectives established by the State Legislature. HB 20 requires the Commission, by rule, to develop and implement performance metrics and performance measures as part of the review of strategic planning in the Statewide Transportation Plan, rural transportation plans and the UTP. The Commission must also, by rule, implement performance metrics and performance measures as part of the evaluation of decision-making on projects selected for funding in the UTP, the STIP and for project delivery for projects in the Department's letting schedule.

Additionally, HB 20 requires each MPO or, for an area that is not within the boundaries of an MPO, the Department district that serves the area to develop a 10-year transportation plan for the use of the funding allocated to such area plan under the UTP as well as develop project recommendation criteria.

Table 13 - Projected Construction Contract Awards by the Department (In Millions)[1]

Fiscal Year	Amount
2016	$2,351.38
2017	4,043.16
2018	2,725.54
2019	2,916.28
2020	1,971.20

[1] As of September 1, 2016. Excludes construction contract awards to be funded from Previously Issued First Tier Senior Obligations, the Bonds, additional Senior Obligations, State general obligation debt, Texas Mobility Fund obligations, Proposition 1, and surplus toll revenue deposits.

Capital Financing Process. The Commission has the ability to finance its continuing construction program through a number of methods. The Commission may issue bonds or other public securities during the next twelve months as Additional Senior Obligations for refunding purposes. 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 toll agreements, toll equity agreements and multi-year construction contracts and agreements, to finance, assist in the financing, or outright develop and construct, highway projects. 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 with the Central Texas Turnpike System (the "CTTS"), 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. However, the Commission does not currently anticipate making unreimbursed payments for any CTTS operation and maintenance expenses or CTTS Reserve Maintenance from the Fund.

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, 2015, the Commission had outstanding toll equity grant commitments and toll equity loan commitments payable from the Fund totaling $244.2 million and $15.4 billion, respectively.

Of the outstanding toll equity loan commitments, $5.9 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 a total loan commitment based on the development, construction, acquisition and maintenance costs of the project and 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 (with an outstanding commitment of $9.5 billion as of August 31, 2015), 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 and maintenance 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.

At its monthly meeting held on June 25, 2015, the Commission authorized the GPTC's development, financing, refinancing, design, construction, reconstruction, expansion, operation and maintenance of the additional segments H, I-1 and I-2 of the Grand Parkway project in Harris, Montgomery, Liberty and Chambers Counties and the GPTC Board of Directors accepted responsibility for such activities at its June 26, 2015 meeting. Such segments are currently under procurement by the Department as a design-build contract and final award is expected to occur in early 2017. No assurance is given regarding any future development, procurement and method of financing of segments H, I-1 and I-2 of the Grand Parkway project, including utilizing a toll equity loan agreement or an amendment of the GPTC Agreement.

The Commission may enter into additional toll equity loan 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 14 shows the expected deposits to and uses of revenues in the Fund during the term of the toll equity loan commitments.

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
2016	$8,376,443,052	$314,570,674	$1,354,027,137	$487,478,032	$3,084,345,074	$3,136,022,137	$ 99,149,601	$ 35,370,268	$134,519,869	1.61%	4.29%
2017	9,896,726,295	348,671,463	1,397,836,896	423,558,819	3,381,966,067	4,344,693,050	112,172,417	321,211,829	433,384,246	4.38%	9.98%
2018	10,220,506,399	428,163,780	516,830,026	435,920,333	1,627,138,346	7,212,453,914	130,284,173	298,339,721	428,623,895	4.19%	5.94%
2019	9,562,642,514	428,161,380	402,791,999	438,396,333	564,798,256	7,728,494,546	145,256,478	279,325,185	424,581,662	4.44%	5.49%
2020	9,004,466,583	428,166,581	320,931,808	322,648,333	320,401,780	7,612,318,081	164,113,035	283,343,355	447,456,390	4.97%	5.88%
2021	8,746,813,231	428,160,154	173,984,100	312,107,000	196,381,048	7,636,180,929	173,815,799	293,234,019	467,049,818	5.34%	6.12%
2022	8,382,513,389	427,490,355	131,031,421	312,107,000	98,267,806	7,413,616,807	186,693,119	291,662,021	478,355,140	5.71%	6.45%
2023	8,298,618,072	426,823,530	112,920,271	312,107,000	38,668,033	7,408,099,238	193,539,846	119,903,780	313,443,626	3.78%	4.23%
2024	8,316,718,263	425,667,817	86,718,186	312,107,000	4,404,744	7,487,820,517	207,672,742	137,345,518	345,018,259	4.15%	4.61%
2025	8,391,000,623	425,312,216	70,684,006	312,107,000		7,582,897,400	214,782,767	154,975,462	369,758,229	4.41%	4.88%
2026	8,521,916,127	425,145,268	31,374,074	312,107,000		7,753,289,785	220,673,312	158,428,530	379,101,842	4.45%	4.89%
2027	8,757,409,713	424,816,563	12,459,866	312,107,000		8,008,026,284	227,782,984	161,021,513	388,804,497	4.44%	4.86%
2028	8,863,602,729	421,130,208	2,107,293	312,107,000		8,128,258,228	244,718,287	164,099,141	408,817,428	4.61%	5.03%
2029	8,974,493,633	415,443,147	1,000,000	312,107,000		8,245,943,486	240,170,038	167,449,611	407,619,649	4.54%	4.94%
2030	9,114,186,978	409,326,754	1,000,000	312,107,000		8,391,753,224	240,345,726	172,694,761	413,040,486	4.53%	4.92%
2031	9,259,974,835	217,618,078	1,000,000	312,107,000		8,729,249,757	234,796,473	180,897,332	415,693,805	4.49%	4.76%
2032	9,421,921,877	182,811,437	1,000,000	312,107,000		8,926,003,440	236,869,609	189,133,523	426,003,132	4.52%	4.77%
2033	9,591,105,650	181,868,250	1,000,000	312,107,000		9,096,130,400	227,353,760	197,710,417	425,064,177	4.43%	4.67%
2034	9,774,142,984	181,865,250	1,000,000	312,107,000		9,279,170,734	138,448,454	206,724,747	345,173,201	3.53%	3.72%
2035	9,962,149,058		1,000,000	312,107,000		9,649,042,058	153,289,552	216,317,514	369,607,066	3.71%	3.83%
2036	10,149,450,168		1,000,000	312,107,000		9,836,343,168	163,426,760	226,294,076	389,720,836	3.84%	3.96%
2037	10,356,121,625		1,000,000	312,107,000		10,043,014,625	163,426,760	235,574,322	399,001,081	3.85%	3.97%
2038	10,562,673,292		1,000,000	312,107,000		10,249,566,292	163,426,760	244,413,504	407,840,263	3.86%	3.98%
2039	10,787,306,444		1,000,000	312,107,000		10,474,199,444	163,426,760	252,344,857	415,771,616	3.85%	3.97%
2040	10,994,388,285		1,000,000	312,107,000		10,681,281,285	163,426,760	259,411,667	422,838,427	3.85%	3.96%
2041	11,159,304,109		1,000,000	312,107,000		10,846,197,109	129,018,014	264,746,105	393,764,119	3.53%	3.63%
2042	11,326,693,671		1,000,000	312,107,000		11,013,586,671	146,911,358	269,527,834	416,439,192	3.68%	3.78%
2043	11,496,594,076		1,000,000	312,107,000		11,183,487,076	169,628,386	241,943,368	411,571,755	3.58%	3.68%
2044	11,669,042,987		1,000,000	312,107,000		11,355,935,987	178,498,077	205,663,872	384,161,949	3.29%	3.38%
2045	11,844,078,632		1,000,000	312,107,000		11,530,971,632	181,444,618	284,926,519	466,371,137	3.94%	4.04%
2046	12,021,739,811		1,000,000	312,107,000		11,708,632,811	201,445,337	286,114,758	487,560,095	4.06%	4.16%
2047	12,202,065,909		1,000,000	312,107,000		11,888,958,909	239,528,255	286,380,836	525,909,091	4.31%	4.42%
2048	12,385,096,897		1,000,000	312,107,000		12,071,989,897		286,094,327	286,094,327	2.31%	2.37%
2049	12,570,873,351		1,000,000	312,107,000		12,257,766,351		285,434,044	285,434,044	2.27%	2.33%
2050	12,759,436,451		1,000,000	312,107,000		12,446,329,451		283,997,919	283,997,919	2.23%	2.28%
2051	12,950,827,998		1,000,000	312,107,000		12,637,720,998		477,596,850	477,596,850	3.69%	3.78%
2052	13,145,090,418		1,000,000	312,107,000		12,831,983,418		583,573,342	583,573,342	4.44%	4.55%
2053	13,342,266,774		1,000,000	312,107,000		13,029,159,774		576,031,910	576,031,910	4.32%	4.42%
2054	13,542,400,776		1,000,000	312,107,000		13,229,293,776					
Total / Avg	**$406,702,803,678**	**$6,941,212,905**	**$4,639,697,082**	**$12,719,639,850**	**$9,316,371,153**	**$373,085,882,689**	**$5,855,536,018**	**$9,579,258,353**	**$15,434,794,371**	**3.80%**	**4.14%**

(1) Source: the Department, as of September 1, 2016. Excludes Proposition 1 and Proposition 7 revenues. See "GENERAL INFORMATION REGARDING THE BONDS – Source of Payment for Bonds" and "INVESTMENT CONSIDERATIONS – Forward-Looking Statements."

(2) Includes federal subsidy associated with the Series 2010 Bonds. The BAB Subsidy Payment for October 1, 2015 was reduced by 7.3% , and the BAB Subsidy Payments for April 1, 2016 and October 1, 2016 were reduced by 6.8%. A 6.9% reduction in BAB Subsidy Payments has been announced by the federal government for the federal fiscal year ending September 30, 2017 and, in Table 14 above, is assumed to apply to the BAB Subsidy Payments beginning with the April 1, 2017 payment and continuing through the federal fiscal year ending September 30, 2024 (October 1, 2024 payment). See "THE STATE HIGHWAY FUND – Sequestration Effects on the State Highway Fund."

(3) Gross debt service shown; includes the Bonds. Interest on the Series 2016-B Bonds is assumed at 3.5% per annum following the Initial Multiannual Rate Period. Interest on the variable rate Series 2006-B Bonds and Series 2014-B Bonds, being a portion of the Outstanding First Tier Senior Obligations, is assumed at 3.5%, including remarketing and liquidity fees, as applicable. For fiscal years 2017 and later, excludes debt service on the Series 2006-B Bonds, which will be refunded in whole with a portion of the proceeds of the Series 2016-B Bonds. See "PLAN OF FINANCE" and "GENERAL INFORMATION REGARDING THE BONDS - Outstanding and Additional Senior Obligations and Tiers of Senior Obligations."

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

(5) Money available for Department operations and other obligations.

(6) Comprised of the Maximum Available TELA 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 as a result of the GPTC 2014 refunding of the GPTC Series 2013 C&D Bonds.

(8) Comprised of the combined Maximum Available TELA amounts 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, 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, 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 September 1, 2016, the Department had executed 41 Pass-Through Financings with terms ranging from four to 20 years and total pass-through reimbursements owed of approximately $1.3 billion with aggregate annual reimbursements of no greater than $200 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 State 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 by the Bipartisan Budget Act of 2013, certain automatic reductions in federal spending (the "Sequester Cuts") took effect as of March 1, 2013. The Sequester Cuts affected the subsidy payments to be made by the federal government to issuers of "direct-pay" tax credit bonds, such as BABs (including the Series 2010 Bonds). As a result of the Sequester Cuts, the BAB Subsidy Payments received by the Commission in Fiscal Years 2014, 2015 and 2016 for the Series 2010 Bonds were reduced by approximately $2,148,815, $1,959,611, and $1,908,840, respectively. The Internal Revenue Service has notified the Commission that the BAB Subsidy Payment will be reduced by approximately $918,990 in respect of the October 1, 2016 debt service payment on the Series 2010 Bonds. If the Sequester Cuts continue, the Commission will be required to expend additional Pledged Revenues or other sources of Security in order to pay debt service on the Series 2010 Bonds resulting from a reduction in BAB Subsidy Payments. The Commission has determined that the reduced amount of BAB Subsidy Payment to be received for the Series 2010 Bonds as a result of the Sequester Cuts will not have a material adverse impact on the financial condition of the Commission or its ability to pay regularly scheduled debt service on the Series 2010 Bonds, any outstanding First Tier Senior Obligations or the Bonds when due and in the amounts due in Fiscal Year 2017.

The Sequester Cuts were originally set to expire in 2021. However, on February 15, 2014, the Bipartisan Budget Act of 2013 was amended by Congress to, among other things, extend the planned Sequester Cuts to 2024. The debt service projections contained in Table 1 reflect actual and anticipated reductions in BAB Subsidy Payments; however, at this time, the Commission and the Department make no representations as to whether the Sequester Cuts will remain in effect and cause a reduction in receipts of federal funds or BAB Subsidy Payments for any future year. See "Table 1 – Debt Service Coverage Requirements and Projected Coverage."

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 with the advice and consent of the Texas Senate. Commissioners serve staggered six year terms. One member is designated by the Governor as the Chair and serves as the 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 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 State 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 State Legislature changed the name of the State Highway Commission to the "State Highway and Public Transportation Commission." In 1991, the State Legislature changed the name again to the "Texas Transportation Commission," as it remains today.

The current members of the Commission are listed below. Their terms end on the dates specified on page iii of this Official Statement.

Tryon D. Lewis, Chairman

Mr. Lewis was appointed to the Commission by Governor Abbott on February 13, 2015. Mr. Lewis is a former state representative from Texas' 81st District, serving from 2008 to 2015. During Representative Lewis' legislative career he served as the chairman of the Judiciary and Civil Jurisprudence Committee and was the co-chair of the Joint House Senate Committee on Judicial Selection. Representative Lewis also served on the House Higher Education Committee and the House Committee on Public Safety. Prior to his service in the State Legislature, Lewis held office as a state district judge, serving in that capacity from 1985 until 2006. He practiced law in Odessa from 1973 to 1984 and then again from 2006 to present. He is currently a shareholder in the Atkins Hollman Jones Peacock Lewis & Lyon Law Firm. Mr. Lewis has previously served on the boards of local organizations including Meals on Wheels, ECISD Education Foundation, the Permian Playhouse, the Odessa Cultural Council, the state board of the Texas Young Lawyers Association and has served as president of the Ector County Bar Association. Mr. Lewis attended Odessa College, The University of Texas at Austin and Baylor Law School.

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.

J. Bruce Bugg, Jr., Commissioner

Mr. Bugg was appointed to the Commission by Governor Abbott on February 13, 2015. Mr. Bugg is chairman and trustee of The Tobin Endowment, a private charitable foundation, in San Antonio, Texas and chairman and co-founder of the Bexar County Performing Arts Center Foundation, owner of the $205 million Tobin Center for the Performing Arts in San Antonio. Mr. Bugg currently serves as a member of the board of directors of the San

Antonio Chamber of Commerce, the board of trustees of the Texas Biomedical Research Institute and board of trustees of St. Mary's Hall, a private school in San Antonio, Texas, and chairman of the Endowment Investment Committee and a member of the board of directors of The Santa Fe Opera in Santa Fe, New Mexico. He is former chairman of the board of Governors of Cancer Therapy & Research Center, former officer and trustee of the Texas Research and Technology Foundation, a trustee emeritus of the board of Trustees of the McNay Art Museum. Mr. Bugg is also chairman, president and chief executive officer of Southwest Bancshares, Inc., a Texas bank holding company for The Bank of San Antonio, and chairman of The Bank of San Antonio; and chairman, president and chief executive officer of Texas Hill Country Bancshares, Inc., a Texas bank holding company for Texas Hill Country Bank. In addition, Mr. Bugg also serves as chairman of San Antonio Capital & Trust Co., L.L.C. and chairman and chief executive officer of Argyle Investment Co., L.L.C., a private investment firm. Mr. Bugg was appointed to serve as chairman and president of the Texas Economic Development Corporation and a senior advisor to Governor Perry on the State of Texas' economic development strategies and initiatives from 2012 to May, 2014. Prior to this appointment, Mr. Bugg was appointed to serve as the Governor's appointee on the board of directors of Humanities Texas in Austin, Texas. Mr. Bugg is a member of the State Bar of Texas and holds Juris Doctorate and Bachelor of Business Administration degrees from Southern Methodist University.

Laura Ryan, Commissioner

Ms. Ryan was appointed to the Commission by Governor Abbott in July of 2016. Ms. Ryan is vice president of market representation and dealer development for Gulf States Toyota, Inc. She previously served as a member of the TxDMV Board and was also designated by the Governor as chair of the TxDMV Board. During her tenure as chair of the TxDMV Board, Ms. Ryan initiated many processes to make the TxDMV more innovative, customer-oriented, and efficient. Ms. Ryan has held various executive level positions during her twenty-plus years in the automotive industry, including both manufacture and retail operations. Ms. Ryan is involved with her community through several volunteer and charity organizations such as Boys and Girls Country, Operation Interdependence, and National Charity League. Ms. Ryan attended Penn State University and has been engaged in the following continuous executive education programs: Gallup Organization Strengths Training, University of Texas Future Leaders, and Columbia University - Finance.

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 State Legislature to administer federal funds for highway construction and maintenance. In 1975, the State 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 State 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 State 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, through collaboration and leadership, to deliver a safe, reliable and integrated transportation system that enables the movement of people and goods throughout the State. The Department's core goals and objectives are: to implement effective planning and forecasting processes that deliver the right projects on time and on budget; to focus on the customer because people are at the center of everything the

Department does; to foster stewardship by ensuring efficient use of State resources; to optimize system performance by developing and operating an integrated transportation system that provides reliable and accessible mobility and enables economic growth; to preserve its assets by delivering preventative maintenance for the Department's system and capital assets to protect its investments; to champion a culture of safety; and to value its employees by respecting and caring for their well-being and development.

The Department is headquartered in Austin, Texas, with 33 divisions and 25 district offices located throughout the State. Each district is responsible for the planning, design, construction, operation and maintenance 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, Executive Director

Effective January 1, 2016, James M. Bass was appointed Executive Director by the Commission on December 17, 2015. Under the direction of the Commission, Mr. Bass manages, directs and implements Department policies, programs and operating strategies. Mr. Bass also represents the Department before the Legislature and other entities. Prior to his appointment as Executive Director, Mr. Bass served as the Department's Chief Financial Officer. 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 Department's financial planning operations division (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 State Highway Fund. Mr. Bass was named Finance Division Director in 1999 and his title was changed to Chief Financial Officer in 2005. Mr. Bass also served as Interim Executive Director of the Department from January 17, 2014 to April 23, 2014.

Marc D. Williams, P.E., Deputy Executive Director

As Deputy Executive Director, Mr. Williams is responsible for assisting the Executive Director in all phases of directing, managing, and implementing the Department's policies, programs, and operating strategies. He assists in oversight of the management and operation 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. Williams started with the Department in February 2012 as the Director of Planning within the Department's Planning and Projects Office. His career experience in transportation planning and program efforts includes public and private-sector organizations involving state, county and local jurisdictions. Mr. Williams has served in leadership positions with two state departments of transportation as well as worked with national private-sector transportation engineering organizations. His professional assignments have included directing statewide transportation planning and programming efforts as well as managing project specific highway and multimodal transportation plans and programs. Mr. Williams has worked extensively with public and agency outreach, transportation plans of various modes, regional and corridor-level plans and programs, environmental planning and approval, economics and finance, project design and development, along with work in the areas of construction management, operations and maintenance. Mr. Williams received both a Master's degree in Civil Engineering and a Bachelor's degree in Civil Engineering from Texas A&M University.

Brian D. Ragland, Chief Financial Officer

Mr. Ragland was selected as the Department's Chief Financial Officer on March 11, 2016. Mr. Ragland has financial oversight responsibility for the Department including the Department's Financial Management Division, Project Finance, Debt and Strategic Contracts Division, Real Estate Division, and Toll Operations Division. Mr. Ragland 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. Mr. Ragland began his career with the Department as the Director of the Department's Claims Management Section of the Financial Management 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 but returned to the Department in 2008 as the Director of the Financial Management Division. Mr. Ragland is also currently an elected trustee of the Employees Retirement System, with a term expiring August 31, 2017. 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 and a member of the American Institute of CPAs (AICPA), the Texas State Agency Business Administrators Association (TSABAA) and the State Agency Coordinating Council (SACC).

Benjamin H. Asher, Director, Project Finance, Debt and Strategic Contracts Division

As director of the Project Finance, Debt and Strategic Contracts Division, Mr. Asher is responsible for the management of the Department's project financing, debt management and strategic contracts programs. This includes the management of the Department's various debt and financial assistance programs, including TIFIA loan activity, the State Infrastructure Bank, toll equity, and pass-through financings, as well as aspects of the Department's comprehensive development agreements and contract process. Prior to joining the Department in June 2012, Mr. Asher worked for Public Resources Advisory Group, an independent financial advisory firm, most recently as a partner and senior managing director in New York. Previously, Mr. Asher worked in investment banking on a broad range of financings including fixed and variable rate issues, taxable and tax-exempt financings, derivatives, private placements and notes. Mr. Asher received his Bachelor of Arts in history from Columbia University and an M.B.A. in finance from Columbia University Graduate School of Business.

Stephen Stewart, Director, Financial Management Division

As the Department's Director of the Financial Management Division, Mr. Stewart is responsible for the management and control of budget, revenue, disbursements, and accounting for the Department as well as letting management of all transportation projects. Mr. Stewart has over 16 years of state governmental experience and has been involved with many key initiatives since he began with the Department in March of 2012. Mr. Stewart has held previous roles as Manager of Financial Reporting and Director of Accounting positions within the Financial Management Division. Within each of those roles, he has worked to collaborate with other districts, divisions, and other State agencies to produce required audit financial statements and statutory reports needed for the Department as well as assisting with the implementation of the PeopleSoft Financial Supply Chain Management (FSCM) system. Prior to joining the Department, Mr. Stewart worked for the Comptroller assisting in the production of the State's Comprehensive Annual Financial Report where he gained insight and experience working with various agencies across the State. Aside from governmental accounting, Mr. Stewart has also gained business and management experience from owning his own CPA firm which focused on bookkeeping and tax services. Prior to his accounting experiences, Mr. Stewart worked at Texas State University in the information technology division as a network administrator and systems programmer where he was responsible for administration of Active Directory domains consisting of over 70,000 users and various SAP, e-mail, and database servers. Mr. Stewart received a Bachelor's degree in Computer Science from Southwest Texas State University in 2003 and a Master's degree in Accounting from Texas State University in 2007. He is a licensed Certified Public Accountant and a member of the American Institute of CPAs (AICPA).

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.

Sunset Review

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 State Legislature, and that each agency subject to sunset review will be abolished unless the State Legislature specifically determines to continue its existence. The Department will be subject to its next sunset review in 2017. Pursuant to the Sunset Act, the State 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.

State Audits

General. 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 financial audits, compliance audits, investigations and other special audits 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, Governmental Accounting Standards Board, United States General Accounting Office or other professionally recognized entities that prescribe auditing standards.

Department Financial Statements. All of the Department's annual financial reports have historically been unaudited except the Fiscal Year 2012 financial report, which was audited by the SAO, and the financial reports for Fiscal Years 2014 and 2015, which were audited by Crowe Horwath, LLP, in such instances to comply with State legislative requirements. The Department could elect or be required to have audited financial reports prepared in the future. Under current State law the SAO has the first right to perform audits requested by the Department and if it declines, the Department can select an external auditor. No assurances can be given as to whether any such financial reports of the Department will be audited in the future.

Retirement Benefits of the Department

Retirement Plan. 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 elected officials, law enforcement and custodial officers, and judges. As of August 31, 2015, ERS had 142,409 active contributing members, 16,673 inactive vested members, 84,449 inactive non-vested members and 100,003 annuitants. The Department currently employs approximately 11,900 employees and, for Fiscal Year 2016, approximately $59 million has 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, 2015, which is the date of the most recent actuarial valuation, the Plan's actuarial accrued liability was $33,868,359,950. As of such date, the Plan had an actuarial value of assets of $25,850,542,024, leaving an unfunded actuarial accrued liability of $8,017,817,926 (the Plan's "unfunded actuarial liability"). Accordingly, ERS's funded ratio as of August 31, 2015 was 76.3%, meaning that the ERS could pay, as of such date, 76.3% of 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, 2015, the market value of ERS assets was $1,852,060,863, less than the actuarial value.

Contributions to ERS are made by both the State and covered employees. The State 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 6% of payroll. The State Legislature, however, may appropriate additional funds as are actuarially determined to be needed to fund benefits authorized by law. For the fiscal year beginning September 1, 2015, the State Legislature set the State's contribution rate to ERS at 10.0% of payroll. The member contribution rate to ERS

in fiscal year 2015 was 6.9% for employees, and increases to 7.2%, and 7.5% in fiscal years 2016, and 2017 respectively.

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, 2015, the period required to amortize the unfunded actuarial liability of the Plan was estimated at 33 years.

During the 83rd regular legislative session, the State Legislature passed Senate Bill 1459 ("SB 1459") which was signed into law on June 14, 2013 and contained a number of changes intended to improve the Plan's financial position to ensure the future soundness of the Plan. SB 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, SB 1459 modified the retirement annuity calculation to lessen Plan costs and increased the minimum retirement age necessary to receive the maximum annuity.

During the 84th regular legislative session, the State Legislature passed House Bill 9 ("HB 9"), which was signed into law on June 9, 2015 and became effective September 1, 2015. HB 9 requires each department or agency of the State to deduct from each ERS member who is not a member of the State Legislature a contribution of 9.5% of the compensation for service rendered after August 31, 2015, and before September 1, 2017. For service rendered by an ERS member who is not a member of the State Legislature on or after September 1, 2017, the contribution rate is the lesser of: (1) 9.5% of such member's annual compensation; or (2) a percentage of the member's annual compensation equal to 9.5% reduced by 1/10 of 1% for each 1/10 of 1% that the State contribution rate for the fiscal year to which the service relates is less than the State contribution rate established for the 2017 fiscal year. Effective September 1, 2015, the contribution rate is 9.5% of the compensation if the ERS member is a member of the State Legislature.

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, 2015, the ERS OPEB Plan had 230,023 active members, 11,443 deferred vested members and 147,441 retirees and nominees. The Department currently employs approximately 11,900 employees and, for fiscal year 2016, approximately $248 million has 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, 2015, the ERS OPEB Plan's unfunded actuarial accrued liability is $25,740.7 million. 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 and Remedies

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.

Under current State law, the Commission and the Department are immune from suits for money damages and are prohibited from waiving their sovereign immunity from suit, including with respect to the Bonds. Consequently the owners of the Bonds are prevented from bringing such a suit against the Commission or the Department for damages for breach of the Commission's obligations under the Resolution. The remedies available to owners of the Bonds upon an event of default include all legal remedies afforded under State law, including the seeking of specific performance or a writ of mandamus or other suit, action or proceeding compelling and requiring the Commission and its officers to observe and perform any covenant, condition or obligation prescribed in the Resolution. **NO ACCELERATION REMEDY IS AVAILABLE TO THE OWNERS OF THE BONDS UPON AN EVENT OF DEFAULT UNDER THE RESOLUTION**. The remedies are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. The remedy of mandamus is controlled by equitable principles and so rests with the discretion of the court, but may not be arbitrarily refused; provided, however, Texas case law suggests that a mandamus action to enforce a non-legislatively mandated contract may be unavailable. See "GENERAL INFORMATION REGARDING THE BONDS – Bondowners' Remedies."

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), State and local regulation (including regulations impacting eligibility for motor vehicle registration), 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. The FAST Act became law on December 4, 2015. The FAST Act represents the first long-term, comprehensive surface transportation proposal since SAFETEA-LU, which was replaced by MAP-21, portions of which were most recently extended by the "Highway and Transportation Funding Act of 2015." The FAST Act also reauthorizes the collection of federal gasoline excise taxes and other taxes generating revenues to the HTF through the FFY ending September 30, 2020.

The FAST Act 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 the Department under SAFETEA-LU, MAP-21 and extensions of MAP-21 were $3.13 billion, $3.12 billion, $2.91 billion, $3.05 billion, $3.33 billion and $3.3 billion in FFY 2010 through 2015, respectively. However, in FFY 2010 and 2011, there were federal rescissions of certain amounts appropriated under SAFETEA-LU in the approximate aggregate amounts of $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 FFY 2009 through 2011, respectively. In February 2010, Congress passed H.R. 2847, 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. The FAST Act includes a $7.5 billion rescission of unused contract authority when the authorization expires in 2020. 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, delay or proration of federal reimbursements to the Department 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 State Legislature to alter or otherwise redirect revenues currently deposited into the Fund is unclear. In any case, Section 49-n prevents the State 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.

There can be no assurances that the State 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. For instance, in the 1998-1999 biennium, the State 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. Although this action of the State Legislature occurred prior to the adoption of Section 49-n, when no Senior Obligations were outstanding, such revenues were ultimately deposited into the Fund. 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 State Legislature may appropriate monies 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, was appropriated from the Fund to DPS. Pursuant to HB 20, money in the Fund is no longer appropriated to the DPS to police the State highways and administer State laws relating to traffic and safety on public roads. See "THE STATE HIGHWAY FUND – General." 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 State Constitution, statute or the Resolution in favor of the Bonds which might impair or impede any future appropriation from the Fund for DPS.

The State 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 $74.2 million in Fiscal Year 2010 to $99.9 million in Fiscal Year 2015. For Fiscal Years 2016 through 2020, with the program currently set to expire at the end of Fiscal Year 2019, the Department estimates the annual payment from the Fund to the Texas Emissions Reduction Plan to be $116.5 million increasing to $126.3 million. In addition, the State Legislature has appropriated monies from the Fund for various smaller programs, including the TxDMV. For Fiscal Year 2015, $26.2 million has been appropriated from the Fund to the other smaller programs, and no amount has been appropriated to such programs for Fiscal Year 2016. There can be no assurances that the State 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.

Before making any transfers to the ESF or the Fund each year, the Comptroller will determine whether the sum of the balance of the ESF plus any projected transfers to the ESF 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 (which balance is adjusted biannually), then the Comptroller shall reduce the allocation to the Fund from Section 49-g (allocating certain excess revenues derived from oil and gas production taxes), and increase the allocation to the ESF, in an equal amount, until the sufficient balance adopted by the State Legislature for the ESF is achieved. Absent any appropriations by the State Legislature, the ESF balance is expected to be $10.4 billion at the end of the 2016-17 biennium, which is below the ESF constitutional limit of an estimated $16.2 billion based on the Comptroller's certification revenue estimate for the 2016-2017 biennium.

