

# Texas Mobility Fund

*A Governmental Fund of the Texas Department of Transportation  
(With Independent Auditor's Report)*





**Texas Mobility Fund**  
A Governmental Fund of the Texas Department of Transportation

**ANNUAL FINANCIAL REPORT**  
**For the Fiscal Year Ended**  
**August 31, 2016**

Prepared by:  
Texas Department of Transportation's Financial Management Division

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**Texas Mobility Fund  
Annual Financial Report  
For the Fiscal Year Ended August 31, 2016**

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**Section One**

# **Introductory Section**

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125 EAST 11TH STREET, AUSTIN, TEXAS 78701-2483 | 512.463.8588 | WWW.TXDOT.GOV

December 16, 2016

To: The Citizens of the State of Texas and the Creditors of the Texas Mobility Fund Bonds

The audited financial statements of the Texas Mobility Fund (Mobility Fund) for the year ended August 31, 2016, are submitted in conformity with the Master Resolution, dated as of May 4, 2005, as amended and supplemented by the first through eleventh Supplemental Resolutions (Resolution).

An external audit firm, Crowe Horwath LLP, performed an independent audit, in accordance with generally accepted auditing standards, of the Mobility Fund's basic financial statements for the year ended August 31, 2016. The audit opinion is presented in this report preceding the financial statements. This report was prepared by the accounting staff in the Financial Management Division of the Texas Department of Transportation (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 the presentation. Consequently, management assumes full responsibility for the completeness and fairness of all of the information presented in the financial statements. To the best of my knowledge and belief, the financial statements are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the Mobility Fund and provide disclosures that enable the reader to understand the Mobility Fund's financial condition.

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

#### **Profile of the Government**

This report includes financial statements for the Mobility Fund. The Mobility Fund is part of TxDOT's reporting entity. TxDOT is an agency of the state of Texas. TxDOT is managed by an executive director and is governed by the five-member Texas Transportation Commission (Commission). All members of the Commission are appointed by the Governor with the advice and consent of the Texas Senate.

In 2001, voters approved a Texas constitutional amendment that authorized the creation of the Mobility Fund. In particular, Article III, Section 49-k of the Texas Constitution (Constitutional Provision) created the Mobility Fund within the treasury of the state of Texas.

In 2003, the 78<sup>th</sup> Legislature dedicated sources of revenue to the Mobility Fund. The funds generated by these dedicated revenues, as well as funds generated through other pledged revenues, are required to be accounted for in accounts established in the Mobility Fund. TxDOT is responsible for ensuring that the accounts are maintained at the proper minimum balances as set forth in the Resolution and for investing in securities required to meet liquidity requirements.

OUR VALUES: *People • Accountability • Trust • Honesty*

OUR MISSION: *Through collaboration and leadership, we deliver a safe, reliable, and integrated transportation system that enables the movement of people and goods.*

An Equal Opportunity Employer

The Mobility Fund is administered by the Commission as a revolving fund to provide a method of financing for the construction, reconstruction, acquisition and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way, as determined by the Commission in accordance with standards and procedures established by law. Monies in the Mobility Fund may also be used to provide state participation in the payment of a portion of the costs of constructing and providing publicly-owned toll roads and other public transportation projects in accordance with procedures, standards and limitations established by law. By expediting the delivery of transportation infrastructure, the Mobility Fund is an important tool in meeting TxDOT's goal to develop and operate an integrated transportation system that provides reliable and accessible mobility and enables economic growth.

Legislation enacted under the Constitutional Provision authorized the Commission to issue and sell obligations of the state and enter into related credit agreements that are payable from and secured by a pledge of and a lien on all or part of the money on deposit in the Mobility Fund. Subsequent legislation eliminated the ability of the department to issue debt secured by future Mobility Fund revenues not needed for existing obligations.