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," "– Issuance of Subordinate Obligations," "THE STATE HIGHWAY FUND – General" and "– Uses of the Fund."

Forward-Looking Statements

The statements contained in this Official Statement, including the Schedule and Appendices hereto, 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 current Bond Appendix is dated August 2016 and may be obtained either by (i) using the MSRB's EMMA website, www.emma.msrb.org, using the Quick Search function and entering the term "State of Texas Comptroller" or (ii) from the Comptroller's website at http://www.comptroller.texas.gov/programs/systems/treasury-ops/index.php#appendix, until the Comptroller files a later version of such Bond Appendix. No representation is made that such information contains all material factors relating to the State or that any specific information in the Bond Appendix should be accorded any particular significance.

THE BOND APPENDIX IS NOT INCORPORATED BY REFERENCE INTO OR MADE A PART OF THIS OFFICIAL STATEMENT. 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 S&P Global Ratings, a division of Standard & Poor's Financial Services LLC, 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 at any time 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. A securities rating is not a recommendation to buy, sell, or hold securities.

TAX EXEMPTION

Delivery of the Bonds is subject to the opinion of Andrews Kurth Kenyon 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

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

All of the Bonds have been offered at an initial offering price which exceeds the stated redemption price payable at the maturity of the 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 with respect to the Premium Bonds. 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 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 Eighth 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. The Commission will update and provide this information within six months after the end of each Fiscal Year ending in and after 2016.

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 of the Department, 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. 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 trustee or the change of name of a 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.

UNDERWRITING

Morgan Stanley & Co. LLC, as representative of the Underwriters of the Series 2016-A Bonds (collectively, the "Series 2016-A Underwriters"), has agreed, on behalf of the Series 2016-A Underwriters, subject to certain conditions, to purchase the Series 2016-A Bonds from the Commission. The purchase price of the Series 2016-A Bonds is $700,558,948.70 (which represents the par amount of the Series 2016-A Bonds, plus an original issue premium of $101,223,563.30 and less an underwriting discount of $1,874,614.60). The Series 2016-A Underwriters will be obligated to purchase all of the Series 2016-A Bonds if any Series 2016-A Bonds are purchased. The Series 2016-A Bonds to be offered to the public may be offered and sold to certain dealers (including the Series 2016-A Underwriters and other dealers depositing Series 2016-A Bonds into investment trusts) at prices lower than the public offering prices of the Series 2016-A Bonds and such public offering prices may be changed, from time to time, by the Series 2016-A Underwriters.

Jefferies LLC, the Underwriter of the Series 2016-B Bonds (the "Series 2016-B Underwriter" and, together with the Series 2016-A Underwriters, the "Underwriters"), has agreed, subject to certain conditions, to purchase the Series 2016-B Bonds from the Commission. The purchase price of the Series 2016-B Bonds is $100,154,987.80 (which represents the par amount of the Series 2016-B Bonds, plus an original issue premium of $11,031,832.80 and less an underwriting discount of $246,845.00). The Series 2016-B Underwriter will be obligated to purchase all of the Series 2016-B Bonds if any Series 2016-B Bonds are purchased. The Series 2016-B Bonds to be offered to the public may be offered and sold to certain dealers (including the Series 2016-B Underwriter and other dealers depositing Series 2016-B Bonds into investment trusts) at prices lower than the public offering prices of the Series 2016-B Bonds and such public offering prices may be changed, from time to time, by the Series 2016-B Underwriter.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the issuer.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the issuer for which they received or will receive customary fees and expenses.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., the representative of the Series 2016-A Underwriters, 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 Series 2016-A Bonds.

Jefferies LLC ("Jefferies"), the Series 2016-B Underwriter, has entered into an agreement (the "Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Agreement, Jefferies will sell Series 2016-B Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

J.P. Morgan Securities LLC ("JPMS"), one of the Series 2016-A Underwriters, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2016-A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2016-A Bonds that such firm sells.

Siebert Cisneros Shank & Co., L.L.C. ("SCS"), one of the Series 2016-A Underwriters, has entered into an agreement with Muriel Siebert & Co. for the retail distribution of certain securities offerings, at the original issue prices. Pursuant to this distribution agreement, if applicable to the Series 2016-A Bonds, Muriel Siebert & Co. will purchase Series 2016-A Bonds at the original issue price less the selling concession with respect to any Series 2016-A Bonds that such entity sells. SCS will share a portion of its underwriting compensation with Muriel Siebert & Co.

FINANCIAL ADVISOR

Estrada Hinojosa & Company, Inc. is serving as the Financial Advisor to the Commission (the "Financial Advisor") in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is not contingent upon the issuance and delivery of the Bonds. The Financial Advisor has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

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.

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 Kenyon 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 – FORMS OF OPINIONS OF BOND COUNSEL."

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 Kenyon 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," "THE SERIES 2016-A BONDS," "THE SERIES 2016-B BONDS," "GENERAL INFORMATION REGARDING THE BONDS" (except for the information contained under the subcaption "Bondowners' Remedies"), "DESCRIPTION OF THE TRANSACTION DOCUMENTS," "TAX EXEMPTION," "THE BONDS AS LEGAL INVESTMENTS IN TEXAS," "CONTINUING DISCLOSURE OF INFORMATION," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL MATTERS," "APPENDIX A – DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION," and "APPENDIX F – INVESTMENT AUTHORITY AND INVESTMENT PRACTICES FOR THE FUND" 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 Bracewell LLP, Austin, Texas, Disclosure Counsel, represent only the Commission. The legal opinions of Bond Counsel in the forms set forth in "APPENDIX D – FORMS OF OPINIONS OF BOND COUNSEL" will accompany the Bonds deposited with DTC.

Certain legal matters will be passed upon for the Commission by Andrews Kurth Kenyon LLP, Austin, Texas, Bond Counsel to the Commission, whose legal fees are contingent on the delivery of the Bonds. Certain legal matters will be passed upon for the Commission by Bracewell LLP, Disclosure Counsel to the Commission, whose legal fees are also contingent on the delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their co-counsel, Winstead PC, Austin, Texas, and Mahomes Bolden PC, Dallas, Texas, whose legal fees are also contingent on the delivery of the Bonds.

Bond Counsel and Disclosure Counsel each represent the Commission from time to time on matters not related to 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.

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.

Pursuant to the Eighth Supplemental Resolution, the Department Representative has approved this Official Statement and authorized its further use in the reoffering of the Bonds by the Underwriters.

TEXAS TRANSPORTATION COMMISSION

By: /s/ Brian D. Ragland
Chief Financial Officer
Texas Department of Transportation

SCHEDULE I – REFUNDED OBLIGATIONS

State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate Bonds)

Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP NO.
4/1/2026	Variable	$100,000,000	November 2, 2016	100%	88283LBX3

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APPENDIX A

DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION

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APPENDIX A

DEFINITIONS AND EXCERPTED PROVISIONS OF THE RESOLUTION

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

"*Authorized Denominations*" has the meaning given such term in the Award Certificate for each series or installment of Bonds executed and delivered in connection with the issuance or conversion thereof.

"Authorized Representative" means the Executive Director of the Department and each Deputy 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.

"*Available Interest Commitment*" means, with respect to a Liquidity Agreement or Credit Facility, the number of days of interest coverage provided by such Liquidity Agreement or Credit Facility.

"*Award Certificate*" means a certificate of a Department Representative executed and delivered pursuant to Section 302(b) hereof in connection with the issuance or conversion 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.

"*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 any 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 of this Supplemental Resolution.

"*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.

"*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.

"*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 Director, Project Finance, Debt and Strategic Contracts Division; the Deputy Director, Project Finance, Debt and Strategic Contracts Division; the Director, Financial Management 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 302 of this Supplemental Resolution and the Award Certificate and does not include Variable Rate Bonds in the Fixed Rate Mode.

"*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).

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

"*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, the maximum interest rate set forth in the Award Certificate, but in no event shall the Maximum Rate exceed the Highest Lawful Rate.*

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* The Award Certificate establishes a Maximum Rate of 12% for the Series 2016-B Bonds in the Initial Multiannual Rate Period.

"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.

"*Multiannual Rate Held Bond*" means a Multiannual 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.

"*Multiannual Rate Bonds*" means any Bonds bearing interest at a Multiannual Rate.

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

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

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

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

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

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

"*Owner*" or "*Registered 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.

"*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.

"Refundable Senior Obligations" means the following Outstanding Senior Obligations, together with any reimbursement or other obligations arising under any Credit Agreements related thereto, or any portion thereof:

(i) Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006;

(ii) Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006-A;
(iii) Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2006-B (Variable Rate Bonds);
(iv) Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2007;
(v) Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2008;
(vi) Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Taxable Series 2010 (Build America Bonds - Direct Payment);
(vii) Texas Transportation Commission State Highway Fund First Tier Revenue and Refunding Bonds, Series 2014-A;
(viii) Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2014-B (SIFMA Index Floating Rate Bonds); and
(ix) Texas Transportation Commission State Highway Fund First Tier Revenue Refunding Bonds, Series 2015.

"*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.

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

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

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

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

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

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

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

"*Series 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).

"Series 2014-A Bonds" means the Texas Transportation Commission State Highway Fund First Tier Revenue and Refunding Bonds, Series 2014-A.

"Series 2014-B Bonds" means the Texas Transportation Commission State Highway Fund First Tier Revenue Bonds, Series 2014-B (SIFMA Index Floating Rate Bonds).

"*Series 2015 Bonds*" means the Texas Transportation Commission State Highway Fund First Tier Revenue Refunding Bonds, Series 2015.

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

"*State*" means the State of Texas.

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

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

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

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

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

"*State Legislature*" means the legislative department of the government of the State.

"*Stated Maturity*" when used with respect to any Senior Obligation or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Senior Obligation or such installment of

interest as a fixed date on which the principal of such Senior Obligation or any installment thereof or the fixed date on which such installment of interest is due and payable.

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

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

"*Tender Agent*" means the Tender Agent for the Variable 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.

"*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, the Index Floating Rate Mode or such other mode or provisions as set forth in each Award Certificate.

"Variable Rate Refundable Senior Obligations" means any series or installment of Refundable Senior Obligations bearing interest at a variable rate, together with any reimbursement or other obligations arising under any Credit Agreement related thereto, or any portion thereof.

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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.

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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.

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.

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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.

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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.

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.

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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.

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.

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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.

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 Eighth Supplemental Resolution

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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, including Purchased Bonds, by those who shall hold the same from time to time, this Supplemental Resolution shall be deemed to be and shall constitute a contract between the Commission and the Owners from time to time of the Bonds, and the pledge made in this Supplemental Resolution by the Commission and the covenants and agreements set forth in this Supplemental Resolution to be performed by the Commission

shall be for the equal and proportionate benefit, security, and protection of all Owners from time to time of the Bonds, without preference, priority, or distinction as to security or otherwise of any of the Bonds authorized hereunder over any of the other Bonds by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Supplemental Resolution and the Master Resolution.

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Section 301. Amount, Purpose and Designation of the Bonds.

(a) New Money Bonds. Pursuant to the Master Resolution and the Acts, Senior Obligations are hereby authorized to be issued, from time to time, in one or more series or installments (the "New Money Bonds") pursuant to this Supplemental Resolution for the following purposes: (i) to fund state highway improvement projects (including Safety Projects); and (ii) to pay the cost or expense of the issuance of New Money Bonds.

(b) Refunding Bonds. Pursuant to the Master Resolution and the Acts, Senior Obligations are hereby authorized to be issued, from time to time, in one or more series or installments (the "Refunding Bonds") pursuant to this Supplemental Resolution for the following purposes: (i) to refund Refunded Obligations; and (ii) to pay the cost or expense of the issuance of Bonds and refunding Refunded Obligations; provided, however, that (excluding any Variable Rate Refundable Senior Obligations) the refunding must produce (1) positive gross debt service savings, net of any Commission contribution to the refunding, and (2) net present value debt service savings on the Annual Debt Service Requirements of the Refunded Obligations of not less than three percent (3%) of the principal amount of the Refunded Obligations, as shown by a table of calculations attached to the Award Certificate for the Refunding Bonds.

In addition, without regard to a determination that such refunding will produce positive gross or present value savings, Refunding Bonds may be issued to provide long-term fixed rate financing for Variable Rate Refundable Senior Obligations (or any portion thereof), to provide alternative variable rate financing for Variable Rate Refundable Senior Obligations (or any portion thereof), or for any combination of the purposes described in this subsection. The Commission has determined that the issuance of Refunding Bonds for the purposes contemplated by this paragraph is in the best interests of the Commission and the State and, because the actual debt service on variable rate obligations cannot be determined prior to final maturity, the refunding of any Variable Rate Refundable Senior Obligations will be effected in a manner that makes it impractical to make the determination required by Section 1207.008(a)(2), Texas Government Code, as amended.

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 Award Certificate may provide that 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.

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, 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.

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 (together with other lawfully available funds) into such fund(s) or account(s) as shall be directed in the Award Certificate for such Refunding Bonds.

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 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 upon receipt of such Owner's written consent (signed by such Owner or his duly authorized attorney) in a form that is substantially similar to concurrent written consents provided by other Owners. 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 Supplemental Resolution, 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 this subsection (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 Supplemental Resolution 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 shall be deemed to be paid and discharged only if the amount held under subsection (a) of this Section shall be sufficient to provide for the payment of such Variable 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 Credit 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 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. 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

AUDITED DEPARTMENT FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED AUGUST 31, 2015

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ANNUAL FINANCIAL REPORT

Texas Department of Transportation

(With Independent Auditor's Report)

Texas Department of Transportation

For the Fiscal Year Ended August 31, 2015

Texas Department of Transportation
Annual Financial Report
(With Independent Auditor's Report)
For the Fiscal Year Ended August 31, 2015

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Texas Department of Transportation

Annual Financial Report

For the Fiscal Year Ended August 31, 2015

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Texas Department of Transportation
125 EAST 11TH STREET | AUSTIN, TEXAS 78701-2483 | (512) 463-8588 | WWW.TXDOT.GOV

December 16, 2015

To: The Citizens of Texas
The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Texas Comptroller
Ms. Ursula Parks, Director, Legislative Budget Board
Mr. John Keel, CPA, State Auditor

I am pleased to submit the audited annual financial report of the Texas Department of Transportation (TxDOT) for the year ended August 31, 2015 in compliance with Texas Government Code Annotated, Section 2101.11, the requirements established by the Texas Comptroller of Public Account and the Texas Transportation Code, Chapter 201, Section 2041.

An outside audit firm, Crowe Horwath LLP, performed an independent audit, in accordance with generally accepted auditing standards, of TxDOT's basic financial statements for the year ended August 31, 2015. The audit opinion is presented in this report preceding the financial statements. 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 5 and 6.

The financial reporting entity includes three blended component units: the Texas Private Activity Bond Surface Transportation Corporation, the Grand Parkway Association and the Grand Parkway

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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 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, certification by the Texas Comptroller of Public Accounts that the amounts appropriated are within the estimated collections and upon 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 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.

In addition, the boom in the Texas oil industry has caused significant deterioration of roads and bridges in oil producing areas. This deterioration is evidenced by the fact that the volume of truck traffic required to bring one well into production equals the impact of 8 million cars. To maintain a well, the equivalent is 2 million cars. Heavy vehicles are moving heavy materials and equipment daily — many times a day — on our rural, two-lane roads causing massive pavement deterioration. According to the Center for Transportation Research at University of Texas, Austin, gas production activities reduce pavement service life by up to 30 percent from an average of 20 years. Oil well operations can reduce pavement service life by up to 16 percent. While the industry has slowed in

recent months, many expect energy exploration and well production to pick back up and continue for the foreseeable future. That will put more strain on our road system.

All of these forces combine to place a dramatic strain on our transportation system and income from traditional transportation funding sources (taxes and fees) is no longer sufficient to keep pace with current and projected demand for highway construction and maintenance.

Motor fuel taxes, TxDOT's primary state funding source, show a small increase into fiscal year 2015 over 2014. The state 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. The federal fuel tax rate on gasoline has also remained static since 1993 and is at 18.4 cents per gallon. The federal tax on diesel is currently set at 24.4 cents per gallon.

Approximately 54 percent of TxDOT's revenue comes from federal funds. TxDOT receives federal funds through the Moving Ahead for Progress in the 21st Century Act (MAP-21) which funded surface transportation projects for federal fiscal years 2013 through 2015. Congress has subsequently passed several extensions of this legislation.

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.

Constitutionally authorized bond issuances provide additional funding for transportation projects across the state. See the Management's Discussion and Analysis and Notes 5 and 6 of the report for more detail on TxDOT's bond programs and related debt service requirements.

Proposition 1

Besides traditional funding sources and bond issuances, Texas also relies on additional sources of transportation funding. On Nov. 4, 2014, Texas voters overwhelmingly approved the ballot measure known as Proposition 1 (Prop 1) that authorized half of oil and gas tax revenues that typically go into the Economic Stabilization Fund to be deposited to the State Highway Fund. The amendment did not create any new taxes or fees.

The Texas Comptroller of Public Accounts certified that approximately $1.7 billion was available for transfer to the State Highway Fund for fiscal 2015. Authorization to access these funds was granted by the Legislative Budget Board (LBB) and the Office of the Governor. On Dec. 15, 2014, the Comptroller transferred the amount to the State Highway Fund.

Locally elected officials, planning organizations and TxDOT officials collaborated to identify projects that effectively address the needs outlined for the use of the funds. This collaboration resulted in a list of projects that was included in the Unified Transportation Program (UTP). This plan was approved by the Texas Transportation Commission (TTC) in February 2015.

TxDOT began awarding contracts for Prop 1 funded projects in March 2015, and expects to let all of the initial Prop 1 projects by the end of calendar 2015.

Proposition 7

During the 84th Legislative session, lawmakers passed Senate Joint Resolution 5 that proposed a constitutional amendment that would dedicate a portion of the revenue from the state sales and use tax and motor vehicle sales and rental tax to the State Highway Fund (SHF). The constitutional amendment was approved by voters in November 2015.

Under the amendment:

- Beginning in fiscal 2018, if the state sales tax revenue exceeds $28 billion, the next $2.5 billion will be directed to the State Highway Fund.
- Beginning in fiscal year 2020, if the motor vehicle sales tax revenue exceeds $5 billion, 35 percent of the amount above $5 billion will be directed to the State Highway Fund.

The general sales tax provision expires at the end of fiscal year 2032, and the motor vehicle sales/rental taxes tax provision expires at the end of fiscal year 2029, unless future legislatures vote to extend them. SJR 5 also built in provisions for the Legislature to reduce deposits into the SHF under certain provisions.

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.

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. I sincerely appreciate the efforts of all these individuals who continue to help make TxDOT a leader in quality financial reporting.

Sincerely,

LtGen J.F. Weber, USMC (Ret)
Executive Director

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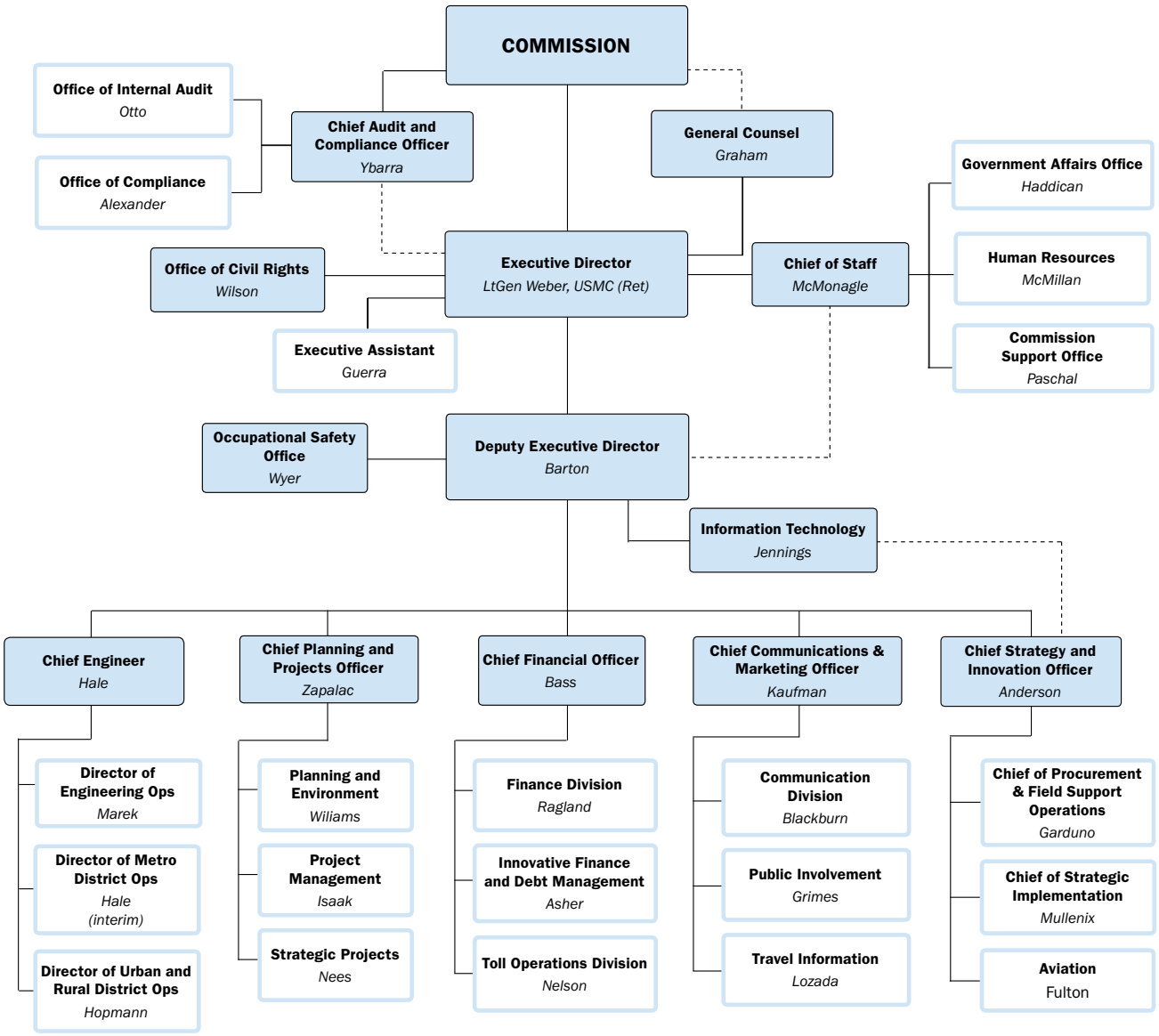
Texas Department of Transportation

Organization Chart as of August 31, 2015



Commission and Key Personnel
As of August 31, 2015

TEXAS TRANSPORTATION COMMISSION

TRYON D. LEWIS.....Chair
Odessa

JEFF AUSTIN III .....Commissioner
Tyler

J. BRUCE BUGG, JR. .....Commissioner
San Antonio

JEFF MOSELEY .....Commissioner
Houston

VICTOR VANDERGRIFF.....Commissioner
Arlington

TEXAS DEPARTMENT OF TRANSPORTATION

LT GEN JOE WEBER, USMC (RET)..... Executive Director
MARC WILLIAMS..... Deputy Executive Director (Interim)
RICHARD McMONAGLE .....Chief of Staff
BILL HALE ..... Chief Engineer
BOB KAUFMAN ..... Chief Communications and Marketing Officer
JAMES M. BASS ..... Chief Financial Officer
RUSSELL ZAPALAC.....Chief Planning and Project Officer
DARRAN ANDERSON.....Chief Strategy and Innovation Officer

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Texas Transportation Commission
State of Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Department of Transportation (TxDOT), an agency of the State of Texas (State), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise TxDOT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of TxDOT, as of August 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements of TxDOT are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of TxDOT. They do not purport to, and do not, present fairly the financial position of the State as of August 31, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in June 2012 the GASB issued GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." Also, in November 2013 the GASB issued GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". As discussed in note 14, Statements 68 and 71 were effective for TxDOT's fiscal year ended August 31, 2015. These Statements replace the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers" and Statement No. 50, "Pension Disclosures." Statements 68 and 71 establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses as well as identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about pensions are also addressed. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis and Budgetary Comparison Schedule* on pages 12-19 and 96-100 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TxDOT's basic financial statements. The Combining Financial Statements, the Bond Schedules and the other information, such as the Introductory section, Schedule 1A and Schedule 3 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Financial Statements and the supplementary Bond Schedules, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements, and supplementary Bond Schedules, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory section, Schedule 1A and Schedule 3 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 16, 2015 on our consideration of the TxDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TxDOT's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Dallas, Texas
December 16, 2015

Management's
Discussion and Analysis
(Unaudited)

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, 2015. Use this section in conjunction with the TxDOT's basic financial statements.

Overview of Financial Statements

The financial section of this annual financial report consists of four parts: (1) management's discussion and analysis (MD&A), (2) the basic financial statements and related notes, (3) required supplementary information other than the MD&A, and (4) other supplementary information presenting combining statements. The report also includes TxDOT's schedule of expenditures of federal awards, bond schedules and matrix of expenditures reported by function for governmental funds.

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, deferred outflows, liabilities and deferred inflows of resources and represents one measure of TxDOT's financial health.

The statement of activities presents information showing how TxDOT's net position changed during fiscal 2015. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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, the Texas Mobility Fund, the Proposition 12 Highway Improvement Project Fund and the Local Government Political Subdivision Road/Airport Fund and 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 and deferred outflows of TxDOT exceeded its liabilities and deferred inflows of resources as of Aug. 31, 2015, by $71.0 billion, which is presented as net position. Approximately $70.7 billion of the total net position is reported as Net Investment in Capital 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 and deferred inflow of resources, capital assets themselves cannot be used to liquidate liabilities.

Capital Assets - Capital assets, net of depreciation and amortization, were approximately $90.2 billion as of Aug. 31, 2015. Net capital assets increased by $5.3 billion, or 6.3 percent, for the fiscal year ended Aug. 31, 2015. 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 $3.7 billion during the current fiscal year to $22.5 billion. The majority of this change is attributable to the issuance of general obligation bonds and revenue bonds during the fiscal year and the recognition of the net pension liability. For more information on long-term liabilities see Notes 5 and 6 of this report.

Statement of Net Position

August 31, 2015 and 2014 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Assets Other Than Capital Assets	$ 9,410,891	$ 5,750,098	$ 3,629,141	$ 3,510,276	$13,040,032	$ 9,260,374
Capital Assets	87,494,574	82,093,568	2,749,057	2,802,166	90,243,631	84,895,734
Total Assets	96,905,465	87,843,666	6,378,198	6,312,442	103,283,663	94,156,108
Total Deferred Outflow of Resources	283,132	76,655	33,940	7,071	317,072	83,726
Current Liabilities	3,171,575	2,733,079	136,582	134,860	3,308,157	2,867,939
Non-current Liabilities	16,641,373	13,118,128	5,865,286	5,725,866	22,506,659	18,843,994
Total Liabilities	19,812,948	15,851,207	6,001,868	5,860,726	25,814,816	21,711,933
Total Deferred Inflow of Resources	6,803,791	5,141,082	1,993	2,989	6,805,784	5,144,071
NET POSITION						
Net Investment in Capital Assets	70,082,653	67,775,133	620,788	636,694	70,703,441	68,411,827
Restricted	394,074	292,319	114,792	64,649	508,866	356,968
Unrestricted	95,131	(1,139,420)	(327,303)	(245,545)	(232,172)	(1,384,965)
Total Net Position	$70,571,858	$66,928,032	$ 408,277	$ 455,798	$70,980,135	$67,383,830

Changes in Net Position

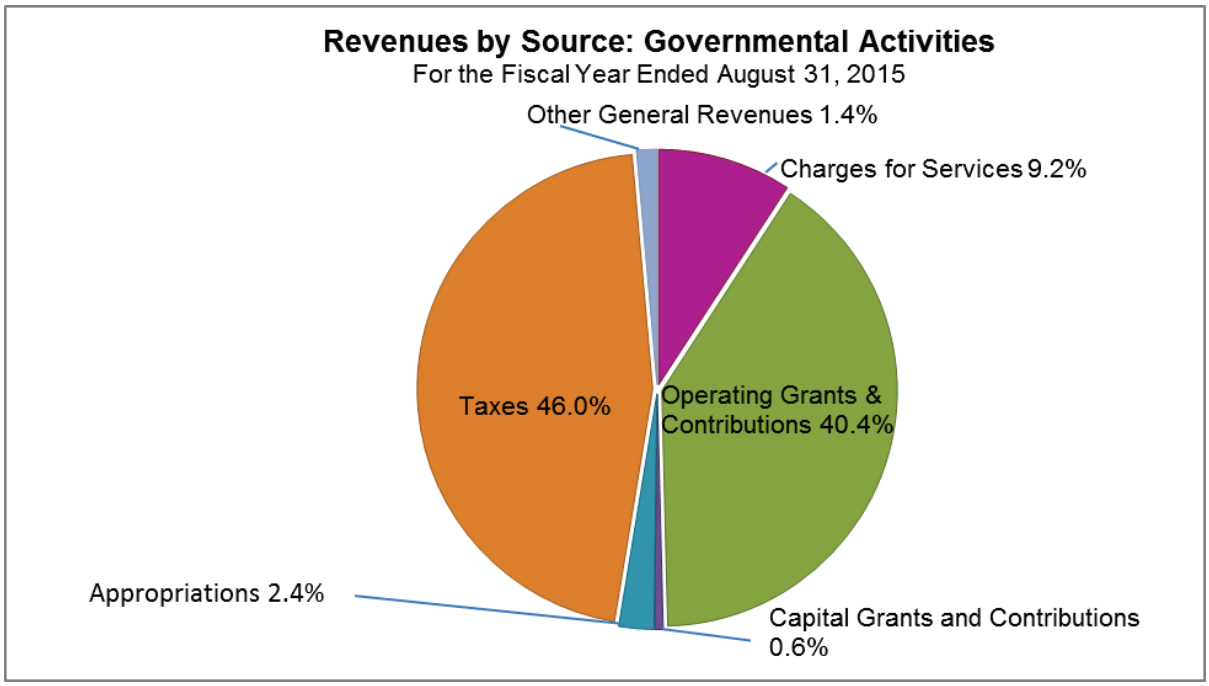
TxDOT earned program revenues of $4.3 billion and general revenues of $4.1 billion, for total revenues of $8.4 billion. The expenses of TxDOT were $6.0 billion. As a result of revenues exceeding expenses, the total net position is $71.0 billion. Revenues and expenses of TxDOT's governmental and business-type activities are detailed on the following page.

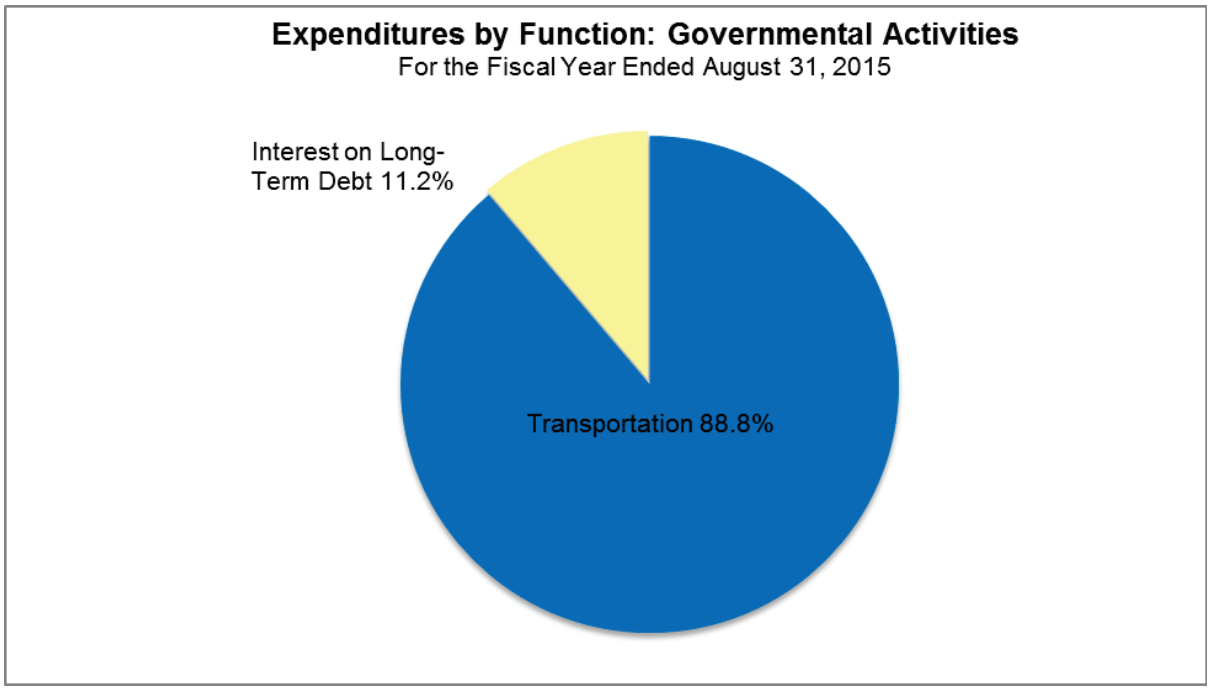
Over time, increases and decreases in the net position measures whether TxDOT's financial position is improving or deteriorating. Overall, the net position of governmental activities increased by $3.6 billion, or 5.4 percent, from fiscal 2014, primarily due to TxDOT's continued efforts to maintain, improve and expand the state's infrastructure network.

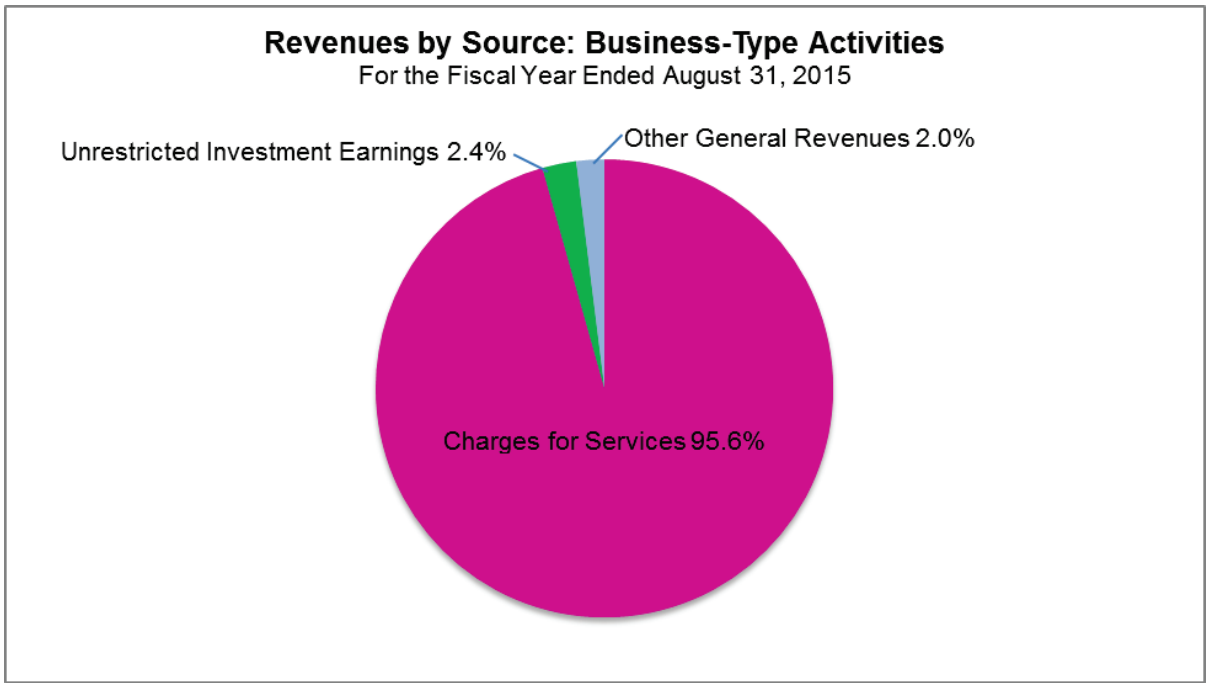
Changes in Net Position

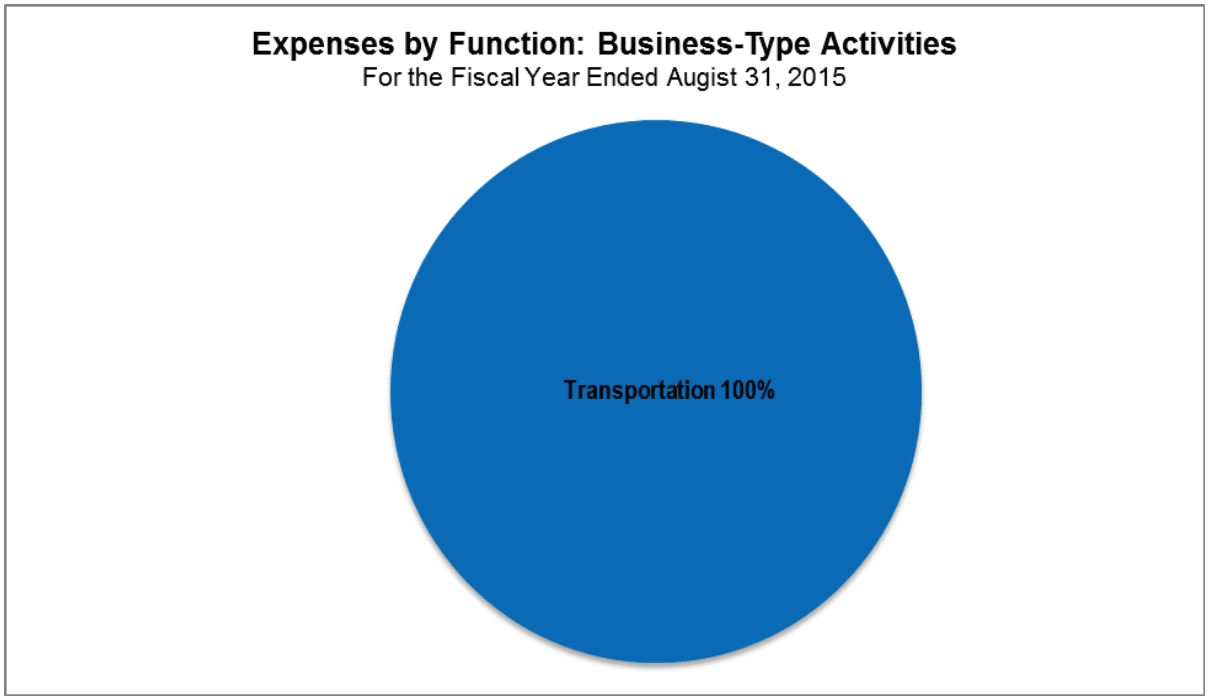
For the Fiscal Years Ended August 31, 2015 and 2014 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program Revenues:						
Charges for Services	$ 746,398	$ 779,044	$ 193,794	$ 155,019	$ 940,192	$ 934,063
Operating Grants and Contributions	3,296,570	3,417,560	1,602	7,056	3,298,172	3,424,616
Capital Grants and Contributions	52,400	89,510		18	52,400	89,528
Total Program Revenues	4,095,368	4,286,114	195,396	162,093	4,290,764	4,448,207
General Revenues:						
Appropriations	194,820	598,495			194,820	598,495
Taxes	3,747,226	2,487,740			3,747,226	2,487,740
Unrestricted Investment Earnings	33,897	36,712	4,863	13	38,760	36,725
Settlement of Claims	21,995	16,920		189	21,995	17,109
Gain on Sale of Capital Assets	48,096				48,096	0
Capital Contributions			2,410		2,410	0
Other General Revenues	9,015	22,876			9,015	22,876
Total General Revenues	4,055,049	3,162,743	7,273	202	4,062,322	3,162,945
EXPENSES						
Transportation	5,070,219	5,104,831	251,897	248,827	5,322,116	5,353,658
Indirect Interest on Long-Term Debt	640,013	582,958			640,013	582,958
Total Expenses	5,710,232	5,687,789	251,897	248,827	5,962,129	5,936,616
Excess (Deficiency) Before Special Items and Transfers	2,440,185	1,761,068	(49,228)	(86,532)	2,390,957	1,674,536
Capital Contributions		(153,479)			0	(153,479)
Transfers - Internal Activities	(1,707)	(32,898)	1,707	32,898	0	0
Transfers In from/(Out) to Other State Agencies	2,528,742	841,993			2,528,742	841,993
Change in Net Position	4,967,220	2,416,684	(47,521)	(53,634)	4,919,699	2,363,050
Net Position, September 1, 2014	66,928,032	64,543,454	455,798	549,316	67,383,830	65,092,770
Restatements	(1,323,394)	(32,106)		(39,884)	(1,323,394)	(71,990)
Net Position, September 1, 2014, as Restated	65,604,638	64,511,348	455,798	509,432	66,060,436	65,020,780
Net Position, August 31, 2015	$70,571,858	$66,928,032	$ 408,277	$ 455,798	$70,980,135	$67,383,830


Revenues by Source: Governmental Activities
For the Fiscal Year Ended August 31, 2015
Other General Revenues 1.4%
Charges for Services 9.2%
Taxes 46.0%
Operating Grants & Contributions 40.4%
Appropriations 2.4%
Capital Grants and Contributions 0.6%


Expenditures by Function: Governmental Activities
For the Fiscal Year Ended August 31, 2015
Interest on Long-Term Debt 11.2%
Transportation 88.8%


Revenues by Source: Business-Type Activities
For the Fiscal Year Ended August 31, 2015
Unrestricted Investment Earnings 2.4%
Other General Revenues 2.0%
Charges for Services 95.6%


Expenses by Function: Business-Type Activities
For the Fiscal Year Ended Augist 31, 2015
Transportation 100%

Financial Analysis of TxDOT's Funds

TxDOTs governmental funds reported a combined ending fund balance, as of Aug. 31, 2015, of $5.8 billion. Expenditures exceeded revenues by $3.0 billion. Not all expenditure activity is supported by revenues. Some project expenditures are funded by bond proceeds.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2015, TxDOT had $90.2 billion in net capital assets, including roads, bridges, buildings, land, equipment and intangible capital assets.

Capital Assets - Net of Depreciation and Amortization
August 31, 2015 and 2014 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land and Land Improvements	$ 11,165,244	$ 10,424,510	$ 666,979	$ 668,634	$ 11,832,223	$ 11,093,144
Infrastructure - Depreciable	63,604,759	62,412,751	2,033,043	2,078,362	65,637,802	64,491,113
Construction in Progress	12,001,267	8,542,266	24,605	30,379	12,025,872	8,572,645
Buildings and Building Improvements	253,735	258,204	4,964	5,325	258,699	263,529
Furniture and Equipment	62,158	64,532			62,158	64,532
Vehicles, Boats and Aircraft	271,801	273,099			271,801	273,099
Other Capital Assets	4,697	5,262			4,697	5,262
Land Use Rights - Permanent	92,330	79,527	19,466	19,466	111,796	98,993
Land Use Rights - Term	6,739	9,149			6,739	9,149
Computer Software	31,844	24,268			31,844	24,268
Total Capital Assets	$ 87,494,574	$ 82,093,568	$ 2,749,057	$ 2,802,166	$ 90,243,631	$ 84,895,734

TxDOT uses the composite approach for reporting the state's infrastructure and bridges. The composite approach is a method for calculating depreciation of a grouping of dissimilar assets of the same class (all the roads and bridges of the state) using the same depreciation rate. The composite depreciation rate for 2015 is 2.5% based on a 40 year weighted average life expectancy of the assets in service.

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 $28.6 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 is backed by pledged revenues and restricted assets specified in the bond resolutions. Note 5 discloses details on TxDOT's long-term liabilities and Note 6 provides detail information on TxDOT's bonded indebtedness.

Outstanding Bonded Debt
As of August 31, 2015 (Amount in Thousands)

	Governmental Activities		Business-Type Activities	
	2015	2014	2015	2014
General Obligation Bonds Payable	$ 10,187,461	$ 7,867,807	$	$
Revenue Bonds Payable	4,396,288	4,537,928	5,133,302	3,874,970
Total Bond Payable	$ 14,583,749	$ 12,405,735	$ 5,133,302	$ 3,874,970

Bond Credit Ratings

Long-Term Credit Ratings as of August 31, 2015			
Governmental Activities	Fitch	Moody's	Standard & Poor's
General Obligation Bonds	AAA	Aaa	AAA
Revenue Bonds	n/a	Aaa	AAA
Business-Type Activities			
Revenue Bonds			
CTTS 2002-A, 2012-A, 2015-A,B	A-	A3	A-
CTTS 2015-C	BBB	Baa1	BBB+
GPTC 2013-A	BBB+	n/a	BBB
GPTC 2013-B,E	AA-	n/a	AA+
GPTC 2014-B,C	n/a	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, 2015.

Short-Term Credit Ratings as of August 31, 2015			
Governmental Activities	Fitch	Moody's	Standard & Poor's
General Obligation Bonds:			
TMF Series 2006-B Variable Rate Interest Bonds	F1+	VMIG 1	n/a
Revenue Bonds:			
SHF Series 2006-B Variable Rate Interest Bonds	n/a	VMIG 2	A-2

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

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Basic Financial Statements

Texas Department of Transportation
Statement of Net Position
August 31, 2015 (Amounts in Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 6,531,466	$ 20,480	$ 6,551,946
Restricted:			
Cash and Cash Equivalents		320,942	320,942
Legislative Appropriations	16,203		16,203
Short-Term Investments		266,126	266,126
Restricted:			
Short-Term Investments		307,824	307,824
Due from Other Agencies (Note 11)	1,359,897		1,359,897
Receivable:			
Taxes	255,658		255,658
Federal	579,280		579,280
Interest and Dividends	5,883	1,021	6,904
Accounts Receivable	43,541	20,488	64,029
Other Intergovernmental	66,906	50	66,956
Prepaid Items		4	4
Loans and Contracts	54,686		54,686
Consumable Inventory	181,216	1,119	182,335
Total Current Assets	9,094,736	938,054	10,032,790
Noncurrent Assets:			
Loans and Contracts	313,627		313,627
Investments		85,203	85,203
Restricted:			
Investments		546,314	546,314
Receivable:			
Taxes	2,528		2,528
Intangible Assets (Note 20)		2,059,570	2,059,570
Capital Assets:			
Non-Depreciable Capital Assets (Note 2)	23,258,841	711,050	23,969,891
Depreciable Capital Assets, Net (Note 2)	64,235,733	2,038,007	66,273,740
Total Noncurrent Assets	87,810,729	5,440,144	93,250,873
Total Assets	96,905,465	6,378,198	103,283,663
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Bond Refunding (Note 21)	154,832	33,940	188,772
Pensions (Note 8)	128,300		128,300
Total Deferred Outflows of Resources	283,132	33,940	317,072

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

Texas Department of Transportation
Statement of Net Position
August 31, 2015 (Amounts in Thousands)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities:			
Payables			
Accounts	1,117,036	63,166	1,180,202
Payroll	68,268		68,268
Interest	250,509	50,721	301,230
Contract Retainage	8,886	9,136	18,022
Internal Balances (Note 11)	13,132	(13,132)	(0)
Due to Other Agencies (Note 11)	47,361		47,361
Unearned Revenues	710,007	1,009	711,016
Short-Term Debt (Note 4)	350,000		350,000
Employees' Compensable Leave (Note 5)	66,291		66,291
Notes and Loans Payable (Note 5)	176,740	12,100	188,840
General Obligation Bonds Payable (Note 5)	185,341		185,341
Revenue Bonds Payable (Note 5)	172,727	13,582	186,309
Pollution Remediation Obligation (Note 5)	5,277		5,277
Total Current Liabilities	3,171,575	136,582	3,308,157
Noncurrent Liabilities:			
Net Pension Liability (Note 8)	1,395,472		1,395,472
Employees' Compensable Leave (Note 5)	13,595		13,595
Notes and Loans Payable (Note 5)	1,006,285	745,566	1,751,851
General Obligation Bonds Payable (Note 5)	10,002,120		10,002,120
Revenue Bonds Payable (Note 5)	4,223,561	5,119,720	9,343,281
Pollution Remediation Obligation (Note 5)	340		340
Total Noncurrent Liabilities	16,641,373	5,865,286	22,506,659
Total Liabilities	19,812,948	6,001,868	25,814,816
DEFERRED INFLOWS OF RESOURCES			
Pensions (Note 8)	130,058		130,058
Service Concession Arrangements (Note 20)	6,673,733		6,673,733
Gain on Bond Refunding (Note 21)		1,993	1,993
Total Deferred Inflow of Resources	6,803,791	1,993	6,805,784
NET POSITION			
Net Investment in Capital Assets	70,082,653	620,788	70,703,441
Restricted for:			
Debt Service	394,074	49,404	443,478
Other		65,388	65,388
Unrestricted	95,131	(327,303)	(232,172)
Total Net Position	$ 70,571,858	$ 408,277	$ 70,980,135

Texas Department of Transportation
Statement of Activities
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

		PROGRAM REVENUES		
Functions	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental Activties:				
Transportation	$ 5,070,219	$ 746,398	$ 3,296,570	$ 52,400
Interest on General Long-Term Debt	640,013			
Total Governmental Activities	5,710,232	746,398	3,296,570	52,400
Business-Type Activities:				
Transportation	251,897	193,794	1,602	
Total Business-Type Activities	251,897	193,794	1,602	0
Total Primary Government	$ 5,962,129	$ 940,192	$ 3,298,172	$ 52,400

GENERAL REVENUES
Original Appropriation
Additional Appropriation
Lapsed Appropriation
Motor Fuel Tax
Lubricant Sales Tax
Oil and Natural Gas Production Tax
Unrestricted Investment Earnings
Settlement of Claims
Gain (Loss) on Sale of Capital Assets
Capital Contributions
Other Revenues
Transfers – Internal Activities (Note 11)
Transfers – Other State Agencies
Total General Revenues and Transfers
Changes in Net Position
Net Position, September 1, 2014
Restatements (Note 14)
Net Position, September 1, 2014, As Restated
Net Position, August 31, 2015

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
Governmental Activities	Business-Type Activties	Total
$ (974,851)	$	$ (974,851)
(640,013)		(640,013)
(1,614,864)	0	(1,614,864)
	(56,501)	(56,501)
0	(56,501)	(56,501)
(1,614,864)	(56,501)	(1,671,365)
195,807		195,807
229		229
(1,216)		(1,216)
2,568,058		2,568,058
44,500		44,500
1,134,668		1,134,668
33,897	4,863	38,760
21,995		21,995
48,096		48,096
	2,410	2,410
9,015		9,015
(1,707)	1,707	0
2,528,742		2,528,742
6,582,084	8,980	6,591,064
4,967,220	(47,521)	4,919,699
66,928,032	455,798	67,383,830
(1,323,394)		(1,323,394)
65,604,638	455,798	66,060,436
$ 70,571,858	$ 408,277	$ 70,980,135

Texas Department of Transportation

Balance Sheet - Governmental Funds

August 31, 2015 (Amounts in Thousands)

	State Highway Fund	Texas Mobility Fund	Proposition 12 Highway Improvement Project Fund	Local Government Political Subdivision Road/Airport	Nonmajor Funds	Total
ASSETS						
Cash and Cash Equivalents:						
Cash on Hand	$ 441	$	$	$ 121	$	$ 562
Cash in Bank	382				104	486
Cash in State Treasury	3,992,823	1,212,942	510,077	490,571	324,005	6,530,418
Legislative Appropriations					16,203	16,203
Receivables:						
Taxes	258,186					258,186
Federal	574,435				4,845	579,280
Other Intergovernmental	66,906					66,906
Interest and Dividends	5,883					5,883
Accounts Receivable	43,541					43,541
Due from Other Funds (Note 11)	153,010			16,001	118	169,129
Due from Other Agencies (Note 11)	1,359,897					1,359,897
Consumable Inventories	181,216					181,216
Loans and Contracts (Note 1)	368,206				107	368,313
Total Assets	$ 7,004,926	$ 1,212,942	$ 510,077	$ 506,693	$ 345,382	$ 9,580,020
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Payables:						
Accounts Payable	992,936	9,892	96,155		18,053	1,117,036
Contracts Payable	8,886					8,886
Payroll Payable	68,182				86	68,268
Short-Term Debt	350,000					350,000
Due to Other Funds (Note 11)	47,170	10,662	98,128		26,301	182,261
Due to Other Agencies (Note 11)	47,361					47,361
Unearned Revenues	201,514	1,800		506,693		710,007
Total Liabilities	1,716,049	22,354	194,283	506,693	44,440	2,483,819
Deferred Inflows of Resources:						
Unavailable Revenue (Note 21)	1,270,288					1,270,288
Total Deferred Inflows of Resources	1,270,288	0	0	0	0	1,270,288
Total Liabilties and Deferred Inflows of Resources	2,986,337	22,354	194,283	506,693	44,440	3,754,107
Fund Balances (Deficits):						
Nonspendable (Note 13)	181,216				87	181,303
Restricted (Note 13)	2,387,945	1,190,588	315,794		126,691	4,021,018
Committed (Note 13)	1,410,911				153,704	1,564,615
Assigned (Note 13)	38,517				796	39,313
Unassigned (Note 13)					19,664	19,664
Total Fund Balances	4,018,589	1,190,588	315,794	0	300,942	5,825,913
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 7,004,926	$ 1,212,942	$ 510,077	$ 506,693	$ 345,382	$ 9,580,020

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

Texas Department of Transportation
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
August 31, 2015 (Amounts in Thousands)

Total Fund Balance - Governmental Funds		$	5,825,913
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	$ 23,258,841		
Capital Assets - Depreciable or Amortizable, Net	64,235,733		
			87,494,574
Deferred outflows of resources were reported in the Statement of Net Position to reflect the losses incurred in bond refunding transactions (Note 21).	154,832		
			154,832
Deferred outflows of resources were reported in the Statement of Net Position to reflect current year contributions to Pensions and the unamortized balance of changes in assumptions used to calculate the Net Pension Liability.	128,300		
			128,300
Deferred inflows of resources were reported in the funds related to revenues that were not available soon enough after year-end to pay current year's expenditures (Note 21).	1,270,288		
			1,270,288
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. *			
Net Pension Liability (Note 8)	(1,395,472)		
Employees' Compensable Leave (Note 5)	(79,886)		
Notes and Loans Payable (Note 5)**	(1,183,025)		
General Obligation Bonds Payable (Note 5)	(10,187,461)		
Revenue Bonds Payable (Note 5)	(4,396,288)		
Pollution Remediation Obligations (Note 5)	(5,617)		
			(17,247,749)
* Current portion $606,376 and noncurrent portion $16,641,373			
**Pass-Through Tolls Payable $1,180,458 and Contracts Payable $2,567			
Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized difference between the projected experience and investment return used to calculate the Net Pension Liability and the actual experience and investment return (Note 21).	(130,058)		
			(130,058)
Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized upfront payments received and capital improvements acquired in connection with Service Concession Arrangements (Note 20).	(6,673,733)		
			(6,673,733)
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.	(250,509)		
			(250,509)
Net Position of Governmental Activities		$	70,571,858

Texas Department of Transportation
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	State Highway Fund	Texas Mobility Fund	Proposition 12 Highway Improvement Project Fund	Local Government Political Subdivision Road/Airport Account	Nonmajor Funds	Total
REVENUES						
Legislative Appropriations:						
Original Appropriatons	$	$	$	$	$ 195,807	$ 195,807
Additional Appropriations					229	229
Taxes	2,582,837					2,582,837
Federal Revenues	3,170,110	21,638			38,771	3,230,519
Licenses, Fees and Permits	25,648	367,548				393,196
Interest & Investment Income	26,211	3,423	3,063		1,200	33,897
Land Income	15,590					15,590
Settlement of Claims	21,995					21,995
Sales of Goods and Services	28,548			141,301	1,633	171,482
Other Revenues	8,381				634	9,015
Total Revenues	5,879,320	392,609	3,063	141,301	238,274	6,654,567
EXPENDITURES						
Transportation	3,269,571	147,483	3		67,268	3,484,325
Capital Outlay	4,521,722	59,631	611,426		4,976	5,197,755
Principal on State Bonds		62,355			215,480	277,835
Principal on Pass-Through Tolls	111,696					111,696
Interest on State Bonds		258,358			308,366	566,724
Other Financing Fees	3,205	8,199	4,635		558	16,597
Total Expenditures	7,906,194	536,026	616,064	0	596,648	9,654,932
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,026,874)	(143,417)	(613,001)	141,301	(358,374)	(3,000,365)
OTHER FINANCING SOURCES (USES)						
Transfers In (Note 11)	3,355,983	84,578			305,068	3,745,629
Transfers Out (Note 11)	(944,642)	(84,578)		(141,301)	(47,900)	(1,218,421)
Bonds & Note Issued		900,000	1,260,000			2,160,000
Bonds Issued for Refunding	781,080	930,160				1,711,240
Premium/Discount on Bonds Issued	133,433	259,555	204,756			597,744
Payment to Escrow on Refunding	(910,971)	(1,109,507)			(13,057)	(2,033,535)
Sale of Capital Assets	70,255				2,981	73,236
Appropriations Lapsed					(1,216)	(1,216)
Total Other Financing Sources (Uses)	2,485,138	980,208	1,464,756	(141,301)	245,876	5,034,677
Net Change in Fund Balances	458,264	836,791	851,755	0	(112,498)	2,034,312
Fund Balances, September 1, 2014	3,560,325	353,797	(535,961)	0	413,440	3,791,601
Fund Balances, August 31, 2015	$ 4,018,589	$ 1,190,588	$ 315,794	$ 0	$ 300,942	$ 5,825,913

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

Texas Department of Transportation
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, 2015 (Amounts in Thousands)

Net Change in Fund Balances		$ 2,034,312
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	$ 5,197,755	
Depreciation and Amortization Expense (Note 2)	(1,571,743)	
		3,626,012
The effect of various miscellaneous transactions involving capital assets is a decrease to net position.		
Donations of Capital Assets	52,400	
Gain on Sale of Capital Assets	48,096	
Sale of Capital Assets	(73,236)	
Interagency Transfers of Capital Assets	(173)	
		27,087
Revenues that do not provide current financial resources are not reported in the governmental funds, but are reported in the Statement of Activities.		
Concession Revenues	150,994	
Federal Revenue	66,050	
Local Revenue	15,135	
Oil & Natural Gas Tax Revenue	1,134,668	
Motor Fuel Tax Revenue	29,721	
		1,396,568
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the Statement of Net Position. 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.		
Repayment of Bond and Note Principal	389,531	
Payment to Escrow for Refunding	2,033,535	
Net Change in Pollution Remediation Obligation	(1,937)	
Bonds & Notes Issued	(3,871,240)	
Premiums on Bonds Issued	(597,744)	
Net Change in Employees' Compensable Leave	(1,164)	
		(2,049,019)
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.		
Interest and Amortization Expense	26,400	
Financing Fees	(20,304)	
Payroll Related Costs	(73,836)	
		(67,740)
Change in Net Position of Governmental Activities		$ 4,967,220

Texas Department of Transportation
Statement of Net Position - Proprietary Funds
August 31, 2015 (Amounts in Thousands)

	Business-Type Activities - Enterprise Funds		
	Central Texas Turnpike System	Grand Parkway Transportation Corporation	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents:			
Cash and Cash Equivalents	$3,561	$16,919	$20,480
Restricted Cash and Cash Equivalents:			
Cash and Cash Equivalents	116,620	204,322	320,942
Short-Term Investments	231,125	35,001	266,126
Restricted:			
Short-Term Investments		307,824	307,824
Receivables:			
Other Intergovernmental	50		50
Accounts Receivable	15,560	4,928	20,488
Interest and Dividends	343	678	1,021
Due from Other Funds (Note 11)	44,436		44,436
Consumable Inventory	1,119		1,119
Prepaid Items		4	4
Total Current Assets	412,814	569,676	982,490
Noncurrent Assets:			
Restricted:			
Investments	114,999	431,315	546,314
Investments	30,190	55,013	85,203
Intangible Assets (Note 20)		2,059,570	2,059,570
Capital Assets:			
Non-Depreciable Capital Assets (Note 2)	711,050		711,050
Depreciable Capital Assets, Net (Note 2)	2,038,007		2,038,007
Total Noncurrent Assets	2,894,246	2,545,898	5,440,144
Total Assets	3,307,060	3,115,574	6,422,634
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources	33,940		33,940
Total Deferred Outflows of Resources	33,940	0	33,940

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

Texas Department of Transportation
Statement of Net Position - Proprietary Funds
August 31, 2015 (Amounts in Thousands)