### **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 Texas 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.

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

Sincerely,



James M. Bass  
Executive Director

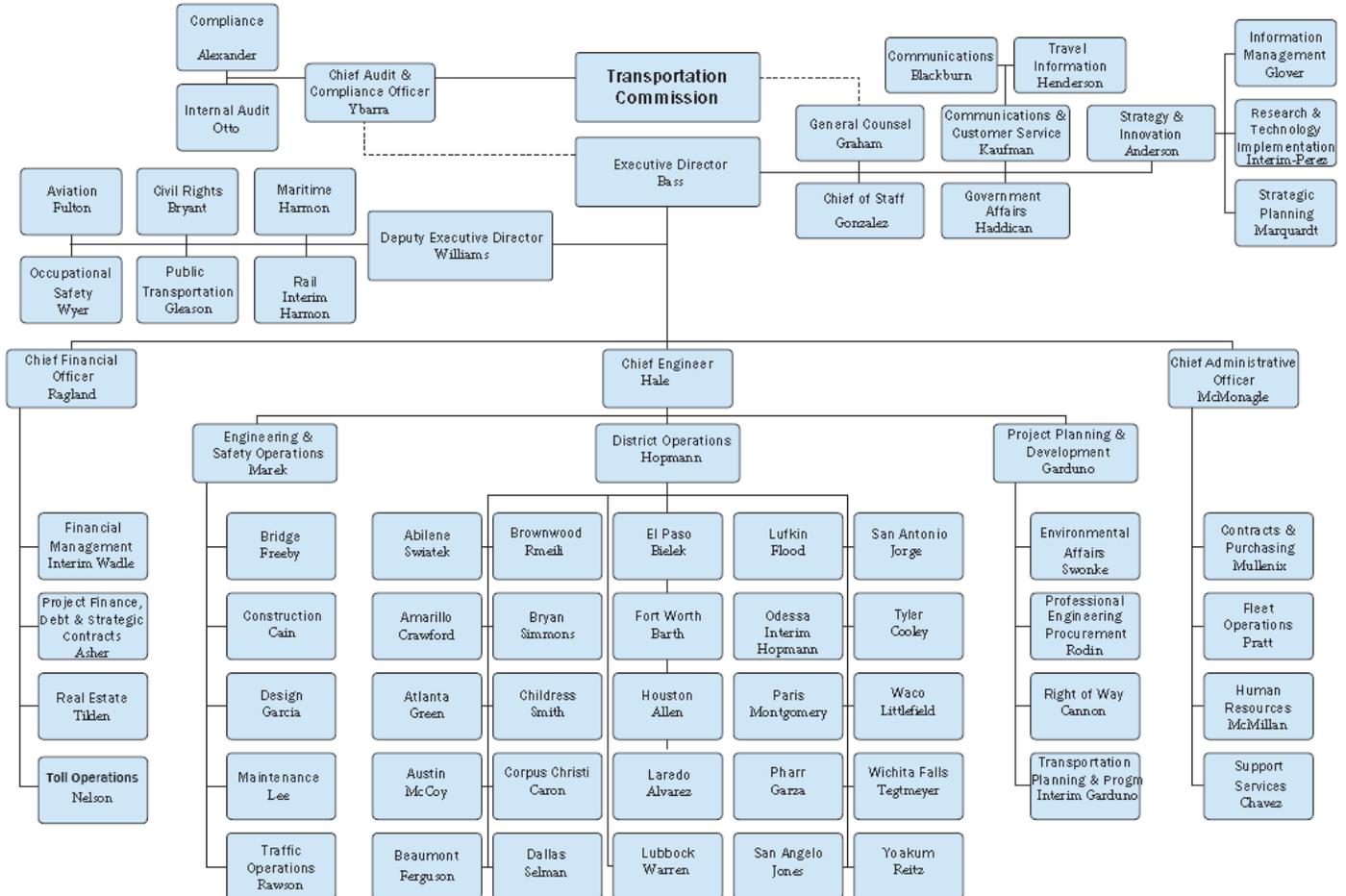
OUR VALUES: *People • Accountability • Trust • Honesty*

OUR MISSION: *Through collaboration and leadership, we deliver a safe, reliable, and integrated transportation system that enables the movement of people and goods.*

An Equal Opportunity Employer

# Texas Department of Transportation

## Organization Chart as of August 31, 2016



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**Commission and Key Personnel  
As of August 31, 2016**

**TEXAS TRANSPORTATION COMMISSION**

TRYON D. LEWIS.....Chair  
Odessa

JEFF AUSTIN III .....Commissioner  
Tyler

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

LAURA RYAN .....Commissioner  
Houston

VICTOR VANDERGRIFF.....Commissioner  
Arlington

**TEXAS DEPARTMENT OF TRANSPORTATION**

JAMES M. BASS ..... Executive Director

MARC D. WILLIAMS ..... Deputy Executive Director

JESUS GONZALEZ.....Chief of Staff

BRIAN RAGLAND..... Chief Financial Officer

BENITO YBARRA ..... Chief Audit and Compliance Officer

BILL HALE ..... Chief Engineer

RICHARD MCMONAGLE ..... Chief Administrative Officer

BOB KAUFMAN ..... Director of Communications and Customer Service

JEFF GRAHAM ..... General Counsel

JERRY HADDICAN ..... Director of Government Affairs

DARRAN ANDERSON..... Director of Strategy and Innovation

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**Section Two**  
**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 each major fund of the Texas Mobility Fund (Fund), a fund of the Texas Department of Transportation (TxDOT), an agency of the State of Texas, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Fund'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 opinions.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Texas Mobility Fund, as of August 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Fund, a debt service and capital project fund of the Texas Department of Transportation, an agency of the State of Texas and do not purport to, and do not, present fairly the financial position of TxDOT or the State of Texas as of August 31, 2016, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 1, the Fund does not report entity-wide financial statements and as a result, the long-term liabilities are presented in Note 4. Our opinions are 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* on pages 10-14 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 Fund's basic financial statements. The introductory section and the Texas Mobility Fund Dedicated Revenues schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and the Texas Mobility Fund Dedicated Revenues schedule 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, 2016 on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.

  
Crowe Horwath LLP

Dallas, Texas  
December 16, 2016

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**Section Two (Continued)**

**Management's Discussion and Analysis  
(Unaudited)**

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## Management's Discussion and Analysis

As management of the Texas Department of Transportation (TxDOT), we offer readers of the Texas Mobility Fund's (Mobility Fund) financial statements this narrative overview and analysis of its financial activities for the fiscal years ended Aug. 31, 2016 and 2015 for comparative purposes. The information presented should be read in conjunction with our letter of transmittal, the financial statements and the accompanying notes to the financial statements.

### Highlights

#### *Bonds Issuance*

In fiscal year 2016, the Texas Transportation Commission issued Mobility Fund bonds totaling \$1.2 billion to refinance \$1.3 billion of outstanding parity debt for the purpose of achieving debt service savings and to pay the cost of issuing the bonds.

#### *Function of Mobility Fund Bonds Issued*

The Mobility Fund bonds are used to accelerate transportation projects across the state of Texas. The Mobility Fund has no ownership interest in the highway or other transportation projects that it is helping to fund and does not fund the maintenance of any such completed projects.

#### *Governmental Fund*

As of Aug. 31, 2016, the Mobility Fund's combined governmental fund balance was \$1.1 billion, a decrease of \$109.3 million, or 9.2 percent, from fiscal 2015. The decrease in fund balance is largely attributed to the increase in expenditures in fiscal 2016. The fiscal 2016 expenditures totaled \$567.4 million, which increased \$31.4 million, or 5.9 percent, as compared to fiscal 2015 expenditures. No new money bonds were issued in fiscal 2016 while \$900 million new money bonds were issued in fiscal 2015.

### Overview of the Financial Statements

The annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements with the notes to the financial statements and supplementary information.