	Business-Type Activities - Enterprise Funds		
	Central Texas Turnpike System	Grand Parkway Transportation Corporation	Totals
LIABILITIES			
Current Liabilities:			
Vouchers Payable		63,166	63,166
Contracts Payable		9,136	9,136
Due to Other Funds (Note 11)		31,304	31,304
Unearned Revenues	1,009		1,009
Notes and Loans Payable (Notes 5)		12,100	12,100
Revenue Bonds Payable (Notes 5, 6)	13,912	(330)	13,582
Interest Payable	4,461	46,260	50,721
Total Current Liabilities	19,382	161,636	181,018
Noncurrent Liabilities:			
Notes and Loans Payable (Note 5)		745,566	745,566
Revenue Bonds Payable (Notes 5, 6)	2,929,951	2,189,769	5,119,720
Total Noncurrent Liabilities	2,929,951	2,935,335	5,865,286
Total Liabilities	2,949,333	3,096,971	6,046,304
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources		1,993	1,993
Total Deferred Inflows of Resources	0	1,993	1,993
NET POSITION			
Net Investment in Capital Assets	620,788		620,788
Restricted for:			
Debt Service	49,404		49,404
Other	43,739	21,649	65,388
Unrestricted	(322,264)	(5,039)	(327,303)
Total Net Position	$ 391,667	$ 16,610	$ 408,277

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Texas Department of Transportation
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Business-Type Activities - Enterprise Funds*		
	Central Texas Turnpike	Grand Parkway Transportation Corporation	Totals
OPERATING REVENUES			
Toll Revenue	$ 152,306	$ 28,091	$ 180,397
Fee Revenue	10,952	2,432	13,384
Total Operating Revenues	163,258	30,523	193,781
OPERATING EXPENSES			
Salaries	1,163	148	1,311
Professional Fees and Services	4,942	257	5,199
Travel	9	1	10
Materials and Supplies	6,074	141	6,215
Communication and Utilities	1,301	116	1,417
Repairs and Maintenance	6,747	715	7,462
Contracted Services	27,557	1,460	29,017
Advertising	2,148	84	2,232
Depreciation Expense	53,857		53,857
Other Operating Expenses	6,458	953	7,411
Total Operating Expenses	110,256	3,875	114,131
Operating Income	53,002	26,648	79,650
NONOPERATING REVENUES (EXPENSES)			
Lease Revenue	13		13
Interest and Investment Income	6,406	852	7,258
Net Decrease in Fair Value of Investments	(87)	(705)	(792)
Interest Expense and Amortization	(125,005)		(125,005)
Bond Issuance Expenses	(10,614)	83	(10,531)
Other Financing Fees	(296)	(106)	(402)
Other Nonoperating Expenses	(1,829)		(1,829)
Total Nonoperating Revenues (Expenses)	(131,412)	124	(131,288)
Income (Loss) before Capital Contributions and Transfers	(78,410)	26,772	(51,638)
CAPITAL CONTRIBUTIONS AND TRANSFERS			
Capital Contributions	2,410		2,410
Transfers In (Note 11)	1,707		1,707
Total Capital Contributions and Transfers	4,117		4,117
Change in Net Position	(74,293)	26,772	(47,521)
Net Position, September 1, 2014	465,960	(10,162)	455,798
Net Position, August 31, 2015	$ 391,667	$ 16,610	$ 408,277

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

Texas Department of Transportation
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended August 31, 2015 (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	$ 158,729	$ 28,699	$ 187,428
Payments to Suppliers for Goods and Services	(54,923)	(19)	(54,942)
Payments to Employees	(1,162)		(1,162)
Net Cash Provided by Operating Activities	102,644	28,680	131,324
Cash Flows from NonCapital Financing Activities			
Proceeds from Transfers from Other Funds	56,133		56,133
Payments for Issuance Costs		(146)	(146)
Payments for Other Financing Fees		(5)	(5)
Payments for Debt Interest		(110,975)	(110,975)
Payments for Intangible Assets		(499,043)	(499,043)
Payments for Transfers to Other Funds	(72,365)		(72,365)
Net Cash (Used) from NonCapital Financing Activities	(16,232)	(610,169)	(626,401)
Cash Flow from Capital and Related Financing Activities			
Proceeds from Lease Revenue	16		16
Proceeds from Capital Contributions	200		200
Proceeds from Debt Issuance, net of issuance costs	1,891,231		1,891,231
Payments for Additions to Land and Roadways	(166)		(166)
Payments for Other Financing Costs	(10,910)		(10,910)
Payments for Debt Refunding	(1,807,920)		(1,807,920)
Payments for Principal on Debt Principal	(8,415)		(8,415)
Payments on Debt Interest	(91,992)		(91,992)
Net Cash (Used) from Capital and Related Financing Activities	(27,956)	0	(27,956)
Cash Flow from Investing Activities			
Proceeds from Sold or Matured Investments	130,589	993,251	1,123,840
Proceeds from Interest and Investment Income, Net of Fees	6,254	2,832	9,086
Payments for Accrued Interest on Purchase of Investment		(194)	(194)
Payments to Acquire Investments	(130,507)	(646,049)	(776,556)
Net Cash Provided from Investing Activities	6,336	349,840	356,176
Net Increase (Decrease) in Cash and Cash Equivalents	64,792	(231,649)	(166,857)
Cash and Cash Equivalents- September 1, 2014	55,389	452,890	508,279
Cash and Cash Equivalents – August 31, 2015	$ 120,181	$ 221,241	$ 341,422

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

Texas Department of Transportation
Statement of Cash Flows - Proprietary Funds (continued)
For the Fiscal Year Ended August 31, 2015 (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	$ 53,002	$ 26,648	$ 79,650
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	53,857		53,857
Changes in Assets and Liabilities:			
(Increase)Decrease in Accounts Receivable	(4,529)	(1,824)	(6,353)
(Increase)Decrease in Prepaid Expenses	314	(4)	310
Increase in Payables for Operating and Maintenance Expense		3,860	3,860
Total Adjustments	49,642	2,032	51,674
Net Cash Provided by Operating Activities	$ 102,644	$ 28,680	$ 131,324
Non Cash Transactions			
Capital Contributions from Other Fund	$ 2,410	$	$ 2,410
Donation of Capital Assets to Other Entity	$ (1,829)	$	$ (1,829)
Amortization of Investment Premium/Discount	$	$ 165	$ 165
Net Change in Fair Market Value of Investments	$ (87)	$ (705)	$ (792)

Texas Department of Transportation
Statement of Fiduciary Net Position
August 31, 2015 (Amounts in Thousands)

		AGENCY FUNDS
ASSETS		
Cash and Cash Equivalents:		
Cash on Hand	$	7
Cash in Bank		485
Cash in State Treasury		1,770
Cash Equivalents		37,218
Total Assets	$	39,480
LIABILITIES		
Liabilities:		
Funds Held for Others		39,480
Total Liabilities	$	39,480

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 18 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.

GASB Statements Effective for Fiscal Year 2015

In fiscal 2015 TxDOT adopted GASB No. 68, *Accounting and Financial Reporting for Pension*, which revises existing standards of accounting and financial reporting by state and local governments for pension. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions are also addressed.

Texas Department of Transportation (TxDOT) participates in the pension plan administered by the Employees Retirement System of Texas Plan (ERS Plan), which is considered a single employer defined benefit plan. TxDOT reports its proportional share of the net pension liability, pension expense, deferred outflows and inflows and required disclosures related to pensions in its annual financial report.

TxDOT also implemented GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

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 for 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 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, and 3) grants and contributions that are restricted to meeting the capital-specific 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 the 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 convert the fund based financial statements to the government-wide financial statements' governmental activities 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, but is not considered the main operating fund

for TxDOT. 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 four major governmental funds:

State Highway Fund

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. The state highway fund is reported as a special revenue fund.

- State Highway Fund Accounts (Appropriated Fund 0006) – 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, motor fuels taxes, and other oil and gas taxes which are constitutionally restricted and dedicated to the highway fund.

- State Infrastructure Bank (Appropriated 0006) – 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 (Appropriated Fund 0369) – 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 reported as a debt service fund type and a capital projects fund type.

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. The fund is reported as a capital project fund.

Local Government Political Subdivision Road/Airport Fund (Appropriated Fund 0927)

This fund holds contributions from counties/political subdivisions for expenditure by the Commission in development/construction of public roads and airports within such counties or political subdivisions. The fund is reported as a capital project fund.

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

General Fund:

TxDOT reports the following accounts, which are consolidated into the general fund for GAAP reporting purposes, but are not considered the main operating fund for TxDOT.

- General Revenue 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.

- 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:

- Transportation Infrastructure Fund (Appropriated Fund 0184) – This fund was established to make grants to counties for transportation infrastructure projects located in areas of the state affected by increased oil and gas production. The sources of the fund include federal funds, matching state funds, funds appropriated by the legislature, gifts, grants, fees, and investment earnings.

- 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.

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:

<u>Central Texas Turnpike System Fund</u> (Appropriated Fund 9999)

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

Grand Parkway Transportation Corporation (Appropriated Fund 0899 and 9999)

This fund reports the activity and debt associated with the development of Segments D (Harris County), E, F1, and G of the Grand Parkway 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 reported by TxDOT during fiscal 2015 included the unappropriated general revenue fund, child support deductions suspense account, toll revenue custodial account and the direct deposit correction accounts.

Component Units

The following component units of TxDOT are reported as nonmajor component units: The Grand Parkway Association and Texas Private Activity Bond Surface Transportation Corporation. The Grand Parkway Transportation Corporation is a component unit reported as a major proprietary fund. All component units are presented in TxDOT's financial statements as blended component units. See Note 18 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 Comprehensive Annual Financial Report (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.

Assets, Deferred Outflows, 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.

Receivables

The major receivables for TxDOT are federal, taxes and other intergovernmental. Receivables represent amounts due to TxDOT at Aug. 31, 2015, 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.

Loans and Contracts

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.

Loans and Contracts
August 31, 2015 (Amounts in Thousands)

Fund	Loans Receivable	Due Within One Year
General Fund	$ 107	$ 20
Highway Fund - Toll Equity Loans	98,995	45,238
Highway Fund - NTTA	133,785	2,382
Highway Fund - State Infrastructure Bank	135,426	7,046
Governmental Funds Total	$ 368,313	$ 54,686

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 of Resources and Deferred Outflows of Resources

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabilities of the current period. These revenues are reported as deferred inflows of resources.

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 20 for additional information.

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred inflow of resources or deferred outflow of resources. The deferred inflows and deferred outflows of resources are amortized and

recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

TxDOT also reports deferred inflows of resources and deferred outflows of resources related to the recognition of TxDOT's share of the state's Net Pension Liability. Reported deferred outflows of resources include plan contributions made subsequent to the Aug. 31, 2014 measurement date, and the unamortized balance resulting from changes in assumptions used to calculate net pension liability. TxDOT reports deferred inflows of resources for the unamortized balance resulting from other changes to the components used to calculate net pension liability. 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, F1, F2, 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 20 for more information about GPTC's SCA with TxDOT.

Capital Assets

Capital assets, which include land, infrastructure, furniture, equipment and intangible capital 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, 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	$ 500,000	10-50 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	2-10 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 uses the depreciation approach for reporting both highways and highway bridges of the infrastructure assets. Under the depreciation approach, infrastructure assets are depreciated over a 40 year life, and certain preservation costs are capitalized. The capitalization threshold of $500,000 is used for both highway bridges and roadways.

TxDOT also holds three years of costs in construction in progress at all times. At the fourth year, the first year is moved to depreciable infrastructure. The three year assumption is based on a 2.7 year contract life when using the weighted dollar analysis of project costs and completion dates over the ten year history.

Unearned Revenue

Unearned revenue is reported when cash or other assets are received prior to being earned.

Service Concession Arrangements (SCA) Up-front Payments

Prior to fiscal 2015, TxDOT 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 (See Note 20). Under each of these agreements the toll road reverts back to the state at the end of the term or upon certain reimbursement conditions. In the governmental fund financial statements, TxDOT reports up-front payments as other financing sources in the year received. In the government-wide statements, the up-front payments are recorded as a deferred inflow. Revenue is recognized on a straight-line basis over the term of the agreement, beginning when the roadway is placed into operation.

Long-Term Liabilities

In the government-wide financial statements and proprietary funds financial statements, long-term debt and other long-term obligations are reported as long-term liabilities in the applicable governmental activities or business-type activities statement of net position. Long-term liabilities include the net pension liability, 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. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Issuance costs are reported as an expense in the period 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 other financing sources 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 Note 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.

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.

When only unrestricted resources are available for use, it is TxDOT's policy to use committed resources first, then assigned resources and lastly unassigned resources.

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

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.

On November 4, 2014, Texas voters approved Proposition 1, authorizing a constitutional amendment for transportation funding. Under the amendment, a portion of oil and gas tax revenues that typically go into the Economic Stabilization Fund will be deposited to the State Highway Fund to assist in the completion of transportation construction, maintenance, and rehabilitation projects, not to include toll roads.

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.

Operating revenues of CTTS consist of tolls, net of an increase in allowance for doubtful accounts of $0.7 million for fiscal 2015, and fees earned by CTTS.

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 on the following pages present the composition of TxDOT's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2015. 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.

Depreciation and amortization expense was charged to the transportation function in the accompanying Statement of Activities.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Balance 9/1/2014	Reclass-ifications	Additions	Deletions	Balance 8/31/2015
GOVERNMENTAL ACTIVITIES					
Non-Depreciable & Non-Amortizable Assets					
Land and Land Improvements	$ 10,424,510	$ (467)	$ 749,239	$ (8,038)	$ 11,165,244
Construction in Progress	8,542,266	(1,267,593)	4,726,594		12,001,267
Land Use Rights - Permanent	79,527		12,820	(17)	92,330
Total Non-Depreciable & Non-Amortizable Assets	19,046,303	(1,268,060)	5,488,653	(8,055)	23,258,841
Depreciable Assets					
Buildings and Building Improvements	490,227	13,306		(4,633)	498,900
Infrastructure	76,280,543	1,239,813	1,469,620	(13,736)	78,976,240
Furniture and Equipment	187,498	661	9,629	(4,744)	193,044
Vehicles and Aircraft	671,443	(637)	29,104	(15,005)	684,905
Other Capital Assets	11,544				11,544
Total Depreciable Assets	77,641,255	1,253,143	1,508,353	(38,118)	80,364,633
Less Accumulated Depreciation for:					
Buildings and Building Improvements	(232,023)		(17,111)	3,969	(245,165)
Infrastructure	(13,867,792)		(1,504,347)	658	(15,371,481)
Furniture and Equipment	(122,966)	(261)	(11,935)	4,276	(130,886)
Vehicles and Aircraft	(398,344)	531	(27,635)	12,344	(413,104)
Other Capital Assets	(6,282)		(565)		(6,847)
Total Accumulated Depreciation	(14,627,407)	270	(1,561,593)	21,247	(16,167,483)
Depreciable Assets, Net	63,013,848	1,253,413	(53,240)	(16,871)	64,197,150
Intangible Capital Assets - Amortizable					
Land Use Rights - Term	20,798		322	(219)	20,901
Computer Software	51,072	14,473	735	(2,472)	63,808
Total Amortizable Assets	71,870	14,473	1,057	(2,691)	84,709
Less Accumulated Amortization for:					
Land Use Rights - Term	(11,649)		(2,732)	219	(14,162)
Computer Software	(26,804)		(7,418)	2,258	(31,964)
Total Accumulated Amortization	(38,453)	0	(10,150)	2,477	(46,126)
Amortizable Assets, Net	33,417	14,473	(9,093)	(214)	38,583
Governmental Activities Capital Assets, Net	$ 82,093,568	$ (174)	$ 5,426,320	$ (25,140)	$ 87,494,574

Capital Asset Activity (Concluded)

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Balance 9/1/14	Reclass-ifications	Additions	Deletions	Balance 8/31/15
BUSINESS TYPE ACTIVITIES					
Non-Depreciable & Non-Amortizable Assets					
Land and Land Improvements	$ 668,634	$	$ 174	$ (1,829)	$ 666,979
Construction in Progress	30,379	(8,177)	2,403		24,605
Land Use Rights - Permanent	19,466				19,466
Total Non-Depreciable & Non-Amortizable Assets	718,479	(8,177)	2,577	(1,829)	711,050
Depreciable Assets					
Buildings and Building Improvements	8,360				8,360
Infrastructure	2,250,982	8,177			2,259,159
Total Depreciable Assets	2,259,342	8,177	0	0	2,267,519
Less Accumulated Depreciation for:					
Buildings and Building Improvements	(3,035)		(361)		(3,396)
Infrastructure	(172,620)		(53,496)		(226,116)
Total Accumulated Depreciation	(175,655)	0	(53,857)	0	(229,512)
Depreciable Assets, Net	2,083,687	8,177	(53,857)	0	2,038,007
Business-Type Activities Capital Assets, Net	$ 2,802,166	$ 0	$ (51,280)	$ (1,829)	$ 2,749,057

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.

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 – Carrying Amount August 31, 2015 (Amounts in Thousands)		
Governmental Activities		
Governmental Funds Current Assets Cash in Bank – Depository Accounts	$	486
Cash in Bank – Carrying Amount	$	486
Fiduciary Funds		
Fiduciary Fund Current Assets Cash in Bank – Depository Accounts	$	485
Fiduciary Fund Current Assets Cash in Bank – Sweep Account		37,218
Cash in Bank – Carrying Amount	$	37,703

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 excluding fiduciary funds 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, 2015, 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 deposits in the state treasury totaled $6.5 billion at Aug. 31, 2015.

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 2015. 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, 2015, the fair value of TxDOT's investments and maturities are as presented below:

Investment Fair Values
August 31, 2015 (Amounts in Thousands)

Business Type Activities

	Maturities (in Years)		Fair Value
Investment Type	Less than 1	1 Yr. or More	Total
Money Market Mutual Funds	$ 216,187	$	$ 216,187
Government Securities	74,983	331,782	406,765
Government Sponsored Entities	297,837	184,736	482,573
Government Investment Pools	326,365		326,365
Repurchase Agreements		114,999	114,999
Total	$ 915,372	$ 631,517	$ 1,546,889

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 shall be conducted on a delivery-versus-payment (DVP) basis, and shall be protected through the use of a third-party custodian/safekeeping agent, which may be a Trustee.

As of Aug. 31, 2015, 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. Citigroup Global Markets Inc. is rated Baa1, A and A+ as of Aug. 31, 2015 by Moody's, Standard and Poor's (S & P) 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, 2015, TxDOT's and GPTC's investments had the following ratings.

Investment Credit Ratings
August 31, 2015 (Amounts in Thousands)

Business-Type Activities

Investment Type	Fair Value	Moody's	Standard & Poor's	Fitch
Money Market Mutual Funds				
JPMorgan US Government MMKT	$ 61,512	Aaa-mf	NR	AAAmmf
First American Government Obligations Fund	12,490	Aaa-mf	AAAm	AAAmmf
Morgan Stanley Institutional Liquidity Funds	125,325	Aaa-mf	AAAm	NR
Fidelity Intuitional Money Market Government	14,554	Aaa-mf	AAAm	NR
Goldman Sachs Financial Square Government	2,306	Aaa-mf	AAAm	
Government Sponsored Entities				
Federal Home Loan Banks	281,864	Aaa	AA+	AAA
Federal National Mortgage Association	67,796	Aaa	AA+	AAA
Federal Home Loan Mortgage Corporation	77,919	Aaa	AA+	AAA
Federal Farm Credit Banks	54,994	Aaa	AA+	AAA
U.S. Treasury Securities	406,765	Aaa	AA+	AAA
Government Investment Pools				
Lone Star	77,200	NR	AAAm	NR
TexPool	162,090	NR	AAAm	NR
TexPool Prime	87,075	NR	AAAm	NR
Repurchase Agreement	114,999	Baa1	A	A+
Total	$ 1,546,889			

*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, 2015, the following investments exceeded 5 percent of the total portfolio: Morgan Stanley Institutional Liquidity Funds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, U.S. Treasuries, TexPool, Texpool Prime and the repurchase agreement with Citigroup Global Markets Inc.

The Commission and GPTC both address diversification in the Commission's investment policy. Assets held in particular funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the investment officer for all funds.

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 – SHORT-TERM DEBT

Short-Term Debt

The Commission has outstanding notes with Wells Fargo Bank, National Association and Citibank, N.A. The notes have a variable interest rate and the rates in effect at Aug. 31, 2015 were 0.42% and 0.27%, respectively. This program is used to carry out functions of the Department and is used primarily as a cash management operation in the State Highway Fund. Short-term debt for the fiscal year ended Aug. 31, 2015, is presented in the table below:

Governmental Activities (Amounts in Thousands)	Beginning Balance 09/01/2014	Increases	Decreases	Ending Balance 08/31/2015
Flexible Rate Revolving Notes	$ 150,000	$ 725,000	$ 525,000	$ 350,000

NOTE 5 – SUMMARY OF LONG-TERM LIABILITIES

Long-Term Liabilities

Long-term liabilities for fiscal 2015 are presented in the table below:

Long-Term Liabilities Activity
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

Primary Government	Beginning Balance 09/01/2014	Additions**	Reductions	Adjustments*	Ending Balance 08/31/2015	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities							
Compensable Leave	$ 78,722	$ 103,034	$ (101,870)	$	$ 79,886	$ 66,291	$ 13,595
General Obligation Bonds	7,867,807	3,090,160	(1,161,615)	391,109	10,187,461	185,341	10,002,120
Revenue Bonds	4,537,928	781,080	(980,500)	57,780	4,396,288	172,727	4,223,561
Pollution Remediation Obligations	3,680	11,572	(9,635)		5,617	5,277	340
Pass Through Tolls Payable	1,209,274	82,880	(111,696)		1,180,458	176,740	1,003,718
Contracts Payable	881	1,686			2,567		2,567
Governmental Activities - Long-Term Liabilities	$ 13,698,292	$ 4,070,412	$ (2,365,316)	$ 448,889	$ 15,852,277	$ 606,376	$ 15,245,901

	Beginning Balance 09/01/2014	Additions**	Reductions	Adjustments*	Ending Balance 08/31/2015	Amounts Due Within One Year	Amounts Due Thereafter
Business Type Activities							
Revenue Bonds Payable	$ 3,874,970	$ 1,726,475	$ (674,573)	$ 206,430	$ 5,133,302	$ 13,582	$ 5,119,720
Notes and Loans Payable	1,877,136	5,604	(1,112,974)	(12,100)	$ 757,666	12,100	745,566
Business-Type Activities - Long-Term Liabilities	$ 5,752,106	$ 1,732,079	$ (1,787,547)	$ 194,330	$ 5,890,968	$ 25,682	$ 5,865,286

* Includes current year amortization of premiums and discounts.
**Includes current year amortization of accretion.

For long-term liabilities other than debt related to governmental activities, the State Highway Fund typically is used to liquidate liabilities in prior years.

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

Notes and Loans Payable

As of Aug. 31, 2015, one type of note payable is active. The purpose and the source of debt service for the note payable balance are summarized below.

Bond Anticipation Notes

The Grand Parkway Transportation Corporation issued a refunding bond anticipation note for the purpose of providing funds to refund a portion of the outstanding debt payable from toll and other revenues of the Corporation. As of Aug. 31, 2015, the note's debt service requirements are as follows.

BANs – Debt Service Requirements (Amounts in Thousands)			
Business-Type Activities			
Year	**Principal**	**Interest***	**Total**
2016	$	$ 22,004	$ 22,004
2017	733,465	15,525	748,990
Total	733,465	37,529	770,994
Unamortized Premium	24,201		24,201
Total Requirements	$ 757,666	$ 37,529	$ 795,195

* Fixed interest rate at 3.000 percent.

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, 2015, 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, 2015 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)		
Governmental Activities		
Year		**Principal***
2016	$	176,740
2017		184,184
2018		177,495
2019		177,346
2020		169,467
2021-2025		491,023
2026-2030		8,440
Total **		1,384,695
Unrealized Payable		(204,237)
Total Requirements	$	1,180,458

* There is no interest component to the pass-through toll reimbursements.
** This projection assumes the Commission'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, 2015, 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)		
Governmental Activities		
Year		**Principal***
2016	$	
2017		4,000
2018		4,000
2019		4,000
2020		4,000
2021-2025		20,000
2026		4,000
Total *		40,000
Unrealized Payable		(37,433)
Total Requirements	$	2,567

*There is no 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 below 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, 2015 (Amounts in Thousands)		
Governmental Activities		
Comply with Federal and State Asbestos Requirements	$	4,691
Comply with Federal and State OSHA requirements for lead based paint		137
Comply with Federal Safe Drinking Water Act requirements		460
Comply with state Leaking Petroleum Storage Tank (LPST) cleanup requirements		329
Total	$	5,617

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 6 – 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, 2015, the Commission had 28 bond issues outstanding. The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of TxDOT, had three conduit debt bond issues outstanding as of Aug. 31, 2015. The Grand Parkway Transportation Corporation (GPTC), another blended component unit of TxDOT, had five revenue bond issuances outstanding as of Aug. 31, 2015. 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	6/8/2005	3.90%	5.00%	2006	2035	4/1/2015
Series 2005-B Variable Rate Bonds	100,000	6/8/2005	variable		2006	2030	*
Series 2006 Fixed Rate Bonds	750,000	6/8/2006	3.63%	5.00%	2007	2036	4/1/2016
Series 2006-A Fixed Rate Bonds	1,040,275	10/31/2006	4.00%	5.00%	2007	2035	4/1/2017
Series 2006-B Variable Rate Bonds	150,000	12/13/2006	variable		2036	2036	*
Series 2007 Fixed Rate Bonds	1,006,330	6/21/2007	4.00%	5.00%	2008	2037	4/1/2017
Series 2008 Fixed Rate Bonds	1,100,000	2/28/2008	4.00%	5.00%	2009	2037	4/1/2018
Series 2009-A Taxable Fixed Rate Bonds	1,208,495	8/26/2009	5.37%	5.52%	2029	2039	*
Series 2014 Fixed Rate Refunding Bonds	973,775	7/2/2014	4.00%	5.00%	2016	2034	4/1/2024
Series 2014-A Fixed Rate Refunding Bonds	1,580,160	12/18/2014	4.00%	5.00%	2017	2044	10/1/2024
Series 2014-B SIFMA Bonds	250,000	12/18/2014	variable		2040	2041	4/1/2018
Texas Highway Improvement							
Series 2010-A Taxable Fixed Rate Bonds	815,420	9/29/2010	3.20%	4.68%	2019	2040	*
Series 2010-B Fixed Rate Bonds	162,390	9/29/2010	2.00%	5.00%	2012	2018	n/a
Series 2012-A Fixed Rate Bonds	818,635	12/18/2012	5.00%	5.00%	2019	2042	4/1/2022
Series 2012-B Taxable Fixed Rate Bonds	99,570	12/18/2012	0.30%	1.50%	2014	2019	n/a
Series 2014 Fixed Rate Bonds	1,260,000	10/15/2014	2.00%	5.00%	2015	2044	4/1/2024
Revenue Bonds							
State Highway Fund							
Series 2006 Fixed Rate Bonds	600,000	5/3/2006	4.00%	5.00%	2007	2026	4/1/2016
Series 2006-A Fixed Rate Bonds	852,550	11/21/2006	4.00%	5.25%	2008	2025	4/1/2016
Series 2006-B Variable Rate Bonds	100,000	11/8/2006	variable		2026	2026	*
Series 2007 Fixed Rate Bonds	1,241,845	10/25/2007	4.00%	5.00%	2009	2027	4/1/2017
Series 2008 Fixed Rate Bonds	162,995	8/19/2008	3.50%	5.25%	2010	2028	4/1/2018
Series 2010 Taxable Fixed Rate Bonds	1,500,000	8/5/2010	5.03%	5.18%	2026	2030	*
Series 2014-A Fixed Rate Refunding Bonds	1,157,795	4/2/2014	4.75%	5.00%	2017	2034	4/1/2024
Series 2014-B SIFMA Bonds	300,000	4/2/2014	variable		2032	2032	10/1/2016
Series 2015 Revenue Refunding Bonds	781,080	7/22/2015	3.00%	5.00%	2017	2026	n/a
Governmental Activities Total	$ 18,911,315						

Miscellaneous Bond Information (Concluded)
(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
BUSINESS-TYPE ACTIVITIES							
Revenue Bonds							
Central Texas Turnpike Authority							
First Tier Revenue Bonds Series 2002-A							
Non-Callable Capital Appreciation Bonds	$ 575,969	8/29/2002	4.47%	5.75%	2012	2030	n/a
Callable Capital Appreciation Bonds	325,494	8/29/2002	6.00%	6.10%	2025	2038	8/15/2012
First Tier Revenue Refunding Bonds, Series 2012-A	585,330	11/27/2012	4.00%	5.00%	2038	2041	8/15/2022
First Tier Revenue Refunding Put Bonds, Series 2012-B	225,000	11/27/2012	1.25%	1.25%	2042	2042	2/15/2015
First Tier Revenue Refunding Put Bonds, Series 2015-A	225,000	2/4/2015	5.00%	5.00%	2041	2042	4/1/2020
First Tier Revenue Refunding Bonds, Series 2015-B	198,025	2/4/2015	5.00%	5.00%	2032	2037	8/15/2024
First Tier Revenue Refunding Bonds, Series 2015-B	94,952	2/4/2015	4.36%	4.38%	2036	2037	8/15/2024
Second Tier Revenue Refunding Bonds, Series 2015-C	1,157,320	2/4/2015	5.00%	5.00%	2022	2042	8/15/2024
Grand Parkway Transportation Corporation							
First Tier Revenue Bonds, Series 2013-A	200,000	8/1/2013	5.13%	5.50%	2031	2053	10/1/2023
Subordinate Tier Toll Revenue Bonds, Series 2013-B							
Convertible Capital Appreciation Bonds	311,241	8/1/2013	4.95%	5.85%	2029	2048	10/1/2028
Current Interest Bonds	1,137,935	8/1/2013	5.00%	5.25%	2048	2053	10/1/2023
Subordinate Tier Toll Revenue Bonds, Series 2013-E	361,810	8/1/2013	5.18%	5.18%	2036	2042	*
Subordinate Tier Toll Revenue Bonds, Series 2014-B	83,550	2/13/2014	variable		2016	2016	*
Subordinate Tier Toll Revenue Bonds, Series 2014-C	107,180	2/13/2014	variable		2016	2016	*
Business-Type Activities Total	5,588,806						
Total	$ 24,500,121						

* 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, 2015 (Amounts in Thousands)

Description	Bonds Outstanding 08/31/2014	Adjustments*	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 08/31/2015	Due Within One Year
Governmental Activities							
General Obligation Bonds	$ 7,867,807	$ 391,109	$ 3,090,160	$ (145,635)	$ (1,015,980)	$ 10,187,461	$ 185,341
Revenue Bonds	4,537,928	57,780	781,080	(132,200)	(848,300)	4,396,288	172,727
Total Governmental Activities	12,405,735	448,889	3,871,240	(277,835)	(1,864,280)	14,583,749	358,068
Business-Type Activities							
Revenue Bonds	3,874,970	206,430	1,726,475	(8,415)	(666,158)	5,133,302	13,582
Total	$ 16,280,705	$ 655,319	$ 5,597,715	$ (286,250)	$ (2,530,438)	$ 19,717,051	$ 371,650

*Includes current year amortization of premiums and discounts.