#### *Fund Financial Statements*

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. TxDOT, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Mobility Fund is reported in two governmental fund types: capital projects fund and debt service fund. See Note 1 for more information.

Financial reports of governmental funds focus 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 fund financial statements provide a detailed short-term view of the Mobility Fund's operations.

***Impact of Mobility Fund Activity on TxDOT's Entity-Wide Financial Statements***

The assets, liabilities, revenues and expenditures not recognizable on the Mobility Fund's governmental fund financial statements are included within the governmental activities section of the TxDOT entity-wide financial statements. These statements consist of the statement of net position and statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. The activity of the Mobility Fund is considered a governmental activity for the purpose of the TxDOT statement of net position and statement of activities.

**Financial Analysis**

The Mobility Fund's overall financial position and operations for the past two years is summarized as follows:

<b>Balance Sheet</b>				
August 31, 2016 and 2015				
(Amounts in Thousands)				
	<u>2016</u>	<u>2015</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
Assets	\$ 1,215,015	\$ 1,212,942	\$ 2,073	0.2 %
<b>Total Assets</b>	<u>1,215,015</u>	<u>1,212,942</u>	<u>2,073</u>	<u>0.2 %</u>
Liabilities	133,736	22,354	111,382	498.3 %
<b>Total Liabilities</b>	<u>133,736</u>	<u>22,354</u>	<u>111,382</u>	<u>498.3 %</u>
Fund Balance:				
Restricted – Debt Service	1,081,279	1,190,588	(109,309)	(9.2) %
<b>Total Fund Balance</b>	<u>\$ 1,081,279</u>	<u>\$ 1,190,588</u>	<u>\$ (109,309)</u>	<u>(9.2) %</u>

Total Liabilities increased by \$111.4 million, primarily due to an increase of \$86.3 million in due to other funds. This is related to an intent to reimburse between the Texas Mobility Debt Service Fund and Capital Projects Fund.

**Statement of Revenues, Expenditures and Changes in Fund Balances**

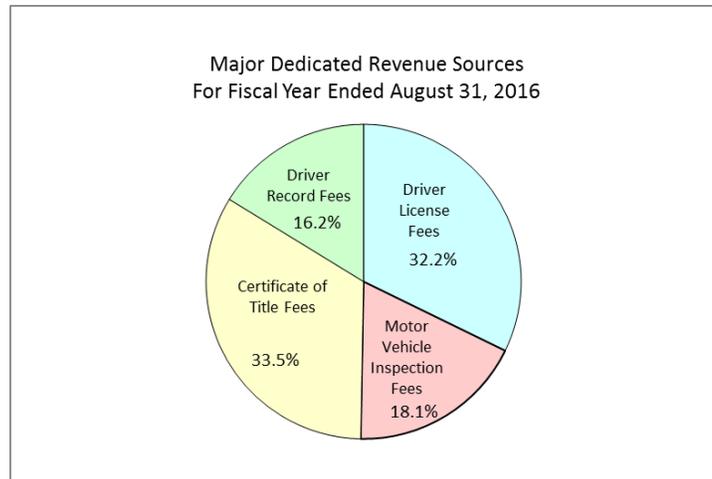
For the Fiscal Years Ended August 31, 2016 and 2015

(Amounts in Thousands)

	<u>2016</u>	<u>2015</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
<b>Revenues</b>				
Federal Revenue	\$ 21,722	\$ 21,638	\$ 84	0.4 %
Licenses, Fees and Permits	424,306	367,548	56,758	15.4 %
Interest and Investment Income	7,638	3,423	4,215	123.1 %
Settlement of Claims	179		179	n/a
<b>Total Revenues</b>	<u>453,845</u>	<u>392,609</u>	<u>61,236</u>	<u>0.2 %</u>
<b>Expenditures</b>				
Transportation	9,534	147,483	(\$137,949)	(93.5) %
Capital Outlay	207,830	59,631	148,199	248.5 %
Debt Service Function	350,079	328,912	\$21,167	6.4 %
<b>Total Expenditures</b>	<u>567,443</u>	<u>536,026</u>	<u>31,417</u>	<u>5.9 %</u>
Excess (Deficiency) of Revenues over Expenditures	(113,598)	(143,417)	29,819	(20.8) %
<b>Other Financing Sources (Uses)</b>				
Bonds & Notes Issued		900,000	(900,000)	n/a
Bonds Issued for Refunding	1,165,465	930,160	235,305	25.3 %
Premiums on Bonds Issued	173,977	259,555	(85,578)	(33.0) %
Payment to Escrow for Refunding	(1,335,153)	(1,109,507)	(225,646)	20.3 %
<b>Total Other Financing Sources (Uses)</b>	<u>4,289</u>	<u>980,208</u>	<u>(975,919)</u>	<u>(99.6) %</u>
<b>Change in Fund Balance</b>	<u>(109,309)</u>	<u>836,791</u>	<u>(946,100)</u>	<u>(113.1) %</u>
<b>Fund Balance – Beginning</b>	<u>1,190,588</u>	<u>353,797</u>	<u>836,791</u>	<u>236.5 %</u>
<b>Fund Balance – Ending</b>	<u>\$ 1,081,279</u>	<u>\$ 1,190,588</u>	<u>\$ (109,309)</u>	<u>(9.2) %</u>

Capital Outlay expenditures increased by \$148.2 million, or 248.5 percent. The increase is largely due to the increase in construction project expenditures in fiscal 2016.

The major dedicated revenue sources of the Mobility Fund for the year ended Aug. 31, 2016, are summarized in the adjacent chart. A detailed listing of all dedicated revenue sources can be found in the supplementary information section of this report.