** Includes current year amortization of accretion.

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, 2015, two general obligation bond programs are active. All general obligation bond issuances must be approved by the Texas Bond Review Board prior to issuance. The purpose and the sources of debt service for each program are summarized as follows.

Texas Mobility Fund General Obligation Bond Program

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, 2015, major sources of pledged revenue to the Mobility Fund include driver license fees, motor vehicle inspection fees, motor vehicle certificate fees and driver record information fees.

The issuance of Mobility Fund bonds is subject to debt service coverage requirements. 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. Subject to the debt service coverage requirement, the Mobility Fund constitutional provision does not limit the amount of obligations that may be issued under the program. The Mobility Fund program is currently established in the aggregate principal amount of $7.5 billion outstanding at any one time. House Bill 122, which was enacted during the regular session of the 84th Legislature and became effective on June 10, 2015, amends the authority to provide that no additional program obligations may be issued or incurred after Jan. 1, 2015, except for obligations issued to refund outstanding obligations to provide savings or to renew or replace credit agreements relating to outstanding variable rate obligations. Additionally, HB 122 provides that money in the Mobility Fund, in excess of amounts required by the proceedings authorizing obligations and credit agreements to be retained on deposit, may not be used for toll roads.

Bond proceeds are to be used for the purpose of refunding existing bonds, creating reserves for payment of bonds, paying bond issuance costs and paying interest on the bonds.

Texas Highway Improvement General Obligation Bond Program (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 improvement projects including construction, reconstruction, design, the acquisition of right-of-way, the costs of administering the highway improvement projects and the costs of issuing the bonds. These bonds are not self-supporting and are considered a general obligation of the state of Texas. As of Aug. 31, 2015, the Commission is authorized but has not issued approximately $1.4 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
2016	$ 133,175	$ 439,197	$ 572,372
2017	147,820	432,799	580,619
2018	155,525	425,873	581,398
2019	173,635	418,645	592,280
2020	186,665	410,522	597,187
2021-2025	1,162,920	1,900,053	3,062,973
2026-2030	1,629,600	1,569,280	3,198,880
2031-2035	2,196,690	1,128,966	3,325,656
2036-2040	2,560,580	567,470	3,128,050
2041-2045	1,045,285	113,669	1,158,954
	9,391,895	7,406,474	16,798,369
Premium	795,566		795,566
Total	$ 10,187,461	$ 7,406,474	$ 17,593,935

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 Revenue Bond Program (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, 2015, the Commission is authorized but has not issued approximately $700 million of remaining bond authority under the state highway fund revenue bond program.

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

	State Highway Fund		
Year	**Principal**	**Interest**	**Total**
2016	$ 138,510	$ 175,392	$ 313,902
2017	145,195	180,188	325,383
2018	150,365	172,245	322,610
2019	157,175	165,432	322,607
2020	164,750	157,851	322,601
2021-2025	1,156,575	644,964	1,801,539
2026-2030	1,539,910	339,855	1,879,765
2031-2035	658,625	61,656	720,281
	4,111,105	1,897,583	6,008,688
Premium	285,183		285,183
Total	$ 4,396,288	$ 1,897,583	$ 6,293,871

Central Texas Turnpike System

Transportation Code, Chapter 228 Subchapter C authorizes 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 and second, as applicable, 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; nor 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 authorizes 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 Commission; 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
2016	$ 1,745	$ 196,078	$ 197,823
2017	198,615	195,283	393,898
2018	14,225	194,963	209,188
2019	20,365	194,963	215,328
2020	26,715	194,963	221,678
2021-2025	272,180	1,015,151	1,287,331
2026-2030	522,725	1,100,289	1,623,014
2031-2035	837,565	1,011,475	1,849,040
2036-2040	1,333,985	788,226	2,122,211
2041-2045	787,890	480,311	1,268,201
2046-2050	430,825	343,427	774,252
2051-2053	1,105,570	97,364	1,202,934
	5,552,405	5,812,493	11,364,898
Accretion	(660,542)		(660,542)
Premium	259,928		259,928
Discount	(18,489)		(18,489)
Total	$ 5,133,302	$ 5,812,493	$ 10,945,795

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure the payment of bond debt service. The table that follows 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
Principal and Interest on Existing Bonds	$ 11,594,220	$ 6,008,688	$ 5,511,926	$ 5,852,972
Term of Commitment Year Ending Aug. 31	2045	2034	2042	2053
Percentage of Revenue Pledged	100%	100%	99.86%	98.43%
Current Year Pledged Revenue	$ 391,115	$ 7,426,916	$ 169,438	$ 32,344
Current Year Principal and Interest Paid	$ 320,545	$ 330,509	$ 79,778	$ 88,991

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 7.3 percent effective Oct. 1, 2014 through Sept. 30, 2015 for BAB subsidy payments paid in federal fiscal year 2015. See the table below for details on the Commission's Direct Payment BABs outstanding at Aug. 31, 2015.

Direct Payment Build America Bonds (Amounts in Thousands)	Issue Date	Par Amount	Outstanding
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
Governmental Activities Total		$ 3,523,915	$ 3,523,915

Variable Rate Bonds

The Commission and GPTC have six variable rate bond issues outstanding at Aug. 31, 2015. The interest rates in effect as of Aug. 31, 2015 for the Texas Mobility Fund Series 2006-B, Texas Mobility Fund Series 2014-B, State Highway Fund Series 2006-B, State Highway Fund Series 2014-B used to calculate the debt service requirements were 0.01, 0.40, 0.25 and 0.37 percent, respectively. These rates reset every seven days. The Central Texas Turnpike System Series 2015-A put bonds debt service was calculated based upon the initial 5 percent interest rate, which expires Apr. 1, 2020. The interest rates in effect as of Aug. 31, 2015 for the GPTC Series 2014-B and 2014-C used to calculate the interest debt service were 0.44 and 0.68 percent, respectively. These rates reset on the first business day of each month.

Put Bonds

The Commission has three put bond issues outstanding. The Texas Mobility Fund Series 2014-B and the State Highway Fund Series 2014-B bonds were issued in an initial index floating rate mode and the Central Texas Turnpike System Series 2015-A bonds were issued in a multiannual mode, all of which terminate on mandatory tender dates. At the termination of the initial 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 has 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 to purchase the bonds on the mandatory tender date is subject to the successful remarketing of such bonds. The Commission has 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 Bonds (Amounts in Thousands)					
Description of Issue	**Mandatory Tender Date**	**Initial Rate**	**Initial Period Interest**	**Stepped Coupon Rate**	**Stepped Rate Period Interest*** **
Governmental Activities					
General Obligation Bonds					
Texas Mobility Fund, Series 2014-B	10/1/2018	SIFMA + 0.38%	Variable*	8.00% per annum	$ 20,000
Revenue Bonds					
State Highway Fund, Series 2014-B	4/1/2017	SIFMA + 0.35%	Variable*	8.00% per annum	$ 24,000
Business-Type Activities					
Central Texas Turnpike System					
First Tier Revenue Put Bonds, Series 2015-A	4/1/2020	5.00% per annum**	$ 11,250	8.00% per annum	$ 18,000

* Index Floating Rate Mode/resets weekly
**Multiannual Mode
***Assumes a full year of interest

Demand Bonds

The Texas Mobility Fund 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 the related standby bond purchase agreements as of Aug. 31, 2015.

Demand Bonds (Amounts in Thousands)		
Governmental Activities	**Bonds Held by Liquidity Providers**	**Principal Balance Outstanding**
General Obligation Bonds		
Texas Mobility Fund, Series 2006-B	None	$ 150,000
Revenue Bonds		
State Highway Fund, Series 2006-B	None	100,000
Total		$ 250,000

Demand Bonds – Standby Bond Purchase Agreement Provisions			
Governmental Activities	**Counterparties**	**Annual Liquidity Fee**	**Agreement Termination Date**
General Obligation Bonds			
Texas Mobility Fund, Series 2006-B	State Street Bank and Trust Company & California Public Employees' Retirement System	0.30%	12/13/2016
Revenue Bonds			
State Highway Fund, Series 2006-B	Banco Bilbao Vizcaya Argentaria, S.A.	0.09%	11/07/2016

The standby bond purchase agreements 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. Outstanding principal balances on variable rate demand bonds that have standby bond purchase agreements in place may be classified as non-current liabilities. The table shown below 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				
Texas Mobility Fund, Series 2006-B	$ 170,098	8.50%	1% + greater of: 3% + Daily Fed Fds Rate, Bank Prime Rate +2% or 7.5%	Quarterly payments over three years (or sooner under certain termination events) starting on the first day of the first month of that period.
Revenue Bonds				
State Highway Fund, Series 2006-B	109,191	5.25%	2% + greater of : 0.5% + Daily Fed Fds Rate or Bank Prime Rate	Semi-annual payments over three years (or sooner under certain termination events) starting on the first day of the sixth month of that period.
Total	$ 279,289			

Refunding

The Commission had three bond refunding transactions during fiscal 2015. On Oct. 30, 2014, the Commission approved the Texas Mobility Fund Tenth Supplemental Resolution which authorized, among other things, the issuance of general obligation refunding bonds to refund outstanding bonds. The Commission issued General Obligation Mobility Fund and Refunding Bonds, Series 2014-A and General Obligation Mobility Fund SIFMA Index Floating Rate Bonds, Series 2014-B, with a total par value of $1.8 billion. The issue is a combination of new money bonds and refunding bonds, with par amounts of $900.0 million and $930.2 million, respectively. The premium associated with the refunding portion of the Series 2014-A bonds was $173.5 million and the refunding portion of the underwriter's discount amounted to $3.6 million resulting in a net proceeds amount of $1.1 billion. The issuance closed on Dec. 18, 2014.

On Jan. 29, 2015, the Commission approved the State Highway Fund Seventh Supplemental Resolution which authorized the issuance of revenue and refunding bonds to refund outstanding bonds. The State Highway Fund First Tier Revenue and Refunding Bonds, Series 2015, were issued with a par value of $781.1 million. The bonds were issued at a premium of $133.4 million and the underwriter's discount amounted to $2.9 million, resulting in a net proceeds amount of $910.9 million. The issuance closed on July 22, 2015.

The Commission authorized the issuance of CTTS revenue refunding bonds with the Seventh Supplemental Indenture of Trust, dated as of Jan. 1, 2015 to refund certain outstanding Series 2002-A and all of Series 2012-B bonds and the TIFIA note payable. The Commission issued refunding bonds Series 2015-A, Series 2015-B and Series 2015-C with par values of $225.0 million, $226.0 million and $1.2 billion, respectively, for a total par amount of $1.6 billion. The premium associated with the Series 2015-A, Series 2015-B and Series 2015-C was $37.5 million, $94.8 million and $150.6 million, respectively, and the underwriter's discount associated with the transaction amounted to $8.1 million, resulting in a net proceeds amount of $1.9 billion. The issuance closed on Feb. 4, 2015.

Refunding Issues (Amounts in Thousands) Description	Type of Refunding	Redemption Date	Par Value Refunded	Par Value of Refunding Issue			Cash Flow Increase/ (Decrease)	Economic Gain/(Loss)
GOVERNMENTAL ACTIVITIES								
General Obligation Bonds								
Texas Mobility Fund				Series 2014-A				
Series 2005-B	Current	12/18/2014	$ 70,740	$ 58,060			$ 8,784	$ 6,499
Series 2006	Advanced	12/18/2014	233,130	215,965			61,059	35,784
Series 2006-A	Advanced	12/18/2014	478,830	442,775			72,163	52,379
Series 2007	Advanced	12/18/2014	233,280	213,360			27,397	21,510
Total GO Bonds			1,015,980	930,160			169,403	116,172
Revenue Bonds								
State Highway Fund				Series 2015				
Series 2006-A	Advanced	7/22/2015	10,665	10,520			3,975	1,955
Series 2007	Advanced	7/22/2015	792,135	724,220			113,591	91,366
Series 2008	Advanced	7/22/2015	45,500	46,340			6,414	3,427
Total Revenue Bonds			848,300	781,080			123,980	96,748
Governmental Activities Total			1,864,280	1,711,240			293,383	212,920
BUSINESS-TYPE ACTIVITIES								
Revenue Bonds and TIFIA Note								
Central Texas Turnpike Authority				Series 2015-A	Series 2015-B	Series 2015-C		
Series 2002-A	Advanced	2/4/2015	441,158 *	31,300	$ 290,643	$ 100,835	278,645	124,602
Series 2012-B	Current	2/4/2015	225,000	193,700			72,477	35,534
TIFIA Note	Current	2/4/2015	1,112,974 *			1,056,485	596,844	223,718
Business-Type Activities Total			1,779,132	225,000	290,643	1,157,320	947,966	383,854
Total			$ 3,643,412	$ 1,936,240	$ 290,643	$ 1,157,320	$ 1,241,349	$ 596,774

* Includes life to date amortization of accreted interest.

Defeased Bonds

The Commission defeased various bond issues by placing funds and securities in irrevocable trusts with external financial institutions to provide for all future debt service payments on the bonds through the earlier of the maturity date or the first call date. As of Aug. 31, 2015, the amounts of defeased bonds, at par, that remain outstanding are presented in the table below.

Defeased Bonds Outstanding (Amount in Thousands) Description	Par Value
Governmental Activities	
General Obligation Bonds	
Texas Mobility Fund Series 2006	$ 597,710
Texas Mobility Fund Series 2006-A	478,830
Texas Mobility Fund Series 2007	269,225
Texas Mobility Fund Series 2008	93,730
Revenue Bonds	
State Highway Fund Series 2006	369,590
State Highway Fund Series 2006-A	506,130
State Highway Fund Series 2007	792,135
State Highway Fund Series 2008	45,500
Governmental Activities Total	3,152,850
Business-Type Activities	
Revenue Bonds	
Central Texas Turnpike Authority Capital Appreciation Bonds	114,958 *
Business-Type Activities Total	114,958
Total	$ 3,267,808

* Includes $29,257 of accreted interest.

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, located in Dallas County, and the North Tarrant Express Facility in Tarrant County.

The proceeds from TxPABST bonds were loaned to LBJ Infrastructure Group LLC, NTE Mobility Partners LLC and NTE Mobility Partners Segments 3 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, 2015, TxPABST private activity revenue bonds outstanding aggregated $1.3 billion. TxPABST remaining authorized bond authority has expired. The debt service schedule for the outstanding TxPABST conduit debt is disclosed below.

Conduit Debt Obligations - Miscellaneous Information
(Amounts in Thousands)

	NTE Mobility Partners LLC North Tarrant Express Managed Lanes Project Series 2009	LBJ Infrastructure Group LLC IH-635 Managed Lanes Project Series 2010	NTE Mobility Partners Segments 3 LLC Segments 3A and 3B Facility Series 2013
Bonds Issued	$ 400,000	$ 615,000	$ 274,030
Date Issued	12/17/2009	6/22/2010	9/19/2013
Range of Interest Rates	6.875% - 7.500%	7.000% - 7.500%	6.75% - 7.00%
Maturities (First Year - Last Year	2031 - 2039	2032 - 2040	2038 - 2043
First Call Date	12/31/2019	6/30/2020	9/1/2023

Conduit Debt Obligations – Debt Service (Amounts in Thousands)
TxPABST Bonds – Conduit Debt

Year	Principal	Interest	Total
2016	$	$ 90,449	$ 90,449
2017		90,449	90,449
2018		90,450	90,450
2019		90,450	90,450
2020		90,450	90,450
2021-2025		452,246	452,246
2026-2030		452,246	452,246
2031-2035	462,840	381,765	844,605
2036-2040	724,775	175,360	900,135
2041-2043	101,415	12,252	113,667
	1,289,030	1,926,117	3,215,147
Premium	6,024		6,024
Discount	(15,730)		(15,730)
Total	$ 1,279,324	$ 1,926,117	$ 3,205,441

NOTE 7– LEASES

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 $26.5 million of rent paid or due under operating lease obligations.

The following table presents future minimum lease rental obligations under non-cancelable operating leases having an initial term in excess of one year.

Noncancelable Operating Lease Obligations
(Amounts in Thousands)

Fiscal Year	Total Operating Leases
2016	$ 10,823
2017	9,291
2018	9,009
2019	8,902
2020	6,001
2021-2025	22,391
Total	$ 66,417

NOTE 8 - EMPLOYEES RETIREMENT PLAN

Employees of the Texas Department of Transportation (TxDOT) are under the coverage of the Employees Retirement System of Texas Plan (ERS Plan), which is considered a single employer defined benefit plan under GASB Statement 68.

The defined benefit provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The ERS plan's membership as of the measurement date of Aug. 31, 2014 is presented in the table below:

Texas Department of Transportation's Membership	
Retirees and Beneficiaries Currently Receiving Benefits	13,473
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	4,981
Current Employees	
Vested and Non-Vested	11,292
Total Members	29,746

The contribution rates for the state and the members for the ERS plan for the measurement period of fiscal 2014 are presented as follows:

Required Contribution Rates

		Employer			Members		
Fiscal Year	Plan	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
2014	ERS	8.00%	8.00%	8.00%	6.60%	8.00%	6.60%
2015	ERS	8.00%	8.00%	8.00%	6.90%	8.00%	6.90%

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from Sept. 1, 2006 through Aug. 31, 2011. Additionally, the actuarial valuation as of Aug. 31, 2014 also incorporates the across-the-

board pay increases budgeted by the state Legislature for the current fiscal 2014-2015 biennium. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the Aug. 31, 2014:

ERS Plan	
Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Actuarial Assumptions:	
Discount Rate	6.07%
Investment Rate of Return	8.00%
Inflation	3.50%
Salary Increase	0% to 11.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected

A single blended discount rate of 6.07 percent was applied to measure the total pension liability. The 6.07 percent discount rate incorporated an 8.0 percent long-term expected rate of return on pension plan investments and 4.17 percent 20-year municipal bond rate based on Federal Reserve Statistical Release H. 15. The long-term expected investment rate of return was applied to projected benefit payments through fiscal 2041 and the municipal bond rate was applied to all benefit payments thereafter.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of the Legislature's commitment to increase funding for the pension funds, such as changes in the statute in the last and current legislative sessions. Considering these above events, the projected employer contributions are based on fiscal 2015 funding level.

The long-term expected rate of return on plan investments was developed using a coding-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan's investment portfolio are presented as follows:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of TxDOT's net pension liability. The result of the analysis is presented as follows:

Sensitivity of TxDOT's Proportionate Share of Net Pension Liability to Changes in the Discount Rate
(Amounts in Thousands)

1% Decrease (5.07%)	Current Discount Rate (6.07%)	1% Increase (7.07%)
$ 1,878,276	$ 1,395,472	$ 993,616

The amounts shown in this schedule represent TxDOT's 9.65 percent proportionate share of the collective amounts for the state of Texas. The contribution percentage is based on ERS records of actual contributions from each of the state agencies as a percentage of the total state contributions.

The pension plan's fiduciary net position is determined using the economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 67 and 31. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. The Employees Retirement System issues a stand-alone audited Comprehensive Annual Financial Report (CAFR). More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' CAFR:

Employees Retirement System of Texas

P. O. Box 13207

Austin, Texas 78711-3207

TxDOT's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2014. For fiscal 2015 reporting, the measurement date of TxDOT's net pension liability is Aug. 31, 2014. The schedule of changes in TxDOT's net pension liability for the fiscal year ending Aug. 31, 2015 as follows:

Schedule of Changes in Net Pension Liability For Fiscal Year Ending August 31, 2015 (Amounts in Thousands)		
Total Pension Liability		
Service Cost	$	109,957
Interest on the Total Pension Liability		224,284
Difference between Expected and Actual Experience of the Total Pension Liability		(24,411)
Assumption Changes		115,710
Benefit Payments and Refunds		(189,477)
Net Change in Total Pension Liability		236,063
Total Pension Liability - Beginning		3,576,753
Total Pension Liability - Ending	$	3,812,816
Plan Fiduciary Net Position		
Contributions - Employer		46,536
Contributions - Member		41,553
Pension Plan Net Investment Income		313,859
Benefit Payments and Refunds		(189,477)
Pension Plan Administrative Expense		(1,949)
Net Change in Plan Fiduciary Net Position		210,522
Plan Fiduciary Net Position - Beginning		2,206,822
Plan Fiduciary Net Position - Ending	$	2,417,344
Net Pension Liability - Beginning		1,369,931
Net Pension Liability - Ending	$	1,395,472

The amounts shown in this schedule represent TxDOT's 9.65 percent proportionate share of the collective amounts for the state of Texas. The contribution percentage is based on ERS records of actual contributions from each of the state agencies as a percentage of the total state contributions.

The change of discount rate which resulted in an increase in the total pension liability is the only assumption change during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date.

For the fiscal year ending Aug. 31, 2015, TxDOT recognized pension expense of $122.0 million. At Aug. 31, 2015, TxDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

Outstanding Deferred Outflows and Deferred Inflows at August 31, 2015 (Amounts in Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience Changes of assumptions	$ 80,107	$ 16,900
Net Difference between Projected and Actual Investment Return		113,158
Contributions Subsequent to the Measurement Date	48,193	
Total	$ 128,300	$ 130,058

The $48.2 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2016.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

Fiscal Year ended August 31: (Amounts in Thousands)	
2016	($197)
2017	($197)
2018	($21,266)
2019	($28,289)

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, 2015
(Amount in Thousands)

Level of Coverage	ERS SRHP
Retiree Only	$ 0.54
Retiree/Spouse	$ 0.85
Retiree/Children	$ 0.74
Retiree/Family	$ 1.05

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 funds, nonmajor funds in the aggregate and fiduciary funds.

Interfund Transfers In/Out by Purpose

August 31, 2015

(Amounts in Thousands)

Purpose	Interfund Transfer In (Fund)	Interfund Transfer Out (Fund)	Amount
Reimburse the state highway fund for costs incurred on projects funded by local government contributions.	State Highway Fund	County/Political Subdivision/ Local Government Road/Airport Trust Account	$ 141,301
Provide funds to pay debt service principal and interest payments on outstanding Proposition 14/State Highway Fund Revenue Bonds	Proposition 14 Debt Service Fund	State Highway Fund	$ 304,165

There is a transfer in and transfer out in the amount of $84.6 million between the capital projects fund and the debt service fund within Texas Mobility Fund.

Interfund Transfers In/Out
August 31, 2015 (Amounts in Thousands)

	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
State Highway Fund	$ 141,301	$ 305,872
Local Government Political Sub Account		141,301
Texas Mobility Fund	84,578	84,578
Nonmajor Funds	304,165	
	530,044	531,751
Proprietary Funds		
Central Texas Turnpike System	1,707	
	1,707	0
Total	$ 531,751	$ 531,751

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 in the government-wide financial statements.

Due From/To
August 31, 2015
(Amounts in Thousands)

	Due From Other Funds	Due To Other Funds
Governmental Funds		
Major Funds:		
State Highway Fund	$ 153,010	$ 47,170
Texas Mobility Fund		10,662
Proposition 12 Project Fund		98,128
Local Government Political Sub Account	16,001	
Nonmajor Funds	118	26,301
	169,129	182,261
Proprietary Funds		
Central Texas Turnpike System	44,436	
Grand Parkway Transportation Corp.		31,304
	44,436	31,304
Total	$ 213,565	$ 213,565

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."

Transfers-Internal Activities per the Government-Wide Financial Statements
August 31, 2015 (Amounts in Thousands)

Fund Category		Other Funds
Governmental Activities	$	(1,707)
Business-Type Activities	$	1,707

Internal Balances per the Government-Wide Financial Statements
August 31, 2015 (Amounts in Thousands)

		Governmental Activities		Business-Type Activities		Total
Current Liabilities:						
Internal Balances - Payables	$	13,132	$	(13,132)	$	0

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.

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 $1.5 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 other major portion that makes up the transfer-in amount of the state highway fund is the 1.7 billion transfers-in from the Comptroller's Office related to the Proposition 1 (Prop 1) ballot measure. On Nov. 4, 2014 Texas voters approved the ballot measure, which authorized a constitutional amendment for transportation funding. Under the amendment, half of the funds that under current law go into the Economic Stabilization Fund (ESF) will be deposited to the state highway fund. The transfer-in, received in fiscal 2015, resulted in an increase to the TxDOT highway fund cash in state treasury balance. TxDOT also recorded a due from in the State Highway Fund related to the Prop 1 ballot measure. The Comptroller has certified and transferred a second Prop 1 payment of $1.1 billion to TxDOT in Nov. of 2015.

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. TxDOT also has interagency activity with federal funds. See Schedule 1A of this report for more details.

Transfers In/Out to Other State Agencies
August 31, 2015 (Amounts in Thousands)

	Transfers In Other Agencies	Transfers Out Other Agencies
Governmental Funds		
State Highway Fund	$ 3,214,682	$ 638,770
Nonmajor Funds	903	*47,900
Total	$ 3,215,585	$ 638,770

* Included in transfers out is a legislative transfer of $47.9 million to the Texas Department of Public Safety. The transfer was recommended by the Governor to increase DPS' border security operations.

Due From/To Other State Agencies
August 31, 2015 (Amounts in Thousands)

	Due From Other Agencies	Due To Other Agencies
Governmental Funds		
State Highway Fund	$ 1,359,897	$ 47,361
Total	$ 1,359,897	$ 47,361

Pass-Throughs To/From Other State Agencies
August 31, 2015 (Amounts in Thousands)

	State Highway Fund
Federal Pass-throughs:	
Expenditures	$ (24,017)
Total	$ (24,017)

NOTE 12 – COUNTINUANCE 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 BALANCE/NET POSITION

The table below presents a summary of the Aug. 31, 2015, 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.

Governmental Fund Balances –
Disaggregation of Nonspendable, Restricted, Committed, Assigned and Unassigned Fund Balances
August 31, 2015 (Amounts in Thousands)

MAJOR FUNDS	State Highway Fund	Texas Mobility Fund	Highway Improvement Project	Total Major Funds
Nonspendable:				
Inventory	$ 181,216	$	$	$ 181,216
Restricted For:				
Capital Projects	2,387,945	672,697	315,794	3,376,436
Debt Service		517,891		517,891
Committed To:				
Transportation Infrastructure	1,410,911			1,410,911
Assigned To:				
Transportation	38,517			38,517
Unassigned				
Total	$ 4,018,589	$ 1,190,588	$ 315,794	$ 5,524,971

NONMAJOR FUNDS	General Fund	Special Revenue Funds	Debt Service Funds	Total Nonmajor Funds
Nonspendable:				
Long-Term Receivables	$ 87	$	$	$ 87
Restricted For:				
Debt Service			126,691	126,691
Committed To:				
Transportation Infrastructure		153,704		153,704
Assigned To:				
Transportation	702			702
Grand Parkway Association		94		94
Unassigned	19,664			19,664
Total	$ 20,453	$ 153,798	$ 126,691	$ 300,942

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.

NOTE 14- ADJUSTMENTS TO FUND BALANCES AND NET POSITION

During fiscal 2015, an adjustment was made that required the restatement of fund balances or net position. The impact of this adjustment is summarized and discussed below.

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

	September 1, 2014, As Previously Reported	Restatements		September 1, 2014 As Restated
Major Funds:				
State Highway Fund	$ 3,560,325	$		$ 3,560,325
Texas Mobility Fund	353,797			353,797
Proposition 12 Project Fund	(535,961)			(535,961)
Total Major Funds	3,378,161			3,378,161
Nonmajor Funds:				
General Fund Accounts	52,221			52,221
Special Revenue Funds	222,661			222,661
Debt Service Funds	138,558			138,558
Total Nonmajor Funds	413,440			413,440
Governmental Activities Adjustments				
Capital Assets	82,093,568			82,093,568
Long-Term Liabilities	(18,981,851)	(1,323,394)	(A)	(20,305,245)
Other Adjustments	24,714			24,714
Total Governmental Activities Adjustments	63,136,431	(1,323,394)		61,813,037
Total Governmental Activities	66,928,032	(1,323,394)		65,604,638
BUSINESS-TYPE ACTIVITIES				
Central Texas Turnpike System	465,960			465,960
Grand Parkway Transportation Corp.	(10,162)			(10,162)
Total Business-Type Activities	455,798			455,798
Total Primary Government	$ 67,383,830	$ (1,323,394)		$ 66,060,436

(A) This restatement was necessary to establish the $1.3 billion Net Pension Liability and $46.5 million of Deferred Outflows of Resources related to pensions due to the implementation of GASB 68 in fiscal 2015.

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, 2015 outstanding contractor claims pending at the TxDOT claims committee totaled $2.8 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, 2015. 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	Monetary amounts have not been specified in 553 cases. Total claims with amounts indicated range from $0 to $25.5 million with a total of $463.2 million.
Contract	Amounts claimed range from $420 thousand to $3.0 million. Total claims with amounts indicated is $3.4 million.
Inverse Condemnation	Monetary amounts have not been specified for any of these cases.
Declaratory Judgment	Monetary amounts have not been specified in sixteen of the eighteen cases. Amounts claimed range from $10 thousand to $10.0 million. Total claimed with amounts indicated is $10.0 million.
Employment Law and Related Lawsuits	Monetary amounts have not been specified in any 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 $4.3 thousand to $500 thousand. Total claims including estimates of liability limits where no amounts were specified, came to approximately $18.5 million.

Arbitrage

Rebatable arbitrage 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 (PTF) 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, 2015, 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, 2015 (Amounts in Thousands)	Total Remaining Commitment	FHWA Reimbursements
Construction Contracts	$ 9,149,401	$ 4,501,868
Design-Build Projects	2,025,271	848,927
SCA Projects	158,262	132,876
GPTC Project	200,000	
Totals	$ 11,532,934	$ 5,483,671

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, 2015 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 5 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, 2015, was approximately $1.4 billion. Approximately $416.7 million of this amount was repaid as of Aug. 31, 2015. 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, 2015, the Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling $244.2 million and $15.4 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, $5.9 billion is related to a toll equity loan agreement (TELA) with the North Texas Tollway Authority (NTTA) and $9.5 billion is related to a TELA with the GPTC. These agreements make loans available to be drawn on in the event revenues and certain reserves are insufficient to pay certain debt service or operations and maintenance costs of the toll systems of aforementioned entities.

The NTTA funds financed by TELA-supported debt 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 financed by TELA-supported debt 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, 2015, no drawdowns of funding have been requested by NTTA or GPTC under these agreements.

NOTE 16 – SUBSEQUENT EVENTS

The Commission has issued the following bonds as of the date of this report, through February 2016:

Entity	Series	Actual Par Amount	Actual Date of Issuance	Purpose
State of Texas General Obligation Mobility Fund Refunding Bond	2015-A	$911.4 Million	9/30/2015	To refund Parity debt, and pay costs of issuance.
State of Texas General Obligation Mobility Fund Refunding Bonds	2015-B	$254.1 Million	10/7/2015	To refund Parity debt, and pay costs of issuance.

On Nov. 4, 2015 Texas voters approved the ballot measure known as Proposition 7, which created a Constitutional amendment for transportation funding. The amendment increases money to build roads by adding up to $2.5 billion a year in state sales tax revenue to the State Highway Fund beginning in fiscal 2018. In fiscal 2020, roads would get 35 percent of vehicle sales and rental taxes after the first $5 billion is raised annually. The funds collected can only be used to build, maintain and restore non-tolled public roads and repay transportation-related debt and the proposition authorized the state legislature to reduce the amount in the State Highway Fund by up to 50 percent in one fiscal year. This provision gives lawmakers the ability to respond to economic downturns or other changes in the state's funding needs.

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 - 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, 2015, 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 of Aug. 31, 2015, 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 (CDAs) 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, 2015. 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 promotion and development of the Grand Parkway Project, by issuing bonds and entering into comprehensive development agreements with developers for the design and construction of several segments of the Grand Parkway project. Bonds issued by GPTC are not legal obligations of the state of Texas and are payable solely from revenues and other funds of the Grand Parkway System, which is comprised of Segments D (Harris County), E, F-1, F-2, and G.

See Note 5 for additional details about the GPTC bond issuances as of Aug. 31, 2015. GPTC has a fiscal year end of Aug. 31, 2015, 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 19– STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Changes in Accounting Principles

The implementation of GASB statements is addressed in Note 1.

NOTE 20 – SERVICE CONCESSION ARRANGEMENTS

As of Aug. 31, 2015, TxDOT has entered into seven agreements that are service concession arrangements (SCA) under the definition established by the Governmental Accounting Standards Board. 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 were entered to:

- Improve mobility by expanding existing road capacity and introducing managed toll lanes, traditional toll lanes and other strategies aimed at reducing traffic congestion.
- Enable TxDOT to deliver these projects faster than would be possible using traditional funding sources.
- 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 following table summarizes the status, term and duration of each currently active SCA.

Service Concession Arrangements
As of August 31, 2015

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	Complete	52 years	2009	2061
North Tarrant Exp Seg 3A and 3B	Under Construction	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.

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 on the government-wide financial statements. 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, 2015 (Amounts in Thousands)

Arrangement Name	Cash in State Treasury*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	$	$	$ 217,391
SH 130 Segments 5 and 6	131,219	1,437,424	1,437,413
SH 121 Concession	1,189,513	1,336,604	3,333,954
North Tarrant Exp Seg 1 and 2-West		2,392,034	1,684,975
North Tarrant Exp Seg 3A and 3B		248,865	
LBJ/IH-635 Managed Lanes		558,881	
Grand Parkway Seg D, E, F1, F2, G		44,210	
Total	$ 1,320,732	$ 6,018,018	$ 6,673,733

* 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 is recorded in governmental fund financials as other financing sources in the year received.

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). Refer to Note 15 for further detail on TxDOT commitments related to SCAs.

GPTC has recognized an intangible asset in the amount of $2.1 billion for its costs of design, construction and right-of-way acquisition through Aug. 31, 2015. This amount is reported in the business-type activities.

NOTE 21 – DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

As of Aug. 31, 2015, TxDOT reported deferred outflows of resources and deferred inflows of resources in the Statement of Net Position as presented in the table below.

Deferred Outflows and Deferred Inflows of Resources
Statement of Net Position
As of August 31, 2015 (Amounts in Thousands)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Governmental Activities		
Loss on Bond Refunding	$ 154,832	$
Pensions (Note 8)	128,300	130,058
Service Concession Arrangements (Note 20)		6,673,733
Total Governmental Activities	283,132	6,803,791
Business-Type Activities		
Loss on Bond Refunding	33,940	
Gain on Bond Refunding		1,993
Total Business-Type Activities	33,940	1,993
Total	$ 317,072	$ 6,805,784

Deferred outflows of resources in the amounts of $154.8 million in governmental activities and $33.9 million in business-type activities relate to losses on bond refunding transactions. The deferred inflow of $2.0 million reported in business-type activities relates to a gain on a bond refunding transaction. These deferred outflows and inflows are amortized on a straight-line basis over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

Deferred inflows of resources of $6.7 billion reported in governmental activities relate to seven different service concession arrangements, of which TxDOT was a party to as of Aug. 31, 2015. The amount recorded in the financial statements represents the balance of unamortized upfront payments and capital improvements TxDOT received under the agreements.

TxDOT reported $128.3 million in deferred outflows of resources and $130.1 million in deferred inflows of resources in governmental activities for pension adjustments associated with the implementation of GASB Statements 68 and 71. The reported deferred outflows of resources include TxDOT's share of pension contributions made subsequent to the measurement date and the unamortized balance of changes in assumptions used to calculate net pension liability. The reported deferred inflows of resources are comprised of the unamortized balance of other changes in the components of net pension liability.

Deferred inflows of $1.3 billion were reported on the governmental funds balance sheet as presented in the table as follows. These deferred inflows relate to unavailable revenues that were earned as of Aug. 31, 2015, but not available within 60 days of year end.

Deferred Inflows of Resources
Balance Sheet-Governmental Funds
As of August 31, 2015 (Amounts in Thousands)

Description		Deferred Inflows of Resources
State Highway Fund		
Oil and Natural Gas Production Tax	$	1,134,668
Federal Revenue		90,752
Local Revenue		15,135
Motor Fuel Tax		29,733
Total	$	1,270,288

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Required Supplementary Information
Other Than MD&A
(Unaudited)

Budgetary Comparison Schedule - State Highway Fund

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Budgetary Amounts			
	Original	Final	Actual Amounts Budgetary Basis	Final to Actual Variance
REVENUES				
Taxes	$ 2,485,050	$ 2,425,571	$ 2,546,627	$ 121,056
Federal	4,125,012	4,227,822	2,937,740	(1,290,082)
Licenses, Fees and Permits	108,047	110,273	23,915	(86,358)
Interest and Investment Income	10,000	9,908	26,352	16,444
Land Income			15,590	15,590
Settlement of Claims			21,995	21,995
Sales of Goods and Services	166,570	166,570	234,399	67,829
Other	99,763	91,810	8,381	(83,429)
Total revenues	6,994,442	7,031,954	5,814,999	(1,216,955)
EXPENDITURES				
Transportation:	7,907,513	10,743,491	7,754,142	2,989,349
Total Expenditures	7,907,513	10,743,491	7,754,142	2,989,349
Excess (Deficiency) of Revenues Over (Under) Expenditures	(913,071)	(3,711,537)	(1,939,143)	1,772,394
OTHER FINANCING SOURCES (USES)				
Transfers In			3,355,983	3,355,983
Transfers Out			(944,641)	(944,641)
Sale of Capital Assets			70,255	70,255
Bonds Issued for Refunding			781,080	781,080
Premiums on Bonds Issued			133,433	133,433
Payment to Escrow for Refunding			(910,971)	(910,971)
Available Beginning Balances	3,992,823	3,992,823	3,992,823	
Total Other Financing Sources (Uses)	3,992,823	3,992,823	6,477,962	2,485,139
Excess (Deficiency) of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 3,079,752	$ 281,286	$ 4,538,819	$ 4,257,533

NOTES TO THE BUDGETARY COMPARISION SCHEDULE

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

The major reconciling items between the budgetary comparison schedule and the GAAP financial statements are due to the following items.

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis of accounting on the GAAP fund financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Perspective Differences

Certain revenues and expenditures, including debt service are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule. The beginning cash balances are included as other financing sources in the budgetary comparison schedule and are not included as financing sources on the GAAP financial statements.

RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS
August 31, 2015 (Amounts in Thousands)

		State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses- Actual Budgetary Basis	$	4,538,819
Basis of Accounting Differences:		
Receivables and Unearned Revenues		64,321
Payables		(37,152)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources		(3,992,823)
Other Revenues Not Budgeted		
Other Expenditures Not Budgeted		(114,901)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - GAAP Basis	$	458,264

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriations bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit.

The Governor's Budget Office and the LBB initiate the process of submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller of Public Accounts for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the Governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The Governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation.

Upon approval by the Governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example "Right-of-Way Acquisition" and "Routine Maintenance" are two of the strategies for TxDOT. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 20 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves.

Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent a continuation of prior year's balances for completion of a program.

PENSION PLAN INFORMATION

Schedule of Changes in Net Pension Liability
For Fiscal Year Ending August 31, 2015 (Amounts in Thousands)

Total Pension Liability			
Service Cost	$	109,957	
Interest on the Total Pension Liability		224,284	
Difference between Expected and Actual Experience of the Total Pension Liability		(24,411)	
Assumption Changes		115,710	
Benefit Payments and Refunds		(189,477)	
Net Change in Total Pension Liability		236,063	
Total Pension Liability - Beginning		3,576,753	
Total Pension Liability - Ending	$	3,812,816	
Plan Fiduciary Net Position			
Contributions - Employer		46,536	
Contributions - Member		41,553	
Pension Plan Net Investment Income		313,859	
Benefit Payments and Refunds		(189,477)	
Pension Plan Administrative Expense		(1,949)	
Net Change in Plan Fiduciary Net Position		210,522	
Plan Fiduciary Net Position - Beginning		2,206,822	
Plan Fiduciary Net Position - Ending	$	2,417,344	
Net Pension Liability - Beginning		1,369,931	
Net Pension Liability - Ending	$	1,395,472	
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		63.40%	*
Covered-Employee Payroll	$	574,704	**
Net Pension Liability as a Percentage of Covered-Employee Payroll		242.82%	

Notes to schedule:
* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.
** The covered employee payroll is the actual annual payroll for fiscal 2014 - the measurement period.

Other Information:
Amounts shown in this schedule represent TxDOT's 9.65 proportionate share of the collective amounts for the state of Texas. The contribution percentage is based on ERS records of actual contributions from each of the state agencies as a percentage of the total state contributions.
This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.
Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
Members and employers contribute based on statutorily fixed rates.

SCHEDULE OF CONTRIBUTIONS

Schedule of Employer Contributions (Amounts in Thousands)		Fiscal Year Ended Aug. 31, 2015		Fiscal Year Ended Aug. 31, 2014
Actuarially determined contributions	$	71,131	$	70,242
Contributions in relation to the actuarially determined contributions	$	48,288	$	46,536
Contribution deficiency (excess)	$	22,843	$	23,706
Covered-employee payroll	$	593,496	$	574,704
Contributions as a percentage of covered-employee payroll		8.14%		8.10%

Notes to Schedule of Contributions

Valuation Date	Actuarially determined contribution rates are calculated as of August 31, 2014.
Methods and Assumptions Used to Determine Contribution Rates	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.50%
Salary Increases	0% to 11.5%
Investment Rate of Return	8.00%
Retirement Age	Experience-based rates specific to the class of employees. Last updated for the 2013 valuation based on an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011
Mortality	1994 Group Annuity Mortality with no setback for males and Set-forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

Other Information:

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Actuarially determined contributions are adjusted for actual payroll and administrative expenses.

Members and employers contribute based on statutorily fixed rates.

Other Supplementary Information

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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	GAAP Fund	USAS D23 Funds
0006	0006	0006 - State Highway Fund
		0019 - Prop 14 Bonds-Series 2010
		0020 - Tax Exempt Bonds
		0121 - SH121 Concession-Project Fund
		0122 - SH121 Concession-Revolving Fnd
		0130 - SH130 Concession
		0161 - SH161 Funds
		0162 - SH162 Funds
		0406 - Abandoned Rail Account
		0513 - CTTS Operating Account
		0514 - CTTS Maintenance Account
		0515 - CTTS Reserve Maintenance Account
		0635 - LBJ Project Concession Refund
		0820 - North Texas Express Mobility Refinance Gain
		1006 - Proposition 1 Account
		1016 - Texas State Cemetery Committee
		8006 - Depository Interest Default Fund
		9000 - Deposit Default Fund
		9001 - Returned Items Default Fund

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	GAAP Fund	USAS D23 Funds
0006	0006	0099 - State Infrastructure Bank

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	GAAP Fund	USAS D23 Funds
0369	0006	
		0369 - Federal American Recovery Reinvestment Fund

Texas Department of Transportation
Combining Balance Sheet - State Highway Fund
August 31, 2015 (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	$ 441	$	$	$ 441
Cash in Bank	382			382
Cash in State Treasury	3,654,212	335,995	2,616	3,992,823
Receivables:				
Taxes	258,186			258,186
Federal	574,435			574,435
Other Intergovernmental	66,906			66,906
Interest and Dividends	3,745	2,138		5,883
Accounts Receivable	43,541			43,541
Due from Other Funds	153,010			153,010
Due from Other Agencies	1,359,897			1,359,897
Consumable Inventories	181,216			181,216
Loans and Contracts	232,780	135,426		368,206
Total Assets	$ 6,528,751	$ 473,559	$ 2,616	$ 7,004,926
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
Liabilities:				
Payables:				
Accounts Payable	992,936			992,936
Contracts Payable	8,886			8,886
Payroll Payable	68,182			68,182
Short Term Debt	350,000			350,000
Due to Other Funds	44,554		2,616	47,170
Due to Other Agencies	47,361			47,361
Unearned Revenues	201,514			201,514
Total Liabilities	1,713,433	0	2,616	1,716,049
Deferred Inflow of Resources:				
Unavailable Revenue	1,270,288	0	0	1,270,288
Total Deferred Inflow of Resources	1,270,288	0	0	1,270,288
Fund Balances (Deficits):				
Nonspendable				
Inventory	181,216			181,216
Restricted	1,914,386	473,559		2,387,945
Committed	1,410,911			1,410,911
Assigned	38,517			38,517
Total Fund Balances	3,545,030	473,559	0	4,018,589
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 6,528,751	$ 473,559	$ 2,616	$ 7,004,926

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - State Highway Fund
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	State Highway Fund - Major Special Revenue Fund			
	State Highway Fund Accounts	State Infrastructure Bank	Federal American Recovery & Reinvestment	TOTAL
REVENUES				
Taxes	$ 2,582,837	$	$	$ 2,582,837
Federal Revenues	3,145,008		25,102	3,170,110
Licenses, Fees and Permits	25,648			25,648
Interest & Investment Income	19,067	7,144		26,211
Land Income	15,590			15,590
Settlement of Claims	21,995			21,995
Sales of Goods and Services	28,548			28,548
Other Revenues	8,381			8,381
Total Revenues	5,847,074	7,144	25,102	5,879,320
EXPENDITURES				
Transportation	3,269,571			3,269,571
Capital Outlay	4,496,620		25,102	4,521,722
Principal on Pass-Through Tolls	111,696			111,696
Other Financing Fees	3,205			3,205
Total Expenditures	7,881,092	0	25,102	7,906,194
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,034,018)	7,144	0	(2,026,874)
OTHER FINANCING SOURCES (USES)				
Transfers In	3,355,983			3,355,983
Transfers Out	(944,642)			(944,642)
Bond Issued for Refunding	781,080			781,080
Premium/Discount on Bonds Issued	133,433			133,433
Payment to Escrow on Refunding	(910,971)			(910,971)
Sale of Capital Assets	70,255			70,255
Total Other Financing Sources (Uses)	2,485,138	0	0	2,485,138
Net Change in Fund Balances	451,120	7,144	0	458,264
Fund Balances, September 1, 2014	3,093,910	466,415		3,560,325
Fund Balances, August 31, 2015	$ 3,545,030	$ 473,559	$ 0	$ 4,018,589

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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	GAAP Fund	USAS D23 Funds
0365	0365	0365 - TMF-General Account
		0366 - TMF-PortFolio Account
		0367 - TMF-Interest & Sinking Account
		0373 - TMF-Rebate Account
		0374 - TMF-Purchase Account
		0376 - TMF-Reserve Account
		0379 - TMF Bond Account

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	GAAP Fund	USAS D23 Funds
0365	0365	0375 - TMF-2008 Bond Issue Account-Capital Project
		0377 - TMF-Bond Issue Account-Capital Project

Texas Department of Transportation
Combining Balance Sheet - Texas Mobility Fund
August 31, 2015 (Amounts in Thousands)

	Texas Mobility Fund - Major Debt Service & Capital Projects		
	Debt Service Fund	Capital Projects Fund	Total
ASSETS			
Cash and Cash Equivalents:			
Cash in State Treasury	$ 519,973	$ 692,969	$ 1,212,942
Total Assets	$ 519,973	$ 692,969	$ 1,212,942
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables:			
Accounts Payable	282	9,610	9,892
Due to Other Funds		10,662	10,662
Unearned Revenues	1,800		1,800
Total Liabilities	2,082	20,272	22,354
Fund Balances (Deficits):			
Restricted	517,891	672,697	1,190,588
Total Fund Balances	517,891	672,697	1,190,588
Total Liabilities and Fund Balances	$ 519,973	$ 692,969	$ 1,212,942

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Texas Mobility Fund

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Texas Mobility Fund - Major Debt Service & Capital Projects Fund		
	Debt Service Fund	Capital Projects Fund	Total
REVENUES			
Federal Revenues	$ 21,638	$	$ 21,638
Licenses, Fees and Permits	367,548		367,548
Interest and Investment Income	1,929	1,494	3,423
Total Revenues	391,115	1,494	392,609
EXPENDITURES			
Transportation		147,483	147,483
Capital Outlay		59,631	59,631
Principal on State Bonds	62,355		62,355
Interest on State Bonds	258,358		258,358
Other Financing Fees		8,199	8,199
Total Expenditures	320,713	215,313	536,026
Excess (Deficiency) of Revenues Over (Under) Expenditures	70,402	(213,819)	(143,417)
OTHER FINANCING SOURCES (USES)			
Transfers In	84,578		84,578
Transfers Out		(84,578)	(84,578)
Bonds & Note Issued		900,000	900,000
Bonds Issed for Refunding		930,160	930,160
Premiums on Bonds Issued		259,555	259,555
Payment to Escrow Refunding	(9,982)	(1,099,525)	(1,109,507)
Total Other Financing Sources (Uses)	74,596	905,612	980,208
Net Change in Fund Balances	144,998	691,793	836,791
Fund Balances, September 1, 2014	372,893	(19,096)	353,797
Fund Balances, August 31, 2015	$ 517,891	$ 672,697	$ 1,190,588

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Nonmajor Governmental Funds

Combining Financial Statements

TxDOT reports the following accounts/sub-funds, which are consolidated into the Nonmajor Governmental funds for the financial statements.

General Fund - The general fund accounts for all financial resources except those accounted for in other

Appropriated Fund	GAAP Fund	USAS D23 Funds
0001	0001	0001 - General Revenue Fund
0900	0900	0090 - Suspense Fund
0999	0001	0998 - Miscellaneous-Utility Fund (Non-Cash)
0029	0029	0029 - Traffic Safety Fund
0001	0001	5000 - General Revenue Fund
7604	7604	7604 - TPFA G.O. Commercial Paper Series 2002B Colonias Project Fund

Special Revenue Funds - These funds are used to report the proceeds of specific revenue sources that are restricted or committed for specified purposes other than debt service or capital project.

Appropriated Fund	GAAP Fund	USAS D23 Funds
9999	3029	0999 - Texas Transportation Corps
0184	0184	0184 - Trans Infrastructure Fund

Texas Department of Transportation
Combining Balance Sheet - Nonmajor Governmental Funds
August 31, 2015 (Amounts in Thousands)

	General Fund	Special Revenue Fund	Debt Service Fund*	Total Nonmajor Funds
ASSETS				
Cash and Cash Equivalents:				
Cash in Bank	$	$ 104	$	$ 104
Cash in State Treasury	26,301	171,013	126,691	324,005
Legislative Appropriations	16,203			16,203
Receivables:				
Federal	4,845			4,845
Due from Other Funds		118		118
Loans and Contracts	107			107
Total Assets	$ 47,456	$ 171,235	$ 126,691	$ 345,382
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables:				
Accounts Payable	616	17,437		18,053
Payroll Payable	86			86
Due to Other Funds	26,301			26,301
Total Liabilities	27,003	17,437	0	44,440
Fund Balances (Deficits):				
Nonspendable				
LT Loans, Contracts and Receivables	87			87
Restricted			126,691	126,691
Committed		153,704		153,704
Assigned	702	94		796
Unassigned	19,664			19,664
Total Fund Balances	20,453	153,798	126,691	300,942
Total Liabilities and Fund Balances	$ 47,456	$ 171,235	$ 126,691	$ 345,382

* Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) - no combining statements presented.

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Nonmajor Governmental Funds
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	General Fund	Special Revenue Fund	Debt Service Fund*	Total Nonmajor Funds
REVENUES				
Legislative Appropriations:				
Original Appropriations	$ 195,807	$	$	$ 195,807
Additional Appropriations	229			229
Federal Revenues	11,628		27,143	38,771
Interest and Investment Income		803	397	1,200
Sales of Goods and Services	1,633			1,633
Other Revenues		634		634
Total Revenues	209,297	1,437	27,540	238,274
EXPENDITURES				
Transportation	570	66,698		67,268
Capital Outlay	1,374	3,602		4,976
Principal on State Bonds	83,280		132,200	215,480
Interest on State Bonds	110,051		198,315	308,366
Other Financing Fees	558			558
Total Expenditures	195,833	70,300	330,515	596,648
Excess (Deficiency) of Revenues Over (Under) Expenditures	13,464	(68,863)	(302,975)	(358,374)
OTHER FINANCING SOURCES (USES)				
Transfers In	903		304,165	305,068
Transfers Out	(47,900)			(47,900)
Payment to Escrow on Refunding			(13,057)	(13,057)
Sale of Capital Assets	2,981			2,981
Appropriations Lapsed	(1,216)			(1,216)
Total Other Financing Sources (Uses)	(45,232)	0	291,108	245,876
Net Change in Fund Balances	(31,768)	(68,863)	(11,867)	(112,498)
Fund Balances, September 1, 2014	52,221	222,661	138,558	413,440
Fund Balances, August 31, 2015	$ 20,453	$ 153,798	$ 126,691	$ 300,942

* Proposition 14/State Highway Fund Debt Service (Appropriated Fund 0008) - no combining statements presented.

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General Fund Accounts

Combining Financial Statements

TxDOT reports the following accounts/sub-funds, which are consolidated into the Nonmajor Governmental funds for the financial statements.

General Fund - The general fund accounts for all financial resources except those accounted for in other funds.

Appropriated Fund	GAAP Fund	USAS D23 Funds
0001	0001	0001 - General Revenue Fund 5000 - General Revenue Fund 0998 - Mis-Utility Fund (Non-Cash)

Traffic Safety-Crash Records Information Systems

Appropriated Fund	GAAP Fund	USAS D23 Funds
0029	0029	0029 - Traffic Safety Fund

Colonias Projects Fund

Appropriated Fund	GAAP Fund	USAS D23 Funds
7604	7604	7604 - TPFA G.O. Commercial Paper Series 2002B Colonias Project Fund

Suspense Fund

Appropriated Fund	GAAP Fund	USAS D23 Funds
0900	0900	0090 - Suspense Fund

Texas Department of Transportation
Combining Balance Sheet - General Fund Accounts
August 31, 2015 (Amounts in Thousands)

	General Revenue Fund	Traffic Safety Crash Records Information Systems	Colonias Projects Fund	Suspense Fund	Total
ASSETS					
Cash and Cash Equivalents:					
Cash in State Treasury	$	$	$	$ 26,301	$ 26,301
Legislative Appropriations	16,203				16,203
Receivables:					
Federal	4,845				4,845
Loans and Contracts	107				107
Total Assets	$ 21,155	$ 0	$ 0	$ 26,301	$ 47,456
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts Payable	616				616
Payroll Payable	86				86
Due to Other Funds				26,301	26,301
Total Liabilities	702	0	0	26,301	27,003
Fund Balances (Deficits):					
Nonspendable	87				87
Assigned	702				702
Unassigned	19,664				19,664
Total Fund Balances	20,453	0	0	0	20,453
Total Liabilities and Fund Balances	$ 21,155	$ 0	$ 0	$ 26,301	$ 47,456

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund Accounts
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	General Revenue Fund	Traffic Safety-Crash Records Information Systems	Colonias Projects Fund	Suspense Fund	Total
REVENUES					
Legislative Appropriations:					
Original Appropriations	$ 195,807	$	$	$	$ 195,807
Additional Appropriations	229				229
Federal Revenues	11,628				11,628
Sales of Goods and Services	1,633				1,633
Total Revenues	209,297	0	0	0	209,297
EXPENDITURES					
Transportation	(333)	750	153		570
Capital Outlay	1,374				1,374
Principal on State Bonds	83,280				83,280
Interest on State Bonds	110,051				110,051
Other Financing Fees	558				558
Total Expenditures	194,930	750	153	0	195,833
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,367	(750)	(153)	0	13,464
OTHER FINANCING SOURCES (USES)					
Transfers In		750	153		903
Transfers Out	(47,900)				(47,900)
Sale of Capital Assets	2,981				2,981
Appropriations Lapsed	(1,216)				(1,216)
Total Other Financing Sources (Uses)	(46,135)	750	153	0	(45,232)
Net Change in Fund Balances	(31,768)	0	0	0	(31,768)
Fund Balances, September 1, 2014	52,221				52,221
Fund Balances, August 31, 2015	$ 20,453	$ 0	$ 0	$ 0	$ 20,453

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Nonmajor Special Revenue Funds

Combining Financial Statements

TxDOT reports the following accounts/sub-funds, which are consolidated into the General Governmental funds for the financial statements.

Transportation Infrastructure Fund

Appropriated Fund	GAAP Fund	USAS D23 Funds
0184	0184	0184 - Trans Infrastructure Fund

Texas Transportation Corporations

Appropriated Fund	GAAP Fund	USAS D23 Funds
9999	3029	0999 - Texas Transportation Corps

Texas Department of Transportation
Combining Balance Sheet - Nonmajor Special Revenue Funds
August 31, 2015 (Amounts in Thousands)

	Transportation Infrastructure Fund	Texas Transportation Corporations	Total
ASSETS			
Cash and Cash Equivalents:			
Cash in Bank	$	$ 104	$ 104
Cash in State Treasury	171,013		171,013
Due from Other Funds		118	118
Total Assets	$ 171,013	$ 222	$ 171,235
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables:			
Accounts Payable	17,309	128	17,437
Total Liabilities	17,309	128	17,437
Fund Balances (Deficits):			
Committed	153,704		153,704
Assigned		94	94
Total Fund Balances	153,704	94	153,798
Total Liabilities and Fund Balances	$ 171,013	$ 222	$ 171,235

Texas Department of Transportation
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Nonmajor Special Revenue Funds
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Transportation Infrastructure Fund	Texas Transportation Corporations	Total
REVENUES			
Interest and Investment Income	$ 803	$	$ 803
Other Revenues		634	634
Total Revenues	803	634	1,437
EXPENDITURES			
Transportation	65,790	908	66,698
Capital Outlay	3,602		3,602
Total Expenditures	69,392	908	70,300
Excess (Deficiency) of Revenues Over (Under) Expenditures	(68,589)	(274)	(68,863)
Net Change in Fund Balances	(68,589)	(274)	(68,863)
Fund Balances, September 1, 2014	222,293	368	222,661
Fund Balances, August 31, 2015	$ 153,704	$ 94	$ 153,798

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Agency Funds

Combining Financial Statements

These funds are are used to account for the assets held for distribution by the state as an agent for another entity for which the government has custodial responsibility and accounts for the flow of assets.