Dedicated revenues, specifically the vehicle inspection fees, had an increase pursuant to House Bill 2305 passed in 2013, which amended Chapter 548, Subchapter H, Texas Transportation Code. Beginning Mar. 1, 2015, vehicles are no longer issued a separate inspection decal. Only a single registration decal is required for each motor vehicle that has passed inspection and is registered in the State. The implementation of the new dual certification system resulted in a decrease in the motor vehicle inspection fees for 2015. In 2016, the increase in vehicle inspection fees was due to the expiration of the grace period for motor vehicle inspections.

### Debt Administration

The Mobility Fund bonds are considered to be self-supporting general obligation debt. The issuance of Mobility Fund bonds is subject to debt service coverage requirements as prescribed in Section 201.943(e) of the Texas Transportation Code. Prior to a Mobility Fund debt issuance, the Texas Comptroller of Public Accounts (Comptroller) must certify that the projected dedicated revenues and money on deposit in the Mobility Fund will be equal to at least 110 percent of the annual debt service requirements.

All Mobility Fund debt issuances must be approved by the Texas Bond Review Board prior to issuance.

The Mobility Fund program is currently established in the aggregate principal amount of \$7.5 billion outstanding at any one time. As of Aug. 31, 2016, the principal amount of debt outstanding is \$6.8 billion.

House Bill 122, which was enacted during the regular session of the 84<sup>th</sup> Legislature and became effective on Jun. 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 1) outstanding obligations to provide savings to the state and 2) outstanding variable rate obligations and 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 the amounts required by the proceedings authorizing obligations and credit agreements to be retained in deposit may not be used for toll roads.

Bonds payable balances are not reported in the accompanying governmental fund balance sheet which is presented on a current financial resources measurement focus and modified accrual basis of accounting. Governmental fund financial statements do not include long-term liabilities. Long-term liabilities are reported in the governmental activities of the TxDOT entity-wide financial statements. See Note 5 for additional information.

**Bond Credit Ratings**

The Mobility Fund bonds are rated by the major Nationally Recognized Statistical Rating Organizations.

As of Aug. 31, 2016, the bonds carried a long term rating of AAA, Aaa and AAA from Fitch Ratings (Fitch), Moody’s Investor Services (Moody’s) and Standard & Poor’s, respectively. The short term rating of variable rate demand bonds are usually reliant upon the supporting liquidity facility and its credit strength.

<b>Long Term Credit Ratings as of August 31, 2016</b>			
	<b>Fitch</b>	<b>Moody’s</b>	<b>Standard &amp; Poor’s</b>
General Obligation Bonds	AAA	Aaa	AAA
<b>Short Term Credit Ratings as of August 31, 2016</b>			
Series 2006-B Variable Rate Demand Bonds	F1+	VMIG 1	n/a

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.

**Requests for Information**

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

Texas Department of Transportation  
 Financial Management Division - Accounting Section  
 125 East 11<sup>th</sup> Street  
 Austin, Texas 78701-2483

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**Section Two (Continued)**

**Basic Financial Statements**

**Texas Mobility Fund  
Balance Sheet**

August 31, 2016 (Amounts in Thousands)

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ 471,443	\$ 637,509	\$ 1,108,952
Federal Receivables	9,063		9,063
Due from Other Funds	<u>97,000</u>		<u>97,000</u>
Total Assets	<u>\$ 577,506</u>	<u>\$ 637,509</u>	<u>\$ 1,215,015</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Payables:			
Accounts Payable	\$ 31	\$ 36,705	\$ 36,736
Due to Other Funds		<u>97,000</u>	<u>97,000</u>
Total Liabilities	<u>31</u>	<u>133,705</u>	<u>133,736</u>
Fund Balances (Deficits):			
Restricted	<u>577,475</u>	<u>503,804</u>	<u>1,081,279</u>
Total Fund Balances	<u>577,475</u>	<u>503,804</u>	<u>1,081,279</u>
Total Liabilities and Fund Balances	<u>\$ 577,506</u>	<u>\$ 637,509</u>	<u>\$ 1,215,015</u>

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

**Texas Mobility Fund**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Debt Service Fund	Capital Projects Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Federal Revenues	\$ 21,722	\$	\$ 21,722
Licenses, Fees and Permits	424,306		424,306
Interest Income	3,174	4,464	7,638
Settlement of Claims	179		179
Total Revenues	<u>449,381</u>	<u>4,464</u>	<u>453,845</u>
<b>EXPENDITURES</b>			
Transportation		9,534	9,534
Capital Outlay		207,830	207,830
Principal on State Bonds	48,730		48,730
Interest on State Bonds	296,447		296,447
Other Financing Fees	4,117	785	4,902
Total Expenditures	<u>349,294</u>	<u>218,149</u>	<u>567,443</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>100,087</u>	<u>(213,685)</u>	<u>(113,598)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In		44,792	44,792
Transfers Out	(44,792)		(44,792)
Bonds Issued for Refunding	1,165,465		1,165,465
Premiums on Bonds Issued	173,977		173,977
Payment to Escrow Refunding	(1,335,153)		(1,335,153)
Total Other Financing Sources (Uses)	<u>(40,503)</u>	<u>44,792</u>	<u>4,289</u>
Net Change in Fund Balances	<u>59,584</u>	<u>(168,893)</u>	<u>(109,309)</u>
Fund Balances, September 1, 2015	<u>517,891</u>	<u>672,697</u>	<u>1,190,588</u>
Fund Balances, August 31, 2016	<u>\$ 577,475</u>	<u>\$ 503,804</u>	<u>\$ 1,081,279</u>

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

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**Texas Mobility Fund**  
**Notes to Financial Statements**

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

### ***Reporting Entity***

These financial statements reflect the financial position of the Texas Mobility Fund (Mobility Fund). The Mobility Fund, an appropriated fund of the state of Texas, is managed by the Texas Department of Transportation (TxDOT). The Mobility Fund is part of the TxDOT reporting entity. The Texas Transportation Commission (Commission), the governing body of TxDOT, has the authority to commit the Mobility Fund to various legal agreements.

The Texas Legislature (Legislature) established the Mobility Fund to provide a method of financing the construction, reconstruction, acquisition and expansion of state highways, including costs of any necessary design and costs of acquisition of rights of way. The Mobility Fund may also be used to provide participation by TxDOT in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects.

The Commission may sell obligations of the state that are payable from and secured by a pledge of and a lien on all or part of the money dedicated to and on deposit in the Mobility Fund.

The Legislature dedicated certain statutory fee revenues of the state to the Mobility Fund for purposes of providing funds for the debt service on the outstanding Mobility Fund obligations. The Commission has also elected to pledge the general obligation of the state as additional repayment security for the currently outstanding bonds. To date, the dedicated revenues of the Mobility Fund have been sufficient to meet the debt service requirements of the bonds without the necessity of calling on the general obligation pledge.

The Commission is subject to various covenants imposed by the bond resolutions. As of Aug. 31, 2016, the Commission and management believe that they were in compliance with all covenants.

### ***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).

The Mobility Fund implemented the following new GASB pronouncements for fiscal 2016:

- *GASB Statement No. 72, Fair Value Measurement and Application*- clarifies fair value for financial reporting and establishes general principles of fair value reporting for measurement, recognition and disclosure.
- *GASB Statement No 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*

- 
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
  - GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

The data in this report is combined and consolidated by TxDOT and included in the TxDOT Annual Financial Report submitted to the Texas Comptroller of Public Accounts' office. The accompanying financial statements present only the financial position and changes in financial position of the Mobility Fund, and are not intended to and do not present fairly the financial position or changes in financial position of TxDOT.

The records of the Mobility Fund are maintained in accordance with the practices set forth in the provisions of the bond resolutions. Details on outstanding Mobility Fund Bonds are provided in Note 5.

### ***Fund Structure***

While the Mobility Fund is established as a single appropriated fund, it is reported in the following sub-accounts in two governmental fund types:

#### ***Debt Service Fund:***

- Mobility Fund General Account (0365) – monies in this account may be used for any lawful purpose for which the Mobility Fund may be used.
- Mobility Fund Portfolio Account (0366) – any Transportation Assistance Bonds acquired for the Mobility Fund are to be promptly deposited into this account and held therein until paid. As of Aug. 31, 2016, no Transportation Assistance Bonds were held by the Mobility Fund.
- Mobility Fund Interest and Sinking Account (0367) – monies in this account are used to pay amounts due on or with respect to Parity Debt, including the principal of, premium, if any, and interest on Parity Debt as they become due and payable. This account is required as long as Parity Debt is outstanding.
- Rebate Account (0373) – the fifth Supplemental Resolution established the rebate account. Money on deposit in the rebate account, if any, is paid to the federal government in compliance with arbitrage earnings requirements. Money in the rebate account, if any, does not constitute security.
- Reserve Accounts or Subaccounts (0376) – these accounts are established as required by any supplements to the Resolution.
- Mobility Fund Refunding Bond Account (0379) – used to pay costs of issuance related to refunding bonds issued.

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*Capital Projects Fund:*

- Mobility Fund Bond Proceeds Accounts (0375, 0377) - proceeds from the issuance of Parity Debt are deposited into this account upon the issuance of such Parity Debt. Such proceeds and the interest thereon remain in the bond proceeds accounts until expended to accomplish the purposes for which such Parity Debt was issued.

***Basis of Accounting***

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured and relates to the types of transactions or events reported in the statement of revenues, expenditures, and changes in fund balances. Basis of accounting refers to the timing of the recognition of transactions or events. Under the modified accrual basis of accounting, amounts are recognized as revenues as they become susceptible to accrual (measurable and available). The Mobility Fund considers revenues available if they are collected within 60 days of the end of the fiscal year. Accruals whose receipt is due after the 60 day period are classified as deferred inflows of resources. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures are generally recognized when the related fund liability is incurred. However, principal and interest on bonds is recorded at the earlier of its due date or its payment date. The issuance of long-term debt is reported as other financing sources. Debt issuance costs are recognized as an expense in the year incurred.

***Budgetary Information***

The Mobility Fund budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the governor (the General Appropriations Act). The Mobility Fund has committed revenue budgets for debt service and for in-house design, contracted design, construction and right of way. After mobility-related expenditures are incurred in the State Highway Fund, the Mobility Fund reimburses cash and committed budget to the State Highway Fund.

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

***Assets, Liabilities and Fund Balance***

*Cash and Cash Equivalents in State Treasury*

Cash and cash equivalents in the state treasury is the balance of funds held in the state Treasury Pool. See Note 3 for more information.

*Federal Receivable*

The Federal Receivable represents the portion of the Build America Bonds (BABs) federal interest rate subsidy payment that is owed from the federal government.

*Accounts Payable*

Accounts payable represents the liability for the value of assets or services received during the

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reporting period for which payment is pending.

#### *Unearned Revenue*

The Unearned Revenue represents cash received prior to being earned.

#### *Fund Balance*

Fund balance classifications depict the nature of constraints on the use of net resources in a governmental fund. The Mobility Fund's fund balance is classified as restricted as of Aug. 31, 2016. Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.

The Mobility Fund's fund balance is restricted due to bond covenants and constitutional provisions. The majority of current year revenues relate to fees pledged for debt service on outstanding bonds. Proceeds from the sale of bonds and interest earned on the bond proceeds account are constitutionally restricted for the purpose of funding eligible transportation projects.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the Commission's policy to use committed resources first, then, assigned resources, and lastly unassigned resources.

#### ***Revenues and Expenditures***

##### *Licenses, Fees and Permits*

The major sources of dedicated revenue to the Mobility Fund for fiscal 2016 were driver license fees, motor vehicle inspection fees, certificate of title fees, and driver record information fees. A list of all fiscal 2016 dedicated revenues can be found in the supplementary information section of this report.