Agency Funds

Appropriated Fund	GAAP Fund	USAS D23 Funds
9999	9999	0997 - CTTS Depository Bank
9995	9999	1997 - Toll Custodial Account
0001	1000	1001 - General Revenue Fund-Agency Funds
0980	0980	0980 - Direct Deposit Correction Fund
0980	0980	9014 - USPS-Direct Deposit Return
0942	0942	0942 - 401K Payroll
0900	0900	0900 - Suspense Fund
0900	0900	9015 - USPS-Overpayments To Employees
0900	0900	9016 - Warrant Hold Offset-Gc403.0551
0882	0882	0882 - City County MTA & SPD Sales Tax
0807	0807	8070 - Child Support Addenda Deductions
0598	0598	0598 - All Terrain Vehicle Safety Fund
0021	0021	0021 - Proportional Registration Distribution

Texas Department of Transportation
Combining Statement of Changes in Assets and Liabilities - Agency Funds
For the Fiscal Year Ended August 31, 2015

	Balances September 1, 2014	Additions	Deductions	Balances August 31, 2015
UNAPPROPRIATED RECEIPTS				
General Revenue Fund				
Assets:				
Cash on Hand	$ 0	$ 2,982	$ 2,982	$ 0
Total Assets	$ 0	$ 2,982	$ 2,982	$ 0
Liabilities:				
Funds Held for Others	$ 0	$ 2,982	$ 2,982	$ 0
Total Liabilities	$ 0	$ 2,982	$ 2,982	$ 0
OTHER AGENCY FUNDS				
Child Support Deducts Account				
Assets:				
Cash in State Treasury	$ 299	$ 4,063	$ 4,039	$ 323
Total Assets	$ 299	$ 4,063	$ 4,039	$ 323
Liabilities:				
Funds Held for Others	$ 299	$ 4,063	$ 4,039	$ 323
Total Liabilities	$ 299	$ 4,063	$ 4,039	$ 323
Direct Deposit Correction Account				
Assets:				
Cash in State Treasury	$ 2,405	$ 2,381	$ 3,339	$ 1,447
Total Assets	$ 2,405	$ 2,381	$ 3,339	$ 1,447
Liabilities:				
Funds Held for Others	$ 2,405	$ 2,381	$ 3,339	$ 1,447
Total Liabilities	$ 2,405	$ 2,381	$ 3,339	$ 1,447
Toll Revenue Custodial Account				
Assets:				
Cash on Hand	$ 189	$ 7	$ 189	$ 7
Cash in Bank	147	26,450	26,112	485
Cash Equivalents	27,327	1,001,888	991,997	37,218
Total Assets	$ 27,663	$ 1,028,345	$ 1,018,299	$ 37,709
Liabilities:				
Funds Held For Others	$ 27,663	$ 1,028,345	$ 1,018,299	$ 37,709
Total Liabilities	$ 27,663	$ 1,028,345	$ 1,018,299	$ 37,709
TOTALS - ALL AGENCY FUNDS				
Assets:				
Cash on Hand	$ 189	$ 2,989	$ 3,171	$ 7
Cash in Bank	147	26,450	26,112	485
Cash In State Treasury	2,704	6,444	7,378	1,770
Cash Equivalents	27,327	1,001,888	991,997	37,218
Total Assets	$ 30,367	$ 1,037,771	$ 1,028,658	$ 39,480
Liabilities:				
Funds Held for Others	$ 30,367	$ 1,037,771	$ 1,028,658	$ 39,480
Total Liabilities	$ 30,367	$ 1,037,771	$ 1,028,658	$ 39,480

Other Information

Schedules*

1A – Schedule of Expenditures of Federal Awards (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

3 – Matrix of Operating Expenditures Reported by Function-Governmental Funds (Unaudited)

* 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, 2015

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	Total Pass-Through From and Direct Program
			$	$	$	$
Department of Defense :						
Direct Program:						
Community Investment	12.600				7,567,468.92	7,567,468.92
Total Department of Defense:			0.00	0.00	7,567,468.92	7,567,468.92
Federal Aviation Administration (FAA):						
Direct Program:						
Airport Improvement Program	20.106				68,324,773.61	68,324,773.61
Pass-Through Funds to Other Entities:						
Airport Improvement Program	20.106				300,000.00	300,000.00
Total FAA:			0.00	0.00	68,624,773.61	68,624,773.61
Federal Railroad Administration:						
Direct Program:						
High-Speed Rail Corridors and Intercity Passenger Rail Service-Capital Assistance Grants - ARRA	20.319				2,021,457.40	2,021,457.40
Rail Line Relocation and Improvement	20.320				2,234,179.08	2,234,179.08
Total Federal Railroad Administration:			0.00	0.00	4,255,636.48	4,255,636.48
Federal Transit Administration (FTA):						
Direct Program:						
Federal Transit Metropolitan Planning Grants	20.505				769,638.53	769,638.53
Formula Grants For Other Than Urbanized Areas	20.509				1,539,612.04	1,539,612.04
Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grants	20.528				21,771.14	21,771.14
Pass-Through Funds to Other Entities:						
Federal Transit Metropolitan Planning Grants	20.505				409,773.63	409,773.63
Formula Grants For Other Than Urbanized Areas	20.509				35,673,169.15	35,673,169.15
Total FTA:			0.00	0.00	38,413,964.49	38,413,964.49
National Highway Traffic Safety Admin. (NHTSA):						
Direct Program:						
NHTSA Discretionary Safety Grants	20.614				21,239.12	21,239.12
Total NHTSA:			0.00	0.00	21,239.12	21,239.12
U.S. Department of Ttansportation:						
Direct Program:						
National Infrastructure Investments	20.933				10,615,017.65	10,615,017.65
Total U.S. DOT:			0.00	0.00	10,615,017.65	10,615,017.65
General Services Administration (GSA):						
Pass-Through Funds:						
Donation of Federal Surplus Personal Property-NonMonetary Pass-Through from Texas Facilities Commission	39.003	303	123,780.10		0.00	123,780.10
Total GSA:			123,780.10	0.00	0.00	123,780.10

Agency Number	Pass-Through To State Entities	Pass-Through To Other Entities	Expenditures	Total Pass-Through To and Expenditures Amount
	$	$	$	$
			7,567,468.92	7,567,468.92
	0.00	0.00	7,567,468.92	7,567,468.92
			68,324,773.61	68,324,773.61
		300,000.00		300,000.00
	0.00	300,000.00	68,324,773.61	68,624,773.61
			2,021,457.40	2,021,457.40
			2,234,179.08	2,234,179.08
	0.00	0.00	4,255,636.48	4,255,636.48
			769,638.53	769,638.53
			1,539,612.04	1,539,612.04
			21,771.14	21,771.14
		409,773.63		409,773.63
		35,673,169.15		35,673,169.15
	0.00	36,082,942.78	2,331,021.71	38,413,964.49
			21,239.12	21,239.12
	0.00	0.00	21,239.12	21,239.12
			10,615,017.65	10,615,017.65
	0.00	0.00	10,615,017.65	10,615,017.65
			123,780.10	123,780.10
	0.00	0.00	123,780.10	123,780.10

- Continued on Next Page

Texas Department of Transportation
Schedule 1A - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended August 31, 2015

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	Through From and Direct Program
			$	$	$	$
Other Clusters						
Federal Transit Cluster:						
Federal Transit Administration (FTA):						
Direct Program:						
Bus and Bus Facilities Formula Program	20.526				288.43	288.43
Pass-Through Funds to Other Entities:						
Federal Transit - Capital Investment Grants	20.500				333,209.79	333,209.79
Bus and Bus Facilities Formula Program	20.526				3,917,182.61	3,917,182.61
Total FTA:			0.00	0.00	4,250,680.83	4,250,680.83
Transit Services Programs Cluster:						
Federal Transit Administration (FTA):						
Direct Program:						
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				731,947.33	731,947.33
Job Access - Reverse Commute	20.516				27,652.02	27,652.02
New Freedom Program	20.521				61,407.21	61,407.21
Pass-Through Funds:						
Capital Assistance Program for Elderly Persons and Persons with Disabilities						
University of Texas Health Center at Tyler	20.513				64,000.00	64,000.00
Job Access - Reverse Commute						
University of Texas - Permian Basin	20.516				49,479.26	49,479.26
Pass-Throughs to Other Entities:						
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513				6,245,018.69	6,245,018.69
Job Access - Reverse Commute	20.516				6,842,337.37	6,842,337.37
New Freedom Program	20.521				1,914,313.43	1,914,313.43
Total FTA:			0.00	0.00	15,936,155.31	15,936,155.31
Highway Planning and Construction Cluster:						
Federal Highway Administration (FHWA):						
Direct Program:						
Highway Planning and Construction - ARRA	20.205				21,094,464.52	21,094,464.52
Highway Planning and Construction	20.205				2,721,124,675.83	2,721,124,675.83
Pass-Through Funds:						
Highway Planning and Construction						
Texas A & M University	20.205				322,083.27	322,083.27
University of Texas at Arlington	20.205				309,009.17	309,009.17
Prairie View A & M University	20.205				232,108.48	232,108.48
University of Texas - El Paso	20.205				8,000,000.00	8,000,000.00
Texas Transportation Institute	20.205				49,383.48	49,383.48
Texas Historical Commission	20.205				2,816,580.43	2,816,580.43
Pass-Through to Other Entities - ARRA	20.205				1,986,474.54	1,986,474.54
Pass-Through to Other Entities	20.205				224,334,765.78	224,334,765.78
Total FHWA:			0.00	0.00	2,980,269,545.50	2,980,269,545.50

Agency Number	Pass-Through To State Entities	Pass-Through To Other Entities	Expenditures	Through To and Expenditures Amount
	$	$	$	$
			288.43	288.43
		333,209.79		333,209.79
		3,917,182.61		3,917,182.61
	0.00	4,250,392.40	288.43	4,250,680.83
			731,947.33	731,947.33
			27,652.02	27,652.02
			61,407.21	61,407.21
785	64,000.00			64,000.00
742	49,479.26			49,479.26
		6,245,018.69		6,245,018.69
		6,842,337.37		6,842,337.37
		1,914,313.43		1,914,313.43
	113,479.26	15,001,669.49	821,006.56	15,936,155.31
			21,094,464.52	21,094,464.52
			2,721,124,675.83	2,721,124,675.83
711	322,083.27			322,083.27
714	309,009.17			309,009.17
715	232,108.48			232,108.48
724	8,000,000.00			8,000,000.00
727	49,383.48			49,383.48
808	2,816,580.43			2,816,580.43
		1,986,474.54		1,986,474.54
		224,334,765.78		224,334,765.78
	11,729,164.83	226,321,240.32	2,742,219,140.35	2,980,269,545.50

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Texas Department of Transportation
Schedule 1A - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Concluded)
For the Fiscal Year Ended August 31, 2015

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	Total Pass-Through From and Direct Program
			$	$	$	$
Highway Safety Cluster:						
National Highway Traffic Safety Admin. (NHTSA):						
Direct Program:						
State and Community Highway Safety Program	20.600				1,873,230.26	1,873,230.26
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601				636,314.38	636,314.38
Occupant Protection Incentive Grants	20.602				184.61	184.61
State Traffic Safety Information System Improvement Grants	20.610				672,888.57	672,888.57
National Priority Safety Programs	20.616				7,691,384.21	7,691,384.21
Pass-Through Funds:						
State and Community Highway Safety Program						
Texas Department of Public Safety	20.600				1,564,602.62	1,564,602.62
Texas Department of State Health Services	20.600				558,816.69	558,816.69
Texas A&M Agrilife Extension Service	20.600				316,898.04	316,898.04
University of Texas at Arlington	20.600				297,654.13	297,654.13
Texas A & M Engineering Extension Service	20.600				568,333.18	568,333.18
Texas Transportation Institute	20.600				1,196,106.74	1,196,106.74
Texas Tech University	20.600				124,124.34	124,124.34
Texas A & M University - Corpus Christi	20.600				61,501.46	61,501.46
Alcohol Impaired Driving Countermeasures Incentive Grants						
Texas Department of Public Safety	20.601				52,793.15	52,793.15
Texas State University	20.601				9,919.92	9,919.92
State Traffic Safety Information System Improvement Grants						
Texas Department of State Health Services	20.610				159,766.00	159,766.00
National Priority Safety Programs						
Texas Department of Public Safety	20.616				2,954,085.58	2,954,085.58
Texas Alcoholic Beverage Commission	20.616				468,160.33	468,160.33
Texas Department of State Health Services	20.616				381,422.12	381,422.12
Texas A&M Agrilife Extension Service	20.616				808,420.30	808,420.30
University of Texas at Arlington	20.616				147,528.85	147,528.85
Texas Transportation Institute	20.616				1,480,502.42	1,480,502.42
Sam Houston State University	20.616				618,819.59	618,819.59
Texas State University	20.616				116,290.05	116,290.05
University of Houston - Downtown	20.616				288,822.62	288,822.62
Pass-Through to Other Entities						
State and Community Highway Safety Program	20.600				10,439,169.36	10,439,169.36
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601				922,321.36	922,321.36
National Priority Safety Programs	20.616				5,745,868.92	5,745,868.92
Total NHTSA:			0.00	0.00	40,155,929.80	40,155,929.80
Total Other Clusters			0.00	0.00	3,040,612,311.44	3,040,612,311.44
TOTAL FEDERAL ASSISTANCE			$ 123,780.10	$ 0.00	$ 3,170,110,411.71	$ 3,170,234,191.81

Agency Number	Pass-Through To State Entities	Pass-Through To Other Entities	Expenditures	Total Pass-Through To and Expenditures Amount
	$	$	$	$
			1,873,230.26	1,873,230.26
			636,314.38	636,314.38
			184.61	184.61
			672,888.57	672,888.57
			7,691,384.21	7,691,384.21
405	1,564,602.62			1,564,602.62
537	558,816.69			558,816.69
555	316,898.04			316,898.04
714	297,654.13			297,654.13
716	568,333.18			568,333.18
727	1,196,106.74			1,196,106.74
733	124,124.34			124,124.34
760	61,501.46			61,501.46
405	52,793.15			52,793.15
754	9,919.92			9,919.92
537	159,766.00			159,766.00
405	2,954,085.58			2,954,085.58
458	468,160.33			468,160.33
537	381,422.12			381,422.12
555	808,420.30			808,420.30
714	147,528.85			147,528.85
727	1,480,502.42			1,480,502.42
753	618,819.59			618,819.59
754	116,290.05			116,290.05
784	288,822.62			288,822.62
		10,439,169.36		10,439,169.36
		922,321.36		922,321.36
		5,745,868.92		5,745,868.92
	12,174,568.13	17,107,359.64	10,874,002.03	40,155,929.80
	24,017,212.22	262,680,661.85	2,753,914,437.37	3,040,612,311.44
	$ 24,017,212.22	$ 299,063,604.63	$ 2,847,153,374.96	$ 3,170,234,191.81

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended August 31, 2015

Note 1 - Nonmonetary Assistance

The "Donation of Federal Surplus Personal Property" is presented at 23.68 percent of the federal acquisition cost of $522,720.00. 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 market value (FMV) for fiscal year 2015 is $123,780.10. The difference of the values of the surplus property recorded on the federal schedule and Exhibit II (Federal Revenues) is a reconciling item under Note 2.

Note 2 - Reconciliation

Per Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities - Governmental Funds:

Federal Revenues before Other Adjustments	$3,230,519,838.80
Reconciling Items:	
Federal Surplus Personal Property Donation (Non-Monetary)	123,780.10
Build America Bonds Federal Subsidy	(60,409,427.09)
Total Pass-Through and Expenditures per Federal Schedule	$3,170,234,191.81

Note 7 - Federal Deferred Inflow

Federal Deferred Inflow September 1, 2014	$24,701,709.02
Increase (Decrease)	66,049,985.30
Federal Deferred Inflow August 31, 2015	$90,751,694.32

The federal deferred inflow ending balance of $90,751,694.32 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 $90,751,694.32.

Bond Schedules

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2A - MISCELLANEOUS BOND INFORMATION
For the Fiscal Year Ended August 31, 2015

Governmental Activities

	Bonds Issued to Date	Range of Interest Rates		Terms of Variable Interest Rates *	Scheduled Maturities First Year	Scheduled Maturities Last Year	First Call 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
Series 2005-B Variable Rate Bonds	100,000,000.00	VAR	VAR	Weekly	2006	2030	**
Series 2006 Fixed Rate Bonds	750,000,000.00	3.6250%	5.0000%		2007	2036	4/1/2016
Series 2006-A Fixed Rate Bonds	1,040,275,000.00	4.0000%	5.0000%		2007	2035	4/1/2017
Series 2006-B Variable Rate Bonds	150,000,000.00	VAR	VAR	Weekly	2036	2036	**
Series 2007 Fixed Rate Bonds	1,006,330,000.00	4.0000%	5.0000%		2008	2037	4/1/2017
Series 2008 Fixed Rate Bonds	1,100,000,000.00	4.0000%	5.0000%		2009	2037	4/1/2018
Series 2009-A Taxable Fixed Rate Bonds	1,208,495,000.00	5.3670%	5.5170%		2029	2039	**
Series 2014 Refunding Fixed Rate Bonds	973,775,000.00	4.0000%	5.0000%		2016	2034	4/1/2024
Series 2014-A Refunding Fixed Rate Bonds	1,580,160,000.00	4.0000%	5.0000%		2017	2044	10/1/2024
Series 2014-B SIFMA Index Bonds	250,000,000.00	VAR	VAR	Weekly	2040	2041	4/1/2018
Total General Obligation Bonds (Self-Supporting)	9,059,035,000.00						
Texas Highway Improvement (Non-Self-Supporting)							
Series 2010-A Taxable Fixed Rate Bonds	815,420,000.00	3.2030%	4.6810%		2019	2040	**
Series 2010-B Fixed Rate Bonds	162,390,000.00	2.0000%	5.0000%		2012	2018	n/a
Series 2012-A Fixed Rate Bonds	818,635,000.00	5.0000%	5.0000%		2019	2042	4/1/2022
Series 2012-B Taxable Fixed Rate Bonds	99,570,000.00	0.3000%	1.5000%		2014	2019	n/a
Series 2014 Fixed Rate Bonds	1,260,000,000.00	2.0000%	5.0000%		2015	2044	4/1/2024
Total General Obligation (Non-Self Supporting)	3,156,015,000.00						
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
Series 2006-A Fixed Rate Bonds	852,550,000.00	4.0000%	5.2500%		2008	2025	4/1/2016
Series 2006-B Variable Rate Bonds	100,000,000.00	VAR	VAR	Weekly	2026	2026	**
Series 2007 Fixed Rate Bonds	1,241,845,000.00	4.0000%	5.0000%		2009	2027	4/1/2017
Series 2008 Fixed Rate Bonds	162,995,000.00	3.5000%	5.2500%		2010	2028	4/1/2018
Series 2010 Taxable Fixed Rate Bonds	1,500,000,000.00	5.0280%	5.1780%		2026	2030	**
Series 2014-A Refunding Fixed Rate Bonds	1,157,795,000.00	4.7500%	5.0000%		2017	2034	4/1/2024
Series 2014-B SIFMA Index Bonds	300,000,000.00	VAR	VAR	Weekly	2032	2032	4/1/2017
Series 2015, First Tier Revenue Refunding Bonds	781,080,000.00	3.0000%	5.0000%		2017	2026	n/a
Total Revenue Bonds (Self-Supporting)	6,696,265,000.00						
Total Governmental Activities	$ 18,911,315,000.00						

* The variable rate bonds were variable based on weekly interest rates set throughout fiscal 2015. These bonds may be converted to a daily mode, term rate mode, fixed rate mode, auction rate mode or a commecial paper mode at the option of the Commission or under c condition detailed in the applicable official statement.

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

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2A - MISCELLANEOUS BOND INFORMATION (Concluded)
For the Fiscal Year Ended August 31, 2015

Business-Type Activities

	Bonds Issued to Date	Range of Interest Rates		Terms of Variable Interest Rates *	Scheduled Maturities First Year	Scheduled Maturities Last Year	First Call Date
Revenue Bonds:							
Central Texas Turnpike System (Self-Supporting)							
First Tier Revenue Bonds Series 2002-A							
Non-Callable Capital Appreciation Bonds ***	$ 575,968,836.97	4.4700%	5.7500%		2012	2030	n/a
Callable Capital Appreciation Bonds ***	325,494,476.65	6.0000%	6.1000%		2025	2038	8/15/2012
First Tier Revenue Refunding Bonds Series 2012-A	585,330,000.00	4.0000%	5.0000%		2038	2041	8/15/2022
First Tier Revenue Refunding Put Bonds, Series 2012-B	225,000,000.00	1.2500%	1.2500%		2042	2042	2/15/2015
First Tier Revenue Refunding Put Bonds, Series 2015-A	225,000,000.00	5.0000%	5.0000%		2041	2042	4/1/2020
First Tier Revenue Refunding Bonds Series 2015-B							
Current Interest Bonds + Term Bond	198,025,000.00	5.0000%	5.0000%		2032	2037	8/15/2024
Capital Appreication Bonds	94,951,600.00	4.3600%	4.3800%		2036	2037	8/15/2024
Second Tier Revenue Refunding Bonds, Series 2015-C	1,157,320,000.00	5.0000%	5.0000%		2022	2042	8/15/2024
Total Central Texas Turnpike System (Self-Supporting)	3,387,089,913.62						
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	10/1/2023
First Tier Toll Revenue Bonds, Series 2013-B							
Convertible Capital Appreciation Bonds***	311,241,111.88	4.9500%	5.8500%		2029	2048	10/1/2028
Current Interest Bonds	1,137,935,000.00	5.0000%	5.2500%		2048	2053	10/1/2023
Subordinate Tier Toll Revenue Bonds, Series 2013-E	361,810,000.00	5.1840%	5.1840%		2036	2042	**
Subordinate Tier Toll Revenue Bonds, Series 2014-B	83,550,000.00	VAR	VAR	Monthly	2016	2016	**
Subordinate Tier Toll Revenue Bonds, Series 2014-C	107,180,000.00	VAR	VAR	Monthly	2016	2016	**
Total Blended Component Unit-Grand Parkway Transportation Corporation	2,201,716,111.88						
Total Business-Type Activities	$ 5,588,806,025.50						

* Rates reset on the first business day of each month.

** 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.

****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, 2015

Governmental Activities

Description	Bonds Outstanding 9/1/2014	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2015
General Obligation Bonds:					
Texas Mobility Fund					
Series 2005-A	$ 20,180,000.00	$	$ 20,180,000.00	$	$ 0.00
Series 2005-B	70,740,000.00			70,740,000.00	0.00
Series 2006	267,840,000.00		16,940,000.00	233,130,000.00	17,770,000.00
Series 2006-A	1,023,590,000.00		6,045,000.00	478,830,000.00	538,715,000.00
Series 2006-B	150,000,000.00				150,000,000.00
Series 2007	965,455,000.00		4,945,000.00	233,280,000.00	727,230,000.00
Series 2008	968,585,000.00		14,245,000.00		954,340,000.00
Series 2009-A	1,208,495,000.00				1,208,495,000.00
Series 2014	973,775,000.00				973,775,000.00
Series 2014-A		1,580,160,000.00			1,580,160,000.00
Series 2014-B		250,000,000.00			250,000,000.00
Texas Highway Improvement					
Series 2010-A	815,420,000.00				815,420,000.00
Series 2010-B	99,170,000.00		23,120,000.00		76,050,000.00
Series 2012-A	818,635,000.00				818,635,000.00
Series 2012-B	81,465,000.00		18,160,000.00		63,305,000.00
Series 2014		1,260,000,000.00	42,000,000.00		1,218,000,000.00
Total General Obligation Bonds	7,463,350,000.00	3,090,160,000.00	145,635,000.00	1,015,980,000.00	9,391,895,000.00
Revenue Bonds:					
State Highway Fund					
Series 2006	54,665,000.00		26,680,000.00		27,985,000.00
Series 2006-A	101,020,000.00		44,185,000.00	10,665,000.00	46,170,000.00
Series 2006-B	100,000,000.00				100,000,000.00
Series 2007	963,870,000.00		54,500,000.00	792,135,000.00	117,235,000.00
Series 2008	133,175,000.00		6,835,000.00	45,500,000.00	80,840,000.00
Series 2010	1,500,000,000.00				1,500,000,000.00
Series 2014-A	1,157,795,000.00				1,157,795,000.00
Series 2014-B	300,000,000.00				300,000,000.00
Series 2015		781,080,000.00			781,080,000.00
Total Revenue Bonds	4,310,525,000.00	781,080,000.00	132,200,000.00	848,300,000.00	4,111,105,000.00
Total Governmental Activities	$ 11,773,875,000.00	$ 3,871,240,000.00	$ 277,835,000.00	$ 1,864,280,000.00	$ 13,503,000,000.00

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2B - CHANGES IN BONDED INDEBTEDNESS (Continued)
For the Fiscal Year Ended August 31, 2015

Governmental Activities

	Unamortized Premium	Unamortized Discount	Net Bonds Outstanding 8/31/2015	Amounts Due Within One Year
General Obligation Bonds:				
Texas Mobility Fund				
Series 2005-A	$	$	$ 0.00	$
Series 2005-B			0.00	
Series 2006	252,288.42		18,022,288.42	18,022,288.42
Series 2006-A	11,413,508.80		550,128,508.80	7,644,319.32
Series 2006-B			150,000,000.00	
Series 2007	10,540,446.32		737,770,446.32	8,375,975.84
Series 2008	37,961,745.26		992,301,745.26	18,788,144.41
Series 2009-A			1,208,495,000.00	
Series 2014	135,449,407.13		1,109,224,407.13	11,155,096.41
Series 2014-A	246,306,196.65		1,826,466,196.65	13,248,431.05
Series 2014-B			250,000,000.00	
Texas Highway Improvement				
Series 2010-A			815,420,000.00	
Series 2010-B	4,068,532.09		80,118,532.09	26,224,612.02
Series 2012-A	157,855,615.02		976,490,615.02	8,811,417.30
Series 2012-B	172,011.32		63,477,011.32	18,301,201.38
Series 2014	191,546,216.13		1,409,546,216.13	54,769,747.74
Total General Obligation Bonds	795,565,967.14		10,187,460,967.14	185,341,233.89
Revenue Bonds:				
State Highway Fund				
Series 2006			27,985,000.00	27,985,000.00
Series 2006-A	1,307,546.69		47,477,546.69	47,477,546.69
Series 2006-B			100,000,000.00	
Series 2007	1,077,545.89		118,312,545.89	57,912,619.69
Series 2008	3,828,795.23		84,668,795.23	7,601,302.64
Series 2010			1,500,000,000.00	
Series 2014-A	160,989,065.33		1,318,784,065.33	16,298,635.36
Series 2014-B			300,000,000.00	
Series 2015	117,980,474.62		899,060,474.62	15,452,132.08
Total Revenue Bonds	285,183,427.76		4,396,288,427.76	172,727,236.46
Total Governmental Activities	$ 1,080,749,394.90	$ 0.00	$ 14,583,749,394.90	$ 358,068,470.35

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2B - CHANGES IN BONDED INDEBTEDNESS (Continued)
For the Fiscal Year Ended August 31, 2015

Business-Type Activities

Description	Bonds Outstanding 9/1/2014	Bonds Issued	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/2015
Revenue Bonds:					
First Tier Bonds Series 2002-A					
Non-Callable CAB's	$ 527,512,639.37	$ 26,086,197.30	$ 8,415,000.00	$ 115,663,602.55	$ 429,520,234.12
Callable CAB's	317,329,161.71	8,165,314.94		325,494,476.65	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	0.00
First Tier Bonds Series 2015-A		225,000,000.00			225,000,000.00
First Tier Bonds Series 2015-B					
Current Interest Bonds		198,025,000.00			198,025,000.00
Capital Appreciation Bonds		94,951,600.00 **			94,951,600.00
First Tier Bonds Series 2015-C		1,157,320,000.00			1,157,320,000.00
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	294,313,572.07	16,927,539.81 **			311,241,111.88
Current Interest Bonds	1,137,935,000.00				1,137,935,000.00
Subordinate Tier Toll Revenue Bonds, Series 2013-E	361,810,000.00				361,810,000.00
Subordinate Tier Toll Revenue Refunding Bonds, Series 2014-B	83,550,000.00				83,550,000.00
Subordinate Tier Toll Revenue Refunding Bonds, Series 2014-C	107,180,000.00				107,180,000.00
Total Business-Type Activities	$ 3,839,960,373.15	$ 1,726,475,652.05	$ 8,415,000.00	$ 666,158,079.20	$ 4,891,862,946.00

*Grand Parkway Transportation Corporation debt issuances are not obligations of the State

**Due to annual principal accretion.

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2B - CHANGES IN BONDED INDEBTEDNESS (Concluded)
For the Fiscal Year Ended August 31, 2015

Business-Type Activities

Description	Unamortized Premium	Unamortized Discount	Net Bonds Outstanding 8/31/2015	Amounts Due Within One Year
Revenue Bonds:				
First Tier Bonds Series 2002-A				
Non-Callable CAB's	$	$	$ 429,520,234.12	$ 1,745,000.00
Callable CAB's				
First Tier Bonds Series 2012-A	45,750,775.24		631,080,775.24	1,864,508.47
First Tier Bonds Series 2012-B			0.00	
First Tier Bonds Series 2015-A	36,135,427.55		261,135,427.55	1,347,322.45
First Tier Bonds Series 2015-B				
Current Interest Bonds	28,675,200.39		226,700,200.39	1,465,537.11
Capital Appreciation Bonds			94,951,600.00	
First Tier Bonds Series 2015-C	143,154,817.72		1,300,474,817.72	7,489,215.68
Blended Component Unit-Grand Parkway Transportation Corp.*:				
First Tier Toll Revenue Bonds,		(2,855,930.94)	197,144,069.06	(86,941.84)
Subordinate Tier Toll Revenue Bonds, Series 2013-B				
Callable CAB			311,241,111.88	
Current Interest Bonds	6,212,036.17	(15,632,636.08)	1,128,514,400.09	(242,705.82)
Subordinate Tier Toll Revenue Bonds, Series 2013-E			361,810,000.00	
Subordinate Tier Toll Revenue Refunding Bonds, Series 2014-B			83,550,000.00	
Subordinate Tier Toll Revenue Refunding Bonds, Series 2014-C			107,180,000.00	
Total Business-Type Activities	$ 259,928,257.07	$ (18,488,567.02)	$ 5,133,302,636.05	$ 13,581,936.05

*Grand Parkway Transportation Corporation debt issuances are not obligations of the State

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2C - DEBT SERVICE REQUIREMENTS
For the Fiscal Year Ended August 31, 2015

Governmental Activities

Description of Issue	Year	Principal	Interest
TMF General Obligation Bonds			
Series 2006	2016	$ 17,770,000.00	$ 857,875.00
		17,770,000.00	857,875.00
Series 2006-A	2016	6,955,000.00	25,202,800.00
	2017	8,895,000.00	24,924,600.00
	2018		24,479,850.00
	2019		24,479,850.00
	2020		24,479,850.00
	2021-2025		122,399,250.00
	2026-2030	138,380,000.00	116,782,800.00
	2031-2035	384,485,000.00	62,835,750.00
		538,715,000.00	425,584,750.00
Series 2006-B	2016		15,013.69
	2017		14,986.29
	2018		14,999.99
	2019		14,999.99
	2020		15,013.69
	2021-2025		74,986.25
	2026-2030		74,999.95
	2031-2035	19,890,000.00	74,166.20
	2036-2040	130,110,000.00	7,583.85
		150,000,000.00	306,749.90
Series 2007	2016	7,830,000.00	35,302,887.50
	2017	10,495,000.00	34,989,687.50
	2018		34,464,937.50
	2019		34,464,937.50
	2020		34,464,937.50
	2021-2025		172,324,687.50
	2026-2030	71,900,000.00	170,682,612.50
	2031-2035	242,450,000.00	136,107,575.00
	2036-2040	394,555,000.00	32,920,250.00
		727,230,000.00	685,722,512.50
Series 2008	2016	16,175,000.00	46,226,200.00
	2017	17,725,000.00	45,417,450.00
	2018	19,970,000.00	44,531,200.00
	2019	21,725,000.00	43,532,700.00
	2020	23,585,000.00	42,446,450.00
	2021-2025	150,690,000.00	192,478,500.00
	2026-2030	218,355,000.00	148,392,500.00
	2031-2035	302,800,000.00	88,037,375.00
	2036-2040	183,315,000.00	13,963,575.00
		$ 954,340,000.00	$ 665,025,950.00

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2C - DEBT SERVICE REQUIREMENTS (Continued)
For the Fiscal Year Ended August 31, 2015