##### *Federal Revenue*

Federal revenue relates to the federal interest rate subsidy provided in relation to the Mobility Fund's Build America Bond issuance. Although the amount is recognized as revenue on the financial statements, the subsidy is specifically restricted to use as an offset of debt service costs. Refer to Note 5 for more details on the Mobility Fund's involvement with the Build America Bond program.

##### *Interest Income*

Cash in the state treasury earns interest income at stated rates established by the Comptroller.

##### *Settlement of Claims*

Receipts of money resulting from settlement claims.

##### *Expenditures*

Expenditures include payments for debt service, professional fees, other financing fees and the funding of eligible transportation projects. Capital outlay represents Mobility Fund contributions to projects on the state highway system and owned by the state of Texas.

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***NOTE 2 – CAPITAL ASSETS***

The Mobility Fund does not own the capital assets it finances. The state highway system infrastructure built using Mobility Fund resources becomes a capital asset of the governmental activities of the state of Texas. The capital assets of the state highway system are reported in the TxDOT Annual Financial Report.

***NOTE 3 – DEPOSITS AND INVESTMENTS***

**Investments – Treasury Pool**

The Mobility Fund is 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). 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 the Trust Company to maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2016. 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. Detail on the nature of these deposits and investments are available within the state of Texas Comprehensive Annual Financial Report.

As of Aug. 31, 2016 the Mobility Fund's pro rata share of participation in the Treasury Pool was \$1.1 billion. No further detail of this balance is available due to the management policies of the Treasury.

**NOTE 4 –LONG-TERM LIABILITIES**

The Mobility Fund bonds are recorded as long-term liabilities within the governmental activities balances in the TxDOT Annual Financial Report. During the fiscal year ended Aug. 31, 2016, the following changes occurred in the long-term liabilities.

<b>Long-Term Liabilities Activity</b>							
For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)							
<b>Governmental Activities</b>	<b>Beginning Balance 9/1/15</b>	<b>Adjustments*</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance 8/31/16</b>	<b>Amounts Due Within One Year</b>	<b>Amounts Due Thereafter</b>
General Obligation Bonds	\$6,842,409	\$107,299	\$1,165,465	(\$1,296,965)	\$6,818,208	\$98,833	\$6,719,375

\*Includes amortization of premiums and discounts

**NOTE 5 – BONDED INDEBTEDNESS**

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, 2016, major sources of dedicated revenue to the Mobility Fund include driver license fees, motor vehicle inspection fees, certificate of title fees, and driver record information fees.

The Resolution currently allows for \$7.5 billion of principal amount outstanding at any time. 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. House Bill 122 (HB 122), which was enacted during the regular session of the 84<sup>th</sup> 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, and may not be used for toll roads.

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

<b>Mobility Fund Bond Information</b>							
As of August 31, 2016 (Amounts in Thousands)							
Description of Issue	Bonds Issued to		Range of Interest		Maturities		
	Date (Par)	Date Issued	Rates		First Year	Last Year	First Call Date
<b>GOVERNMENTAL ACTIVITIES</b>							
<b>General Obligation Bonds</b>							
Series 2006 Fixed Rate Bonds*	\$ 750,000	6/8/2006	3.6250%	5.0000%	2007	2036	4/1/2016
Series 2006-A Fixed Rate Bonds	1,040,275	10/31/2006	4.0000%	5.0000%	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	4.0000%	5.0000%	2008	2037	4/1/2017
Series 2008 Fixed Rate Bonds	1,100,000	2/28/2008	4.0000%	5.0000%	2009	2037	4/1/2018
Series 2009-A Taxable Fixed Rate Bonds	1,208,495	8/26/2009	5.3670%	5.5170%	2029	2039	***
Series 2014 Fixed Rate Refunding Bonds	973,775	7/2/2014	4.0000%	5.0000%	2016	2034	4/1/2024
Series 2014-A Fixed Rate and Refunding Bonds	1,580,160	12/18/2014	4.0000%	5.0000%	2017	2044	10/1/2024
Series 2014-B SIFMA Bonds	250,000	12/18/2014	variable**		2040	2041	4/1/2018
Series 2015-A Fixed Rate and Refunding Bonds	911,360	9/30/2015	3.2000%	5.0000%	2018	2036	10/1/2025
Series 2015-B Fixed Rate and Refunding Bonds	254,105	10/7/2015	5.0000%	5.0000%	2031	2036	10/1/2025
<b>Total</b>	<u>\$ 9,224,500</u>						

\*These bonds are not outstanding as of 08/31/2016.

\*\*Average interest rates on the Series 2006-B and Series 2014-B variable rates bond are 0.50 percent and 0.52 percent, respectively.

\*\*\*The variable rate bonds and the Series 2009-A fixed rate bonds are subject to redemption prior to their respective maturities at the option of the Commission.

The interest rates on the Series 2006-B and Series 2014-B variable rate bonds resets every seven days. The potential volatility for related debt service increases with these interest rate reset provisions.

The debt service of the bonds is paid out of the Mobility Fund debt service fund. As of Aug. 31, 2016, the debt service requirements are as follows.

<b>Debt Service Requirements</b> (Amounts in Thousands)			
<b>Mobility Fund Bonds</b>			
Year	Principal	Interest*	Total
2017	\$61,960	\$292,565	\$354,525
2018	68,410	288,999	357,409
2019	81,635	284,868	366,503
2020	93,315	280,507	373,822
2021	105,730	275,532	381,262
2022-2026	742,445	1,279,644	2,022,089
2027-2031	1,180,170	1,049,755	2,229,925
2032-2036	1,682,895	729,964	2,412,859
2037-2041	1,628,060	302,957	1,931,017
2042-2045	624,365	59,020	683,385
Total	6,268,985	4,843,811	11,112,796
Unamortized Premium	549,223		549,223
Total Requirements	<u>\$6,818,208</u>	<u>\$4,843,811</u>	<u>\$11,662,019</u>

\* The interest rate in effect as of Aug. 31, 2016, for the Series 2006-B and the 2014-B variable rate bonds used to calculate the interest debt service requirements were 0.65 and 0.94 percent, respectively .

## Pledged Future Revenues

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

<b>Pledged Future Revenues</b> (Amounts in Thousands)	
	<b>Mobility Fund Bonds</b>
Pledged Revenue Required for Future Principal and Interest on Existing General Obligation Bonds	\$11,112,796
Term of Commitment, Ending	10/1/2044
Percentage of Revenue Pledged	100%
Current Year Pledged Revenue	\$449,381
Current Year Principal and Interest Paid	\$321,493

## Build America Bonds

The interest payments shown above do not reflect the federal interest rate subsidy payment related to the Mobility Fund Build America Bonds Series 2009-A, which will be used to offset debt service cost. 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 for a federal reimbursement to TxDOT equal to 35 percent of the interest paid on the BABs.

As a result of budget sequestration, the federal government reduced subsidy payments for BABs by 6.8 percent effective Oct. 1, 2015 through Sept. 30, 2016 for BABs 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, 2016.

<b>Direct Payment Build America Bonds</b>			
As of August 31, 2016 (Amounts in Thousands)			
	<b>Issue Date</b>	<b>Par Amount Issued</b>	<b>Amount Outstanding</b>
<b>Governmental Activities</b>			
General Obligation Bonds			
Texas Mobility Fund Series 2009-A	8/26/2009	\$1,208,495	\$1,208,495
Total		\$1,208,495	\$1,208,495

## Variable Rate Bonds

The Mobility Fund has two variable rate bond issues outstanding at Aug. 31, 2016. The interest rates in effect as of Aug. 31, 2016 for the Series 2006-B and Series 2014-B used to calculate the debt service requirements were 0.65 and 0.94 percent, respectively. These rates reset every seven days.

## Put Bonds

The Series 2014-B bonds were issued in an initial index floating rate mode, which terminates on a mandatory tender date. 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 bond will be increased to the stepped coupon rate.

Put Bonds (Amount in Thousands)					
Governmental Activities	Mandatory Tender Date	Initial Rate	Initial Period Interest	Stepped Coupon Rate	Stepped Rate Period Interest**
General Obligation Bonds					
Series 2014-B	10/1/2018	SIFMA + 0.38%	Variable*	8.00% per annum	\$ 20,000
* Index Floating Rate Mode/resets weekly					
**Assumes a full year of interest					

## Demand Bonds

The Series 2006-B variable rate bonds are demand bonds. A bondholder may tender any of the 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 agreement. The following tables provide details for outstanding demand bonds and the related standby bond purchase agreement as of Aug. 31, 2016.

Demand Bonds		
As of August 31, 2016 (Amount in Thousands)		
Governmental Activities	Bonds Held by Liquidity Providers	Principal Balance Outstanding
General Obligation Bonds		
Series 2006-B	None	\$150,000
Total		\$150,000

<b>Demand Bonds – Standby Bond Purchase Agreement Provisions</b>			
As of August 31, 2016			
<b>Governmental Activities</b>	<b>Counterparties</b>	<b>Annual Liquidity Fee</b>	<b>Agreement Termination Date</b>
General Obligation Bonds			
Series 2006-B	State Street Bank and Trust Company & California Public Employees' Retirement System	0.30%	12/13/2016

The standby bond purchase agreement provides liquidity in the event demand bonds are tendered for purchase and such bonds are not remarketed by the remarketing agent. The standby bond purchase agreement contains 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.

<b>Demand Bonds – Takeout Provisions</b>				
As of August 31, 2016 (Amount in Thousands)				
<b>Governmental Activities</b>	<b>Estimated Debt Service</b>	<b>Rate</b>	<b>Basis</b>	<b>Replacement Debt Terms</b>
General Obligation Bonds				
Series 2006-B	\$170,085	8.50%	1% + greater of: 3% + Daily Fed Fds Rate, Bank Prime Rate plus 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.
Total	\$170,085			

## Refunding

On Jan. 29, 2015, the Commission approved the Texas Mobility Fund Eleventh Supplemental Resolution which authorized, among other things, issuance of general obligation refunding bonds to refund outstanding bonds. The Commission issued General Obligation Mobility Fund and Refunding Bonds, Series 2015-A and General Obligation Mobility Fund Refunding Bonds, Series 2015-B, with a total par amounts of \$911.4 million and 254.1 million, respectively. The premium associated with the refunding portion of the Series 2015-A bonds was \$133.2 million and the refunding portion of the underwriter's discount amounted to \$3.6 million resulting in a net proceeds amount of \$1.0 billion. The premium associated with the refunding portion of the Series 2015-B bonds was \$40.8 million resulting in a net proceeds amount of \$294.9 million. The issuances closed on Sept. 30, 2015 and Oct. 7, 2015, respectively.

Refunding Issue (Amounts in Thousands)							
Governmental Activities	Type of Refunding	Redemption Date	Par Value Refunded	Par Value of Refunding Issue		Cash Flow Increase/(Decrease)	Economic Gain/(Loss)
				Series 2015-A	Series 2015-B		
Series 2006-A	Advanced	9/30/2015	\$269,410	\$248,465		\$36,504	\$22,602
Series 2006-A	Current	10/7/2015	59,155		53,000	12,710	7,217
Series 2007	Advanced	9/30/2015	333,540	319,180		51,398	30,734
Series 2007	Current	10/7/2015	221,870		201,105	47,355	24,778
Series 2008	Advanced	9/30/2015	364,260	343,715		40,646	30,106
TOTAL			\$1,248,235	\$911,360	\$254,105	\$188,613	\$115,437

### Defeased Bonds

The Commission defeased various existing issues by placing funds and securities in irrevocable trusts to provide for all future debt service payments on the bonds through the earlier of the maturity date or the first call date. The trust account assets and the liability for the defeased bonds are not included in these financial statements. As of Aug. 31, 2016, the amounts of defeased bonds, at par, that remain outstanding are presented in the table below.