Description of Issue	Year	Principal	Interest
TMF General Obligation Bonds			
Series 2009-A	2016	$	$ 66,582,669.16
	2017		66,582,669.16
	2018		66,582,669.16
	2019		66,582,669.16
	2020	420,000.00	66,582,669.16
	2021-2025	16,950,000.00	331,685,107.84
	2026-2030	58,120,000.00	323,018,476.24
	2031-2035	116,035,000.00	301,206,959.58
	2036-2040	1,016,970,000.00	189,654,322.96
		1,208,495,000.00	1,478,478,212.42
Series 2014	2016		46,817,200.00
	2017	24,845,000.00	46,196,075.00
	2018	23,790,000.00	45,099,150.00
	2019	33,185,000.00	43,793,725.00
	2020	36,875,000.00	42,042,225.00
	2021-2025	239,705,000.00	177,439,875.00
	2026-2030	342,745,000.00	105,142,125.00
	2031-2035	272,630,000.00	31,095,325.00
		973,775,000.00	537,625,700.00
Series 2014-A	2016		76,554,050.00
	2017		76,554,050.00
	2018	24,650,000.00	75,937,800.00
	2019	30,155,000.00	74,567,675.00
	2020	35,990,000.00	72,914,050.00
	2021-2025	280,785,000.00	328,564,625.00
	2026-2030	272,425,000.00	247,129,625.00
	2031-2035	263,170,000.00	183,928,925.00
	2036-2040	157,045,000.00	154,723,125.00
	2041-2045	515,940,000.00	83,733,500.00
		1,580,160,000.00	1,374,607,425.00
Series 2014-B	2016		1,000,913.22
	2017		999,086.76
	2018		1,000,000.02
	2019		1,000,000.02
	2020		1,000,913.22
	2021-2025		4,999,086.78
	2026-2030		5,000,000.04
	2031-2035		5,000,000.04
	2036-2040		5,009,132.40
	2041-2045	250,000,000.00	516,556.74
		$ 250,000,000.00	$ 25,525,689.24

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2C - DEBT SERVICE REQUIREMENTS (Continued)
For the Fiscal Year Ended August 31, 2015

Description of Issue	Year	Principal	Interest
Series 2010-A	2016	$	$ 35,837,342.50
	2017		35,837,342.50
	2018		35,837,342.50
	2019	27,720,000.00	35,837,342.50
	2020	28,300,000.00	34,949,470.90
	2021-2025	151,675,000.00	159,090,540.30
	2026-2030	173,310,000.00	125,812,630.32
	2031-2035	200,985,000.00	83,300,551.72
	2036-2040	233,430,000.00	33,436,383.02
		815,420,000.00	579,938,946.26
Texas Highway Improvement General Obligation Bonds			
Series 2010-B	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
		76,050,000.00	7,110,550.00
Series 2012-A	2016		40,931,750.00
	2017		40,931,750.00
	2018		40,931,750.00
	2019	10,915,000.00	40,931,750.00
	2020	19,495,000.00	40,386,000.00
	2021-2025	113,115,000.00	186,296,000.00
	2026-2030	144,365,000.00	155,044,500.00
	2031-2035	184,245,000.00	115,159,750.00
	2036-2040	235,155,000.00	64,256,000.00
	2041-2045	111,345,000.00	8,418,750.00
		818,635,000.00	733,288,000.00
Series 2012-B	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	7,935,000.00	99,187.50
		63,305,000.00	1,581,410.00
Series 2014	2016	42,000,000.00	59,640,000.00
	2017	42,000,000.00	57,540,000.00
	2018	42,000,000.00	55,440,000.00
	2019	42,000,000.00	53,340,000.00
	2020	42,000,000.00	51,240,000.00
	2021-2025	210,000,000.00	224,700,000.00
	2026-2030	210,000,000.00	172,200,000.00
	2031-2035	210,000,000.00	122,220,000.00
	2036-2040	210,000,000.00	73,500,000.00
	2041-2045	168,000,000.00	21,000,000.00
		1,218,000,000.00	890,820,000.00
Total General Obligation Bonds		$ 9,391,895,000.00	$ 7,406,473,770.32

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2C - DEBT SERVICE REQUIREMENTS (Continued)
For the Fiscal Year Ended August 31, 2015

Description of Issue	Year	Principal	Interest
SHF Revenue Bonds			
Series 2006	2016	$ 27,985,000.00	$ 1,397,000.00
		27,985,000.00	1,397,000.00
Series 2006-A	2016	46,170,000.00	2,077,650.00
		46,170,000.00	2,077,650.00
Series 2006-B	2016		250,228.30
	2017		249,771.70
	2018		250,000.04
	2019		250,000.04
	2020		250,228.30
	2021-2025	25,755,000.00	1,222,781.93
	2026-2030	74,245,000.00	107,807.81
		100,000,000.00	2,580,818.12
Series 2007	2016	57,200,000.00	5,779,250.00
	2017	60,035,000.00	2,945,500.00
		117,235,000.00	8,724,750.00
Series 2008	2016	7,155,000.00	4,141,437.50
	2017	7,490,000.00	3,805,237.50
	2018	7,840,000.00	3,455,637.50
	2019		3,063,637.50
	2020		3,063,637.50
	2021-2025	21,570,000.00	14,766,412.50
	2026-2030	36,785,000.00	3,928,312.50
		80,840,000.00	36,224,312.50
Series 2010	2016		77,226,067.50
	2017		77,226,067.50
	2018		77,226,067.50
	2019		77,226,067.50
	2020		77,226,067.50
	2021-2025	218,615,000.00	375,378,210.90
	2026-2030	1,281,385,000.00	234,023,052.90
		1,500,000,000.00	995,531,601.30
Series 2014-A	2016		57,738,275.00
	2017	77,670,000.00	57,738,275.00
	2018	81,400,000.00	54,006,250.00
	2019	85,465,000.00	49,936,250.00
	2020	89,730,000.00	45,663,000.00
	2021-2025	464,905,000.00	156,354,250.00
	2026-2030		89,656,250.00
	2031-2035	358,625,000.00	60,408,000.00
		$ 1,157,795,000.00	$ 571,500,550.00

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2C - DEBT SERVICE REQUIREMENTS (Continued)
For the Fiscal Year Ended August 31, 2015

Description of Issue	Year	Principal	Interest
Series 2014-B	2016	$	$ 1,111,013.70
	2017		1,108,986.30
	2018		1,110,000.00
	2019		1,110,000.00
	2020		1,111,013.70
	2021-2025		5,548,986.30
	2026-2030		5,550,000.00
	2031-2035	300,000,000.00	1,247,515.17
		300,000,000.00	17,897,515.17
SHF Revenue Bonds			
Series 2015	2016		25,670,793.33
	2017		37,114,400.00
	2018	61,125,000.00	36,197,525.00
	2019	71,710,000.00	33,846,450.00
	2020	75,020,000.00	30,536,750.00
	2021-2025	425,730,000.00	91,693,500.00
	2026-2030	147,495,000.00	6,589,875.00
		781,080,000.00	261,649,293.33
TOTAL Revenue Bonds		4,111,105,000.00	1,897,583,490.42
TOTAL GOVERNMENTAL ACTIVITIES		13,503,000,000.00	9,304,057,260.74
BUSINESS-TYPE ACTIVITIES			
CTTS Revenue Bonds			
Series 2002-A	2016	1,745,000.00	
	2017	7,885,000.00	
	2018	14,225,000.00	
	2019	20,365,000.00	
	2020	26,715,000.00	
	2021-2025	243,705,000.00	
	2026-2030	452,455,000.00	
		767,095,000.00	
Series 2012-A	2016		28,034,150.00
	2017		28,034,150.00
	2018		28,034,150.00
	2019		28,034,150.00
	2020		28,034,150.00
	2021-2025		140,170,750.00
	2026-2030		140,170,750.00
	2031-2035		140,170,750.00
	2036-2040	450,035,000.00	122,341,200.00
	2041-2045	135,295,000.00	6,764,750.00
		$ 585,330,000.00	$ 689,788,950.00

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2C - DEBT SERVICE REQUIREMENTS (Continued)
For the Fiscal Year Ended August 31, 2015

Description of Issue	Year	Principal	Interest
Series 2015-A	2016	$	$ 11,250,000.00
	2017		11,250,000.00
	2018		11,250,000.00
	2019		11,250,000.00
	2020		11,250,000.00
	2021-2025		56,250,000.00
	2026-2030		56,250,000.00
	2031-2035		56,250,000.00
	2036-2040		56,250,000.00
	2041-2045	225,000,000.00	20,477,000.00
		225,000,000.00	301,727,000.00
Series 2015-B	2016		9,901,250.00
	2017		9,901,250.00
	2018		9,901,250.00
	2019		9,901,250.00
	2020		9,901,250.00
	2021-2025		49,506,250.00
	2026-2030		49,506,250.00
	2031-2035	153,520,000.00	43,506,250.00
	2036-2040	284,505,000.00	3,225,250.00
		438,025,000.00	798,704,250.00
CTTS Revenue Bonds			
Series 2015-C	2016		57,866,000.00
	2017		57,866,000.00
	2018		57,866,000.00
	2019		57,866,000.00
	2020		57,866,000.00
	2021-2025	28,475,000.00	288,029,750.00
	2026-2030	68,180,000.00	276,068,250.00
	2031-2035	590,055,000.00	202,851,000.00
	2036-2040	331,655,000.00	85,604,500.00
	2041-2045	138,955,000.00	10,506,500.00
		1,157,320,000.00	1,152,390,000.00
Grand Parkway Transportation Corp.*			
Series 2013-A	2016		10,821,012.50
	2017		10,821,012.50
	2018		10,821,012.50
	2019		10,821,012.50
	2020		10,821,012.50
	2021-2025		54,105,062.50
	2026-2030		54,105,062.50
	2031-2035	3,910,000.00	53,817,806.25
	2036-2040	16,930,000.00	51,256,075.01
	2041-2045	35,955,000.00	44,604,893.77
	2046-2050	63,690,000.00	31,354,400.00
	2051-2055	79,515,000.00	8,660,850.00
		$ 200,000,000.00	$ 352,009,212.53

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2C - DEBT SERVICE REQUIREMENTS (Concluded)
For the Fiscal Year Ended August 31, 2015

Description of Issue	Year	Principal	Interest
Series 2013-B	2016	$	$ 58,334,250.00
	2017		58,334,250.00
	2018		58,334,250.00
	2019		58,334,250.00
	2020		58,334,250.00
	2021-2025		333,307,578.75
	2026-2030	2,090,000.00	430,407,285.00
	2031-2035	90,080,000.00	421,097,640.00
	2036-2040	65,995,000.00	391,141,450.00
	2041-2045	75,740,000.00	385,551,312.50
	2046-2050	367,135,000.00	312,073,401.25
	2051-2055	1,026,055,000.00	88,704,187.50
		1,627,095,000.00	2,653,954,105.00
Series 2013-E	2016		18,756,230.40
	2017		18,756,230.40
	2018		18,756,230.40
	2019		18,756,230.40
	2020		18,756,230.40
	2021-2025		93,781,152.00
	2026-2030		93,781,152.00
	2031-2035		93,781,152.00
	2036-2040	184,865,000.00	78,407,870.40
	2041-2045	176,945,000.00	12,406,219.20
		361,810,000.00	465,938,697.60
Series 2014-B	2016		375,445.86
	2017	83,550,000.00	107,709.88
		83,550,000.00	483,155.74
Grand Parkway Transportation Corp.*			
Series 2014-C	2016		739,336.55
	2017	107,180,000.00	212,104.75
		107,180,000.00	951,441.30
TOTAL BUSINESS-TYPE ACTIVITIES		$ 5,552,405,000.00	$ 6,415,946,812.17

*Grand Parkway Transportation Corp. 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, 2015

Governmental Activities

Description of Issue	Application of Funds: Principal	Application of Funds: Interest
Texas Mobility General Obligation Bonds	$ 62,355,000.00	$ 258,190,457.07
	$ 62,355,000.00	$ 258,190,457.07

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2015 — Net Available for Debt Service: Total Pledged and Other Sources	Net Available for Debt Service: Operating Expenses/ Expenditures and Capital Outlay	Debt Service: Principal	Debt Service: Interest
State Highway Fund Revenue Bonds	$ 7,426,916,213.40	(A)	$ 132,200,000.00	$ 198,309,402.52
	$ 7,426,916,213.40		$ 132,200,000.00	$ 198,309,402.52

(A) State Highway Fund expenditures associated with pledged sources were $7,849,844,190.24.

Business-Type and Blended Component Unit Activities

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2015 — Net Available for Debt Service: Total Pledged and Other Sources	Net Available for Debt Service: Operating Expenses/ Expenditures and Capital Outlay	Debt Service: Principal	Debt Service: Interest
Series 2002-A, Series 2012-A Revenue Bonds, and Series 2015-A, B, and C	$ 169,438,322.15	(B)	$ 8,415,000.00	$ 71,363,440.97
Grand Parkway Tranportation Corporation Series 2013-A,B,E, 2014-B,C	32,343,899.48	(C)		88,990,636.58
	$ 201,782,221.63		$ 8,415,000.00	$ 160,354,077.55

(B) Expenses associated with pledged sources were $56,399,400.34

(C) Expenses associated with pledged sources were $3,874,819.20

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2E-DEFEASED BONDS OUTSTANDING
For the Fiscal Year Ended August 31, 2015

Description of Issue	Year Defeased	Par Value Outstanding
Governmental Activities		
Texas Mobility Fund General Obligation Bonds		
Series 2006 Fixed Rate Bonds	2014	$ 364,580,000.00
Series 2006 Fixed Rate Bonds	2015	233,130,000.00
Series 2006-A Fixed Rate Bonds	2015	478,830,000.00
Series 2007 Fixed Rate Bonds	2014	35,945,000.00
Series 2007 Fixed Rate Bonds	2015	233,280,000.00
Series 2008 Fixed Rate Bonds	2014	93,730,000.00
Total General Obligation Bonds		1,439,495,000.00
State Highway Fund Revenue Bonds		
Series 2006 Fixed Rate Bonds	2014	369,590,000.00
Series 2006-A Fixed Rate Bonds	2014	495,465,000.00
Series 2006-A Fixed Rate Bonds	2015	10,665,000.00
Series 2007 Fixed Rate Bonds	2015	792,135,000.00
Series 2008 Fixed Rate Bonds	2015	45,500,000.00
Total Revenue Bonds		1,713,355,000.00
Total Governmental Activities		3,152,850,000.00
Business-Type Activities		
Central Texas Turnpike Authority Revenue Bonds		
Series 2002-A Capital Appreciation Bonds	2015	114,957,848.48
Total Business-Type Activities		114,957,848.48
Total		$ 3,267,807,848.48

TEXAS DEPARTMENT OF TRANSPORTATION
SCHEDULE 2F - EARLY EXTINGUISHMENT AND REFUNDING
For the Fiscal Year Ended August 31, 2015

Governmental Activities

			For Refundings Only		
Description	Category	Amount Extinguished or Refunded	Refunding Issued Par Value	Cash Flow Increase	Economic Gain
Texas Mobility Fund					
Series 2005-B Variable Rate Bonds	Current Refunding	$ 70,740,000.00	$ 58,060,000.00	$ 8,784,019.28	$ 6,499,054.07
Series 2006 Fixed Rate Bonds	Advance Refunding	233,130,000.00	215,965,000.00	61,058,712.22	35,783,874.64
Series 2006-A Fixed Rate Bonds	Advance Refunding	478,830,000.00	442,775,000.00	72,162,538.20	52,378,627.91
Series 2007 Fixed Rate Bonds	Advance Refunding	233,280,000.00	213,360,000.00	27,396,951.73	21,509,604.82
		1,015,980,000.00	930,160,000.00	169,402,221.43	116,171,161.44 *
State Highway Fund					
Series 2006-A Fixed Rate Bonds	Advance Refunding	10,665,000.00	10,520,000.00	3,975,381.09	1,954,577.49
Series 2007 Fixed Rate Bonds	Advance Refunding	792,135,000.00	724,220,000.00	113,590,888.75	91,365,610.24
Series 2008 Fixed Rate Bonds	Advance Refunding	45,500,000.00	46,340,000.00	6,414,218.34	3,426,638.36
		848,300,000.00	781,080,000.00 **	123,980,488.18	96,746,826.09
Total Governmental Activities		1,864,280,000.00	1,711,240,000.00	293,382,709.61	212,917,987.53

Business-Type Activities

			For Refundings Only		
Description	Category	Amount Extinguished or Refunded	Refunding Issued Par Value	Cash Flow Increase	Economic Gain
Revenue Bonds					
First Tier Revenue Bonds Series 2002-A	Advance Refunding	441,158,079.20	422,778,400.00	278,644,880.50	124,602,466.69
First Tier Revenue Refunding Put Bonds Series 2012-B	Current Refunding	225,000,000.00	193,700,000.00	72,476,569.44	35,533,857.96 ****
TIFIA Note	Current Refunding	1,112,973,881.25	1,056,485,000.00	596,844,453.49	223,717,641.41
Total Business-Type Activities		1,779,131,960.45	1,672,963,400.00	947,965,903.43	383,853,966.06 ***
TOTAL		$ 3,643,411,960.45	$ 3,384,203,400.00	$ 1,241,348,613.04	$ 596,771,953.59

* TMF Series 2006, Series 2006-A, and Series 2007 were partially refunded by TMF Series 2014A. The present value of savings from cash flow is $116,171,161.44, plus refunding funds on hand, $4,576.03, equals the net present value of savings, $116,175,737.45.

** SHF Series 2006-A, Series 2007, and Series 2008 were partially refunded by SHF Series 2015. The refunding portion of SHF 2015 par value is $781,080,000.

*** First Tier Revenue Bond Series 2002-A (Non-Callable) was partially refunded by CTTS 2015-B. First Tier Revenue Bond Series 2002-A (Callable) was refunded by CTTS 2015-A, CTTS 2015-B, and CTTS 2015-C. The TIFIA Note was refunded by CTTS 2015-C. The net present value of savings from cash flow is $383,853,966.06.

**** First Tier Revenue Refunding Put Bonds Series 2012-B was fully refunded by CTTS 2015-A.

Texas Department of Transportation
Matrix of Expenditures Reported by Function - Governmental Funds
For the Fiscal Year Ended August 31, 2015

	State Highway Fund	Texas Mobility Fund	Proposition 12 Highway Improvement Project Fund	Nonmajor Funds	Transportation Function Total
Salaries and Wages	$ 637,722,067.95	$ 0.00	$ 0.00	$ 894,250.80	$ 638,616,318.75
Payroll Related Costs	277,048,786.24	0.00	0.00	211,402.63	277,260,188.87
Professional Fees and Services	692,007,584.48	0.00	0.00	1,713,950.79	693,721,535.27
Federal Pass - Through Expenditures	24,017,212.22	0.00	0.00	0.00	24,017,212.22
Travel	7,887,861.11	0.00	0.00	97,554.81	7,985,415.92
Materials and Supplies	277,082,067.00	0.00	0.00	7,096.05	277,089,163.05
Communication and Utilities	46,031,360.61	0.00	0.00	0.00	46,031,360.61
Repairs and Maintenance	686,168,838.82	0.00	0.00	28,370.88	686,197,209.70
Rentals and Leases	26,507,551.93	0.00	0.00	1,916.08	26,509,468.01
Printing and Reproduction	3,643,371.56	0.00	0.00	0.00	3,643,371.56
Claims and Judgments	4,617,898.16	0.00	0.00	0.00	4,617,898.16
Intergovernmental Payments	384,868,340.98	147,482,999.84	0.00	66,500,784.03	598,852,124.85
Public Assistance Payments	31,993,653.28	0.00	0.00	(2,586,249.08)	29,407,404.20
Other Expenditures	169,974,848.46	0.00	3,157.22	399,348.69	170,377,354.37
Total Expenditures	$ 3,269,571,442.80	$ 147,482,999.84	$ 3,157.22	$ 67,268,425.68	$ 3,484,326,025.54

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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 and short-term extensions. The current federal highway authorization legislation, the "Fixing America's Surface Transportation Act" ("FAST Act") became law on December 4, 2015 and is authorized until September 30, 2020. The FAST Act replaced the "Moving Ahead for Progress in the 21st Century Act" ("MAP-21") which expired September 2014 and had subsequent short term extensions until the passage of the FAST Act. MAP-21 replaced 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 largely consolidated through MAP-21 (and carried forward through the FAST Act): 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 or short-term authorization by Congress of the funding for various highway programs; (ii) apportionment and allocation of funds to the states each FFY 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 THE FAST ACT 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 a 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 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 multi-year legislation to extend the imposition of taxes was in 2015 by the FAST Act, described below. 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.

At least since 2007, the nonpartisan Congressional Budget Office ("CBO") has, from time to time, reported or testified that if Congress adhered to the highway and safety spending levels which it had authorized, absent other measures, the Highway Account of the HTF would go into deficit within a year or two after such report or testimony was presented. The CBO has stated that since 2001, HTF receipts have consistently fallen below expenditures. During the 1980s and the first half of the 1990s, HTF balances held in the vicinity of $10 billion. In 1998 the Transportation Equity Act for the 21st Century ("TEA-21"), described below, authorized spending that was sufficient to gradually draw down those balances. TEA-21 along with the subsequent passage in 2005 of SAFETEA-LU, described below, attributed to expenditures exceeding revenues since 2001. Because of looming shortfalls, Congress has enacted legislation from time to time authorizing transfers into the HTF from the Treasury's general fund, however, there can be no assurance that Congress will continue such practice or take other action that may delay or result in proration of federal reimbursements to the Department 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.

The following table shows annual HTF collections in the Highway Account for the FFYs 1999 through 2014 from the most current publication of the FHWA's Highway Statistics Series:

Receipts into the Highway Account of the Federal Highway Trust Fund
(In Millions)

Federal Fiscal Year	Receipts[1]	Federal Fiscal Year	Receipts[1]
1999	$33,821	2007	$35,668
2000	30,347	2008	33,512
2001	26,916	2009	30,126
2002	32,603	2010	30,150
2003	28,962	2011	31,960
2004	29,785	2012	35,143
2005	32,893	2013	31,816
2006	33,279	2014	34,012

[1] Excludes interest earned on balances.

Source: Status of the Federal Highway Trust Fund Fiscal Years 1957-2013, Table FE-210, Highway Statistics 2013, Office of Highway Policy Information (as updated through September 2015).

Reauthorization History

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 obligation authority, as defined below, by administrative action.

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. Prior to 1998, Congress reauthorized the FAHP pursuant to a number of multi-year authorizations.

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. Four mechanisms in particular have kept revenues flowing:

- Short-Term Authorization: TEA-21 was enacted in 1998 and authorized programs over the six-year period from FFYs 1998 through 2003. TEA-21 expired September 30, 2003, and was the subject of many interim reauthorization extensions until the enactment of SAFETEA-LU in August 2005.

- Access to Unobligated Balances: The 1987 Surface Transportation and Uniform Relocation Assistance Act expired on September 30, 1991 and the Intermodal Surface Transportation Efficiency Act ("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 obligation authority.

- Extension of SAFETEA-LU: SAFETEA-LU became law on August 10, 2005, and authorized programs over the four-year period from FFY 2006 through 2009. After the expiration of SAFETEA-LU in September 2009, Congress enacted 10 interim authorization measures until the enactment of MAP-21. SAFETEA-LU authorized a total of $286.4 billion for federal surface transportation programs in FFY 2005 through FFY 2009.

- MAP-21: MAP-21 was signed into law by the President on July 6, 2012 and authorized a total of approximately $118 billion for highways, highway safety and public transportation programs through FFY 2014. The federal-aid highway programs obligation limitations were set at the following levels: $39.7 billion in FFY 2013 and $40.3 billion in FFY 2014. After the expiration of MAP-21 but before enactment of the FAST Act, Congress used a series of five short-term authorizations to fund the FAHP from October 1, 2014 through December 4, 2015 which, in the aggregate, set federal-aid highway programs obligation limitations at $3.63 billion for such period.

- FAST-Act: The FAST Act was signed into law by the President on December 4, 2015. The FAST Act authorizes $226.3 billion in budget authority for Federal-aid highway programs over five years (FFY 2016 through FFY 2020). This includes $225.2 billion in contract authority, starting at $43.1 billion for FFY 2016 and growing about two percent each year to $47.1 billion in FFY 2020. The FAST Act also authorizes another $1.1 billion (over the five years) that is subject to appropriation.

Neither the FAST Act nor MAP-21 extended the practice (established in 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 the FAST Act. Through the limitation on obligations, Congress controls the program, making it more responsive to prevailing budget and economic policy each year. MAP-21 contained provisions (which were carried forward through the FAST Act) 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 HTF.

ALTHOUGH INTERIM AUTHORIZATION MEASURES HAVE BEEN ENACTED BY CONGRESS 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 EITHER A SHORT-TERM OR MULTI-YEAR AUTHORIZATION PERIOD.

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 FFY 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 "Reauthorization History" above.

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 FFY 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 FFY, 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 the FAST Act, in FFY 2016, 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 under SAFETEA-LU based on factors including items such as lane miles, vehicle miles traveled, taxes paid into the HTF and diesel fuel usage. 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 FFY. 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 FFY, 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 FFY 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 FFY 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 FFY 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. In FFY 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 FFY 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. The second FFY 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 FFY 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 FFY 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.

The FAST Act contains a HTF contract authority rescission of $7.5 billion on September 30, 2020. It is possible additional rescissions can be added to the one included in the FAST Act via the appropriations process.

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 FFY, 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 FFY for which it is made available; if not, it will be distributed to other states to ensure that the total limitation nationwide will be used. A state may receive additional OA through a redistribution process each year in August which reallocates OA from states or programs unable to fully obligate their share to other states that are able to obligate more than their initial share.

Although a ceiling on obligations restricts how much funding may be used in a FFY, 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

[1] Like previous authorization bills, the FAST Act provides a separate authorization for the administration costs of FAHP, not as a takedown from the various apportionment programs.

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.

Sequestration

On February 9, 2016, the Office of Management and Budget ("OMB") issued a report (the "OMB 2016 Report") which was prepared consistent with the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. The mandate from the Budget Control Act of 2011 (P. L.112-25) requires, among other things, a 9.4 percent reduction for certain non-exempt defense discretionary programs, an 8.2 percent reduction for certain non-exempt nondefense discretionary programs and a 7.6 percent reduction for certain non-exempt nondefense mandatory programs, beginning in January 2013. The Bipartisan Budget Act of 2015 reduced some of the spending cuts required by sequestration for FFY 2016 and 2017. Under Title 23, revenues deposited into the HTF carry "mandatory budget authority" in the form of federal contract authority.

Federal contract authority exempts HTF revenues subject to obligation limitation from reduction. Therefore, the dedicated tax revenues deposited into the HTF are not subject to sequestration. As set forth in the OMB 2016 Report, OMB has calculated that federal contract authority not subject to obligation limitation is, however, subject to reduction at an annual rate of 6.9 percent for FFY 2017.

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.

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APPENDIX D

FORMS OF OPINIONS OF BOND COUNSEL

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[*Letterhead of Andrews Kurth Kenyon LLP*]

[*Form of Bond Counsel Opinion for the Series 2016-A Bonds*]

October 26, 2016

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 2016-A, dated October 26, 2016, in the aggregate principal amount of $601,210,000, maturing on October 1 in each of the years 2017 through 2030, inclusive. The Bonds are issuable in fully registered form only, in denominations of $5,000 or integral multiples thereof, bearing interest, subject to redemption prior to maturity, and subject to transfer and exchange as set forth in the Bonds and in the 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 Eighth Supplemental Resolution to the Master Resolution, adopted pursuant to Minute Order Number 114473 approved by the Commission on January 28, 2016 (the "Eighth Supplemental Resolution"), and the Award Certificate of Department Representative dated as of October 6, 2016 (the "Award Certificate" and, together with the Master Resolution and the Eighth 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.

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.

[*Letterhead of Andrews Kurth Kenyon LLP*]

[*Form of Bond Counsel Opinion for the Series 2016-B Bonds*]

October 26, 2016

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 REFUNDING PUT BONDS, SERIES 2016-B, dated October 26, 2016, in the aggregate principal amount of $89,370,000, maturing on April 1, 2026. 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 Eighth Supplemental Resolution to the Master Resolution, adopted pursuant to Minute Order Number 114473 approved by the Commission on January 28, 2016 (the "Eighth Supplemental Resolution"), and the Award Certificate of Department Representative dated as of October 6, 2016 (the "Award Certificate" and, together with the Master Resolution and the Eighth 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; the certificate (the "Sufficiency Certificate") of Estrada Hinojosa & Company, Inc., which verifies the sufficiency of the deposit made with Wells Fargo Bank, N.A. (the "Refunded Obligations Paying Agent") for the defeasance of the Refunded Obligations; 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 deposit with the Refunded Obligations Paying Agent pursuant to the Resolution and the Third Supplemental Resolution to the Master Resolution, adopted pursuant to a minute order approved by the Commission on October 26, 2006 (the "Third Supplemental Resolution") authorizing the issuance of the Refunded Obligations constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; in reliance upon the representations contained in the Sufficiency Certificate, 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 Third Supplemental Resolution 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 for that purpose by the Refunded Obligations Paying Agent pursuant to the terms of the Resolution, the Third Supplemental Resolution, and the Paying Agent/Registrar Agreement for the Refunded Obligations; 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 deposited with the Refunded Obligations Paying Agent.

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

DESCRIPTION OF BOOK-ENTRY ONLY SYSTEM

The information in this Appendix 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 United States 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 Bond certificate will be issued for each maturity of each series 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 Bond 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. The requirement for physical delivery of any Series 2016-B Bonds in connection with a mandatory tender will be deemed satisfied when the ownership rights in such Series 2016-B Bonds are transferred by Direct Participants to DTC's records followed by a book-entry credit of such tendered Series 2016-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, Bond 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, Bond 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.

APPENDIX F

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES FOR THE FUND

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APPENDIX F

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 in authorized investments ("Authorized Investments") pursuant to Section 404.024 (et seq.) of the Texas Government Code, as amended. State law, the Comptroller's Investment Policy and Authorized Investments 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(a), money on deposit in the Fund may be placed by the Comptroller in time deposits with State depositories. For funds not deposited pursuant to Section 404.024(a), the Comptroller may make investments in the following obligations pursuant to Section 404.024(b): (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).

The Comptroller, pursuant to Section 404.024(c), may make investments in direct security repurchase agreements and reverse security repurchase agreements authorized under Section 404.024(b) 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, pursuant to Section 404.024(d), 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, pursuant to Section 404.024(i) 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.

Pursuant to Section 404.024(l) 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 or in mutual funds, as defined by the SEC in Rule 2a-7 (17 C.F.R. Section 270.2a-7).

Under Section 404.024(e), State funds under the custody and control of the Comptroller available for appropriation by the Legislature may not be used to 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 derivative investments outside of the investments described in Section 404.024(e).

Pursuant to Section 404.024(f), State funds under the custody and control of the Comptroller available for appropriation by the Legislature may not be used to purchase investments defined by rule adopted under Section 404.024(f) in an amount that at the time of purchase will cause the aggregate value of the investments to exceed five percent of the total investment of State funds subject to the custody and control of the Comptroller that is available for appropriation by the Legislature. Under Section 404.024(h), 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.

Pursuant to Section 404.024(g), 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.

Under Section 404.024(j), if the Comptroller is required to invest funds other than as provided by Section 404.024 (et seq.), and if other law does not establish a conflicting standard governing such investment, 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 pursuant to Section 404.024(k).

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.

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Texas Department of Transportation

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