Defeased Bonds Outstanding (Amounts in Thousands)	
Governmental Activities	Par Value
Series 2006-A	\$748,240
Series 2007	602,470
Series 2008	456,400
Total	\$1,807,110

### NOTE 6 - EMPLOYEE'S RETIREMENT PLAN

The Mobility Fund, a debt service and capital project fund of the Texas Department of Transportation (TxDOT), is part of the TxDOT's reporting entity. The Mobility Fund does not have any employees and does not make contributions to any retirement plans. TxDOT employees provide all accounting and administrative services for The Mobility Fund. Those employees are members of the Employee Retirement System of Texas defined benefit pension plan (ERS Plan). The Mobility Fund is not obligated in any form for the funding of the pension benefits provided by the ERS Plan. Allocation of the pension liabilities and expense for The Mobility Fund is deemed unnecessary and not required.

The ERS Plan 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 Texas Legislature. The details of the pension plans are disclosed in TxDOT's Note 8, Employees' Retirement Plan.

**NOTE 7 – INTERFUND ACTIVITY**

Interfund activity refers to financial interactions between funds and is restricted to internal events. Certain transactions processed during fiscal 2016 were paid with intent to reimburse and require accrual of due to other funds and due from other funds so the activity is correctly presented on the financial statements of each fund. The Mobility Fund interfund activity detail is as follows.

<b>Due to/Due From Other Funds</b>		
As of August 31, 2016 (Amounts in Thousands)		
	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>
<b>Due from Other Funds</b>	<u>                    </u>	<u>                    </u>
Mobility Fund Capital Projects Funds	\$97,000	
<b>Due to Other Funds</b>		
Mobility Fund Debt Service Funds		\$97,000
	<u>\$97,000</u>	<u>\$97,000</u>

Interfund transfers represent the flow of assets (cash or goods) without equivalent flow of assets in return or a requirement for repayment.

<b>Transfer In/Transfer Out Other Fund</b>		
As of August 31, 2016 (Amounts in Thousands)		
	<b>Debt Service Funds</b>	<b>Capital Projects Funds</b>
<b>Transfer In Other Funds</b>	<u>                    </u>	<u>                    </u>
Mobility Fund Capital Projects Funds		\$44,792
<b>Transfer Out Other Funds</b>		
Mobility Fund Debt Service Funds	(\$44,792)	
	<u>(\$44,792)</u>	<u>\$44,792</u>

The General Account (FD 0365) of the Debt Service Fund reported \$97 million due from the Bonds Issue Account (FD 0377) of the Capital Projects Fund to reimburse capital project costs. A corresponding amount was reported as due to in the Bond Issue Account (FD 0377) of the Capital Projects Fund.

A total of \$44.8 million was transferred from the General Account (FD 0365) of the Debt Service Fund to the Bond Issue Account (FD 0377) of the Capital Projects Fund for capital outlay expenditures.

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***NOTE 8 – CONTINUANCE SUBJECT TO REVIEW***

TxDOT is currently subject to a continuance review. Under the Texas Sunset Act, TxDOT will be abolished effective Sept. 1, 2017, unless continued in existence by the 85<sup>th</sup> Legislature as provided by the Act. If abolished, TxDOT may continue until Sept. 1, 2018, to close out 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 9 – COMMITMENTS AND CONTINGENCIES***

Rebatable arbitrages defined by Internal Revenue Code (IRC), Section 148, is earnings on tax exempt bond proceeds in excess of the yield on the bond. The rebatable arbitrage must be repaid to the federal government. Pursuant to the applicable bond resolution, a Rebate Fund will be established under the resolution 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 Mobility Fund's overall financial condition.

***NOTE 10 – SUBSEQUENT EVENTS***

On Dec. 13, 2016, the standby bond purchase agreement with State Street Bank and Trust Company and California Public Employees' Retirement System for the TMF Series 2006-B bond expired. TxDOT entered into a new agreement with the Texas Comptroller of Public Accounts (Comptroller) to provide a replacement of the liquidity agreement on Dec. 7, 2016.

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## ***NOTE 11 - RISK MANAGEMENT***

The Mobility Fund does not have any employees. TxDOT provides all accounting, debt financing and administrative services. In addition, TxDOT's risk financing and insurance programs apply to the Mobility Fund.

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 Benefit Program (GBP) administered by the Employees Retirement System of Texas (ERS).

Claims for health, life, accident death and dismemberment, disability and dental insurance coverages are established under GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization contracts and dental health maintenance organizations contracts.

### ***Commitments***

TxDOT incurs commitments related to outstanding construction contracts and comprehensive development agreements.

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**Section Two (Continued)**

**Other Supplementary Information**

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**Texas Mobility Fund Dedicated Revenues**  
**For the Fiscal Year Ended August 31, 2016**

*Major Sources of Funds*

Driver License Fees	\$	135,910,163
Motor Vehicle Inspection Fees		76,116,063
Certificate of Title Fees		141,118,004
Driver Record Information Fees		68,483,999
		<u>421,628,229</u>

*Miscellaneous Sources*

Motor Carrier Act Penalties		2,674,613
Motor Vehicle Registration Fees		2,966
Depository Interest		7,638,449
		<u>10,316,028</u>

*Total Dedicated Revenues* \$ 431,944,257

Note:

The total above does not include the Build America Bonds federal interest rate subsidy.







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